THE INFLUENCE OF CAPITAL STRUCTURE, *OPERATING CYCLE, INVESTMENT OPPORTUNITY SET* AND THE ROLE OF *EARNING MANAGEMENT* ON PROFIT QUALITY

(Study on Manufacturing Companies Listed on the IDX in 2018-2022)

Accountancy

Rizki Nur Hikmah[1*)] Dien Noviany Rahmatika[2)] Yanti Puji Astutie[3)]

[123]Faculty of Economics and Business, Pancasakti University Tegal

Email: rizkinurhikmah135@gmail.com[1*)], diennovi@upstegal.ac.id[2)],

yanti.accounting@upstegal.ac.id[3)]

ABSTRACT

This study aims to examine the effect of capital structure, operating cycle, investment opportunity set, earning management on the quality of profits carried out in food and beverage subsector manufacturing companies in 2018-2022. This type of research is descriptive with a quantitative approach using secondary data. The data collection technique is documentation through the IDX website and a sample of 35 companies and a sample of 25 companies. Purposive sampling technique. The data analysis used is multiple linear regression analysis. The results prove that capital structure, investment opportunity set, earning management negatively affect profit quality. While the operating cycle has a positive effect on profit quality.

Keywords: Profit Quality, Capital Structure, Operating cycle, Investment Opportunity Set and Earning Management

ABSTRACT

This study aims to examine the influence of capital structure, *operating cycle, investment opportunity set, and earning management* on the quality of profits carried out in manufacturing companies in the food and beverage subsector in 2018-2022. This type of research is descriptive with a quantitative approach using secondary data. The data collection technique is documentation through the IDX website and a sample of 35 companies and a sample of 25 companies. Purposive sampling technique. The data analysis used was multiple linear regression analysis. The results of the study prove that capital structure, *investment opportunity set, and earning management* have a negative effect on the quality of profits. Meanwhile, *the operating cycle* has a positive effect on the quality of profits.

Keywords: Profit Quality, Capital Structure, *Operating cycle, Investment Opportunity Set* and *Earning Management*

A. INTRODUCTION

Background

Development *Economics* will grow and build competition within the company in order to get profits, this condition encourages the company to survive in its business. One of the sources of information among several existing company data sets is currently used by outsiders to estimate capacity in financial statements. Pratama & Sunarto (2018) shows how financial statements explain the management accountability structure for the resources that the company provides and how they offer details about the company's long-term financial performance and financial health.

Profit quality is a measure used by companies to assess the extent of the profit plan that has been prepared in advance in accordance with the profit that is actually obtained at this time. The quality of profits is very important because it can reflect the financial condition of a company (Kurniawan & Aisah, 2020). Profit quality can be interpreted as a company's ability to present information about profits that are in accordance with reality, showing the consistency of reported profits with actual profits. (Kurniawati, 2020).

The low quality of profits wants to make mistakes in making provisions for its users, such as investors and creditors, then the company's value will decrease. Some parts of financial information that do not provide the true truth about the economic condition of the company can be of dubious quality (Kurniawan & Aisah, 2020).

The issue presented is the food production company PT Sentra Food Indonesia Tbk, a sausage company whose net profit for the period until 2020 fell by more than 75% compared to June 30, 2019. As a result, a number of employees were laid off, so the current workforce is smaller. And also the company currently has short-term debt of IDR 10 billion.

In this study, there is a phenomenon of differences in the objects and measurement methods used when compared to previous research. Previous research used financial sector

companies, especially banks listed on the Indonesia Stock Exchange, by measuring the quality of profits using the perman (Operating Cash Flow/Net Income) approach. On the contrary, this study was conducted on manufacturing companies, especially the food and beverage subsector listed on the Indonesia Stock Exchange, and the quality of profits was measured using *earnings response coefficient.* Therefore, the purpose of this study is to test and analyze the impact of capital structure, *operating cycle, investment opportunity set,* and *earning management* on profit quality in manufacturing companies listed on the Indonesia Stock Exchange in the period 2018-2022.

LITERATURE REVIEW

Agency Theory

The agency relationship, or employment contract between managers and shareholders, is the basis of agency theory, according to Jensen and Meckling (2012). As an interested party, directors only have the desire to increase the company's financial profits. However, an agent is considered to be the one who receives satisfaction, such as financial satisfaction and circumstances related to the employment relationship (Paul, 2022).

