FUNDAMENTAL ANALYSIS OF SYARI’AH STOCK IN JAKARTA ISLAMIC INDEX

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Article Information

ABSTRAK

This study aims to determine the growth prospects and fair value of a stock by using fundamental analysis with the EPS (Earning Per Share) and PER (Price To Earning Ratio) methods and price book value determines the investment. The research method used is to use a descriptive method with a qualitative approach from the Annual Financial Reports of 15 Islamic companies that are consistent in the Jakarta Islamic index. The results of this study are Islamic companies in JII have experienced quite rapid growth despite the Covid 19 incident in 2020 but still generate income. The best EPS rating of 15 Syari’ah companies in 2020 in the second quarter is UNTR of 899.51 while the lowest PER level is KLBF of 5.85x. However, if viewed from the market capitalization and the number of shares outstanding, the fair value of KLBF. For Income Ratio to PBV (Price Book Value) results in a decision to sell the stock price.

Keywords: fundamental analysis, EPS, PER, PBV

1. INTRODUCTION

Investors have various investment options, both investment in real assets and investment in financial assets. The capital market, through the Indonesia Stock Exchange (IDX), provides a variety of financial assets that can be considered in investors' investment decisions. One of the choices of financial assets that promise a large enough return is stocks. However, investors must also be aware that the higher the return, the higher the risk that must be faced (high risk high return). In every investment decision, investors will always be faced with the expected returns and risks that must be borne if the investment performance is not as expected (Jones, 2007).

There are many types of shares traded in the Capital Market as investment objects and groupings occur according to the similarity of criteria. One of them is the grouping of Syari’ah shares, namely shares from issuers whose operations do not conflict with Islamic law, this group of shares is in the scope of the Islamic Capital Market in the Syari’ah Securities List. The list of Syari’ah securities was launched by BAPEPAM & LK for the first period on 12 September 2007. The number of Syari’ah groups registered in DES from year to year continues to increase. The development of the number of Syari’ah shares in DES from the early period of 2007 to 2014 was quite significant. This can be seen from the initially 164 shares that were included in the Syari’ah category, now to 337 shares.

In addition, on July 3, 2000, the Indonesia Stock Exchange in collaboration with PT Danareksa Investment Management (DIM) launched a Syari’ah stock index with a fairly large market capitalization value in its field, namely the Jakarta Islamic Index (JII). This index consists of 30 stocks and serves as a benchmark for the performance of Syari’ah-based stocks as well as to further develop the Islamic capital market. At the beginning of its launch, the selection of shares that fall into Syari’ah criteria involved the Syari’ah Supervisory Board of PT Danareksa Investment Management. However, in line with market developments, the task of selecting these shares was carried out by Bapepam-LK, in collaboration with the National Syari’ah Council. This is stated in Bapepam-LK Regulation Number II.K.1 concerning Criteria and Issuance of Syari’ah Securities List. The Jakarta Islamic Index will be reviewed every 6 months, namely every January and July. Stock prices are the right index for company effectiveness.

From a macroeconomic perspective, the impact of this new regulation will make it easier for people to buy the shares they want. Given that redenomination provides many benefits without causing significant risks to the economy, it is appropriate for the community to support the program. so that the number of investors will increase with the convenience and higher returns from the performance of Islamic stocks in the Islamic capital market.
2. LITERATURE REVIEW

a. Capital Market

Law No. 8 of 1995 on the Capital Market Article 1 paragraph 13 defines: "Capital market is an activity concerned with public offerings and trading of securities, public companies related to the securities they issue, as well as institutions and professions related to securities. "a fairly large role for the economy of a country which has two main functions as an economic function and a financial function. The capital market is said to be an economic function because it provides facilities or a vehicle that brings together two interests, namely those who have excess funds (investors) and those who need funds (issuers). With the capital market, public companies can obtain fresh public funds through the sale of stock securities through the IPO procedure or debt securities (bonds). Meanwhile, the capital market is said to have a financial function because it provides the possibility and opportunity to get a return for the owner of the funds in accordance with the characteristics of the chosen investment. In general, the benefits of the existence of the capital market can be stated as follows:

1) Provide a source of (long-term) financing for the business world while enabling optimal allocation of funds.
2) Provide a variety of investment vehicles for investors, making it possible to diversify with potential profits and a calculated level of risk.
3) Provide leading indicators for the economic development of a country.
4) The spread of company ownership to the middle class of society.
5) The spread of ownership, openness and professionalism creates a healthy business climate and encourages the utilization of operational management.

b. Syariah Capital

Market Syariah capital market is an activity related to public offering and trading of securities, public companies related to the securities they issue, as well as institutions and professions related to securities that are run based on Syariah principles. A stand-alone market but part of the structure of the Indonesian capital market, therefore there is no difference in the mechanism for recording securities between Syariah and non-Syariah securities and there is no difference in the trading mechanism for Syariah and non-Syariah securities, but there are several special characteristics of the Islamic capital market, namely that the product and transaction mechanism does not conflict with Syariah principles.

c. Share

According to Diah (Rusdin, 2006:68), shares are certificates that show proof of ownership rights of a company, and shareholders have other rights to the company's income and assets. Tambunan (2007:1) says that shares are evidence of equity participation in a company, by buying shares of a company means investors invest capital or funds which will later be used to finance company operations. According to Darmadjji (2012: 5) Shares are a sign of participation or ownership of a person or entity in a company or limited liability company. There are several types of shares, including the following:

1) stock (common stock)

Indriyo and Basri (2002:265) ordinary shares are shares that do not obtain special rights. Common stockholders have the right to receive dividends as long as the company makes a profit. Shareholders have voting rights at the general meeting of shareholders (GMS), and at the liquidation of the company, the shareholders have the right to obtain a portion of the company's assets after the creditors' claims and preferred shares are paid off.

2) (Preferred stock)

Ambarwati (2010:263) "preferred shares according to experts are said to be hybrid securities because these shares are in certain respects similar to bonds and similar to ordinary shares in other respects. So preferred stock is a mixed security, in some ways it's like a stock and in some ways it's like a bond." Preferred stock can be said as equity so that it is included in the balance sheet in the equity account, but it can also be said as debt because preferred stock uses fixed costs so that it can increase leverage the company's financial

d. Stock Index in Indonesian Capital Market

IDX (Indonesian Stock Exchange Stock Price Index Guidebook) Along with the increase in trading activity, the need to provide more complete information to the public regarding the development of the stock exchange is also increasing. One of the information needed is the stock price index as a reflection of stock price movements. Currently, the Indonesia Stock Exchange has 11 types of stock price indexes which are continuously disseminated through print and electronic media, as a guide for investors to invest in the capital market. The eleven types of index are:

1) Composite Stock Price Index (JCI)

Using all listed issuers as components of the index calculation. Currently, several issuers are not included in the calculation of the JCI, for example, issuers of the former Surabaya Stock Exchange for reasons of no (or no) transaction activity so that prices have not been created in the market. The Composite Stock Price Index (JCI) was first introduced on April 1, 1983 as an indicator of stock price movements listed on the stock exchange. The base day for calculating the index was August 10, 1982 with a value of 100. Meanwhile, the number of listed
issuers at that time was 13 issuers. In the month (December 2009) the number of issuers listed on the Indonesia Stock Exchange has reached 398 issuers.

2) Sectoral Index

Using all issuers in each sector. The IDX sectoral index is a sub-index of the JCI. All issuers listed on the IDX are classified into nine sectors according to the industrial classification established by the IDX, which is named JASICA (Jakarta Industrial Classification). The nine sectors are:

a) Primary Sectors (Extractive)
   Sector 1: Agriculture
   Sector 2: Mining
b) Secondary Sectors (Processing / Manufacturing Industry)
   Sector 3: Basic and Chemical Industry
   Sector 4: Miscellaneous Industries
   Sector 5: Consumer Goods Industry
c) Tertiary Sectors (Service Industry / Non-manufacturing)
   Sector 6: Property and Real Estate
   Sector 7: Transport and Infrastructure
   Sector 8: Finance
   Sector 9: Trade, Services and Investment

Apart from the nine sectors mentioned above, the IDX also calculates the manufacturing industry index (Processing Industry) which is a combination of issuers classified in sector 3, sector 4 and sector 5. The sectoral index was introduced on January 2, 1996 with the initial index value being 100 for each sector and using the base day on December 28, 1995.

