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# The Effect of Profit Growth, Capital Structure, and Investment Opportunity Set on Profit Quality with Firm Size as a Moderating Variable (Empirical Study of Manufacturing Companies in the Consumption Goods Industry Sector Listed on the IDX in 2017 – 2021)

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**Abstract**

*This study is to empirically test the effect of profit growth, capital structure, and investment opportunity sets on earnings quality which is moderated by company size in manufacturing companies in the consumer goods sector listed on the IDX from 2017 to 2021. Purposive sampling was used in the sample selection method of this study with the sample obtained, namely 26 companies with a total of 130 data observations. Panel regression data analysis in statistical calculations with the help of Eviews12 was used in this study. Based on the results of the output of Eviews12 the conclusion of the hypothesis test stated that profit growth and capital structure do not affect earnings quality. While the investment opportunity set affects the quality of earnings. After being moderated by company size, the results show that company size is not proven to moderate the effect of profit growth and capital structure on earnings quality, while company size is proven to be able to moderate the effect of investment opportunities on earnings quality.*

Keywords
earning quality; profit growth; capital structure; investment opportunity set; firm size

## I. Introduction

The Covid-19 pandemic has so many significant impacts on life and business activities. Many companies were unable to survive and eventually went bankrupt because of this pandemic. Therefore, in the current pandemic situation, profit has a very important role in the survival of a company. Information about profits can be used to measure the success or failure of a company's business. Because of the covid-19 pandemic, raises the potential to manipulate financial reports to attract investors and survive the covid-19 pandemic. This problem can result in a decrease in the quality of company profits. Earning quality is useful for decision- making, namely having the characteristics of being relevant, understandable, trustworthy, and comparable.

As quoted from Suara.com, PT Tiga Pilar Sejahtera Food Tbk (AISA) was prosecuted by the Attorney General's Office with a criminal penalty of seven years in prison and a maximum fine of IDR 2 billion, a subsidiary of six months in prison, because AISA manipulated the Tiga Pilar 2017 financial statements by overstatement. Receivables of six distributors from the actual Rp 200 billion to Rp 1.6 trillion. Furthermore, the Jiwasraya insurance case involved the main director, the head of the investment division, and the

director of finance. According to BPK reports from 2010 to 2019, Jiwasraya modified its financial statements in 2006. The bookkeeping that should have been calculated as a loss was modified in such a way by Jiwasraya. This shows that there is a problem of liquidity pressure at Jiwasraya which has been going on for a long time (Okezone.com, 2018).

In this study, the factors that influence earnings quality are profit growth, capital structure, and investment opportunity set (IOS). Profit growth can affect the quality of company profits because profit growth is an increase in profit or a decrease in profit from year to year with the percentage resulting from profit growth Nugrahani (2019).

The capital structure is a tool to measure how far a company depends on creditors in financing the company's assets. Capital structure can affect the quality of earnings because if a company's leverage is high, it means that the company's operational activities are financed more by debt.

The term investment opportunity set (IOS) was first put forward by Myers (1977). According to Myers (1977), IOS is an investment decision in the form of a combination of owned assets and future investment choices with a positive net present value (NPV) which will affect the value of the company. ). The increase in the value of the company's shares, the higher the company value, the higher it will be (Katharina, 2021). In the current economic development, manufacturing companies are required to be able to compete in the industrial world (Afiezan, 2020). The existence of the company can grow and be sustainable and the company gets a positive image from the wider community (Saleh, 2019). According to Abbas (2019), the investment opportunity set is an opportunity for company growth, so it can become the basis for determining the classification of company growth in the future. The quality of earnings in each company is very influential on the continuity of a company's business in improving financial performance. So it is no stranger if the quality of earnings in each company always fluctuates. In recent years, the quality of profits in manufacturing companies has been declining due to the Covid-19 pandemic, so researchers are interested in researching manufacturing companies in the consumer goods sector that have gone public on the Indonesia Stock Exchange in 2017-2021. Based on this, the researcher is motivated to know the effect that occurs on the quality of earnings in manufacturing companies which is reflected in the company's financial statements. Therefore, researchers conducted a study entitled "The Effect of Profit Growth, Capital Structure, and Investment Opportunity Set (IOS) on Earning Quality with Company Size as a Moderating Variable: Empirical Study of Manufacturing Companies in the Consumer Goods Industry Sector Registered on the IDX for 2017 - 2021 ".