Profit Quality

The quality of profits is the main aspect of the information that is used to assess a company, the manager's work performance, and the operational level of the business. Often, users of financial statements use the profit information depicted in the financial statements to measure the company's current and past performance, and estimate the company's prospects Yunita Handayani, (2021). Profit quality refers to the suitability of profits in assessing the level of company performance so that financial statements are presented fairly, so as to create accurate information and quality profits. Low *Earning Quality* can cause inaccuracies in the actions taken by users of financial statements (Subramanyam & John 2014).

$$CARit = \alpha^0 + \alpha^1 + e$$

Capital Structure

Capital structure is the equation between total debt (foreign capital) and equity or total independent capital Halim, (2015). The company first sets the capital structure as a target, where the target can change in each period along with changes in existing conditions, so management is advised to have a certain capital structure. If empirically the debt-to-equity ratio is proven to be lower than the level of ordinary shares (Mulyana et al., 2022; Prabowo et al., 2019)

$$Debt\ to\ Equity\ Ratio = \frac{Total\ Hutang}{Total\ Ekuitas} \times 100\%$$

Operating Cycle

According to Skousen et al., (2009:441) *Operating Cycle* is the total period of time the average of recurring operations related to the main operations of the trading company, namely the purchase of inventory (using cash or credit), then traded to consumers and the collection of receivables, as well as the receipt of cash to be invested. The bigger the level *Operating Cycle* A company, then cash earnings in the current period as cash income can reflect profits in the next period, which will affect the quality level of the company's profit.

$$Operating\ Cycle\ \frac{(ARit + ARit - 1)/2}{Salesit\ 1/360} + \frac{(INVit + INV\ it - 1)/2}{COGSit\ 1/360}$$

Investment Opportunity Set

Investment opportunity set has a broad meaning, namely an opportunity or investment opportunity for a business company, therefore this amount is greatly influenced by various expenses set by the manager for future interests Sudiani & Darmayanti, (2016) . This causes *Investment Opportunity Set* cannot be observed, therefore a proxy is needed that can be used to identify a project *Investment Opportunity Set* and correlate it with other variables there are 3 types of proxies *Investment Opportunity Set* By price *pricebased proxies, investmentbased proxies, and* Variance measures (Fathussalmi et al., 2019).

$$MVBVA = \frac{Total\ Aset - Total\ Ekuitas + (Jumlah\ saham\ beredar \times Closing\ Price}{Total\ Aset}$$

