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Sales growth and liquidity affect The quality of earnings

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Abstract: This study purpose to determine the effect of sales growth and liquidity on profit quality in food and beverage companies listed on the Indonesia Stock Exchange for the 2017-2021 period. The method used in this research is a quantitative method. The data analysis technique used is panel data regression and with the help of Eviews 12. Panel data regression tests include: Chow test, Hausman test, Lagrange Multiplier test and the R-squared coefficient of determination. Sampling was carried out using purposive sampling technique and obtained a total sample of 15 companies. The results showed that partially sales growth has a positive effect on earnings quality and liquidity has a positive effect on earnings quality. This indicates that companies that have good sales growth will also have good earnings quality and companies that are able to fulfill their short-term obligations indicate that these companies will have good earnings quality.

Keywords: Saled Growth; Liquidity; Profit Quality

INTRODUCTION

Earnings quality provides information on the company's performance in a certain period that reflects the actual situation. Companies that experience high profits will have a greater earnings response coefficient compared to companies that have low or slow profit growth. Companies that experience fast profit growth will get a positive response from investors because investors want high quality earnings. The quality of earnings is higher if it approaches the initial plan or exceeds the target from the initial plan. (Herninta & Ginting, 2020). The company will have low earnings quality if it does not achieve the pre-planned profit targets.

There are several factors that can affect the quality of earnings including sales growth and liquidity. Sales growth can be one of the factors that affect the quality of earnings. Sales growth is an important indicator to assess the quality of a company's earnings. Public sector organizations are identified with government or business entities in that the majority of their ownership is in the hands of the government, which is responsible for carrying out public services. (S et al., 2020). Sales growth is a manifestation of the success of last year's investment which can be used as a reference for predicting future growth. (Anggarsari & Aji, 2018). Companies with high sales will have more profits so that the profits earned will get a positive market response, this will affect the quality of earnings. Profit quality will be higher if the profit earned exceeds the predetermined target, therefore the company will also have high profit quality if the company's sales growth has increased.

Previous research conducted by Siregar & Kiswara (2018) showed that sales growth has a significant positive effect on earnings quality. This is in line with the results of research by Efrinal, et al (2022). Meanwhile, the results of research by Valeria & Halim (2022) show that sales growth has no effect on the quality of profits. This is supported by research conducted by Aristawati & Rasmini (2018).

Companies with low sales will have an impact on reduced revenue, this will certainly have an impact on the company's ability to meet its short-term obligations. The greater the number of multiples of current assets against current liabilities, the greater the confidence that the company's current liabilities can be paid at maturity. (Tiswiyanti, 2022). Companies that are able to fulfill their short-term obligations will certainly have good profit quality, because the higher the liquidity, the company's finances are considered stable and will get a positive market response. Companies that get a positive market response will make the company's profit quality increase.

Previous researchers Telaumbanua & Purwaningsih, (2022) showed results that liquidity affects earnings quality. This is in line with research conducted by Bawoni & Shodiq (2020). Meanwhile, the results of researchers Salma, et al. (2019) stated different results in their research results showing that liquidity does not affect the quality of company profits. This is also supported by the research results of Erawati & Sari (2021).

LITERATURE REVIEW

Signaling Theory

Spence (1973) proposed signaling theory, which said that the sender (owner of the information) sends a signal or signal in the form of information that represents the situation of a firm that is favorable to the recipient (investor). According to Ghozali (2020: 166) signal theory explains the actions taken by the signaler to influence the behavior of the signal receiver. Signal theory is widely used in accounting, auditing and financial management studies which explains that management gives Investors can deduce information about the firm from several parts of financial information disclosure.

Profit information is an important signal for investors, if the report information published by management is not good or even not good, and is also not in accordance with the conditions that exist in the company then this will affect the quality of earnings, the quality of the company's earnings will be low so that investors will be less inclined to invest, this causes the stock price to fall. However, if the earnings information in the financial statements published by management is good, in accordance with the company's conditions, It will pique the curiosity of investors in the firm which will then improve the quality of the company's earnings.

Positive Accounting Theory

Positive accounting theory was put forward by Watts and Zimmerman (1986) which stated that positive accounting theory explained and predicted accounting practice. With positive accounting theory, policy makers can determine what policies will be taken for the company. Positive accounting theory also defines a procedure that employs accounting talents, comprehension, and knowledge, as well as the application of the most appropriate accounting regulations, to cope with specific issues conditions in the future.

According to Ghozali (2020: 152) accounting hypothesis centers on the relationship between the different people included in giving assets for an organization and how bookkeeping is utilized to help within the working of this relationship. Determination of accounting policies and appropriate practices is important for companies in terms of preparing financial reports and their implementation is inseparable from the parties who are authorized and have an interest in the preparation of financial reports.