## II Review of Literature

### 2.1 Agency Theory

Agency theory explains the contractual relationship between the principal and the agent. In agency theory, the principal is the shareholder and the agent is the management who manages the company. So, in agency theory, the relationship between the principal and agent creates conflict because both want to increase their respective utilities. Managers who have more company information do not want to voluntarily disclose all company information to investors. Conflicts are more likely to increase in long-term investments because principals want high returns from investments made by management, while agents in managing companies also want to look good to get high bonuses. Regarding the explanation above, the researcher chose agency theory because it relates to profit growth, capital structure, and investment opportunity set (IOS) on the quality of earnings in companies.

## 2.2 Hypothesis Development

According to Yunita and Suprasto (2018: 1933), earnings quality is the ability to openly present profits in reports based on facts and can help interested parties, especially management, and investors, in predicting future profits. The quality of earnings is reflected in the existence of financial reporting by the characteristics determined by financial accounting standards. Earnings quality in this study is measured by discretionary accrual measurements using the modified jones model because quality earnings are avoided from earnings management practices.

H1: Profit growth affects earnings quality

Profit Growth is a company asset, where the asset is an asset used in the company's operations. The faster an opportunity (growth) generates profits, the higher the expenditure required to fund growth opportunities, so dividends must be limited to keep the company's funds for growth investment. Al-Vionita (2020) states profit growth is a change in profits that increases or decreases which is expressed as a percentage. The existence of profit growth means that the company's performance is going well and it is possible to have growth in the quality of its earnings. So based on this explanation it shows that profit growth affects earnings quality.

H2: Capital structure affects earnings quality

The identified factor influencing earnings quality is leverage. Leverage is used to measure the extent to which company assets are financed with debt. Companies with high leverage indicate that companies use more debt in their capital structure and assets. Companies with high leverage will cause low earnings quality. If a company's leverage level is high, it will tend to practice large profits so that the quality of the resulting profits is low.

H3: Investment Opportunity Set affects earnings quality

An investment opportunity set (IOS) is a choice of future investment opportunities that can affect the growth of company assets or projects that have a positive net present value. The investment opportunity set (IOS) is expected to be an investment option in the future that will generate greater returns. An investment opportunity set (IOS) is used as a basis for determining the classification of future growth. Companies that have a high set of investment opportunities, will carry out expansion activities in their business strategy, which will increasingly require external funds (Dewi, 2020).

H4: Firm size can moderate the effect of earnings growth on earnings quality

Large companies generally have a profit growth value, profit growth occurs due to changes in the level of profit that the company earns in a period. If the company gets bigger, the company's operational activities will be bigger and the company's performance is considered good, and the profit that will be generated will change every period. Large company sizes and the profit growth generated in each period tend to manage earnings efficiently. Large companies pay more attention to the public and investors so they will be more careful in making financial reports.

H5: Firm size can moderate the effect of capital structure on earnings quality

The capital structure determines whether the company uses internal funds or external funds to meet company funding. The size of the company is one of the things that is important to see for investors, the bigger the size of the company, the more confident and confident investors are to invest in the company and hope that the company can continue to run its operations well so that the dividends it gets will be even bigger. The company seeks to improve its performance to get as much profit as possible.

H6: Firm size can moderate the effect of the investment opportunity set on earnings quality

An investment opportunity set (IOS) can be used to determine the classification of company growth whether the company is classified as a growing company or a non-growing

company. Companies that are experiencing good growth can be measured by increasing sales, creating new products, increasing capacity, adding assets, and investing in long-term periods.

### 2.3 Framework

Based on the background of the problem and the theoretical foundation that has been stated above, the relationship between variables in this study can be stated in a framework of thought as follows:

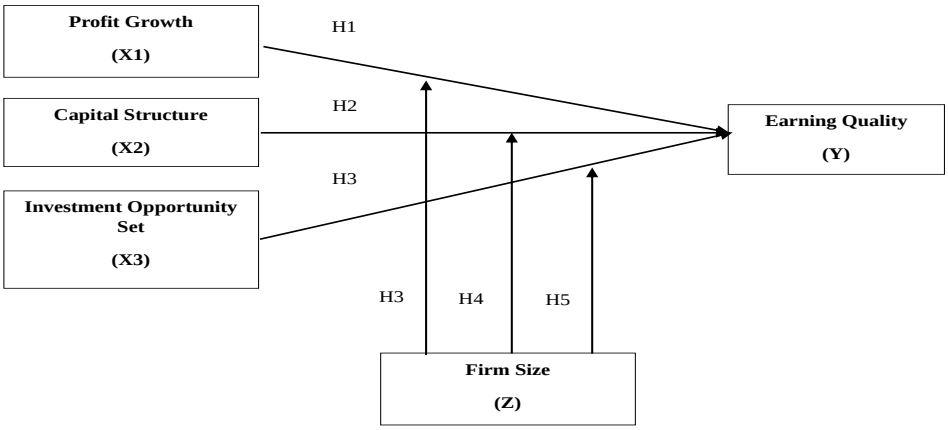


***Figure 1.*** *Framework*

## III. Research Method

The companies sampled in this study are manufacturing companies that are listed consecutively on the Indonesia Stock Exchange from 2017 to 2019 with the data criteria in the table below:

**Table 1.** Sampling

| Sample Criteria | Amount |
|---|---|
| Manufacturing companies that are consecutively listed on the IDX 2017-2021 | 76 |
| Manufacturing companies in the consumer goods industry sector listed on the IDX in 2017 | (29) |
| Manufacturing companies in the consumer goods industry sector which experienced losses in the 2017 – 2021 period | (19) |
| Manufacturing companies in the consumer goods industry sector whose financial reports use USD | (2) |
| Sample Companies | 26 |
| **Total Research Data for 2017 – 2021 (26 * 5 Year)** | **130** |

The definition of variable operationalization is:

**Table 2.** Operationalization of Variables and Measurement of Variables

| Variable | Indicator | Scale |
|---|---|---|
| **Dependent Variable (Y)** | | |
| Earning Quality Nadila & Nur (2020) | a. Total *Accruals*<br>$TACC_{it} = EBXT_{it} - OCF_{it}$<br>$TACC_{it}/TA_{i,t-1} = \beta_1 (1/TAi_{,t-1}) + \beta_2 ((\Delta REV_{it} - \Delta REC_{it})/TA_{i,t-1}) + \beta_3$ | Rasio |

| | | |
|---|---|---|
| | $(PPE_{it}/TA_{i,t-1}) + \varepsilon_{it}$<br><br>*b. Non Discretionary Accruals*<br>$NDACC_{it} = \beta_1 (1/ TA_{i,t-1}) + \beta_2 ((\Delta REV_{it} - \Delta REC_{it})/TA_{i,t-1}) + \beta_3 (PPE_{it}/ TA_{i,t-1})$<br><br>c. *Discretionary Accruals*<br>$DACC_{it} = (TACC_{it}/TA_{i,t-1}) - NDACC_{it}$ | |
| **Independent Variable** | | |
| Profit Growth Reno & Renil (2019) | $PL = \frac{\text{Net Profit this year} - \text{Net Profit last year}}{\text{Net Profit last year}}$ | Rasio |
| Capital Structure Viana & Nur (2021) | $DER = \frac{\text{Total Debt}}{\text{Total Equity}} \times 100\ \%$ | Rasio |
| *Investment Opportunity Set* Imam & Rika (2022) | $MBVE = \frac{\text{Number of outstanding shares x closing share price}}{\text{Total Equity}}$ | Rasio |
| **Moderate Variable** | | |
| Firm Size Muhammad & Dimas (2021) | Firm Size = Ln (Total Assets) | Rasio |

The multiple regression analysis models carried out in this study are as follows:

$$\mathbf{Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4Z + \beta_5(X_1Z) + \beta_6(X_2Z) + \beta_7(X_3Z) + \varepsilon\ldots}$$

