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Determinants Profit Quality of Food and Beverage Companies

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ABSTRACT: The research conducted aims to evaluate the influence of factors that affect the profitability of food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange during the 2020-2022 period. The study is based on a quantitative approach in data collection and analysis. A total of 33 companies were selected to be sampled, selective methods were used in sample selection based on criteria made by researchers. This data was analyzed using SPSS software for the study. The results showed that profits and increased revenues had an impact on the quality of profits, while large companies had no impact on the quality of profits. The results of trials conducted simultaneously show that profits, revenue growth, and company scale have an impact on revenue quality. The results of the coefficient of determination test showed that 33.2% of the variation in Profit Quality could be explained by Profitability, Profit Growth, and Company Size, while 66.8% could be explained by other factors not studied.

KEYWORDS: profit quality, profitability, profit growth, company size

I. INTRODUCTION

The main indicator of company performance is profit, net profit is generally interpreted as profit after deducting interest and taxes presented in the income statement (Anastasya at al, 2023; Hassan, 2015; Sumertiasih &; Yasa, 2022; Takacs et al. 2020; Zulfriza Yuliana &; Ella Fauziah, 2022). The income statement is an important component in the financial statements that is highly expected by stakeholders and becomes the center of their attention. The main focus for users of financial statements is the quality of profits, especially for companies that are eyeing large profits (Apriadi et al., 2022; Gaio & Raposo, 2014; Harymawan & Nurillah, 2017; Lee et al., 2022; Sumertiasih &; Yasa, 2022). Users of financial statements are confident that reputable companies will have high accountability, credibility, and trust (Aldubhani et al., 2022; De La Rosa &; Lambertsen, 2022; Egbunike &; ODUM, 2018; Harymawan &; Nurillah, 2017a; Odum et al., 2018; Rosa & Lambertsen, 2022; Vasconcelos &; Martins, 2019). Financial statements are one of the sources that investors need to get data used for decision making.

Data from financial statements is very valuable for investors and becomes a benchmark for decision making, especially company profitability (EL-Ansary &; Al-Gazzar, 2021; Lee, at al 2022; Liu & Skerratt, 2018; Rahmadini &; Afriyenti, 2020; Wongchoti et al., 2021). Investors assess the quality of the company's profit will refer to the previous year's profit, therefore quality profit is a profit of persistence and predictability. Persistence and predictability are seen as two important characteristics of earnings figures that assist investors in predicting future earnings and cash flows (Egbunike &; Odum, 2018; Harymawan &; Nurillah, 2017b; Mehzabin et al., 2023; Odum et al., 2018; Yadav et al., 2022; Zulfriza Yuliana &; Ella Fauziah, 2022). The quality of profit is high if the figures presented are useful for managers and investors for decision-making purposes (Harymawan &; Nurillah, 2017; Liu & Skerratt, 2018; Takacs et al., 2020; Wulandari et al., 2021; Yudha et al., 2023). Management often deliberately manipulates data in financial statements to hide original data and information about the company's condition. They can add or subtract data to their liking. Management may engage in manipulating revenues to meet personal or corporate interests. Companies that earn quality profit are companies that have managed to maintain the stability of their profits and should report profits according to facts, not as desired.(Alsmady, 2022; Apriadi et al., 2022; Egbunike &; Odum, 2018; Lee et al., 2022; Odum et al., 2018; Wulandari et al., 2021)

