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The Effect of Liquidity, Company Age and Company Size on Earnings Quality (Studies on Property and Real Estate Sector Companies Period 2017-2019)

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ABSTRACT

This study aims to analyze the effect of liquidity, firm age, firm size on earnings quality. The independent variables used are liquidity, company age, company size. The dependent variable is earnings quality. The population of this study is property and real estate sector companies listed on the Indonesia Stock Exchange Period 2017-2019. The sampling method used is the purposive sampling method with a total of 21 companies during the observation period of 3 consecutive years with 65 samples. Data analysis tools: classical assumption test method, multiple linear regression analysis test, and hypothesis testing.

The hypothesis of this study is liquidity , Age Company , and Company Size partial effect on k Quality of earnings in the Real Estate Property companies listed on the Stock Exchange in 2017-2019 .

The results showed that the liquidity of the firm size had no effect on earnings quality, while firm age had an effect on earnings quality. H acyl R^2 coefficient determinant (R^2) shows at 0.353 or 35.3%, meaning that the liquidity factor (X1), Age Company (X2), Company Size (X3) affects the quality of earnings (Y) on the company's property and real estate listed on the IDX in 2017-2019, the remaining 64.7% is influenced by other factors not examined in this study such as profitability, audit quality, capital structure and so on.

Introduction

Earnings quality is a measure to match whether the profit generated is the same as what was previously planned. Earnings quality is higher if it is close to the initial plan or exceeds the target from the initial plan. The quality of earnings is low if the presentation of earnings does not match the actual profit so that the information obtained from the income statement becomes biased and the impact of misleading creditors and investors in making decisions. The low quality of earnings will make

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the decision-making errors of users such as investors and creditors so that the value of the company will decrease.

Reports provide useful information to investors and creditors. Quality financial reports are expected to help investors and potential investors to make decisions. Earnings quality is a major concern for users of financial statements for investment and contractual purposes. Information about company profits must be of good quality to support quality investment decisions.

The high and low profits generated by *property real estate* companies can be seen in the profits contained in one of the financial statements, namely the income statement. Therefore, the preparation of profit and loss can be influenced by certain factors that can determine the quality of the report. Profit is one of the important components in the company because profit can be used as a measuring tool for companies in their operations. Information about company profits should be of good quality to support decisions, especially investment decisions by quality investors and creditors. The quality of earnings information is expected to help investors and potential investors to make decisions. Therefore, financial statements must meet predetermined criteria, so that interested parties can make good decisions in accordance with their respective interests (Setyaningsih & Asyik, 2016) .

Low profits will make mistakes in making decisions by investors and creditors, so that profits in the company will decrease. Profits that do not show true information about the company's performance can mislead users of financial statements. The increase in the company's profit is not always followed by an increase in its share price. When profits decline, stock prices do not always decrease. This happens because of making investment decisions, investors do not only look at profit information (Kusmuriyanto & Agustina, 2014) .

The characteristics of property and real estate companies are companies whose assets are considered to have a high investment value, and are considered quite safe and stable. This is a positive thing for investors in property and *real estate* companies in the capital market. Investment activities in the capital market require a lot of information about the company that will invest. Information needed for shareholders can be obtained through the assessment of financial statements. This is useful for shareholders to be able to predict the extent of the performance of the 5 companies from the shares to be selected and the optimal profit that will be obtained by these investors.

Company information is essential for investors in the decision-making process. One source of information that investors rely on is financial statements. Reliable financial reports are quality financial reports. The quality of financial statements is determined by whether the information can be understood and meets the needs of users in making decisions. The financial statements must be free from misleading understanding and material errors and can be relied upon so that the financial statements can be compared with previous periods.

Widayanti et al., (2014) , useful information that is relevant information. One indicator of the relevance of accounting information is the reaction of investors when the information is announced, which can be observed from stock movements. The quality of financial statements is related to the quality of earnings. Earnings quality is earnings in financial statements that reflect the actual financial performance of the company. Investors, potential investors, financial analysts and other users of financial information must know very well what the actual quality of earnings is. The earnings information can be said to be of high quality if the market reaction shown from the Earnings Response Coefficient (ERC) is also high.

In Murwaningsari's research, it is stated that the amount of debt shows the quality of the company and the prospects are not good in the future. So that the age of the company also affects the growth of the financial statement curve which may fluctuate. Then the size of the company is related to the quality of earnings because the larger the company, the higher the business continuity of a company in improving financial performance so that companies do not need to practice profit manipulation. So, it can be concluded that firm size is positively related to earnings quality. Information on a company's earnings can be said to be of good quality if the company is able to pay off its short-term debt. This study aims to analyze the effect of liquidity , firm age, and firm size partially on earnings quality, and analyze the influence of the dominant independent variables on earnings quality.