## IV. Results and Discussion

### 4.1 Results

### a. Descriptive Statistical Analysis

**Table 3.** Descriptive Statistical Analysis

| | X1 PG | X2 DER | X3 IOS | Y EQ | Z FZ |
|---|---|---|---|---|---|
| Mean | 0.630077 | 0.824000 | 3.253077 | 0.000538 | 29.38462 |
| Median | 0.155000 | 0.665000 | 2.220000 | 0.000000 | 29.00000 |
| Maximum | 47.08000 | 2.420000 | 29.66000 | 0.030000 | 33.00000 |
| Minimum | -0.940000 | 0.120000 | 0.000000 | -0.020000 | 27.00000 |
| Std. Dev. | 4.181473 | 0.596253 | 4.601048 | 0.004543 | 1.438047 |
| Skewness | 10.67583 | 0.833120 | 4.231404 | 1.716386 | 0.200951 |
| Kurtosis | 118.9707 | 2.856945 | 23.00269 | 19.45664 | 2.258254 |
| Jarque-Bera | 75319.32 | 15.14945 | 2555.185 | 1530.776 | 3.855101 |
| Probability | 0.000000 | 0.000513 | 0.000000 | 0.000000 | 0.145504 |
| Sum | 81.91000 | 107.1200 | 422.9000 | 0.070000 | 3820.000 |
| Sum Sq. Dev. | 2255.528 | 45.86172 | 2730.884 | 0.002662 | 266.7692 |
| Observations | 130 | 130 | 130 | 130 | 130 |

Source: *Output Eviews* 12

From the output of the descriptive statistics in table 3 above, it can be seen that the number of observations is 130, meaning the amount of data processed in this study is 130.

The results of the descriptive statistics above show that profit growth has an average value of 0.630077, a standard deviation value of 4.181473 with a minimum value of -0.94 PT Sekar Bumi Tbk in 2019, and a maximum value of 47.08 PT Sawit Sumbermas Sarana Tbk. The capital structure proxied by the DER value has an average value of 0.824, a standard deviation value of 0.596253 with a minimum value of 0.12 PT Campina Ice Cream Industry Tbk and a maximum value of 2.42 PT Tunas Baru Lampung Tbk. Then the Investment Opportunity Set has an average value of 3.253077, a standard deviation value of 4.601048 with a minimum value of 0 PT Budi Starch & Sweetener Tbk and PT Japfa Comfeed Indonesia Tbk. And the maximum value is 29.66 PT Multi Bintang Indonesia Tbk in 2019. And company size has an average value of 29.38462 and a standard deviation value of 1.438047. With a minimum value of 27 owned by PT Akasha Wira International Tbk, PT Sariguna Primatirta Tbk, PT Buyung Poetra Sembada Tbk, and PT Sekar Laut Tbk. And the maximum value of 33 is owned by PT Indofood Sukses Makmur Tbk in 2020 and 2021.

**Table 4.** Chow Test Results

Redundant Fixed Effects Tests
Equation: FEM
Test cross-section fixed effects

| Effects Test | Statistic | d.f. | Prob. |
|---|---|---|---|
| Cross-section F | 2.596584 | (25,97) | 0.0005 |
| Cross-section Chi-square | 66.606548 | 25 | 0.0000 |

Source: output Eviews 12

Prob Value Cross-section Chi-square < 0.05. This means that the fixed effect model is better than the common effect, so the method we choose is the fixed effect model.

**Table 5.** Hausman Test Results

Correlated Random Effects - Hausman Test
Equation: REM
Test cross-section random effects

| Test Summary | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. |
|---|---|---|---|
| Cross-section random | 39.532634 | 7 | 0.0000 |

Source: Output Eviews 12

The test results show that Hausman accepts H1 or p-value <0.05. This means that the fixed effect model is better than the random effect, so the method we choose is the fixed effect model. Based on the two tests that have been carried out, namely the chow test and the Hausman test, it is known that the two tests conclude that the selected model is the fixed effect model, therefore the lagrange multiplier test does not need to be done again.

### b. Panel Data Regression Analysis Results

Based on the tests that have been done, the fixed effect is the most suitable model for this research. The results of the fixed effect model test are shown in table 6 below:

**Table 6.** Fixed Effect Model Test Results

Dependent Variable: Y_EQ
Method: Panel EGLS (Cross-section weights)
Date: 01/17/23 Time: 22:57
Sample: 2017 2021
Periods included: 5
Cross-sections included: 26
Total panel (balanced) observations: 130
Linear estimation after one-step weighting matrix