3) The LQ45 index

Uses 45 issuers selected based on considerations of liquidity and market capitalization, with predetermined criteria. Criteria for Stock Selection The LQ45 Index Since its launch in February 1997, the main measure of transaction liquidity is the transaction value in the regular market. In accordance with market developments and to further refine the liquidity criteria, since the January 2005 review, the number of trading days and the frequency of transactions are included as a measure of liquidity.

4) Jakarta Islamic Index (JII)

Uses 30 issuers that fall within the Syari’iah criteria (List of Syari’iah Securities issued by Bapepam-LK) and includes stocks that have large capitalization and high liquidity. On July 3, 2000, the Indonesia Stock Exchange in collaboration with PT Danareksa Investment Management (DIM) launched a stock index based on Islamic Syari’ah, namely the Jakarta Islamic Index (JII). This index is expected to be a benchmark for the performance of Syari’iah-based stocks and to further develop the Islamic capital market. The Jakarta Islamic Index consists of 30 stocks selected from stocks that comply with Islamic Syari’ah. At the beginning of its launch, the selection of shares that fall into Syari’ah criteria involved the Syari’ah Supervisory Board of PT Danareksa Investment Management. However, in line with market developments, the task of selecting these shares was carried out by Bapepam - LK, in collaboration with the National Syari’ah Council. This is stated in Bapepam - LK Regulation Number II.K.1 concerning Criteria and Issuance of Syari’iah Securities List. Criteria for Selection of Shares that Meet Syari’ah Principles Of the many issuers listed on the Indonesia Stock Exchange, there are several issuers whose business activities are not in accordance with Syari’ah, so that these shares cannot automatically be included in the calculation of the Jakarta Islamic Index. Based on the direction of the National Syari’ah Board and Bapepam - LK Regulation Number IX.A.13 concerning Issuance of Syari’ah Securities, the main types of activities of a business entity that are deemed not to comply with Islamic Syari’ah are:

a) Gambling and gaming businesses that are classified as gambling or prohibited trade.
b) Organizing financial services that apply the concept of usury, buying and selling risks that contain gharar and maysir.
c) Produce, distribute, trade and or provide:
   (1) Goods and or services that are haram because of their substance (haram li-dzatihi)
   (2) Goods and or services that are haram not because of their substance (haram li-ghairihi) are stipulated by the DSN-MUI
   (3) Goods and or services that damage morals and are harmful.
d) Invest in companies which at the time of the transaction the level (ratio) of the company’s debt to usurious financial institutions is more dominant than its capital, unless the investment is declared Syari’ahh by the DSN-MUI.

While the criteria for shares that fall into the Syari’ah category are:

(1) Not conducting business activities as described above.
(2) Do not carry out trade that is not accompanied by the delivery of goods/services and trade with fake offers and requests
(3) Do not exceed the following financial ratios:

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(a) Total interest-based debt compared to total equity is not more than 82% (interest-based debt compared to total equity is not more than 45% : 55%)
(b) Total interest income and other non-halal income compared to total income (revenue) is not more than 10%
(c) Stock Selection Criteria Jakarta Islamic Index

To determine the shares included in the calculation of the Jakarta Islamic Index, the following selection process is carried out:
(a) The shares to be selected are based on the Syari’ah Securities List (DES) issued by Bapepam-LK.
(b) Selecting 60 shares from the Syari’ah Securities List based on the order of the largest market capitalization in the last 1 year.
(c) Of the 60 shares, 30 were selected based on the level of liquidity, namely the transaction value in the regular market for the last 1 year.
e) The Kompas100 index