Maintaining the level of profit stability and actuality of financial statements is one of the in evitability implemented by the company. Companies may experience fluctuations in profits that make the quality of company profits unqualified (Hassan, 2015). Rational investors make investment decisions that are primarily based on expectations of a company's future performance and earnings quality. Managers manage profits and, in effect, manage expectations of future profit prospects, regardless of whether profit management benefits or harms investors (Abdelsalam, Chantziaras, Ibrahim, &; D, 2021; Dechow et al., 2010; Hassan, 2015; Valdiansyah &; Murwaningsari, 2022; Yudha et al., 2023). Good profit quality will attract investors, profit quality influences decision making by various users of financial statements (Egbunike &; Odum, 2018; Hassan, 2015a; O'Connell, 2023; Sumertiasih &; Yasa, 2022; Wulandari et al., 2021) When a company experiences fluctuating profits and even losses, many management teams will try their best in preparing financial statements to achieve attractive results, this is what triggers profit management, influential profit management activities, especially reducing the quality of profits generated (Abdelsalam, Chantziaras, Ibrahim, &; D, 2021; Aldubhani et al., 2022; Harymawan &; Nurillah, 2017; Jumantari et al., 2022; Maulia &; Handojo, 2022). Profit management is implemented through a mature plan with discretionary policies that remain within acceptable limits of accounting standards to achieve the expected level of financial reporting (Apriadi et al., 2022; Ghafran et al., 2022; Kousenidis et al., 2013; Suripto, 2023)

The phenomenon of financial statement manipulation is often carried out by companies, including companies that have manipulated profits and financial statements, namely PT Hanson Internasional Tbk in 2016 manipulated financial statements on revenue accounts and violated PSAK 44. PT Tiga Pilar Sejahtera tbk in 2017 recorded profits that were not in accordance with the actual (inflated profits). PT Timah tbk in 2018 made fictitious financial statements and raised the share price. PT Garuda in 2018 manipulated financial statements by reporting profits, but after adjustments were made, it turned out to be a loss. PT Envy Technologies tbk in 2019 conducted a financial statement by admitting that revenues and expenses were not in accordance with the actual situation. PT Asabri Tbk in 2019 collaborated with external parties to make illegal investments and release bluechip shares to the detriment of the country. PT Wiskita Karya tbk and PT Wijaya Karya tbk in 2023 are suspected of manipulating financial statements, namely reporting company profits, but cash flow has never been positive.

Phenomenon of manipulation of financial statements is caused by poor quality of profits. Profit manipulation is carried out consciously or intentionally through discretionary policies that remain within reasonable limits of accounting standards to achieve the expected level of financial reporting (Apriadi et al., 2022; Harymawan &; Nurillah, 2017b; Jayanih &; Ednar, 2023; Liu & Skerratt, 2018; Soly &; Wijaya, 2018; Valdiansyah &; Murwaningsari, 2022). Several things cause a decrease in the quality of revenue in the company. This study aims to examine how the dynamics of profit growth, profitability, and company capabilities can affect the value of company profits. This study involved food and beverage companies as the focus of the study. In some of these companies, most companies that have passed the listing on the Stock Exchange have experienced up and down changes in revenue from 2020 to 2022, and some even suffered losses. The findings on this subject show where the profits of food and beverage companies are not so good. The profit condition of food and beverage subsector manufacturing companies during 2020-2022. There were 18.20% of companies that experienced a decrease in profits, 42.40% of companies that experienced profit fluctuations, and 38.40% of companies experienced profit growth.

Fluctuating profit growth can be a factor in the low quality of profit in the company. Companies that experienced profit fluctuations for the 2020-2022 period were PT Mayora Indah, PT Siantar Top, PT Ultra Jaya Milk Industry, PT Multi Bintang Indonesia, PT Bumi Teknokultural Unggul, PT Mulia Boga Raya, PT Sekar Laut, PT Wahana Interfood Nusantara, PT Prasidha Aneka Niaga, PT Tri Banyan Tirta, PT Morenzo Abadi Perkasa, PT Indofood Sukses Makmur, and PT Sentra Pangan Indonesia. This study also uses independent profitability variables. Profitability is the main foundation for the company to continue the sustainability of the company. In food and beverage companies, there is also a phenomenon that there are several companies affected by losses in 2020-2022. Companies that suffered losses in 2020-2022 were PT Bumi Teknokultura Unggul tbk, PT Prasidha Aneka Niaga tbk, PT Tri Banyan Tirto, PT Sentra Pangan Indonesia tbk, and PT Inti Agri Resources tbk.

