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THE EFFECT OF INVESTMENT OPPORTUNITY SET, COMPANY AGE, LIQUIDITY, AND FINANCIAL LEVERAGE ON EARNINGS QUALITY: AN EMPIRICAL STUDY ON LQ45 INDEX COMPANIES ON THE INDONESIA STOCK EXCHANGE

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ABSTRACT

This study examines the effect of the Investment Opportunity Set (IOS), company age (Firm Age), liquidity, and financial leverage (Financial Leverage) on earnings quality in LQ45 Index companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2023 period. A quantitative approach is employed using multiple linear regression on secondary data from the annual financial statements of LQ45-listed companies. The results indicate that Investment Opportunity Set (IOS) has a significantly positive effect on earnings quality, implying that the greater a company's investment opportunities, the better its earnings quality. Firm Age has a positive but not significant effect, suggesting that older firms tend to have better earnings quality, although the effect is not statistically significant. Liquidity has a significantly negative effect, indicating that highly liquid firms tend to hold excessive cash, hindering profitability optimization and reducing earnings quality. Financial Leverage has a significantly positive effect, demonstrating that well-managed debt utilization enhances earnings quality. Simultaneously, Investment Opportunity Set, Firm Age, Liquidity, and Financial Leverage significantly influence earnings quality. These findings provide valuable insights for investors, financial analysts, and regulators in assessing factors affecting earnings quality and formulating more effective investment policies and financial strategies to enhance transparency and accuracy in financial reporting within capital markets.

Keywords: *company age, earnings quality, financial leverage, investment opportunity set, liquidity*

ABSTRAK

Penelitian ini menganalisis pengaruh Investment Opportunity Set (IOS), umur perusahaan, likuiditas, dan leverage keuangan terhadap kualitas laba pada perusahaan Indeks LQ45 di Bursa Efek Indonesia periode 2019-2023. Studi ini menggunakan metode kuantitatif dengan regresi linear berganda pada data sekunder dari laporan keuangan tahunan perusahaan yang terdaftar dalam Indeks LQ45. Hasil penelitian menunjukkan bahwa Investment Opportunity Set (IOS) berpengaruh positif signifikan terhadap kualitas laba, mengindikasikan bahwa semakin besar peluang investasi suatu perusahaan, semakin baik kualitas labanya. Firm Age berpengaruh positif tetapi tidak signifikan, menunjukkan bahwa semakin lama perusahaan beroperasi, semakin baik kualitas labanya, meskipun dampaknya tidak signifikan secara statistik. Likuiditas berpengaruh negatif signifikan, yang menunjukkan bahwa perusahaan dengan tingkat likuiditas tinggi cenderung menahan kas berlebih, sehingga menghambat optimalisasi profitabilitas dan menurunkan kualitas laba. Financial Leverage berpengaruh positif signifikan, yang menunjukkan bahwa penggunaan utang yang dikelola secara optimal dapat meningkatkan kualitas laba. Temuan ini memberikan wawasan bagi investor, analis keuangan, dan regulator dalam mengevaluasi faktor-faktor yang memengaruhi kualitas laba serta dalam menyusun kebijakan investasi dan strategi keuangan yang lebih efektif guna meningkatkan transparansi dan akurasi pelaporan keuangan di pasar modal.

Kata Kunci: *umur perusahaan, kualitas laba, financial leverage, investment opportunity set, likuiditas*

A. INTRODUCTION

Investors, creditors, and other stakeholders use earnings quality as a major metric to evaluate a company's financial performance and to inform their decisions. Reliable earnings data can be used to forecast future profitability since it accurately depicts the company's financial situation (Darwis, Meylinda, & Suaidah, 2022). However, in reality, a number of variables, including Investment Opportunity Set (IOS), firm age, liquidity, and financial leverage, can either raise or decrease the dependability of financial information, and these factors frequently have an impact on earnings quality. More investment opportunities are available to businesses with high IOS, which could boost future earnings. High IOS, however, might also incentivize businesses to report profits that do not accurately reflect their operational success, particularly when those gains originate from extraordinary transactions or non-operating income (Wulansari, 2013). PT Bank Rakyat Indonesia Tbk (BBRI), which has been growing its digital financial services since 2018, is an example of this scenario. Even while this action could eventually boost profitability, the majority of BBRI's 2019–2023 profits come from non-operational sources including asset sales and investments, which do not accurately represent the company's fundamental operational success. Apart from IOS, the company's age may also have an impact on the caliber of earnings. Longer-running businesses typically have superior internal control systems and more experience, which can raise the caliber and transparency of financial reports. Nonetheless, a number of studies have demonstrated that older businesses frequently have lower levels of innovation, higher operating expenses, and poorer efficiency, all of which can eventually lower the quality of profits. PT Telekomunikasi Indonesia Tbk (TLKM) is a prime example; although its financial report for the 2020–2022 period showed good development, the majority of its income came from asset sales and investments rather than the company's primary business operations.

The quality of a company's earnings is also influenced by liquidity and financial leverage. High liquidity can give a business financial flexibility, but it might also indicate that it is not effectively allocating funds for lucrative ventures (Sartono, 2019). However, if not effectively managed, financial leverage—which represents the percentage of debt in the company's capital structure—can raise financial risk. Excessive interest costs can lower net income and lower the caliber of earnings that are reported. PT Astra International Tbk (ASII) is a prime illustration of this problem; in spite of its robust commercial expansion, the company is confronted with substantial financial obligations as a result of its substantial debt, which lowers the caliber of its earnings. The Agency Theory, which (Jensen & Meckling, 2019) created, serves as the foundation for this study. It argues that a conflict of interest arises between the management (agent) and the owner (principal) as a result of information asymmetry and disparities in interests. Managers who possess greater knowledge than owners frequently make self-serving choices, such as manipulating profits to enhance the company's financial standing (Eisenhardt, 1989). Businesses with a large number of investment opportunities are motivated to report high profits in order to draw in investors, according to the Investment Opportunity Set (IOS). Managers might, however, be more prone to claim profits that do not accurately reflect performance in the absence of a robust monitoring system (Myers, 1977). Through the efficiency of internal control systems, the age of the company can also have an impact on the quality of earnings. The quality of reported earnings might be lowered by difficulties in sustaining innovation and efficiency, even while older organizations have better governance mechanisms. The dynamics of agency theory are also influenced by liquidity and financial leverage. High liquidity firms may suffer from underinvestment, in which available capital is not put toward worthwhile endeavors, leading to an imbalance between operating and financial earnings (Brigham & Houston, 2013). On the other hand, financial leverage can act as a disciplinary mechanism for managers, because the obligation to pay debt can increase transparency and accountability in financial reporting (Ghozali, 2018).