Uses 100 issuers selected based on considerations of liquidity and market capitalization, with predetermined criteria. In celebration of the 15th anniversary of the Jakarta Stock Exchange on July 13, 2007 and to coincide with the 30th anniversary of the capital market, the JSX launched the Kompas100 index. This index is expected to provide benefits for investors, portfolio managers and fund managers so that it can be used as a reference in creating share-based fund management creativity (innovation). The process of selecting 100 stocks that are included in the calculation of the Kompas100 index takes into account liquidity, market capitalization and fundamental performance of these stocks. As a final filter, the IDX also evaluates and considers fundamental factors and trading patterns.
f) The BISNIS-27 index

Uses 27 issuers selected based on criteria and is a collaboration between the Indonesia Stock Exchange and Bisnis Indonesia Daily. PT Bursa Efek Indonesia in collaboration with Bisnis Indonesia daily launched a stock price index named the BISNIS-27 Index. As an independent party, Bisnis Indonesia daily can manage this index more independently and flexibly, where the selection of the

(g) PEFINDO25 Index

Uses 25 issuers selected based on certain criteria and is a collaboration between the Indonesia Stock Exchange and the rating agency PEFINDO. This index is intended to provide additional investment guidelines for investors, namely by creating a benchmark index that specifically makes the stock performance of small and medium issuers (Small Medium Enterprises / SME) through consistent criteria and methodologies. The PEFINDO25 index consists of 25

h) SRI-KEHATI Index. SRI

Stands for Sustainable and Responsible Investment. This index is intended to provide additional investment guidelines for investors, namely by creating a benchmark index that specifically includes issuers that have excellent performance in encouraging sustainable businesses, and have awareness of the environment, social and good corporate governance. The SRI-KEHATI index consists of 25 stocks which

5) Syari’ah Stock

Based on Bapepam & LK Regulation No. IX.A.13 concerning the Issuance of Syari’ah Securities, specifically paragraph 1.a.3, Syari’ah Securities are defined as Securities as referred to in the Capital Market Law and its implementing regulations with contract, method, and the business activities on which the issuance is based do not conflict with the Syari’ah principles in the Capital Market. In the same regulation, in particular paragraph 1.a.2, it is also explained the meaning of Syari’ah principles in the Capital Market, namely the principles of Islamic law in activities in the capital market based on the DSN-MUI fatwa, as long as the fatwa is intended not to conflict with the Regulations. this and/or Bapepam and LK Regulations (now OJK) based on the DSN-MUI fatwa. Securities as referred to in the Capital Market Law and its implementing regulations whose contracts, methods and business activities that form the basis for issuance do not conflict with the principles Syari’ah in the capital market.

The characteristics of Syari’ah shares include:
1) Investments are limited to certain sectors (according to Syari’ah), and not on a debt basis.
2) Based on Syari’ah principles (implementation of loss-profit sharing).
3) Prohibit various forms of interest, speculation and gambling.
4) There is a shari’ah guideline that regulates various aspects such as asset allocation, investment practices, trading and distribution of income.
5) There is a company screening mechanism that must follow Syari’ah principles.
6) Syari’ah Securities List

A collection of securities that do not conflict with Syari’ah principles in the Capital Market as stipulated by Bapepam-LK which was first issued on November 30, 2007. DES is renewed every 6 months and if there are issuers that have just entered the stock exchange and are found to meet the criteria above, then it can be included in the DES without having to wait a period of 6 months. The performance of stocks that fall into the Syari’ah category is generally represented by 2 indices, namely the Indonesian Syari’ah Stock Index (ISSI) and the Jakarta
Islamic Index (JII). The difference is, ISSI is a reflection of all shares that fall into the Syari‘ah category, while JII only takes 30 shares from DES with consideration of liquidity, capitalization and other fundamental factors.