According to research conducted by Sumertiasih & Yasa (2022), the results of the study show that there is an increase in profits that significantly affects the quality of profits, but the findings of research by Cindy et,al (2021), profit growth does not have a significant effect on the quality of profits. According to research conducted by Anastasya, et al (2023), it is concluded that profits have a major influence on the quality of company revenue. However, different findings are also stated by a study that has been carried out by Jayanih & Ednar (2023) which confirms that profits do not have an impact on the quality of company earnings. According to research conducted by Maulia & Handojo (2022), there is evidence that shows where the scale of the company gets a real influence with the level of profit generated. In their research, Zulfriza Yuliana & Ella Fauziah (2022) found that the scale of the company does not determine the quality of profits.

The results of studies on the impact of these variables on profit quality vary, so researchers decided to conduct research on this subject with the aim of investigating the direct impact of profits, profit growth, and regulation of company size on profit quality. The food and beverage industry very important for society, because the need for foodstuffs cannot be ignored. Therefore, this industry will continue to exist and continue to grow. (Cindy et.al, 2021) The impact will be immediately visible on company profits, which is why the author intends to conduct research by digging data from company food and beverage listed on the Indonesia Stock Exchange (IDX).

This study was similar to some previous studies but had differences in the data used, the subject of the study, and the use of independent variables. The title of this study is "Determination of Profit Quality of Food and Beverage Company". The study has three main objectives. First, to explore how profitability affects the quality of profits. Second, to investigate how profit growth affects profit quality. And third, to find out how the size of the company affects the quality of profits.

Agency theory proposed by Jensen and Meckling (1976). Agency relationship is a meeting between two parties: principal (main investor) and agent (manager). Managers on the other hand are those who receive and manage funds and capital invested by shareholders (Jensen and Meckling, 1976). As time went by, agency theory progressively developed. Agency theory has three types of problems: type 1: problems between owners and management. Type 2: problems between large owners and small owners. Type 3: problems between Owners and Creditors (Panda &; Leepsa, 2017).

This study uses Type 1 agency theory, which is a problem between owner and management. According to agency theory, managers act as agents chosen by investors (principals) and have the responsibility to take care of the company and achieve the goals set by the company. Conflicts often arise when managers and shareholders have different desires, this is explained by agency theory. Companies can do various ways to regulate the financial figures listed in the financial statements, in order to reflect the assessment of the company's performance through the profits obtained. This can be done by the company's agents or its management.(Maulia &; Handojo, 2022; Nainggolan &; Bounty, 2022; Siegrist & Chambaz, 2012; Sumertiasih &; Yasa, 2022; Zulfriza Yuliana &; Ella Fauziah, 2022)

II. LITERATURE REVIEW

Agency theory shows that there are conflicting interests between agents and principals that result in irregularities in presenting profits in the financial statements. This is done by the agent to show good performance to the principal so that they can get a large compensation from the principal. These activities result in low quality profits in the company. High-quality profit is high if the figures presented are useful to managers and investors for decision-making purposes. Profit multiplicity must be relevant and reliable. Relevance and reliability are seen as the two main qualitative characteristics of revenue figures. To be relevant, among other things, current opinion figures must be persistent and have predictive value. Regarding reliability, profit information must be representationally correct and free from errors and biases Profit quality indicates how well profits reported in financial statements reflect actual performance (Boulton et al., 2011; Dal Maso et al., 2018; Egbunike &; Odum, 2018; Lee et al., 2022; Odum et al., 2018; Persakis &; Iatridis, 2015; Takacs et al., 2020)

The problem of profit quality is closely related to the profit generated by the company, because profitability involves the sustainability of a business. Profitability is an indicator used to evaluate the capacity of a company to make a profit. Therefore, companies with high profit margins can also get large profits. This can be an indication of how effective the company is in achieving profits. If the company's financial performance increases, the company will not mislead profits, therefore the announced profits are quality profits. Significant benefits will be an encouragement for investors to get involved in the business (Aldubhani et al., 2022; Anastasya et al, 2023; Kryzanowski & Mohsni, 2013; Razak et al., 2021; Sumertiasih &; Yasa, 2022; Yadav et al., 2022). Therefore, the hypothesis of this study is defined as follows:

H_1 = Profitability affects the quality of profit.