The company in its process must have a goal, namely to get the maximum possible profit, to achieve the company's goals, management will choose an accounting method that is thought to be able to increase company profits. The accounting method adopted by management will affect the profit earned by the company. The accounting method chosen is in accordance with the company's goals so that these goals can be achieved so that the financial reports presented will be of high quality. Quality and good financial reports will get a positive response, with a positive response it will increase the quality of earnings.

Profit Quality

According to Werastuti, et al. (2022: 223) Profit quality is the result presented in the financial statements, which reflects the actual financial results of the company. Investors, potential investors, financial analysts and other users of financial information should have a thorough understanding of the true quality of earnings.

Profit quality can be considered as an effort to maintain the company's ability at the beginning and end of the period to remain the same as the amount that can be used in one period. Earnings quality can be a measure to see company performance, company performance can be seen by the quality of company earnings, the higher the earnings quality, the better the company's performance.

Sales Growth

According to Harahap (2020: 310) Sales growth indicates the percentage increase in sales this year over the previous year. The higher the superior. Sales growth is an important indicator in an industry. The sales growth rate will affect the company's ability to maintain profits. High sales growth can be a sign of a good signal for the company, if the company experiences good development in sales, the company will have high profits, this will increase the quality of company profits.

Liquidity

According to Kasmir (2021: 110) it may be a proportion that appears a company's capacity to pay its short-term obligations (liabilities) that are due, or a proportion to decide the company's capacity to fund and fulfill commitments (obligation) when charged. The higher the liquidity proportion, the way better the company's capacity to meet its short-term commitments.

METHOD

In this study research a type of quantitative research with a causality approach. In this study using secondary data types. The method of data collection that the authors take is the technique of documentation. This documentation technique is taken from the financial reports of Food and Beverage companies listed on the IDX in 2017-2021. In this study to determine the effect of sales growth and liquidity on earnings quality is done by using panel data regression analysis. The population in this study amounted to 15 companies with the sampling technique used was purposive sampling. The criteria for obtaining a sample are as follows: Nourishment and refreshment sub-sector fabricating companies recorded on the Indonesia Stock Trade amid the 2017-2021 period, nourishment and refreshment sub-sector fabricating companies that publish financial reports regularly during the period 2017-2021, nourishment and refreshment fabricating companies that did not encounter misfortunes in a push amid the 2017-2021 period.

Variable Measurement

In this study the independent variables consist of: Sales Growth and Liquidity.
Sales Growth is measured by the following formula:

$$Sales\ growth\ = \frac{This\ years\ sales - last\ years\ sales}{last\ years\ sales} \quad \text{(1)}$$

Liquidity use *quick ratio* (QR)

$$Quick\ Ratio = \frac{liquid\ asset - Supply}{current\ liabilities} \quad \text{(2)}$$

The dependent variable is the quality of earnings as measured by the following formula:

$$Profit\ Quality = \frac{operating\ cash\ flow}{EBIT} \quad \text{(3)}$$

RESULTS AND DISCUSSION

Results

Descriptive Statistical Analysis

Table 1. Descriptive Statistical Test Results

Date: 06/18/23 Time: 09:23
Sample: 2017 2021

	Profit Quality	Sales Growth	Liquidity
Mean	0.386880	0.059213	2.551813
Median	0.892000	0.070000	1.785000
Maximum	4.155000	0.504000	13.04400
Minimum	-30.13100	-0.678000	0.139000
Std. Dev.	3.687710	0.180372	2.663394
Skewness	-7.695953	-1.108309	2.201640
Kurtosis	64.26248	6.695091	7.635585
Jarque-Bera	12468.76	58.02217	127.7422
Probability	0.000000	0.000000	0.000000
Sum	29.01600	4.441000	191.3860
Sum Sq. Dev.	1006.341	2.407527	524.9316
Observations	75	75	75

Source: Results of data processing eviews 12 (2023)

Descriptive analysis is used to describe the research object through sample data, without conducting analysis and making general conclusions. The descriptive analysis in this study includes the research variables shown in the following explanation:

Profit Quality (Y)

The profit quality of food and beverage companies has a maximum value of 4.155000 at PT Campina Ice Cream Industry Tbk (CAMP) in 2020 and a minimum value of -30.13100 at PT. Tiga Pilar Sejahtera Food Tbk. (AISA) in 2018.

Sales Growth (X1)

Sales growth has a maximum value of 0.504000 at PT. Sekar Bumi Tbk. (SKBM) in 2020 and a minimum value of -0.678000 at PT Tiga Pilar Sejahtera Food Tbk. (AISA) in 2018.

Liquidity (X2)

Liquidity has a maximum value of 13.04400 at PT. Campina Ice Cream Industry Tbk. (CAMP) in 2017 and a minimum value of 0.139000 at PT. Tiga Pilar Sejahtera Food Tbk. (AISA) in 2018.

