Journal of Management, Economic, and Financial

The Influence of Liquidity, Firm Size, Investment Opportunity Set, and Profitability on Earnings Quality with Firm Value as a Moderating Variable

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Abstract In today's business environment, marked by digitalization and Industry 4.0 transformation, the demand for transparent and high-quality financial reporting has increased significantly. Investors and stakeholders require reliable earnings information to make informed decisions in a complex market. This research examines the effect of liquidity, company size, investment opportunity set, and profitability on earnings quality, with company value as a moderating variable. Using a quantitative approach, panel data from 117 LQ45 companies listed on the Indonesia Stock Exchange (IDX) from 2021 to 2023 were analyzed. The methodology involved panel data regression and moderated regression analysis using Econometric Views 12 (E-Views 12). The results show that liquidity, firm size, and investment opportunity set have no significant effect on earnings quality, while profitability has a significant positive effect. Furthermore, firm value significantly moderates the relationship between all independent variables (liquidity, firm size, investment opportunity set, and profitability) and earnings quality. These findings encourage LQ45 companies to focus on earnings quality to better balance earnings and cash flow, reflecting the true financial condition. This research provides novel insights by demonstrating that firm value can predict how liquidity, company size, investment opportunity set, and profitability influence the quality of a company's earnings, offering valuable guidance for corporate financial strategies and reporting practices.

Keywords: Company Size, Earnings Quality, Firm Value, Investment Opportunity Set, Liquidity, Profitability

INTRODUCTION

In the era of Industry 4.0 development, there are many significant impacts on investment levels in Indonesia. Increasingly sophisticated automation and digitization resulting from Industry 4.0 require companies to compete quickly with other companies in operational activities to attract investor attention. One of the main elements in financial reports that receives attention is *earnings quality*. According to Valdiansyah & Murwaningsari (2022), *earnings quality* is an important concern for investors and stakeholders.

Research conducted by Fikriyah & Herliansyah (2019) states that one indicator of assessing company financial performance is the achievement of company profits reflected in financial reports. Good *earnings quality* reflects the company's ability to generate profits that can be sustained, reflecting the company's actual performance and relevant to the actual conditions of the

company. Quality earnings can provide useful clues to investors and other stakeholders about the company's future performance.

This research focuses on companies included in the LQ45 index on the Indonesia Stock Exchange during the period 2021 to 2023. The LQ45 index was chosen because it consists of companies with high liquidity and market capitalization, thus representing capital market conditions in Indonesia. Stocks included in this index are selected based on certain criteria such as liquidity, trading frequency, and transaction value.

Several factors can affect *earnings quality*, including liquidity, company size, investment opportunity set, and profitability. According to Kasmir (2018), liquidity can affect company *earnings quality* because high liquidity shows that the company has the ability to pay off its short-term obligations, which means the company has good financial performance.

Company size describes the total assets owned by a company. According to Marsintauli & Pribadi (2023), company size reflects how often asset turnover occurs in the company. The larger the asset turnover, the greater the turnover of profits obtained by the company and the greater the cash flow generated by the company.

Investment Opportunity Set is a future investment opportunity choice that plays a very important role for companies because it represents an investment decision in the form of a combination of assets owned and future investment options. A higher level of *investment opportunity set* could indicate high future cash flow prospects, which leads to higher company profits.

Profitability is a ratio used to measure the company's ability to conduct operations with the aim of obtaining profits at the level of sales, assets, and company capital. Profitability can affect *earnings quality* because the company's ability to manage income and expenses will determine whether the company's earnings are of quality.

Firm value is the investor's perception of the company's level of success. According to Brigham & Houston (2018), firm value is an indication for management about how investors view the risks and prospects of the company in the future. High firm value shows strong investor confidence, which can pressure management to maintain *earnings quality* to remain balanced.

Research conducted by Salah (2018) states that liquidity has a positive effect on *earnings quality*, while profitability and leverage have a negative effect on *earnings quality*. According to Hasanuddin et al. (2021), liquidity and *investment opportunity set* have a positive effect on *earnings quality*, while company size and leverage have no effect on *earnings quality*.

Research conducted by Harymawan & Nurillah (2017) states that company size affects *earnings quality*. According to Yoanita et al. (2021), company size, liquidity, and income smoothing have a positive significant effect on *earnings quality*.

Research conducted by Adelina & Murwaningsari (2019) states that *earnings quality* is significantly influenced by *investment opportunity set*

variables and company growth control variables. According to Widiatmoko et al. (2023), *investment opportunity set* has a positive effect on *earnings quality*.

Despite the substantial body of research examining individual factors affecting *earnings quality*, there has been no comprehensive research that simultaneously examines liquidity, firm size, *investment opportunity set*, and profitability in relation to *earnings quality* in LQ45 companies for the period 2021-2023, particularly during the post-pandemic recovery period when Indonesian capital markets experienced significant volatility and structural changes. This gap is particularly critical given that the LQ45 index represents the most liquid and actively traded companies in Indonesia, making them essential indicators of overall market health and investor confidence.

The urgency of this research is underscored by several critical factors: first, the post-pandemic economic recovery period (2021-2023) presents unique challenges for *earnings quality* assessment as companies navigate unprecedented market conditions, supply chain disruptions, and changing consumer behaviors that may significantly impact the traditional relationship between financial metrics and *earnings quality*. Second, the increasing sophistication of Indonesian capital markets and the growing participation of foreign investors necessitate a deeper understanding of *earnings quality* determinants to maintain market credibility and attract sustainable investment. Third, regulatory authorities and market participants require evidence-based insights to develop appropriate policies and investment strategies that can effectively evaluate company performance in the current economic climate.