Companies that have high-quality profits are companies that can maintain profit growth every year. The quality of a company's profit usually increases in line with its profit growth. When the company's profit fluctuates, it indicates a lack of performance from the agent, so the agent will do various ways so that profit growth looks increased in front of the principal. The efforts made by the agent will be one of the factors in the low quality of profit in a company (Cindy, et al., 2021)(Anastasya et al, 2023)(Ratio et al., 2020). Therefore, the hypothesis of this study is defined as follows:

H_2 = Profit growth affects the quality of profits.

Large companies certainly have large operational activities as well. Operational activities on a large scale will open up opportunities to get large profits. Large operational activities in addition to getting large profits, of course, must have large capital needs. The large capital in question is sourced from investors. But with good profit quality, these investors will choose the company, so the company will show profits on the company's high-quality financial statements. The scale of an enterprise can be categorized as large or small.

Good profit quality These investors will choose the company, so the company will show profit on the company's high-quality financial statements. The scale of an enterprise can be categorized as large or small. The size of a company can be used as a benchmark to assess how big its operations are. The quality of profitability of a company is closely related to its size, because the larger the company, the higher its ability to survive in the long run. This is due to increased financial efficiency that can help companies optimize their profits. The size of the company can affect the level of operational efficiency and the quality of the systems used. Therefore, companies must be careful and pay more attention to detail in conveying financial terms, communicating information, and showing transparency within the company. Good management formation encourages investors to take investment actions in large-scale companies when juxtaposed with small-scale companies. A larger company size will bring better quality of profits (Amankwaah &; Baidoo, 2023; Anjelica &; Prasetyawan, 2014; Maulia &; Handojo, 2022; Yadav et al., 2022; Zulfriza Yuliana &; Ella Fauziah, 2022) because the hypothesis can be applied as follows:

H_3 = Company Size affects the quality of profit

III. RESEARCH METHODOLOGY

The quantitative approach method was used in this study. The source of information for this research is sourced from annual financial reports published by manufacturing companies in the food and beverage industry listed on the Indonesia Stock Exchange (IDX) during the period 2020 to 2022. Data regarding this annual financial report can be found on the official website of the Indonesia

Stock Exchange (IDX), namely www.idx.co.id. Additional information comes from previous references, scientific literature, and journal publishing. This research involves all manufacturing companies operating in the consumer merchandise sector that have been listed on the Indonesia Stock Exchange (IDX) in the period 2020-2022, with a total of 47 companies. The non-probability sampling method that will be utilized in this study, which is purposive sampling. This method is chosen for specific purposes and is not representative of the entire population. Purposive sampling is a research method whose sample selection is based on certain criteria made by researchers. After sampling was done, 33 companies were found to meet the standards set by researchers. With a number of data reaching 99 pieces.

The Return on Assets (ROA) formula is used in calculating the profitability value where ROA equals net profit divided by total assets. Meanwhile, profit development is calculated through the use of the Profit Growth formula, which is calculated from the difference between net profit in year t and net profit in year t-1, then divided by net profit in year t-1. For company size, it can be calculated using the Size formula which is calculated from the natural logarithm of the company's overall assets.