Hypothesis test

Table 2. Summary of Hypothesis Testing Results

Hypothesis	Value (t-statistic)	Significance	Note
Constant	-1.659447	0.1021	
Sales Growth	4.018391	0.0001	Accepted
Liquidity	2.151128	0.0352	Accepted
R-Square	0.213153		
F-statistic	9.752218		
Prob. F Statistic	0.000179		

Source: Data processed by the author (2023)

Through the above test results obtained an f-statistic value of 9.752218 f table with a level of $\alpha = 5\%$, df1 (k-1) = 2 and df2 (n-k) = 72 obtained an f-table value of 3.123907. Thus the f-statistic (9.752218) > f-table (3.123907) and the statistical probability value of 0.000179 <0.05, then it can be concluded that the independent variables in this study consisting of sales growth and liquidity together have an influence on earnings quality.

t table with a level of $\alpha = 0.05$, df (n-k) = 72 results obtained 1.66629, so the following conclusions are obtained:

Sales Growth (X1) obtained the t-statistic value of sales growth (4.018391) > t-table (1.66629) and the prob value. 0.0001 < 0.05, it can be concluded that Ha is acknowledged, so it can be concluded that the sales growth variable has a significant effect on profit quality.

Liquidity (X2) obtained a t-table value of 1.66629. Thus the t-statistic of liquidity (2.151128) > t-table (1.66629) and the prob value. 0.0348 < 0.05, Since we can conclude that Ha is acceptable, we can conclude that the liquidity variable has a large impact on the earnings quality.

Based on the results of the calculation of the common effect model, it is known that the R-squared value shows a value of 0.213153, meaning that changes in the increase or decrease in the level of Profit Quality can be explained by sales growth and liquidity of 21.3% while the remaining (100% - 21.3%), which is 78.7%, is explained by other factors, variables not tested in this study.

Discussion

Effect of Sales Growth on Profit Quality

The conclusion is sales growth has a positive effect on profit quality. So that the hypothesis (H1) is accepted. These results are the same as research conducted by Siregar & Kiswara (2018). These research shows that the higher the company's sales, the more income the company will earn so that high profits will increase investor confidence to invest in the company. High profits will get a positive market response, this is in accordance with the signal theory that good information conveyed by the company to the market will get a positive response from the market. A positive market response will spur demand for more and more shares so that the bidding is higher, with higher bids the company will experience an increase in firm value which will make the company better known there by increasing sales. Increasing sales will cause the company's profits to increase, then this will make the company's profit quality better.

The Effect of Liquidity on Profit Quality

From this we can conclude that liquidity affects the quality of earnings. Therefore, hypothesis (H2) is accepted. These results are supported by research conducted by Bawoni & Shodiq (2020). These results suggest that the liquidity indicator used in this study is the quick ratio (QR). A high quick ratio indicates that there is no problem with liquidity because the company is able to meet its short term obligations. A good quick ratio is caused by an increase in assets so that the value of liquidity (QR) also increases. Companies with good liquidity will be considered to have good profits so that the company will get a positive market response, so this will increase the quality of company profits.

The Effect of Simultaneous Sales Growth and Liquidity on Profit Quality

From this we can conclude that the variables sales growth and liquidity simultaneously affect the quality of earnings. This study shows the same results as research conducted by Efrinal, et al (2022), namely sales growth has a significant positive effect on earnings quality. This research is also supported by research conducted by Telaumbanua & Purwaningsih, (2022) in their research showing the results that liquidity affects earnings quality. This proves that the increase in sales will make the profits earned also increase, with increased profits the company is able to meet its short-term obligations, this indicates that the company has good performance so that the company will certainly have good earnings quality.

CONCLUSION

Based on the findings of the research conducted, it concludes that an increase in sales has a positive impact on the quality of earnings, this is because increased sales will increase the profits earned by the company, so that it will make the company's earnings quality better. Liquidity affects the quality of earnings indicating that companies with good liquidity will be considered to have good profits so that the company will get a positive market response, so this will increase the quality of company profits. Simultaneously the variables of sales growth and liquidity affect earnings quality. This proves that sales growth and liquidity can be factors that affect earnings quality.

LIMITATION AND SUGGESTIONS

Limitation

This research has limitations, including the following: This research only uses samples from Companies in the food and beverage subsector listed on the Indonesian Stock Exchange. The time span studied is only 5 years, namely 2017-2021. Only 15 of the 26 The only sample was companies in the food and beverage sector listed on the Indonesian Stock Exchange that met the research criteria. This study only uses 2 independent variables, namely sales growth and liquidity. Meanwhile, there are many other variables that have an influence on earnings quality.

Suggestions

Based on the conclusions and limitations described, the researchers tries to put forward suggestions that may be useful, namely that future researchers are expected to be able to add variables used in the study and increase the research time span. For investors, namely with this research, investors can be even more selective in choosing companies to invest in by paying attention to other factors that can affect the quality of earnings and also investors in investing can see the quality of earnings which is reflected in how the company increases sales and increases the company's ability to meet its short-term obligations.

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