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 0.066450 | 0.041602 | 1.597277 | 0.1135 |
| X1_PG | 0.006205 | 0.004116 | 1.507482 | 0.1349 |
| X2_DER | -0.031181 | 0.020273 | -1.538062 | 0.1273 |
| X3_IOS | 0.007922 | 0.003417 | 2.318659 | 0.0225 |
| Z_FS | -0.002372 | 0.001428 | -1.660663 | 0.1000 |
| PG_FS | -0.000203 | 0.000137 | -1.486529 | 0.1404 |
| DER_FS | 0.001101 | 0.000691 | 1.592711 | 0.1145 |
| IOS_FS | -0.000243 | 0.000114 | -2.135026 | 0.0353 |

Effects Specification

Cross-section fixed (dummy variables)

Weighted Statistics

| | | | |
|---|---|---|---|
| Root MSE | 0.002880 | R-squared | 0.462124 |
| Mean dependent var | 0.001346 | Adjusted R-squared | 0.284680 |
| S.D. dependent var | 0.003990 | S.E. of regression | 0.003334 |
| Sum squared resid | 0.001078 | F-statistic | 2.604341 |
| Durbin-Watson stat | 2.524087 | Prob(F-statistic) | 0.000171 |

Unweighted Statistics

| | | | |
|---|---|---|---|
| R-squared | 0.405952 | Mean dependent var | 0.000907 |
| Sum squared resid | 0.001234 | Durbin-Watson stat | 2.152546 |

Source: Output Eviews 12

From testing the regression equation, the regression model is obtained as follows:

Profit Quality (Y) = 0.066450 + 0.006205 (PG) – 0.031181 (DER) + 0.007922 (IOS) – 0.002372 (FS) – 0.000203 (FS*PG) + 0.001101 (FS*DER) – 0.000243 (FS*IOS)

### c. Classic Assumption Test

**Table 7.** Multicollinearity Test

| | X1_PG | X2_DER | X3_IOS |
|---|---|---|---|
| X1_PG | 1.000000 | 0.116838 | -0.028502 |
| X2_DER | 0.116838 | 1.000000 | 0.111482 |
| X3_IOS | -0.028502 | 0.111482 | 1.000000 |

Source: output Eviews 12

Based on the results above, the coefficient value between variables is less than 0.90. So it can be concluded that the data does not have a multicollinearity problem.

To analyze whether the selected fixed effect model is affected by heteroscedasticity or not, it must be compared to the unweighted fixed effect model and the weighted fixed effect model by comparing 3 parameters as shown in the following table:

**Table 8.** Comparison of Fixed Effect Models Without Weights And With Weights

| Parameter | Unweighted Fixed Effect Model | Weighted Fixed Effect Model |
|---|---|---|
| Statistic t probability | 3 variable < 0,05 | 2 variable < 0,05 |
| R-Squared | 0,238263 | 0,462124 |
| F-Statistic Probability | 0,001200 | 0,000171 |

Source: Output Eviews 12

The significant difference between the two models is in the R-Squared score, where the fixed effect model with weight is better than without weight, therefore the final model chosen is the fixed effect model with weight. Thus the next analysis will be based on the fixed effect model with weights.

### d. Hypothesis Testing

**Table 9.** Determination Coefficient Test ($R^2$)

| Weighted Statistics | | | |
|---|---|---|---|
| Root MSE | 0.002880 | R-squared | 0.462124 |
| Mean dependent var | 0.001346 | Adjusted R-squared | 0.284680 |

Based on the results of testing the fixed effect model method, the adjusted R-squared value of 0.284680 means that all independent variables consisting of profit growth, capital structure, and investment opportunity set are slightly able to explain the dependent variable, namely earnings quality of 28.46%. Because the score is not more than 50%, the effect of earnings growth, capital structure, and investment opportunity set on earnings quality is less strong. Then 71.54% indicates that other variables can explain the variation in earnings quality variables that are not included in the panel data regression model of this study.

### e. Simultaneous Significance Test (Statistical F Test)

Based on the results of testing the fixed effect model method, the calculated F value is 2.604341 with a probability of 0.000171 or <0.05, thus the results of the analysis show that jointly the independent variables affect earnings quality so that the panel data regression model is feasible or capable explain the dependent variable.