Numerous studies have been carried out to examine the factors that affect earnings quality; however, there are still unanswered questions. One such question is the theoretical one: while some studies indicate that companies with high IOS are more vulnerable to earnings manipulation (Jaya & Wirama, 2017), other studies show that IOS has a positive effect on earnings quality (Hasanuddin et al., 2021); (Arisonda, 2018). Empirical Gap: Prior research has indicated that a company's age might enhance the quality of its earnings because of its experience (Setyaningrum & Nursita, 2024). However, other research has revealed that older organizations experience a decline in earnings quality as a result of stagnating innovation (Nugroho & Lestari, 2018). Methodological Gap: While the majority of earlier research has used samples from a variety of industries, few have particularly looked at businesses with high market capitalizations, such those that are part of the Indonesia Stock Exchange's LQ45 Index. Because LQ45 Index businesses have higher information disclosure, they can offer a deeper knowledge of the determinants influencing earnings quality, which is why this study focuses on them for the 2019–2023 period.

The purpose of this research is to examine how the Investment Opportunity Set (IOS), firm age, liquidity, and financial leverage affect the quality of earnings for companies that are listed in the Indonesia Stock Exchange's (IDX) LQ45 Index during the 2019–2023 timeframe. In order to offer a fresh viewpoint on the variables affecting the caliber of corporate profits, this study also makes an effort to clarify how the phenomena under investigation relate to Agency Theory. In order to improve academic and practical knowledge in the areas of corporate management and financial accounting, this study also attempts to fill in the gaps in earlier research and offer suggestions based on the most recent data. According to theory, this study adds to the body of knowledge about the variables affecting earnings quality, particularly in emerging nations. This study offers empirical evidence on how internal company elements, including investment possibilities, financial structure, and firm characteristics, might impact the transparency of earnings reporting by evaluating the applicability of Agency Theory. Practically speaking, the study's findings should assist investors in evaluating the quality and transparency of a company's earnings, which they may then utilize to inform better investment choices. To help them create stronger business plans and financial reporting guidelines, management of the company can also benefit from this study's insights into how financial structure and investment prospects affect earnings quality. Additionally, capital market authorities might benefit from this study in Furthermore, this study is also useful for capital market regulators in improving policies related to transparency and accountability of companies listed on the Indonesia Stock Exchange. Thus, this study not only contributes to the development of theory, but also has real implications for various stakeholders in the financial sector and capital markets.

B. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

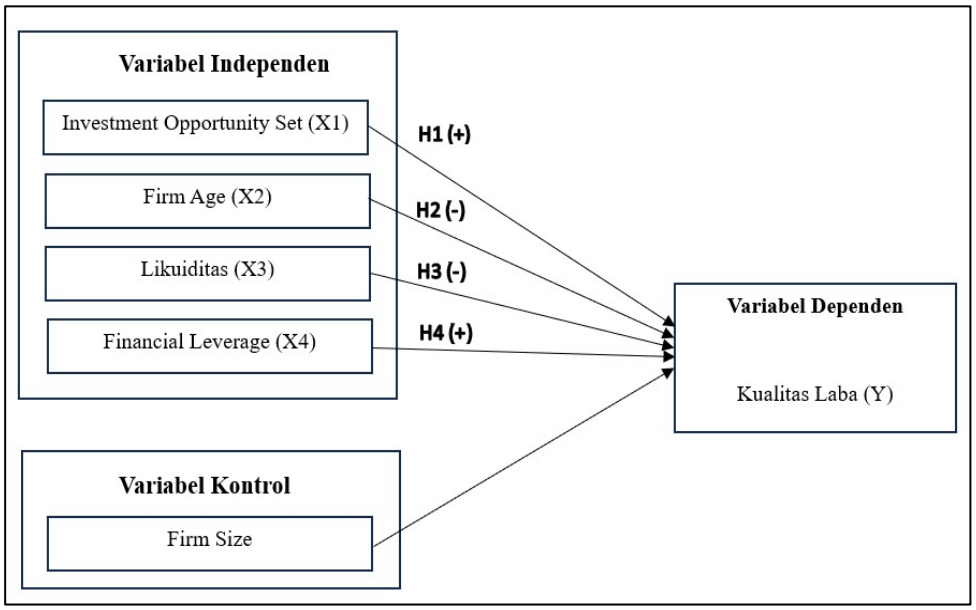
Agency theory developed by (Jensen & Meckling, 2019) explains the relationship between company owners (principals) and company managers (agents) in an employment contract. Company owners expect managers to act in their interests, but in practice there is often a conflict of interest because managers prioritize personal interests, such as bonuses and incentives, over the interests of shareholders (Eisenhardt, 1989). In the context of earnings quality, agency theory explains that management has an incentive to manipulate earnings to make them look more profitable to investors and other stakeholders. (Indriani & Rohman, 2022) state that management often manipulates financial statements to get positive assessments from shareholders. In line with this, research (Syahrani, 2019) found that agency conflicts can trigger earnings management to improve the company's image. Therefore, agency theory is the basis for understanding how Investment Opportunity Set (IOS), company age, liquidity, and financial leverage can affect earnings quality, because each of these variables is related to how management manages the company's finances and conveys information to shareholders. Earnings quality itself is an important indicator in assessing the accuracy of a company's financial statements. According to (Penman, 2013) earnings quality refers to the ability of reported earnings to reflect the actual financial condition and provide an accurate picture of the company's future profitability. (Abbas & Saeed, 2023) emphasize that high-quality earnings are recurring, predictable, and operating cash flow-based earnings, not the result of accounting manipulation. High-quality earnings are more reliable for investors in decision making, while (Siladjaja & Jasman, 2024) found that transparency in financial reporting can improve earnings quality by reducing the likelihood of earnings management practices.