7) Stock Analysis
There are 2 (two) kinds of analysis, namely (Basri, 2002):
a) Technical
Technical analysis is analyzing stock prices based on information that reflects trading conditions, market conditions, demand and supply. The information used is stock trading conditions, exchange rate fluctuations, the volume of trading transactions that occur in the capital market.
b) Fundamental Analysis
"Fundamental analysis is an analysis that studies matters relating to the financial condition of a company with the aim of knowing the basic characteristics and operational characteristics of a public company". Fundamental analysis of financial statements can use financial ratio analysis (www.idx.co.id).

3. RESEARCH METHOD
This study uses a quantitative approach method. The quantitative approach is a method in the form of numbers used to examine the population, random sampling, and research media used to collect data to conclude established hypotheses (Sugiyono, 2019:17). The independent variables in this study are Capital Structure, Liquidity, and Financial Performance with the dependent variable being earnings quality.

The population used in this study are manufacturing companies listed on the Indonesian Stock Exchange in 2019-2021 with a total of 183 companies. This study uses a sample of 77 companies with purposive sampling technique with the following conditions:

<table>
<thead>
<tr>
<th>No.</th>
<th>Descriptions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Manufacturing companies listed on the Indonesia Stock Exchange until 2021.</td>
<td>183</td>
</tr>
<tr>
<td>3.</td>
<td>Manufacturing companies that do not publish consecutive annual financial statements from 2019 to 2021.</td>
<td>(9)</td>
</tr>
<tr>
<td>4.</td>
<td>Manufacturing companies that do not use Rupiah currency.</td>
<td>(31)</td>
</tr>
<tr>
<td>5.</td>
<td>Manufacturing companies that suffer consecutive losses from 2019 to with 2021.</td>
<td>(55)</td>
</tr>
</tbody>
</table>

Observation Sample: 77
Observation Period: 3 Tahun
Total Sample (77 x 3): 231 data

The data collection technique used in this study is secondary data through documentation study techniques by obtaining data on the annual financial statements of manufacturing companies listed on the Indonesia Stock Exchange through the official website www.idx.co.id. This research was conducted for two years, from 2019 to 2021, and obtained 77 companies so that 231 data were obtained.

The analytical method used in this study uses quantitative analysis. Data analysis was carried out after all research data had been collected. Then the data were processed using the SPSS version 25 application program.
4. RESULTS AND DISCUSSION

a. Normality test

<table>
<thead>
<tr>
<th>Normal Parameters$^{a,b}$</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absolute</td>
<td>0.031</td>
<td></td>
</tr>
<tr>
<td>Positive</td>
<td>0.030</td>
<td></td>
</tr>
<tr>
<td>Negative</td>
<td>-0.031</td>
<td></td>
</tr>
</tbody>
</table>

Test Statistic

Asymp. Sig. (2-tailed) 0.200

Source: Secondary Data (processed, 2022)

Based on the results of table 2, the Asymp significance is 0.200 ≥ 0.05. The conclusion is that all data are normally distributed.

b. Multiple Linear Regression Analysis

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>.998</td>
<td>.068</td>
</tr>
<tr>
<td>Capital Structure</td>
<td>.111</td>
<td>.055</td>
</tr>
<tr>
<td>Liquidity</td>
<td>.006</td>
<td>.003</td>
</tr>
<tr>
<td>ROA</td>
<td>-.006</td>
<td>.007</td>
</tr>
</tbody>
</table>

Source: Secondary Data (processed, 2022)

Based on the results of table 3, the results of the multiple linear regression equation are obtained as follows:

Y = 0.998 + 0.111X1 + 0.006X2 − 0.006X3 + e

Based on the results of multiple linear regression testing above, it can be described as follows:
1. The constant (α) of 0.998 means that all independent variables are equal to zero, so the earnings quality is 0.998.
2. Capital Structure (X1) has a positive regression coefficient of 0.111, which means that if the capital structure increases by 1 point, the quality of earnings will also increase by 1 point.
3. Liquidity (X2) has a positive regression coefficient of 0.006, which means that if liquidity increases by 1 point, earnings quality will also increase by 1 point.
4. ROA (X3) has a negative regression coefficient of -0.006, which means that if ROA decreases by 1 point, earnings quality will also decrease by 1 point.