IV. RESULTS AND DISCUSSION

Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
PROF	99	-.19	7.81	.1284	.78674
PL	99	-12.09	82.19	1.0924	8.48266
UP	99	22.64	32.83	28.1770	1.83084
KL	99	-29.70	116.06	1.6658	13.28082
Valid N (listwise)	99				

Based on the table descriptive statistics, profitability has the smallest value 0.19, the largest value 7.81, the mean 0.1284, and std deviation 0.78674. Earnings Growth has a minimum value of -12.09, a maximum value of 82.19, a mean of 1.0924, and a std deviation of 8.48266. Company Size, has a minimum value of 22.64, a maximum value of 32.83, a mean of 28.1770, and a std deviation of 1.83084. Earnings quality found a minimum value of -29.70, a maximum value of 116.06, a mean of 1.6658, and a std deviation of 13.28082.

based on the normality test table, the value of Asymp. Sig > 0.05 which is 0.063, for that it produces a conclusion where the data has been normally distributed.

based on the Multicolonierity test table, the profitability variable found a statistical value of VIF 1.211 and a tolerance value of 0.826. the profit growth variable found a statistical value of VIF of 1.175 and a tolerance value of 0.851. the company size variable found a statistical value of VIF of 1.033 and a tolerance value of 0.968. from the previous explanation it is known where the statistical value of VIF of each variable ≤ 10, and a Tolerance value of 0.1, ≥so it has been concluded that the data has been free from multicolonicity.

Normality Test

N		99
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	1.31987078
Most Extreme Differences	Absolute	.087
	Positive	.087
	Negative	-.047
Test Statistics		.087
Asymp. Sig. (2-tailed)		.063[c]

Autocorrelation Test

Type	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.616[a]	.380	.332	.38500	2.011

Based on the Autocorrelation Test table, the Durbin-Watson value in this study is between the value in the Durbin Watson (du) table and the 4-(du) value, so it has been concluded that the data is free from autocorrelation.

Heteroscedasticity Test

		B	Std. Error	Beta	t	Sig
1	(Constant)	.470	5.943		.079	.937
	SQRT_PROF	-2.568	1.454	-.293	-1.766	.085
	SQRT_PL	.072	.119	.098	.601	.551
	SQRT_UP	-.314	1.090	-.044	-.288	.775

Based on the heteroscedasticity table, the sig value of the profitability variable is 0.085, the sig value of the profit increase variable is 0.551, and the sig value of the company size variable is 0.775. Based on this explanation, all variable values > 0.05, it is concluded that the data is free from heteroscedasticity.

Regression Equation

Type		B	Std. Error	Beta	T	Sig.
1	(Constant)	3.175	2.271		1.398	.170
	SQRT_PROF	-1.835	.556	-.458	-3.304	.002
	SQRT_PL	.094	.046	.281	2.057	.046
	SQRT_UP	-.266	.417	-.082	-.639	.527

Based on the regression table, the regression equation is obtained as follows:

$Y = \beta 0 \ + \beta 1 \ X 1 + \beta 2 \ X 2 + +\beta 3 \ X3 + e$

$Y \ = 3.175 - 1.835PROF + 0.094PL - 0.266UP + e$

Test t

Type		B	Std. Error	Beta	T	Sig
1	(Constant)	3.175	2.271		1.398	.170
	SQRT_PROF	-1.835	.556	-.458	-3.304	.002
	SQRT_PL	.094	.046	.281	2.057	.046
	SQRT_UP	-.266	.417	-.082	-.639	.527

Based on the T test table above, the sig value of the profitability variable is 0.002, the value is < 0.05 which means that the profitability variable has an influence on quality. The value of the variable sig of profit growth is 0.046, the value is < 0.05, which means that the variability of profit growth affects the quality of profit. The value of the company size variable sig is 0.527, the value is > 0.05 which means that the company size variable has no effect on the quality of profit.

Test F

Type		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3.537	3	1.179	7.955	.000[b]
	Residuals	5.781	39	.148		
	Total	9.318	42			

Based on the F test table above, the sig value of 0.000 is < 0.05, so it can be concluded that the variables of profitability, profit growth, and company size simultaneously have an influence on the quality of profits.

Coefficient Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.616[a]	.380	.332	.38500

Based on the table of determinant coefficients above, the R Square value of 0.332 means that the high and low quality of profit is explained by the variables of profitability, profit growth, and company size by 33.2%, while other results of 66.8% cannot be explained because they are influenced by variables other than the variables in this study.