One of the factors that can affect earnings quality is the Investment Opportunity Set (IOS), which is the investment opportunities owned by the company to increase shareholder value in the future (Myers, 1977). IOS is the main indicator in assessing the growth potential and prospects of the company (Aningrum & Muslim, 2021). Several previous studies have shown that IOS has a significant relationship with earnings quality. (Hasanuddin et al., 2021); (Arisonda, 2018) found that IOS has a positive relationship with earnings quality, because companies with high investment opportunities tend to be more careful in managing their earnings. However, research (Jaya & Wirama, 2017) shows that high IOS can encourage management to carry out earnings management, especially if the company faces pressure to meet market expectations. Based on these findings, the hypothesis proposed in this study is: H1 = Investment Opportunity Set has a positive effect on the quality of the company's earnings. In addition to IOS, another factor that can affect earnings quality is the age of the company. According to (J. A. Putra, 2021) the age of the company is often associated with operational stability and the company's ability to face business challenges. (Loderer & Waelchli, 2010) stated that older companies tend to have more experience in financial management, but on the other hand can experience a decrease in innovation and efficiency. Research conducted by (Sulianti, 2021) shows that company age can improve earnings quality, because older companies tend to have better internal control systems. However, research by (Loderer & Waelchli, 2010) and (Marthania & Setiany, 2022) found that older

companies actually experience a decrease in efficiency, making it difficult to maintain earnings quality. Based on these findings, the hypothesis proposed is: H2 = Company age has a negative effect on the quality of the company's earnings.

The next factor that affects earnings quality is liquidity, which reflects the company's ability to meet its short-term obligations (Sartono, 2019). Companies with high levels of liquidity have greater financial flexibility, but on the other hand can experience the risk of underinvestment, which is when the available funds are not used optimally for productive investment (Marpaung, 2019). Several studies have found a negative relationship between liquidity and earnings quality. (Ardianti, 2018) and (Murniati, 2019) show that excessive liquidity can lead to a decrease in earnings quality, because funds that are not used optimally can reduce the efficiency of the company's financial management. However, (Arisonda, 2018) found that good liquidity can improve earnings quality, because companies are better able to avoid accounting manipulation. Based on these findings, the hypothesis proposed is: H3 = Liquidity has a negative effect on the company's earnings quality.

In addition to liquidity, financial leverage is also a factor that influences earnings quality. Financial leverage refers to the use of debt in a company's capital structure to increase returns for shareholders (Brigham & Houston, 2013). Wise use of debt can increase a company's profits, but too much debt can reduce earnings quality due to high interest expenses (Arhinful & Radmehr, 2023). Research conducted by (Taofik, Djuniardi, & Purnama, 2021) shows that companies with high levels of leverage often experience earnings manipulation to maintain the stability of their financial statements. However, research (Arhinful & Radmehr, 2023) found that optimal leverage can improve earnings quality because companies can obtain cheaper funding compared to equity. Based on these findings, the hypothesis proposed is: H4 = Financial leverage has a positive effect on the quality of the company's earnings. Based on previous theories and research, it can be concluded that Investment Opportunity Set (IOS), company age, liquidity, and financial leverage have an effect on earnings quality. Agency theory is used as a basis for explaining how these factors can influence management decisions in reporting company profits. Thus, this study is expected to provide academic contributions to the literature on earnings quality, as well as provide practical implications for investors, regulators, and company management in understanding the factors that influence the earnings quality of companies listed in the LQ45 Index on the Indonesia Stock Exchange.



Picture 1. Kerangka Pemikiran

C. RESEARCH METHODS

This study uses a quantitative approach that aims to analyze the effect of Investment Opportunity Set (IOS), company age, liquidity, and financial leverage on earnings quality in companies included in the LQ45 Index on the Indonesia Stock Exchange (IDX) for the 2019–2023 period. The quantitative approach was chosen because this study focuses on testing the relationship between variables using numerical data and statistical analysis techniques. Thus, the results obtained can be interpreted objectively and can be generalized to a wider population. The objects of this study are companies included in the LQ45 Index during the 2019–2023 period. The LQ45 Index

was chosen as the object of research because the companies included in this index have high liquidity, large market capitalization, and are considered to have better corporate governance than other companies. The sample selection in this study used the purposive sampling method, which is a sample selection technique based on certain predetermined criteria. The criteria used in this study include: (1) companies that are consistently listed in the LQ45 Index during the 2019–2023 period, (2) companies that publish complete annual financial reports during the study period, and (3) companies that have available data related to the variables used in this study. Based on these criteria, a sample size of 45 companies was obtained that met the research requirements. The data used in this study are secondary data obtained from various official sources, such as the company's annual financial report published through the Indonesia Stock Exchange (www.idx.co.id), as well as other financial data sources such as Thomson Reuters and Bloomberg. The use of secondary data allows this study to analyze the company's historical financial condition more accurately and efficiently. This study consists of one dependent variable, namely earnings quality, and four independent variables, namely Investment Opportunity Set (IOS), company age, liquidity, and financial leverage. Earnings quality in this study is measured using the ratio of operating cash flow to net income (Earnings Quality - EQ) with the formula:

EQ=Cash Flow from Operating Activities (CFO) / Net Income

The higher the EQ value, the better the quality of profit generated by the company, because the reported profit better reflects the company's actual operational performance. The independent variable Investment Opportunity Set (IOS) is measured using the Market to Book Value of Assets (MVBVA) ratio. Meanwhile, the age of the company is calculated based on the difference between the year of research and the year the company was first listed on the IDX. Liquidity is measured using the Current Ratio (CR) which describes the company's ability to meet its short-term obligations, while financial leverage is measured using the Debt to Equity Ratio (Loderer & Waelchli) which shows how much debt the company uses in its capital structure. Data analysis in this study was carried out using statistical software such as IBM SPSS or EViews to ensure the validity of the results obtained. The first step in data analysis is to perform descriptive statistics to describe the characteristics of the data including the average, standard deviation, minimum, and maximum values of each research variable. Next, a classical assumption test is carried out which includes several tests, namely the normality test (Kolmogorov-Smirnov) to ensure that the data is normally distributed, the multicollinearity test (Variance Inflation Factor - VIF) to detect high correlations between independent variables that can cause bias in the regression model, the heteroscedasticity test (Glejser Test) to ensure that the residual variance remains constant so that the regression model does not experience heteroscedasticity, and the autocorrelation test (Durbin-Watson) to test whether there is a correlation between residuals in the regression model. The main analysis method used in this study is multiple linear regression, with a research model formulated as follows:

$$\mathbf{Y = \beta + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5\ X5 + \epsilon}$$

Description:

Y= Earnings Quality

X1=Investment Opportunity Set

X2=Company Age

X3= Liquidity

X4= Financial Leverage

X5= Size Correlation Coefficient

ε= Error

To test the research hypothesis, a t-test was conducted to determine the effect of each independent variable on the dependent variable partially, as well as an F-test to assess whether the regression model used was significant overall. In addition, this study also uses the coefficient of determination (R^2) to measure the extent to which the independent variables can explain variations in earnings quality. If the R^2 value is high, then the independent variables in the model have a large contribution in explaining the variability of the company's earnings quality. Through this method, this study is expected to provide valid and reliable results in analyzing the effect of Investment Opportunity Set, company age, liquidity, and financial leverage on earnings quality. Through a series of classical assumption tests and regression analysis, the results obtained in this study can be used as a

reference for investors, academics, and regulators in understanding the factors that influence the quality of company earnings, especially in companies included in the LQ45 Index on the Indonesia Stock Exchange.

D. ANALYSIS AND DISCUSSION

It is known that the number of companies that meet the criteria to be research samples is 41 companies out of 45 companies. The research was conducted for five years so that the amount of data processed is 205 data. There are four (4) sample data that are indicated as outliers because the data deviates too far from other data (extreme data), namely ARTO, MAPI, SRTG, WSKT. The basis of outlier data used in this study uses the Interquartile Range (Boxplot) method, namely by looking at the asterisk in the output results if it is above the box, it indicates high extreme data and if it is below the box, it indicates low extreme data. So that the sample data that can be processed in this study is 41 samples. The following is a table explaining the sample selection process in this study:

Table 1. Sample Selection

Criteria	Number
Companies listed in LQ45 during the period 2019–2023 consecutively.	45
Outlier Data	(4)
Total Sample	41
Total Sample processed in 2019-2023 (x 5 years)	205

Descriptive Statistical Analysis Test Results

Table 2. Descriptive analysis Test Result

	N	Minimum	Maximum	Mean	Std. Deviation
IOS	205	0,15	10,95	1,727	1,562
AGE	205	8,00	42,00	24,024	9,890
CR	205	0,23	8,59	2,172	1,596
DFL	205	-6,61	9,87	1,773	1,617
SIZE	205	28,84	33,66	30,977	0,970
EQR	205	-2,84	9,23	1,856	2,075
Valid N (listwise)	205				

Sumber: Data yang Diolah dengan SPSS (2025)

This study uses descriptive analysis to provide an overview of the characteristics of the data used. Descriptive analysis aims to organize and analyze quantitative data so that a more systematic understanding of the variables studied is obtained. Some statistical measures used in this analysis include the mean, standard deviation, minimum, and maximum values of each variable used in the study. (Ghozali, 2018) explains that the measures in descriptive statistics are highly dependent on the type of construct measurement scale used in the study. This analysis was carried out with the help of the SPSS program, so that the results obtained are more accurate and can be interpreted well. Based on the results of the descriptive analysis in Table 4.2, it can be seen that the Investment Opportunity Set (IOS), Company Age, Liquidity, Financial Leverage, and Earnings Quality have diverse data characteristics. The higher standard deviation in several variables indicates a significant difference in the observed values. However, overall, the standard deviation obtained is not much different from the average value, which indicates that the data used has a fairly good distribution. The results of the analysis show that the Investment Opportunity Set (IOS) has a minimum value of 0.15 and a maximum value of 10.95, with an average of 1.7275 and a standard deviation of 1.56233. A mean value greater than the standard deviation indicates that the data obtained is classified as good. The

company with the lowest IOS value is PT Media Nusantara Citra Tbk in 2022, with a value of 0.15, which is due to the relatively small number of outstanding shares, namely 1,232,272,800 shares, and a relatively low closing stock price, namely IDR 740. Conversely, the company with the highest IOS value is PT Industri Jamu dan Farmasi Sido Muncul Tbk in 2019, with a value of 10.95, which is supported by a high number of outstanding shares of 30,000,000,000 shares and a closing stock price of IDR 865.