### f. Partial Test (t-test)

To answer the existing hypothesis, a partial test was carried out with the results presented in table 6, with the following results obtained: (1) The estimated profit growth results have a t-statistic value on the results of the regression analysis of 1.507482 with a probability of 0.1349. The probability value above $\alpha = 0.05$ indicates that profit growth does not affect earnings quality so H1 is rejected. (2) The results of capital structure estimation have a t-statistic value on the results of the regression analysis of -1.538062 with a probability of 0.1273. The probability value above $\alpha = 0.05$ indicates that capital structure does not affect earnings quality so H2 is rejected. (3) The results of IOS estimation have a t-statistic value on the results of the regression analysis of 2.318659 with a probability of 0.0225. The probability value below $\alpha = 0.05$ indicates that the investment opportunity set affects the quality of earnings so that H3 is accepted. (4) The estimation results of the PG*FS variable have a t-statistic value on the results of a moderated regression analysis of -1.486529 with a probability of 0.1404. The probability value above $\alpha = 0.05$ indicates that company size is unable to moderate the effect of profit growth on earnings quality so H4 is rejected. (5) The estimation results of the DER*FS variable have a t-statistic value on the results of a moderated regression analysis of 1.592711 with a probability of 0.1145. The probability value above $\alpha = 0.05$ indicates that company size is unable to moderate the effect of capital structure on earnings quality so H5 is rejected. (6) The results of the estimation of the IOS*FS variable have a t-statistic value on the results of the moderation regression analysis of -2.135026 with a probability of 0.0353. The probability value below $\alpha = 0.05$ indicates that company size can moderate the effect of the investment opportunity set on earnings quality so that H6 is accepted, namely company size can influence between investment opportunity set and earnings quality.

## 4.2 Discussion

### a. Effect of Profit Growth on Earnings Quality

Companies that have profit figures that grow from year to year indicate that these companies have the opportunity to grow and develop their profits in the future. The higher the opportunity to grow in profit, this reflects the company's financial performance is in good condition. So, the profit presented in the financial statements is a good quality profit. The results Listyawan (2017) stated that there was no effect of profit growth on earnings quality that could be caused by several factors, one of which was the surprise profit obtained in the current period. Investors can respond to the surprise profit information as an indication of intervention from company management in the financial statements so that profits increase. Therefore, the profit generated by the company does not reflect the actual condition of the company. This causes a decrease in investor confidence in companies that experience profit growth so that the quality of earnings also decreases.

Based on the results of statistical data processing, the results of hypothesis testing in this study indicate that the variable profit growth has no significant effect on earnings quality as the dependent variable. The results of this research are supported by the basis of agency theory which states that a conflict of interest between the owner of the company (principal) and management (agent) will cause the nature of company management to report profits opportunistically to maximize their interests.

So, the more often there is a conflict of interest between company owners and management, the quality of the reported financial statements will not be. The results of this study are consistent with several previous studies, namely Anggrainy (2019), Nugrahani (2019), Al-Vionita (2020), and Mahardika (2021) which state that profit growth does not affect earnings quality.

### b. Effect of Capital Structure on Earnings Quality

In this study the proxy used to measure capital structure is leverage. Based on the results of statistical data processing, the results of hypothesis testing in this study indicate that the capital structure variable has no significant effect on earnings quality as the dependent variable. The negative sign indicates that there is an opposite relationship between the capital structure variable and the company's earnings quality. So it can be concluded that capital structure has a negative effect and does not have a significant effect on earnings quality, which means that the second hypothesis (H2) in this study is rejected. According to (Graha,2018) states that investors do not see leverage as the main focus in investing, investors prefer to focus on the profit figures disclosed by the company.

This is also supported by agency theory where other people (agents) employed by the company owner are a source of leverage. However, good competitive quality can only increase the productivity of the company's performance, not increase the quality of the company's profits. The results of this study are consistent with several previous studies, namely Nugrahani (2019), Tanjung (2019), Maulina (2019), and Zatira (2020).

### c. Effect of Investment Opportunity Set on Earnings Quality

Based on the results of statistical data processing, the results of hypothesis testing in this study indicate that the investment opportunity set variable has a significant effect on earnings quality as the dependent variable. IOS which has a positive effect means that investors and creditors make the company's IOS the main center of attention in making investment decisions to obtain long-term profits so that the company has the opportunity to grow in the future. A high IOS value can increase the quality of earnings because the amount of wealth is indicated by an increase in assets, equity, and increased market prices, as well as the trust of investors and creditors to spend their capital on the company.