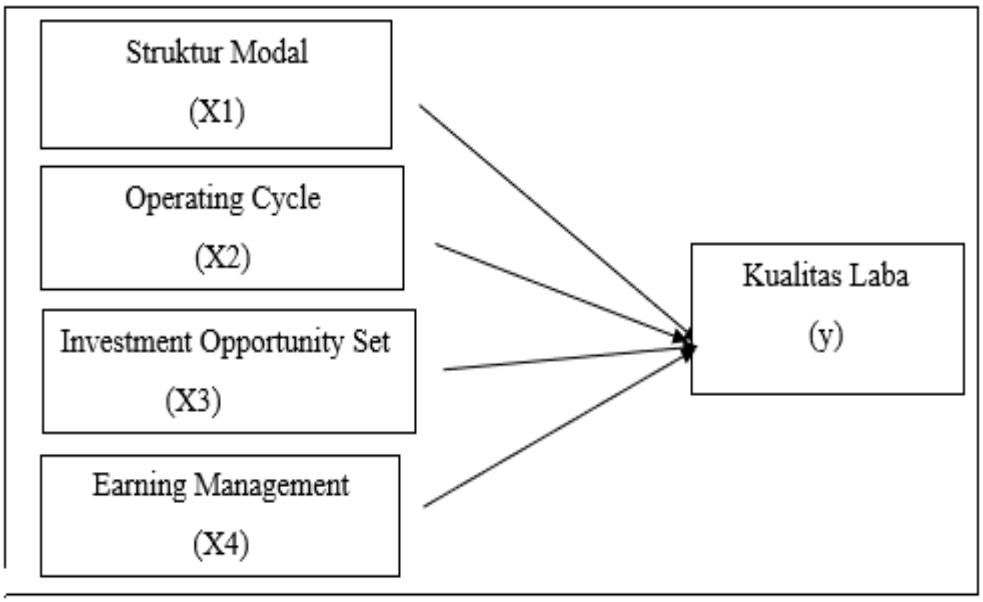
Earning Management

According to Siallagan and Machfodz (2006) *Earning management* is an activity when the management uses policies in the disclosure of financial statements and in presenting transactions to replace financial statements and manipulate stakeholders related to the company's condition and performance as well as to meet the *Contractual outcomes* which depends on the accounting figures of the financial statements.

$$\text{NDAit} = \beta 1(\text{TAit} - 1) + \beta 2(\frac{\Delta \text{REVt}}{\text{TAit}} - 1 - \frac{\Delta \text{RECt}}{\text{TAit}} - 1 + \beta 3(\frac{\text{PPEt}}{\text{TAit}} - 1)$$

Previous Research

Pratama & Sunarto (2018) that capital structure has a negative effect on the quality of profits, Nadila Al-Vionita & Nur Fadjrih Fun (2020) that *Operating Cycle* have a positive effect on the quality of profits, Narita & Salma Taqwa (2020) ; Nadila Al-Vionita & Nur Fadjrih Fun (2020) proves that *IOS* positive and significant impact on the quality of profits, Sri Yanto & Desy Metalia (2021) Call *Earning Management* have a negative and insignificant effect on the quality of profits.



Referring to the framework of thinking and the researcher's ideas that have been explained, the hypotheses formulated include:

H1: Capital Structure has a negative effect on the quality of profits.

H2: *The Operating Cycle* has a positive effect on the quality of profits.

H3: *Investment Opportunity Set* has a positive effect on the quality of profits.

H4: *Earning Management* has a negative effect on the quality of profits.

B. RESULTS AND DISCUSSION

Descriptive Statistics

Table 1. Descriptive Statistical Test Results
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Capital Structure	125	0.131	1.995	0.99190	0.511962
Operating Cycle	125	-694.648	908.857	29.84910	199.23032
Investment Opportunity Set	125	0.017	7.908	2.01214	1.780079
Earning Management	125	-0.222	0.393	0.12075	0.118167
Profit Quality	125	-5.404	9.843	0.43303	2.444024
Valid N (listwise)	125				

Source: *Processed Secondary Data, SPSS 26*

With descriptive statistical results, it can be seen from the values of Miximum, Minimum, Mean and Std. Deviation.

Normality Test

Table 2. Data Normality Test Results
One-Sample Kolmogorov-Smirnov Test

			Unstandardized Residual
N			125
Normal Parameters[a,b]	Mean		0.0000000
	Std. Deviation		1.41912155
Most Extreme Differences	Absolute		0.074
	Positive		0.074
	Negative		-0.056
Test Statistic			0.074
Asymp. Sig. (2-tailed)			0.085c
Monte Carlo Sig. (2-tailed)	Sig.		0.469d
	99% Confidence Interval	Lower Bound	0.456
		Upper Bound	0.482

a. Test distribution is Normal.

b. Calculated from data.

Source: *Processed Secondary Data, SPSS 26*

The table above shows that the significance value (*Asymp. Sig (2-tailed))* which is 0.085 > 0.05 with this value can be said that the regression model has a residual value that is normally distributed and is suitable for use in research. Therefore, this research can be continued.

Multicollinearity Test

Table 3. Multicollinearity Test Results

Coefficientsa

Type		Collinearity Statistics	
		Tolerance	VIF
1	Capital Structure	0.991	1.009
	Operating Cycle	0.997	1.003
	Investment Opportunity Set	0.995	1.005
	Earning Management	0.986	1.014

a. Dependent Variable: Quality of Profit

Source: *Processed Secondary Data, SPSS 26*

It can be seen that the magnitude of *the tolerance value* of all independent variables is > 0.10 and the sum of the VIF values of all independent variables < 10. So it can be stated that the data in this observation does not experience multicollinearity.