In the Company Age variable, the minimum value obtained was 8 years, while the maximum value was 42 years, with an average of 24.0244 years and a standard deviation of 9.89030. The company with the youngest age in the research sample is PT Waskita Beton Precast Tbk, which was just listed on the Indonesia Stock Exchange in 2016. Meanwhile, the companies with the oldest ages are PT Adhi Karya Tbk and PT Unilever Indonesia Tbk, which have been listed on the IDX since 1982. The fairly high average company age value indicates that most of the companies in the LQ45 Index are companies that have been operating for a long time and have experience in managing businesses and reporting profits more transparently. In the Liquidity variable, the analysis results show that the average value is 2.1721, with a maximum value of 8.59 and a minimum value of 0.23, and a standard deviation of 1.59601. The minimum liquidity value was obtained by PT Tower Bersama Infrastructure Tbk in 2020, with a value of 0.23. This low level of liquidity was caused by an increase in the company's current liabilities of IDR 9.264 trillion compared to the previous year, which was triggered by an increase in the balance of long-term loans and short-term debt securities. In contrast, the highest liquidity value of 8.59 was obtained by PT Elang Mahkota Teknologi Tbk in 2018, which had current assets of IDR 19.818 trillion with current liabilities of IDR 2.273 trillion.

Normality Test

Table 3. One-Sampel Test Result

N	*Unstandardized Residual 205*
Kolmogorov-Smirnov-Z	0,143
Asymp. Sig. (2 tailed)	0,090

Sumber: Data yang Diolah dengan SPSS (2025)

The normality test is conducted to test whether the regression model of the interfering variable or residual has a normal distribution or not. The normality test is used to test whether a data distribution is normal or not. The Kolmogorov-Smirnov test is used to detect whether there is an abnormal data distribution. If the error probability value or sig <5% (0.05) then it can be concluded that the data is not normally distributed, while if the significance of the data calculation results sig > 5% (0.05) then it can be concluded that the data is normally distributed. Based on the results of the normality test using Kolmogorov Smirnov in Table 3. shows a value of 0.143 and a significance of 0.90 which is greater than 0.05. So it can be concluded that the regression model of this study has a normal distribution value.

Multicollinearity Test

Table 4. Multicollinearity Test Result

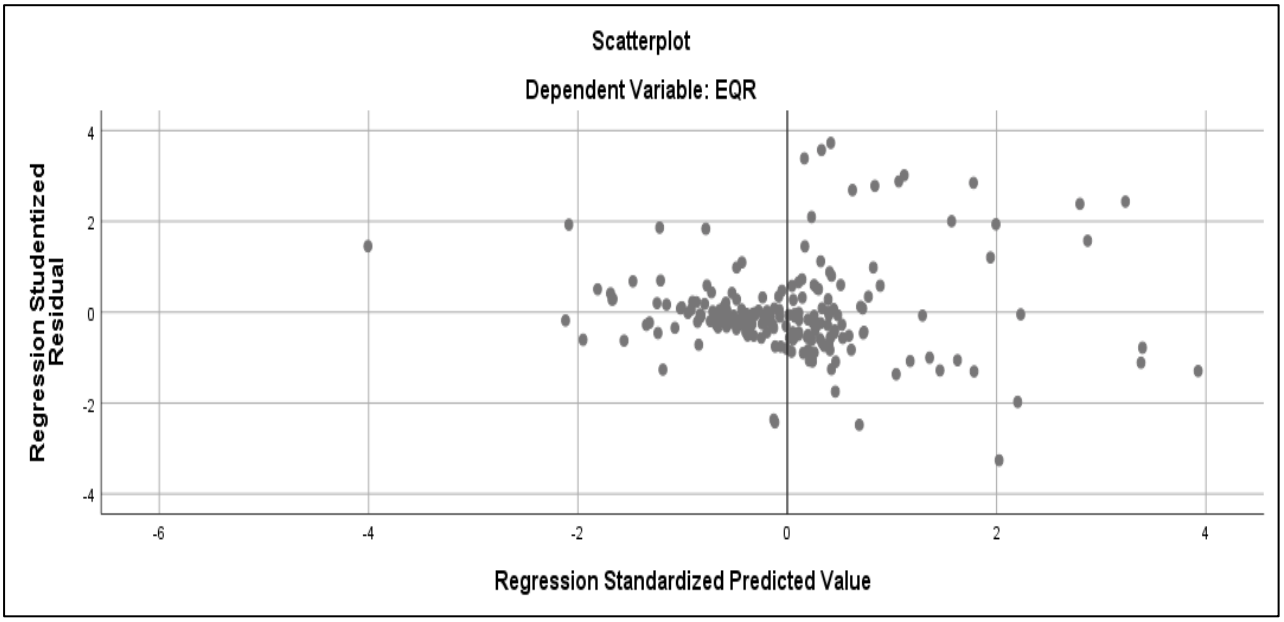
Variabel	**VIF**	**Keterangan**
IOS	1,590	There is no multicollinearity
F AGE	1,116	There is no multicollinearity
CR	1,323	There is no multicollinearity
DFL	1,055	There is no multicollinearity
SIZE	1,360	There is no multicollinearity

Sumber: Data yang Diolah dengan SPSS (2025)

The multicollinearity test aims to test whether the regression model used finds a correlation between independent variables. The multicollinearity test can be seen by observing the Variance Inflation Factors (VIF) of each independent variable to its dependent variable. If the tolerance value is > 0.10 and VIF < 10, then the model is stated to have no symptoms of multicollinearity. From Table 4. it can be seen that all independent variables have

a tolerance value of more than 0.10 and the variable inflation factor (VIF) is less than 10 and approaching 1. So it can be concluded that there is no problem of multicollinearity between independent variables in the regression model in this study.