c. Hypothesis test

<table>
<thead>
<tr>
<th>Model</th>
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<td>.003</td>
</tr>
<tr>
<td>ROA</td>
<td>-.006</td>
<td>.007</td>
</tr>
</tbody>
</table>

Source: Secondary Data (processed, 2022)

Based on the results of the partial test above, it can be stated that the significance value of the capital structure is 0.044 < 0.05, it can be stated that H1 is accepted. The $t_{\text{count}}$ value of the capital structure variable is 2.025 > $t_{\text{table}}$ is 1.97301. It can be concluded that the capital structure has a significant effect on the quality of earnings in Manufacturing Companies listed on the Indonesia Stock Exchange.

Based on the partial test results above, it can be stated that the liquidity significance value of 0.035 < 0.05 can be stated that H2 is accepted. The $t_{\text{count}}$ value of the liquidity variable is 2.128 > $t_{\text{table}}$ is 1.97301. It can be
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concluded that liquidity significantly affects earnings quality in Manufacturing Companies listed on the Indonesia Stock Exchange. Based on the partial test results above, it shows that the ROA significance value of 0.438 > 0.05 can be stated that H3 is rejected. The $t_{\text{count}}$ value of the ROA variable is $-0.777 < t_{\text{table}}$ is 1.97301. It can be concluded that ROA has no significant effect on earnings quality in Manufacturing Companies listed on the Indonesia Stock Exchange.

**DISCUSSION**

**a. Effect of Capital Structure on Earnings Quality**

The first hypothesis in this study is the effect of capital structure on earnings quality in manufacturing companies listed on the BEI. The partial test results above show that the $t_{\text{count}}$ value of the capital structure variable is $2.025 > t_{\text{table}}$ is 1.97301 with a significance value of $0.044 < 0.05$. Based on the results above, it can be said that the capital structure has a significant effect on earnings quality, so H1 is accepted.

Capital structure has a significant effect on earnings quality. Parties will assess the impact that will occur in the future if the company cannot balance internal and external funding. Capital structure is a comparison between own capital and debt. Companies with a high capital structure indicate that their company produces high-quality earnings. However, if external parties more capitalize on the company's assets, the company's operating cash flow will decrease and impact low earnings quality. Operational activities that use more debt are considered to have a high-interest expense, and as a result, the company cannot pay off its debts.

On the other hand, external parties will be adrift to invest in companies with a stable financial situation and generate positive returns. The average manufacturing company used in the study has a DER (Debt to Equity Ratio) value of less than 1, which means that the company has a smaller debt level than its capital. So it can be concluded that the better the capital structure proxied by DER (Debt to Equity Ratio), the better the quality of the company's earnings through operating cash flow which is assessed based on the earnings quality ratio of more than 1.

The company's capital structure is considered necessary because the company's capital finances all company activities. A good capital structure can improve the quality of company earnings and can affect shareholders. This study supports the results of research conducted by Silfi (2016), Ahmad & Alrabbba (2017), Ashma’ & Rahmagwati (2019), Pardosi et al. (2019), and Lusiani & Khafid (2022), stating that capital structure has a significant effect on earnings quality. This is because companies with a reasonable capital structure can show that their company is getting better. The company will ultimately be motivated to optimize the performance of its company further and be able to make external parties give a positive response to the company to invest their capital in the company.

The study results are not in line with the research proposed by Luas et al. (2021) and Wulandari et al. (2021), which state that capital structure does not affect the quality of company earnings. The company will be more focused on funding so that operational activities can run smoothly to obtain maximum profit. Balanced company funding does not necessarily result in high-quality earnings because investors will be attached to the profits informed by the company, so changes in capital structure do not affect earnings quality.

**b. Effect of Liquidity on Earnings Quality**

The second hypothesis in this study is the effect of liquidity on earnings quality in manufacturing companies listed on the BEI. The partial test results above show that the $t_{\text{count}}$ value of the liquidity variable is $2.128 > t_{\text{table}}$ is 1.97301 with a significance value of $0.035 < 0.05$. Based on the results above, it can be said that liquidity has a significant effect on earnings quality, so H2 is accepted.