Autocorrelation Test

TABLE 4. Durbin-Watson Test Results

Model Summary[b]

Type	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.663a	0.439	0.420	1.442580	2.115

a. Predictors: (Constant), Earning Management, Operating Cycle, Investment Opportunity Set, Capital Structure

b. Dependent Variable: Quality of Profit

Source: *Processed Secondary Data, SPSS 26*

Based on what can be seen above, *Durbin Watson*'s value of 2,115 is then compared to the value of the table α = 0.05. (n = 125, and independent variables = 4 variables) then du = 1.774 from this calculation it is said that the criteria for free autocorrelation are not

met with du < dw < 4-du (1,774 < 2,115 < 2,225) then it can be concluded that there is no autocorrelation test.

Heteroscedasticity Test

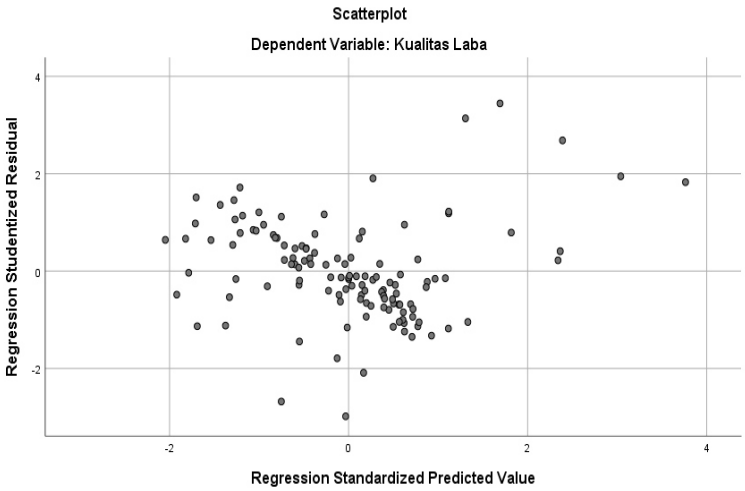


Figure 1. Heterokedasticity Test Results

Judging from the figure above, it is clear that there is no heterokedaness symptom because the dots spread above and below zero and do not form a specific pattern.

Multiple Linear Regression Analysis

Table 5. Multiple Linear Regression Analysis Test Results

Coefficientsa

Type		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	1.602	0.345		4.647	0.000
	Capital Structure	-1.616	0.188	-0.591	-8.602	0.000
	Operating Cycle	0.002	0.001	0.244	3.566	0.001
	Investment Opportunity Set	-0.191	0.112	-0.117	-1.704	0.091
	Earning Management	-0.222	0.134	-0.114	-1.655	0.101

a. Dependent Variable: Quality of Profit

Source: *Processed Secondary Data, SPSS 26*

Based on the table above, it can be seen that the multiple linear regression equation obtained is Y = 1.602 – 1.616X1 + 0.002X2 – 0.191X3 – 0.222X4 + e

The constant value is 1,602 units, which means that the quality of profit has a value of 1,602 units. The coefficient of capital structure for the period is -1,616 with a negative direction, which means that every addition to the capital structure will experience a decrease

in profit quality of -1,616. *The operating cycle* coefficient for the period is 0.002 with a positive direction, which means that every addition to the *operating cycle* will experience an increase in profit quality of 0.002. The *Investment Opportunity Set* coefficient for the period is -0.191 with a negative direction, which means that every addition to the *investment opportunity set* will experience a decrease in profit quality of -0.191. The *Earning Management* Coefficient for the period is -0.222 with a negative direction, which means that every addition to *earnings management* will experience a decrease in profit quality of -0.222.

Model Feasibility Test (Test F)

Table 6. Model Feasibility Test Results (F-Test)

ANOVAa

Type		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	195.482	4	48.871	23.484	0.000b
	Residual	249.724	120	2.081		
	Total	445.207	124			

a. Dependent Variable: Quality of Profit

b. Predictors: (Constant), Earning Management, Operating Cycle, Investment Opportunity Set, Capital Structure

Source: *Processed Secondary Data, SPSS 26*

The result resulted in a significance value of F= 0.000 < α= 0.05. This means that the model used is decent.