Heteroscedasticity Test



Picture 2. Heteroscedasticity Test Result

The heteroscedasticity test aims to test whether in the regression model there is inequality of variance from the residuals of one observation to another (Ghozali, 2018). A good regression model is a regression model that does not experience heteroscedasticity, if the variance of the variables in the regression model has the same value (constant) then it is called homoscedasticity. To test the presence or absence of heteroscedasticity is to observe the scatter plot where the horizontal axis describes the predicted standardized value, while the vertical axis describes the residual studentized value between SRESID and ZPRED. The heteroscedasticity test can be seen from the scatterplot graph. The scatterplot graph shows that the pattern formed is spread both above and below zero on the Y axis. From the results of the scatter plot, it is obtained that the plot is spread randomly above and below the number 0 on the Regression Studentized Residual axis. Based on the graph above, it can be seen that the points are spread (do not form a certain pattern). Therefore, based on the heteroscedasticity test using the graphical analysis method, the regression model formed is stated that there are no symptoms of heteroscedasticity.

Autocorrelation Test

Table 6. Results of Autocorrelation Test Analysis

Model	D-W	dU	dL	4-Du	Kriteria	Keterangan
					1,812<1,895	Autocorrelation
Regresi	1,895	1,812	1,735	2,187	<2,187	free

The autocorrelation test with the Durbin-Watson value is 1.895. By looking at the Durbin-Watson Table, the dU value is 1.812, so that 4-dU is 2.187. From the DW value of 1.895, it is known that 1.812 <1.895 <2.187, so the results of this study have met the requirements of dU <DW <4-dU and are free from autocorrelation problems. This means that in this regression model, the sample variance can explain the population variance. Thus, the regression model that will be used is likely to have no autocorrelation problems.

Hypothesis Test

Table 7. Hypothesis Test

Hipotesis	Variabel	Koefisien	T- hitung	Sig.	Conclusion
	(Constant)	1,273	4,377	0,000	-
H1 (+)	IOS	0,094	1,972	0,040	Supported
H2 (-)	F AGE	0,001	0,244	0,087	Not Supported
H3 (-)	CR	-0,087	-2,051	0,042	Supported
H4 (+)	DFL	0,180	2,140	0,030	Supported
C	SIZE	0,060	1,77373	0,110	-
N	205				
R^2	0,382				
Adj R^2	0,367				
F-hitung	3,939				
Sig. F-hitung	0,002				

Based on Table 7, the following regression equation is produced:

EQR 1,273 +0,0941OS + 0,001AGE-0,087CR+0,180DFL +0,060SIZE

The constant value (a) of 1.273 indicates that if IOS (X1), Company Age (X2), Liquidity (X3), Financial Leverage (X4), and Company Size (C) are equal to zero, then the Earnings Quality (Y) value is 1.273. The regression coefficient value of X means that if IOS increases by 1%, the EQR value increases by 0.094. The regression coefficient value of X2 means that if AGE increases by 1%, the EQR value increases by 0.001. The regression coefficient value of Xa means that if CR increases by 1%, the EQR value decreases by 0.087. The regression coefficient value of Xa means that if DFL increases by 1%, the EQR value increases by 0.180. The regression coefficient value of SIZE means that if SIZE increases by 1%, the FQR value increases by 0.060. The coefficient of determination analysis is used to measure the extent to which the model is able to explain the dependent variables. The coefficient of determination (R^2) shows the proportion explained by the independent variables in the model to the dependent variable, the rest is explained by other variables not included in the model. If the coefficient of determination (R2) value approaches 100%, this indicates that the independent variables are better at explaining the variance of changes in the dependent variable. Based on Table 4.7, it can be seen that the coefficient of determination test shows an Adjusted R Square (Siladjaja & Jasman) figure of 367 or 36.7%. This means that every change in profit quality is explained by the Investment Opportunity Set, Company Age, Liquidity and Financial Leverage variables by 36.7% while the remaining 63.3% is explained by other variables not studied.

The F-test is conducted to see the overall influence of independent variables on the dependent variable, and to conclude whether the regression model falls into the fit criteria. If there is no simultaneous influence, it can be said that the regression model is not suitable or non-fit. This test is conducted using a significance value <0.05 (Ghozali, 2018) by looking at the F-count value> F-table. The accuracy test of the sample regression function in interpreting actual values can be measured from the goodness of fit. If the independent variable has a simultaneous influence on the dependent variable, the regression model falls into the fit criteria and vice versa, the test is conducted using a significance value <0.05 (Ghozali, 2018). Based on the results of the F-test in Table 4.7, it can be seen that the F-count value is 3.939 with a significance value of 0.002. The significance value is smaller than 0.05 and the F-count value of 3.939 is greater than the F-table value of 2.258124. So it can be concluded that Investment Opportunity Set, Company Age, Liquidity, and Financial Leverage simultaneously influence Profit Quality.

The Influence of Investment Opportunity Set on the Profit Quality of LQ45 Companies in 2019-2023

Investment Opportunity Set is the availability of alternative investments in the future for the company (Hartono, 1999). Investment Opportunity Set is the present value and the company's choice to make investments in the future (Myers, 1977). The same thing is also stated by (Smith Jr & Watts, 1992) Investment Opportunity Set can imply the value of assets and the value of the company's opportunities to grow in the future. Based on the results of the multiple linear regression analysis test, the IOS variable has a positive regression coefficient value, which means that IOS has a positive effect on earnings quality. This means that if the IOS value increases, the earnings quality will increase. Conversely, if the IOS value decreases, the earnings quality will decrease. Based on the results of the t-test analysis, the t-count value for the IOS variable is 1.972, so the t-count (1.972)> t-table (1.652). This is reinforced by a significance value of 0.040 <0.05. This means that the greater the company's opportunity to grow in the future, the higher the quality of profit presented by the company. This is because with the high investment opportunities set, management will present these conditions to users of financial statements and to attract investors so that it can be stated that H1 is accepted.