Literature Review

Earnings Quality

Darsono and As`hari (2010:73) argue that high earnings qualitcan be realized in cash; Cash in the company can be seen through the company's cash flow statement. the *earning quality* ratio shows the relationship between cash flow and net income, the higher the ratio the higher the earnings quality because the larger the portion of operating profit that is realized in cash and not on an accrual basis. earnings quality measurements are (Murniati, et al.2018):

EQ = ***Cash Flow From Operating Activity*** **/ EBIT**

Liquidity

Liquidity is a ratio that measures the company's ability in the short term by looking at the company's current assets to its current liabilities (debt in this case is the company's obligation), Mamduh and Abdul Halim (in Almilia , 2007). This variable is measured by the Current Ratio :

Current Ratio = Aktiva Lancar / Liabilitas lancar

Kasmir (2012:110) liquidity has an influence on earnings quality because if a company has the ability to pay its short-term debt, it means the company has good financial performance in fulfilling its debts. As result of research by Sukmawati (2014) show liquidity which in proxied by current ratio have influence with the quality of earnings . Based on this description, the hypothesis put forward:

H 1 liquidity has a positive effect on earnings quality in property and real estate companies listed on the IDX in 2017-2019

Company Age

Company age is the length of time a company exists, develops and survives. The longer the age of the company, the more information about the company. Companies that have been around for a long time certainly have more solid strategies and tips to survive in the future . So, the age of the company can affect the achievement of good/quality profits. The formula for measuring the age of the company is as follows (Fanani et al: 2009):

Company Age = Year of Observation - Year of company establishment

The results of Anjelica and Prasetyawan's (2014) research conclude that firm age has a significant negative effect on earnings quality . Based on the description, it can be put forward the hypothesis:

H2: Company age has a positive effect on earnings quality in property and real estate companies listed on the Indonesia Stock Exchange in 2017-2019 .

Company Size

The company's benchmark is getting quality profits or good profits because with the size of the company's ability, someone who wants to work together already knows what the background and description of the company is. So, the size of the company also greatly influences the client's willingness to join and cooperate to usually sign a contract whose value may also be good. Company size is measured using the formula :

Company Size = In Total Assets (Mulyani et al: 2007)

The results of Anjelica and Prasetyawan (2014) research conclude that firm size has a significant positive effect on earnings quality . Based on this description, the following hypotheses can be put forward:

H3 : Company size has a positive effect on earnings quality in property and real estate companies listed on the Indonesia Stock Exchange in 2017-2019 .

Method

This research is a case study on a manufacturing company listed on the Indonesia Stock Exchange. In this study, researchers will examine the effect of taxes, bonus mechanisms, and company size on transfer pricing for companies in property and real estate companies listed on the Indonesia Stock Exchange in 2017-2019 .

The type of data used in this research is quantitative data, by analyzing numerical data. The source of data in this study is secondary data in the form of annual financial reports on property and real estate sector companies listed on the Indonesia Stock Exchange in 2017-2019 .

The population in this study p ompany sector of the property and real estate listed on the Stock Exchange in 2017-2019 amounted to 61 companies . Sampling using purposive sampling technique , totaling 56 companies . Data analysis used multiple regression analysis. Prior to testing the hypothesis, a classical assumption test was first performed which consisted of a multicollinearity test, a heteroscedasticity test, and a normality test.

Result and Discussion

Classic Assumption Test Results

The classical assumption test is used to find out whether the multiple linear regression model in this study really shows a significant and representative relationship or BLUE (*Best Linear Unbiased Estimator)* . From the results of tests carried out on violations of classical assumptions, both normality, multicollinearity, heteroscedasticity and autocorrelation, it shows that all tests carried out are free from symptoms of classical assumptions.

F-test

The results of the F test obtained that the $_{calculated}$ F value is 1.675 with a probability value of 0 , 178 > 0.05, which means that there is no significant effect of liquidity, firm age, and firm size simultaneously on earnings quality.

Determination Test

The result of calculations using the *SPSS* program obtained an *Adjusted R Square value* of 0.022 . Means that the variable liquidity (X_1), the age of the company (X_2), and the size of the company *(* X_3*)* has donated an influence on the quality of earnings (Y) company property and real estate listed on the Stock Exchange in 2017 to 2019 amounted to 2 , 2 %, while 97.8 % is influenced by other variables that are not examined .

Multiple Linier Regression Analysis

Multiple linear regression was used to test the effect of independent variables, namely liquidity (X_1), firm age (x_2), and firm size (x_3) on earnings quality (y). The results of multiple linear regression can be seen in table 2 below.