Partial Significance Test (t-Test)

Table 7. Results of the Partial Significance Test (t-Test)

Coefficientsa

Type		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.602	0.345		4.647	0.000
	Capital Structure	-1.616	0.188	-0.591	-8.602	0.000
	Operating Cycle	0.002	0.001	0.244	3.566	0.001
	Investment Opportunity Set	-0.191	0.112	-0.117	-1.704	0.091
	Earning Management	-0.222	0.134	-0.114	-1.655	0.101

a. Dependent Variable: Quality of Profit

Source: *Processed Secondary Data, SPSS 26*

Below will be described as follows:

a) The Capital Structure variable has a *coefficients* value of -1.616 in the negative direction, then t-count -8.602 < t-table 1.9799. Significance values 0.000 < 0.05. This shows that the hypothesis is rejected.

b) The *Operating Cycle variable has a* coefficients *value* of 0.002 in the positive direction, then t-count 3.566 > t-table 1.9799 with a significant level of 0.001 < 0.05. This shows that the hypothesis is accepted.

c) The *Investment Opportunity Set variable has a* coefficients *value* of -0.191 in the negative direction, then t-count -1.704 < t-table 1.9799 with a significant level of 0.091 > 0.05. This shows that the hypothesis is rejected.

d) The Earning *Management* variable or profit management has a *coefficients* value of -0.222 in the negative direction, then t-count -1,655 < t-table 1.9799 with a significant level of 0.101 > 0.05. This shows that the hypothesis is rejected.

Table 9. Determination Coefficient Test Results (R^2)

Model Summary[b]

Type	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.663a	0.439	0.420	1.442580

a. Predictors: (Constant), Earning Management, Operating Cycle, Investment Opportunity Set, Capital Structure

b. Dependent Variable: Quality of Profit

Source: *Processed Secondary Data, SPSS 26*

The result is the size of the *Adjusted* R *square* , which is 0.420. This means that the contribution of independent variables, namely capital structure, *operating cycle, investment opportunity set* and *earning management* in explaining the quality of profits by 42% and the remaining 58% can be influenced by other variables.

Discussion

a. The Influence of Capital Structure on Profit Quality

The Capital Structure variable has a *coefficients* value of -1.616 in the negative direction, then t-count -8.602 the number is smaller than the t-table 1.9799 or (t-count -8.602 < t-table 1.9799). The significance value is 0.000 where the other nitanya is less than 0.05 (0.000 < 0.05). This shows that the capital structure has a negative effect on the profit potential, this means that the first hypothesis in this observation H1 was rejected in the manufacturing companies of food and beverage companies listed on the IDX in 2018-2022.

The results of this study are in accordance with the agency theory that is interrelated with the capital structure. Because the existence of a capital structure is believed to be able to suppress conflicts of interest in managers as company managers for personal interests. During the covid'19 condition, the company tried to reduce debt by using the capital owned by the company due to the uncertain conditions and situation in the midst of the covid'19 pandemic. This happens The higher the debt, the higher the cost, which lowers the company's profit (Prabowo et al., 2019).

The results of this study are in line with the research Erawati & Hasanah, (2022); Setyawan, (2022) that in the capital structure is assessed based on leverage that reflects a variable to check the amount of the company's assets assessed from the company's debt. In this case, there is an influence between the capital structure and the quality of profits if The higher the debt, the higher the cost, which will reduce the quality of the company's profit. The same is true for research Mohammad Zulman & Dirvi Surya Abbas, (2022), Ginantra & Sons, (2021), Nadila Al-Vionita & Nur Fadjrih Asyik, (2020) that capital structure has a negative effect on the quality of profits.

b. The Effect *of the Operating Cycle* on Profit Quality

The *Operating Cycle variable has a* coefficients *value* of 0.002 in the positive direction, then t-count 3.566 the number is greater than t-table 1.9799 or (t-count 3.566

> t-table 1.9799) with a significant level of 0.001 where the other number is less than 0.05 (0.001 < 0.05) This shows that *the operating cycle* has a positive effect on the quality of profits, this result means that the second hypothesis in this observation H2 is accepted in manufacturing companies of food and beverage companies listed on the IDX in 2018-2022.

The results of this study are in accordance with the agency theory which is interrelated with *Operating Cycle*. Because the existence in the agency relationship gives rise to conflicts between principals and agents. The problem arises because humans are economic creatures who have basic characteristics that prioritize personal interests. This happens on (Douglas, Ulupui, 2020:3) *Operating Cycle* which is directly intersecting with the company's profit, this is because there is a sales factor in this cycle, which is the average period between the purchase of inventory and the receipt of cash received directly by the seller.