This is in accordance with the theory (Belkaoui, 2000) which states that IOS shows the stability of company profits and investment opportunities in the future, so that if the company has a high IOS, the reported profit is a profit that is in accordance with the actual conditions with the aim of showing that the company has the opportunity to grow in the future. This is reinforced by research (Pandaya, Mariska, & Suprapta, 2021) that IOS encourages companies to allocate capital to profitable projects so as to increase the efficiency of capital use and generate higher profits. The results of this study support the Agency Theory which discusses the relationship between principals and agents. Companies and investors as principals and management as agents have different interests. This study explains that future investment choices will affect the conflict between principals and agents. This agency conflict can lead to opportunistic management of income statements to maximize personal interests. This can lead to decreased profit quality.

The results of this study support the results of (Arisonda, 2018) and (Hakim & Abbas, 2019) which found that Investment Opportunity Set has a positive effect on profit quality. This is because a high Investment Opportunity Set is considered positive by investors because it has a greater profit prospect in the future. Companies with a high level of Investment Opportunity Set tend to have high company growth prospects in the future. The existence of growth opportunities marked by investment opportunities causes the company's future profits to increase. So that the market will respond more strongly to companies that have the opportunity to grow. The high market response to profits will cause a greater reaction in the market price of a security. Thus, when a company has a high IOS value, the company's profits will increase because more investors are interested in investing in the hope of getting a greater return in the future. This causes the company to obtain increasingly quality profits.

The Influence of Company Age on the Profit Quality of LQ45 Companies in 2019-2023

Company Age is the length of time the company has been established (J. A. Putra, 2021). Company age is the time from the beginning of the company's establishment until the company operates in the present or in the future without limits. Over time, companies become better and more efficient and have competitive advantages in their business environment and drive the success and prosperity of the organization (Arrow, 1962). Based on the results of the multiple linear regression analysis test, the Company Age variable has a positive regression coefficient value, which means that Company Age has a positive effect on earnings quality. This means that if the Company Age value increases, the quality of earnings will increase. Conversely, if the Company Age value decreases, the quality of earnings will decrease. Based on the results of the t-test analysis, the t-count value for the Company Age variable is 0.244, so t-count (0.244) <t-table (1.652). This is reinforced by a significance value of 0.807> 0.05. This means that the older a company is, the higher the quality of earnings presented by the company. This is in accordance with research (Sulianti, 2021) which states that through experience, expertise, credibility, operational efficiency, innovative efforts, and risk management strategies, older companies consistently outperform younger companies in terms of generating high-quality revenues. Older companies benefit from greater stability and consistency in operational activities. Thus, it can be stated that H2 is rejected.

The results of this study support the Agency Theory which discusses the relationship between principals and agents. Over time, older companies have a track record of performance and transparency, making it easier for investors to assess their financial health. This reduces information asymmetry, the gap between the information

available to managers and investors, which can be a breeding ground for manipulation that ultimately improves the quality of a company's earnings. In addition, older companies have a greater incentive to maintain a strong reputation for ethical practices and accurate financial reporting. The results of this study support research by (Sulianti, 2021) which found that Company Age has a positive effect on Earnings Quality. This is because as the company ages, it gains stronger brand recognition and trust. The company is increasingly well-known and has a positive image that influences increased sales volume, increased customer loyalty, and the ability to set prices, thereby increasing overall profit margins which affect earnings quality.

The Influence of Liquidity on the Profit Quality of LQ45 Companies in 2019-2023

Liquidity is the ability of a company to meet its short-term obligations in a timely manner. Liquidity is a measure of the company's ability to meet its obligations that are due, both obligations to parties outside the company and within the company (Kasmir, 2014). Based on the results of the multiple linear regression analysis test, the liquidity variable has a negative regression coefficient value, which means that liquidity has a negative effect on profit quality. Based on the results of the t-test analysis, the thnung value for the liquidity variable was obtained at -2.051 with a significance value of 0.42 <05. This means that companies with too high a level of liquidity have the potential to experience failure in managing current assets which will also have an impact on the decline in the company's financial performance. Thus, it can be stated that Hypothesis (H3) is accepted.

This is in accordance with the theory (Chorafas, 2001) which states that excessive liquidity can have a negative impact on a company's profit. Excess cash that is not invested efficiently can harm net income due to lack of income from profitable investments. Excessive liquidity can also trigger accounting practices. Management that cannot allocate funds efficiently may carry out accounting manipulations, such as inaccurate asset valuation or delay in expense recognition, to increase the appearance of profit. This can harm the transparency and quality of financial statements. In addition, the inability to manage liquidity properly can hinder the potential for investment returns. If the company fails to direct surplus liquidity to profitable investments, this can reduce the growth and value of the company, thereby affecting the quality of the company's profits. The results of this study support the Agency Theory which discusses the relationship between principals and agents. Liquidity imbalances can provide management with incentives to act in their own interests, harming the quality of profits and shareholder trust. High liquidity can provide management with room to take actions that are not beneficial to shareholders by manipulating financial statements. This finding supports the results of research conducted by (Marpaung, 2019) which states that liquidity has a negative effect on profit quality. High levels of liquidity in a company can have a negative impact on the company's bottom line. Excessive liquidity can lead to suboptimal resource allocation, as funds that should be invested in value-creating projects or growth opportunities are either idle or held in low-yielding assets. This can result in lower returns on investment, reduced profitability, and ultimately, lower earnings quality. In addition, high levels of liquidity can mask operational inefficiencies or poor financial performance, as a strong cash position can artificially inflate earnings without reflecting the true operational health of the business.

The Influence of Financial Leverage on the Profit Quality of LQ45 Companies in 2019-2023

According to (Brigham & Houston, 2013) Financial Leverage is a measure that shows the extent to which fixed-income securities (debt and preferred stock) are used in the company's capital structure. Financial Leverage focuses on how companies utilize loans to increase potential profits for shareholders. Based on the results of multiple linear regression analysis, the Financial Leverage variable has a positive regression coefficient value, which means that Financial Leverage has a positive effect on earnings quality. This means that if the Financial Leverage value increases, then the earnings quality will increase. Conversely, if the Financial Leverage value decreases, then the earnings quality will decrease.