Liquidity has a significant effect on earnings quality. This is because the higher the level of short-term debt payments made by the company, the higher the quality of profits generated by the company. In addition, a company with a high level of liquidity can be said to have a satisfactory performance because liquidity is the company's ability to meet its short-term debt. Liquidity relates to investors' and creditors' trust in the company to be used as a significant consideration in making investment decisions related to earnings quality. Good liquidity is easier to get capital from external parties. That companies with a high rate of repayment of short-term debt tend to have high earnings quality through operating cash flow which is assessed based on the ratio of higher earnings quality of 1.

A company with a high liquidity level means that the company has a high quality of earnings so that earnings management practices do not need to be carried out. This study supports the results of research conducted by Ginting (2017), Ardianti (2018), Saraswati et al. (2020), Safitri & Afriyenti (2020), and Hasanuddin et al. (2021), which state that liquidity affects earnings quality. This is because the quality of a good company's earnings can be seen from the ability of a company to meet its short-term debt. High liquidity will cause the company to provide profit information more broadly to external parties, which can provide good value for investors.

The results of the study are not in line with the research conducted by Hakim & Abbas (2019), Herninta & Ginting (2020), Luas et al. (2021), and Putra & Hermawan (2021), which states that liquidity does not
significantly affect the quality of company earnings. The level of high or low liquidity does not impact the quality of profits generated by the company because if the company's liquidity is high, the company will have difficulty managing its current assets. This will have an impact on the decline in the company's financial performance and can lead to fraud in the financial statements.

c. Effect of Return on Assets (ROA) on Earning Quality

The third hypothesis in this study is the effect of Return on Assets on earnings quality in manufacturing companies listed on the BEI. The partial test results above show that the $t_{\text{count}}$ value of the Return on Assets variable is -0.777 < $t_{\text{table}}$ of 1.97301 with a significance value of 0.438 > 0.05. Based on the results above, it can be said that the Return on Assets has no significant effect on earnings quality, so $H_3$ is rejected.

Return on Assets (ROA) has no significant effect on earnings quality. This is because ROA is the company's ability to earn profits through its assets. However, the size of the company's ROA value does not reflect the quality of the profits generated. High yields can be reported unhealthy because they want to attract investors like PT. Three Pillars of Prosperous Food Tbk. Most investors will invest their funds in companies that generate high profits without observing the presence or absence of financial engineering in the company. Poor company performance does not necessarily result in low ROA, it can be caused by large liabilities, losses that occurred in the past period, and uncertain income. The average manufacturing company used in the study has a high level of ROA with a value of less than 0.0598. It does not have an impact on the good or bad quality of the company's earnings because quality earnings are profits that realize conditions, actually, without any manipulation.

This study supports the results of research conducted by Marsela & Maryono (2017), Hakim & Abbas (2019), Bemshima et al. (2020), and Wulandari et al. (2021) stating that Return on Assets (ROA) does not significantly affect the quality of company earnings. This is because the high and low value of a company's ROA does not cause the low quality of the profits generated. Good quality earnings do not mean that the company's asset value is large, and poor quality earnings have small asset values. It depends on how the management in reporting the actual profit.

The results of the study are not in line with research conducted by Ardianti (2018), Jannah et al. (2019), and Herminta & Ginting (2020), which states that Return on Assets (ROA) has a positive effect on earnings quality. This is because the higher the ROA value of a company, the quality of its earnings will also be increased. If a company has low profitability, the rate of its earnings will also decrease compared to companies that have high profitability.

5. CONCLUSION

Based on the hypothesis test results above, the following conclusions are that capital structure has a significant effect on earnings quality; liquidity has a significant impact on earnings quality, and Return on Assets (ROA) has no significant effect on earnings quality. For the next researcher who will conduct similar research, it is expected that adding other variables to have more influence on profit quality, such as Growth Opportunity, audit quality, and conservatism accountancy.

REFERENCES