The results of this study are in line with the research (Skousen et al., 2016) that in a company that has *Operating Cycle* The old one can cause uncertainty in estimation and is less helpful in predicting cash flow in the future, on the contrary, the shorter the operating cycle or cash collection time, the higher the level of the company's profit quality. If the operating cycle experiences a long turnaround time, then the company will require major changes in the level of working capital and cash flow. The same thing is also with research (Sartono, 2013; Zaimah & Hermanto, 2018; Ryan et al., 2013) that *Operating Cycle* have a positive effect on the quality of profits.

c. The Effect of *Investment Opportunity Set* on Profit Quality

The Investment *Opportunity Set* variable has a *coefficients* value of -0.191 in the negative direction, then t-count -1.704 the number is smaller than t-table 1.9799 or (t-count -1.704 < t-table 1.9799) with a significant level of 0.091 where the other

value is greater than 0.05 (0.091 > 0.05). This shows that *the investment opportunity set* has a negative influence on the quality of profits, this result means that the third hypothesis in the H3 observation was rejected in the manufacturing companies of food and beverage companies listed on the IDX in 2018-2022.

The results of this study are in accordance with the agency theory which is interrelated with *Investment Opportunity Set*. Because the agency theory states that there should be a separation between the owner as a participant and the management as an agent. This happens on, *Investment Opportunity Set* explained that the right investment selection will bring profits in accordance with management expectations and result in the company will grow over time (Fathussalmi et al., 2019).

The results of this study are in line with the research (Yunita & Suprasto, 2018) This happens because The higher the IOS value, the higher the quality of profits and vice versa, the lower the IOS value, the lower the quality of profits or in other words, companies with high IOS tend to be viewed positively by investors because they have greater return prospects in the future. And low ios will result in company management will be motivated to manipulate profits by increasing profits, which will show quality profits. The same thing is also with research (Fathussalmi et al., 2019; Mohammad Zulman & Dirvi Surya Abbas, 2022; Narita & Salma Taqwa, 2020) that *Investment Opportunity Set* negatively affect the quality of profits.

d. The Effect *of Earning Management* on Profit Quality

The *Earning Management* variable or profit management has a *coefficients* value of -0.222 in the negative direction, then t-count -1,655 the number is smaller than t-table 1.9799 or (t-count -1,655 < t-table 1.9799) with a significant level of 0.101 where the other number is greater than 0.05 (0.101 > 0.05). This shows that *earning management* has a negative influence on Profit Quality, this result means that

hypothesis four in the H4 observation was rejected in manufacturing companies of food and beverage companies listed on the IDX in 2018-2022.

The results of this study are in accordance with the agency theory which is interrelated with *Earning Management*. Because This agency theory can also explain the occurrence of profit management in a company. The rise of profit management can be explained by the theory of agency, as an agent, the manager is morally responsible for optimizing the profits of the principals and in return will receive compensation according to the contract (Ginantra & Sons, 2021).

These results are in line with studies according to (Abdullah Suardi, 2017) Call *Earning Management* have a negative and insignificant effect on the quality of profits. The negative coefficient is likely due to many of the manager's goals to *Earning Management* such as getting bonuses and tax savings. This is the main goal of managers in conducting profit management when compared to the goal of improving profit quality. The same thing is also with research (Sri Yanto & Desy Metalia, 2017; Sulistyanto, 2008:33; Nurbayani, 2017) *Earning Management* have a negative and insignificant effect on the quality of profits.

Conclusion

The conclusion is that the capital structure has a negative effect on the quality of profits or is rejected, the *operating cycle* has a positive effect on the quality of profits or is accepted, *the investment opportunity set* has a negative effect on the quality of profits or is rejected, and *earning management* has no effect on the quality of profits or is rejected.

Suggestion

For the next study, it is recommended to use companies from the banking sector, insurance sector, funding sector, financial institution sector or non-primary consumer sector and also add or replace other variables that affect profit quality such as profit persistence,

auditor quality and corporate social responsibility quality and other variables that have a significant influence on profit quality.

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