Based on the results of the t-test analysis, the t-count value for the Financial Leverage variable is 2.140, so the t-count (2.140) > t-label (1.652). This is reinforced by a significance value of 0.030 <0.05. Financial Leverage refers to the use of debt to acquire assets and increase investment returns for shareholders. This means that the use of debt can increase the company's return. By utilizing borrowed funds, the company can generate greater profits than the interest costs that must be paid. If the use of this debt is managed wisely, it can have a positive impact on the company's profits which ultimately improves the quality of profits. So, it can be stated that H4 is accepted. This is in accordance with the theory (Brigham & Houston, 2013) which states that Financial Leverage can reduce profit manipulation to meet certain targets or expectations. This is because debt holders have an interest in the company's financial health and are more likely to oppose suspicious accounting practices or income manipulation. The results

of this study also support (JS Ramalho & da Silva, 2009) who stated that Financial Leverage can improve the quality of company earnings. Moderate debt can provide incentives for management to be more efficient and control costs to meet financial obligations. This focus can lead to more conservative accounting practices, which have the potential to produce better quality earnings. Agency Theory supports the use of Financial Leverage by creating incentives for management to improve earnings quality. Financial Leverage can provide management with incentives to improve company performance. By using debt, management has the responsibility to pay interest and repay the principal of the loan. To ensure the continuity of these payments, management may tend to improve operational efficiency and manage the business better, which in turn can improve Earnings Quality. This finding supports the results of an empirical study by (Maryasih, Maksum, Bastari, & Khadafi, 2020) which states that Financial Leverage has a positive impact on Earnings Quality.

The Influence of Company Size on the Profit Quality of LQ45 Companies in 2019-2023

Company size is the size of the assets owned by the company. Basically, company size is only divided into three categories, namely large companies, medium companies, and small companies. These categories are based on the market capitalization of the Company. Based on the results of the multiple linear regression analysis test, the company size variable has a positive regression coefficient value, which means that company size has a positive effect on profit quality. Based on the results of the t-test analysis, the t-count value for the company size variable was 1.77373. T-count (1.77373)> t-table (1.652) with a significance value of 0.110 <0.05. This means that the greater the total assets of the company, the better the quality of the profit obtained. This is in accordance with research (Andriani, 2021) which states that company size reduces information asymmetry, increases focus on performance, and influences stakeholder interests. The bigger a company, the more information can be provided to the public, thereby reducing information asymmetry. This can lead to higher earnings quality, as investors have better information about the company's financial health and prospects.

The results of this study support the Agency Theory which examines the conflict between agents and principals by showing the potential influence of company size on earnings quality. Large companies have stronger governance structures, including independent boards and internal audit committees. This structure helps companies reduce the conflicts that arise by providing greater oversight and transparency in financial reporting, which potentially leads to higher quality earnings. In addition, large companies have greater resources to invest in strong accounting systems, so that companies can improve the accuracy and reliability of financial reports. This finding supports the results of research (N. Y. Putra & Subowo, 2016) which state that company size has a positive effect on earnings quality.

E. CONCLUSION AND SUGGESTIONS

Conclusion

Based on the research results, it can be concluded that Investment Opportunity Set (IOS), company age, and financial leverage have a positive effect on earnings quality, indicating that companies with high investment opportunities, longer operational experience, and optimal funding structures tend to have better earnings quality. This indicates that the greater the investment opportunities a company has, the greater the company's potential to generate quality profits. In addition, companies that have been operating for a longer time have better stability and experience in financial management, which ultimately improves earnings quality. Well-managed financial leverage also contributes to increased profits, because it can be used to finance business expansion and improve operational efficiency. Conversely, liquidity has a negative effect on earnings quality, indicating that companies with high levels of liquidity do not always allocate their assets optimally. Excessive liquidity can cause companies to not utilize available funds effectively for investments that generate high-quality profits. Therefore, companies need to maintain a balance between liquidity and productive investment in order to improve transparency and the quality of earnings reports. The results of this study contribute to understanding the factors that influence earnings quality and become considerations for investors, company management, and capital market regulators in making decisions related to transparency and accountability of company financial reports.

Suggestions

Based on the research results, several recommendations can be given to various parties. For investors, it is advisable to consider the Investment Opportunity Set (IOS) and financial leverage in assessing the quality of a

company's earnings before making an investment, because these two factors have been proven to have a positive effect on earnings quality. For company management, efforts need to be made to improve operational efficiency, especially for companies that have been operating for a long time in order to remain competitive and able to maintain stable earnings quality. In addition, companies with high liquidity must be more careful in allocating financial resources in order to increase profitability. For capital market regulators, supervision of the financial statements of older companies needs to be tightened to ensure transparency and accountability in earnings reporting.

Implications and Limitations of the Research

This study provides academic implications in enriching the literature related to factors that influence earnings quality in developing countries, especially in Indonesia. Practically, this study also provides insight for investors, company management, and regulators in assessing the transparency and quality of earnings reports in the capital market. However, this study has several limitations, including only focusing on companies included in the LQ45 Index, so the results of the study may not be generalizable to all companies on the Indonesia Stock Exchange. In addition, this study only considers four independent variables, while other factors such as ownership structure, corporate governance, and dividend policy also have the potential to influence earnings quality but are not analyzed in this study. For further research, it is recommended to expand the scope of the research sample by considering companies from various industrial sectors, not only limited to companies included in the LQ45 Index. In addition, further research can add other variables that have the potential to influence earnings quality, such as ownership structure, accounting policies, and macroeconomic factors, so that the research model becomes more comprehensive and provides broader insights. With more in-depth follow-up research, it is hoped that it can provide a more comprehensive understanding of the factors that influence earnings quality and their implications for decision making for stakeholders in the business world and capital markets.

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