Indiana (2021) states that this positive influence can indicate that companies with a high level of IOS will attract investors to invest in the hope of getting a large return or profit. Companies that have a high IOS value result in high company discretionary accruals, so the quality of earnings presented is low.

The results of this study are supported by agency theory which shows that management is an internal party that knows more about the company than shareholders, resulting in conflict between management and shareholders. So that the profit presented in the financial statements has low quality. The above statement is supported by the results of research conducted by (Indiana (2021), Arshendy (2018), Al-Vionita N (2020), and Tanjung (2019).

### d. Firm Size Moderates the Effect of Profit Growth on Earnings Quality

Based on the results of statistical data processing, the results of hypothesis testing in this study indicate that company size is not able to moderate the effect of earnings growth on earnings quality. According to Abidin (2022) the size of large/small companies does not affect profit growth. If the size of the company is large but does not carry out its operational activities properly, the financial performance will be poor and the profit generated will not be maximized. The results of data processing state that large companies do not always get high profits. If a small company can manage assets better, it can get a high income too. So, for a large or small company if the company's management is running well, the profit growth is also good and management does not need to do earnings management so that the profits that are presented remain of high quality. Therefore, company size is not able to moderate the effect of profit growth on earnings quality. The above statement is supported by the research Abidin (2022).

### e. Firm Size Moderates the Effect of Capital Structure on Earnings Quality

Based on the results of statistical data processing, the results of hypothesis testing in this study indicate that firm size is not able to moderate the capital structure variable on earnings quality but has a positive sign indicating firm size can strengthen the relationship between capital structure and earnings quality. This is because the size of a large/small company with a capital structure with a high DER level will still bear the risk of default which will reduce the value of profits. However, the larger the size of the company, the easier it will be to obtain outside funding because creditors see that larger companies have a strong capital structure to pay off their debts.

According to signaling theory, large companies can signal outsiders to provide additional funds. Large companies tend to have greater opportunities to obtain outside funding because they have a wider information network. Thus, the company's DER level can be greater. However, a DER that is too large is closer to a large business risk because the company's debt is too large. Apart from being afraid of taking risks, investors also think that the company will focus more on how to repay the debt rather than giving dividends to investors so investors are not interested in taking investment risks. One of the solutions taken by the company is to manipulate profits which results in low-quality of company profits. The above statement is supported by (Abidin, 2022).

### f. Firm Size Moderates the Effect of Investment Opportunity Set on Earnings Quality

From the test results, it can be concluded that company size can moderate the effect of the investment opportunity set on earnings quality but can weaken this relationship. Large company sizes have broader business relationships than small or growing companies. Due to the large number of business relationships that have been established, there will be many investment opportunities in the future. Even though they have many business relations, it is

not certain that investors will accept the opportunity to invest their capital because they will consider the return that will be obtained if they take this investment opportunity.

According to Al-vionita (2020) states that companies with a high level of investment opportunity set (IOS) will attract investors to invest in the hope of getting a large return or profit. So the bigger company will greatly influence investors to invest in the company. These results are supported by a signal theory that states that company management can provide clues to investors regarding management's views on the company's prospects in the future. The more people invest the more profit they will generate. Making management unnecessary to do excessive earnings management, to make the profits reported in the financial reports quality. The above statement is supported by Rusdiah (2021), Murniati (2019), Al-Vionita N (2020), and Tanjung (2019).

## V. Conclusion

Based on the results of the data analysis that has been carried out in chapter IV, the following conclusions are obtained:

1. Profit growth does not effect profit quality in consumer goods sector manufacturing companies listed on the IDX for the period 2017 – 2021
2. Capital structure does not effect profit quality in consumer goods sector manufacturing companies listed on the IDX for the period 2017 - 2021
3. Investment Opportunity Set affects on profit quality in consumer goods manufacturing companies listed on the IDX for the period 2017 – 2021
4. Firm size does not moderate the effect of profit growth on profit quality in consumer goods manufacturing companies listed on the IDX for the period 2017 - 2021
5. Firm size does not moderate the effect of capital structure on profit quality in consumer goods sector manufacturing companies listed on the IDX for the period 2017 - 2021
6. Firm size can moderate the effect of the investment opportunity set on profit quality in consumer goods manufacturing companies listed on the IDX for the period 2017 – 2021.

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