Table 2. Multiple Linear Regression Test Results

Variable	Coefficient	t value	Significance
(Constant)	174.607	1.878	.064
Liquidity	-.633	-.494	.623
Company age	.207	.555	.580
Company size	-5.548	-1,778	.079
F : 1.675			0 . 178
Adjusted R^2 : 0 . 022.			

Source: Processed primary data .

The results of the multiple regression obtained the following regression equation :

$$Y = 174,607 - 0,633 X_1 + 0,207 X_2 - 5,548 X_3$$

The multiple linear regression equation can be interpreted as follows:

1. Regression coefficient 174,607 , this means, if the Liquidity factor (X_1), Company Age (X_2), Company Size (X_3) is considered constant, it will result in Earnings Quality (Y) in property and real estate companies listed on the IDX 2017-2019 amounted to 174,607 .
2. Liquidity variable coefficient = -0.633 , this means, if the Liquidity factor (X_1) is increased by 1 unit and other variables are considered constant , it will result in Earnings Quality (Y) in property and real estate companies listed on the IDX in 2017-2019 decreased by 0.633 .
3. Company age variable coefficient = 0.207 , this means, if the Company Age factor (X2) is increased by 1 unit and other variables are considered constant , it will result in the Earnings Quality (Y) of property and real estate companies listed on the Indonesia Stock Exchange in 2017-2019 decreased by 0.006 .
4. Company size variable coefficient = - 5.548 , this means, if the Company Size factor (X_3) is increased by 1 unit and other variables are considered constant , it will result in a decrease in Earnings Quality (Y) in property and real estate companies listed on the IDX in 2017-2019. of 0.043 .

Hypothesis Testing

1. Liquidity Turnover (X_1) on Earnings Quality (Y)

   The results of calculations which indicate the probability of 0, 623 > 0.05, then Ho received . Means do not exist significant influence liquidity (X_1) on the quality of earnings (Y) , then H 1 : Liquidity affect the quality of earnings in the company's property and real estate listed on the Stock Exchange in 2017-2019 , not proven

2. Company Age (X_2) on Earnings Quality (Y)
   The results of calculations which show the p- *value* of 0, 580 > 0.05, then Ho dit erima . Means no no significant effect of age company (X_2) on the quality of earnings (Y) , then H 2: Age of companies affect the quality of earnings in the company's property and real estate listed on the Stock Exchange in 2017-2019 , was not proven .

3 . Company Size Turnover (X_3) on Earnings Quality (Y)
   The calculation results show a probability value of 0.0 79 > 0.05, then Ho is rejected. Means no no significant effect of firm size (X_3) to the quality of earnings (Y) , then the hypothesis H3 reads : Firm size affects the quality of earnings in the company's property and real estate listed on the Stock Exchange in 2017-2019 , was not proven .

Discussion

Liquidity has no significant effect on earnings quality . The results of this study are not relevant to previous studies conducted Sukmawati (2014) that the liquidity which in proksikan by current ratio have influence with the quality of earnings . A low Current Ratio is usually considered to indicate a problem in liquidity. On the other hand, a company that has a current ratio that is too high is also not good, because it shows a lot of idle funds which in turn can reduce the company's profit ability (Mamduh and Halim, 2014:202).

Age companies showed ber influence positive but not significant to the quality of earnings , which means that if a company's age much longer then the profits from increased quality . As the opinion of Widiastuti (in Rahmawati, 2012) states that the age of the company can show that the company still exists and is able to compete . However, the results of this study do not support previous research by Anjelica and Prasetyawan (2014) which concluded that firm age had a significant negative effect on earnings quality .

The results showed that firm size had a negative but not significant effect on earnings quality . Negative influence shows the opposite direction, which means that if the size of the company gets bigger, the earnings quality will decrease. Conversely, if the size of the company gets smaller, the quality of earnings will increase. The results of this study are relevant to the research conducted by Sukmawati (2014). Company size which is proxied by Ln Log total assets and Return in assets has no effect on earnings quality . But it does not support the research of Anjelica and Prasetyawan (2014) which concludes that firm size has a significant positive effect on earnings quality .

Conclusion

Based on the results of research and data analysis regarding the effect of liquidity , company age , and company size on earnings quality in property and real estate companies listed on the Indonesia Stock Exchange in 2017-2019 , the following conclusions can be drawn: Liquidity effect negative and not significant to the quality of earnings . The proposed hypothesis 1 is not proven. Age company has a positive effect and are not significant to the quality of earnings . Thus, the proposed hypothesis 2 is not proven. And the size of the company a negative effect and does not significantly influence the quality of earnings . Negative influence shows the opposite direction, which means that if the size of the company gets bigger, the quality of the profits earned will decrease. On the other hand , if the size of the company gets smaller , the quality of the profits earned will increase

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