Based on the results of the t test, there is evidence showing that Profitability (Prof) has a significant value with a confidence level of 0.002 which is smaller than 0.05. According to research, profits in food and beverage companies that have been listed on the Indonesia Stock Exchange during 2020 - 2022 are significantly influenced by the level of profitability. It has been agreed that profitability has a positive beneficial effect on the quality of profits. Therefore, if the high value of the Company's profitability is higher, the quality of the company's revenue will also increase. Companies that are able to make a profitable profit will become more attractive to financiers. Investors generally look for companies that have a higher level of profitability than other companies in order to maximize company profits.

The results of the t-test analysis show that the significance value of Profit Growth (PL) is 0.046, the value is lower than 0.05. This result shows where profit growth has a considerable impact on the quality of profits in food and beverage companies that have been listed on the Indonesia Stock Exchange during 2020-2022. Therefore, the hypothesis that asserts that profit development has an impact on profit quality is valid. That is, if the rate of profit development in the Company is higher, the quality of the company's profits tends to increase. Higher profits for the company will also increase the quality of the company's profits. This finding is consistent with studies reported by (Sumertiasih &; Yasa, 2022) (Abidin et al., Increased profits are related to profit advantage because companies that experience high profit increases are projected to produce the desired return ratio based on investments made by investors in the future and anticipated stability.

The results of the t-test analysis show where the p value of the company size (UP) is 0.527, where the value is higher than the predetermined significance level of 0.05. There are allegations that the quality of profits is not affected by the size of the company, which has not been agreed upon. Based on studies by Hadi & Hadojo (2017) and Sukmawati et, al, (2014), results were obtained where there is no guarantee that the size of the company can be an indicator of the quality of profits reported by the company, whether it is a large or small company. The size of the company calculating by the natural logarithm of the overall assets (Ln (total assets)) is not always related to optimal profit quality. Similarly, a small company size does not necessarily signal poor profit quality. This also means that investors do not consider the size of the company as a major factor in deciding to invest, because the size of the company does not guarantee the level of profit that will be obtained by investors.

V. CONCLUSIONS AND SUGGESTIONS

Quality profit is profit that accurately describes the company's performance over a certain period of time. This can be measured from the suitability between the profits generated and the actual conditions experienced by the company. Investors need quality profits to evaluate the future potential of a company. Many studies have been conducted to understand the factors that affect the quality of profits. However, the results obtained have not been concluded and there are several conflicting results, especially related to profit variables, profit growth, and company size. Therefore, this study was conducted to examine the impact of profitability, profitability development, and company scale on the quality of profitability. This research found that there is a real relationship between factors that have an impact on revenue quality (such as Profitability, Revenue Growth, and Business Size) in Food and Beverage subsector companies in Indonesia. This study shows where profitability (X1) has an influence on the quality of profits. Therefore, a conclusion is reached where the H1 hypothesis can be agreed. The experimental results show that the Profit Growth factor (X2) has an important effect on the Quality of Profit. The more results obtained from year to year by the Company, the quality of profits shown by the Company will increase. Therefore, a conclusion is reached by which the H2 hypothesis can be agreed. This fact shows that the size of a company does not always guarantee an increase in the quality of reported profits. Therefore, it can be concluded that H3 cannot be approved. Based on this study, Profitability, Profit Growth, Profit Development, and Company Size simultaneously have a positive and significant impact on Profit Quality.

It is recommended to students who will conduct research to extend the duration of research. Conduct studies with diverse groups of research subjects and add independent factors that are considered more optimal and have a more significant impact on the level of profit generated. In the financial statements, the company must display revenue in accordance with actual conditions so that information about the company's revenue can be trusted and not mislead stakeholders. Thus, the company's profit can be considered as a quality profit. Investors should consider the company's earnings advantages when they decide to invest in the company.

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