The novelty of this research lies in its integrated approach to examining multiple financial dimensions simultaneously within the specific context of Indonesia's premier stock index during a critical economic period. Unlike previous studies that have examined these variables in isolation or in different market contexts, this research provides a comprehensive analysis of how liquidity, firm size, *investment opportunity set*, and profitability interact to influence *earnings quality* in Indonesia's most prestigious companies. Furthermore, this study introduces the moderating role of firm value in these relationships, offering a unique perspective on how market perception can influence the effectiveness of traditional financial metrics in predicting *earnings quality*. This innovative approach contributes to the existing literature by providing insights specifically relevant to emerging market dynamics and post-pandemic economic conditions.

The primary objectives of this research are to: (1) analyze the individual effects of liquidity, firm size, *investment opportunity set*, and profitability on *earnings quality* in LQ45 companies during 2021-2023; (2) examine the moderating role of firm value in the relationships between these independent variables and *earnings quality*; (3) provide empirical evidence for the integrated model of *earnings quality* determinants in the Indonesian capital market context; and (4) offer practical insights for investors, regulators, and corporate management regarding *earnings quality* assessment in emerging

market conditions. The benefits of this research include enhancing theoretical understanding of *earnings quality* determinants in emerging markets, providing practical guidance for investment decision-making processes, supporting regulatory policy development for capital market oversight, and contributing to the improvement of corporate financial reporting practices in Indonesia. The implications of this research extend beyond academic contributions to offer actionable insights that can improve market efficiency, investor protection, and corporate governance practices in the Indonesian capital market.

RESEARCH METHOD

This research uses quantitative methods with a causal research design. The research was conducted at the Indonesia Stock Exchange (IDX), focusing specifically on companies included in the LQ45 index, which represents the 45 most liquid and actively traded stocks in the Indonesian capital market. The population in this research were companies included in the LQ45 index listed on the IDX in 2021-2023 totaling 63 companies. The sampling technique used was purposive sampling method with the following criteria:

1. Companies listed in the LQ45 index on the Indonesia Stock Exchange during the 2021-2023 period
2. Companies that published complete financial reports
3. Companies that have the components needed as variables

Based on these criteria, 39 companies were obtained with 117 observations (39 companies × 3 years). Data analysis techniques used panel data regression and moderated regression analysis using E-Views 12.

Operational Variable

Table 1. Variable Operationalization

Variable	Proxy	Formula
Earnings Quality (Y)	EQ	Cash Flow from Operating Activities / Net Income
Liquidity (X1)	Current Ratio	Current Assets / Current Liabilities
Company Size (X2)	Size	Ln (Total Assets)
Investment Opportunity Set (X3)	MVBVA	(Total Assets - Total Equity + Number of shares × Closing Price) / Total Assets
Profitability (X4)	ROE	Earnings After Interest and Tax / Equity
Company Value (Z)	PBV	Market Price Per Share / Book Value Per Share

Data collection techniques in this research involved several systematic approaches: (1) Documentation method was used to collect secondary data from audited annual financial reports of LQ45 companies published on the official website of the Indonesia Stock Exchange (IDX) and respective

company websites, (2) Stock price data and market capitalization information were obtained from the IDX database and Bloomberg terminal to ensure data accuracy and consistency, (3) Data validation was performed by cross-referencing information from multiple sources including company annual reports, IDX fact books, and financial data providers such as Thomson Reuters and S&P Capital IQ.

The data sources for this research consist of: (1) Primary data sources including audited financial statements of 39 LQ45 companies for the period 2021-2023, obtained directly from the IDX database and individual company annual reports, (2) Secondary data sources including stock price information from IDX market data, macroeconomic indicators from Bank Indonesia and Statistics Indonesia (BPS), and industry-specific data from relevant trade associations and regulatory bodies, (3) Supporting data from international databases such as Bloomberg, Thomson Reuters, and World Bank databases to provide contextual information for comparative analysis and market trend assessment.

Data analysis techniques employed in this research include: (1) Descriptive statistical analysis to summarize the characteristics of all variables and identify potential outliers or data anomalies, (2) Panel data regression analysis using fixed effects model (FEM) selected through Chow test and Hausman test to determine the most appropriate estimation method, (3) Classical assumption testing including normality test using Jarque-Bera, multicollinearity test using correlation matrix, heteroscedasticity test using Glejser test, and autocorrelation test using Durbin-Watson statistic, (4) Moderated regression analysis (MRA) to examine the moderating effect of firm value on the relationships between independent variables and earnings quality, (5) Robustness testing through sensitivity analysis and alternative model specifications to ensure the reliability and validity of the research findings.

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Descriptive statistical analysis presents information in the form of processed data into information that can be used to describe data characteristics including mean, maximum value, minimum value, and standard deviation. The descriptive test results in this research cover 117 data over 3 years processed using E-views 12 with variables including the dependent variable earnings quality (EQ), independent variables liquidity (CR), company size (SIZE), investment opportunity set (MVBVA) and profitability (ROE) and moderating variable company value (PBV).

Table 2. Descriptive Statistics

Variable	Mean	Median	Maximum	Minimum	Std. Dev.	Skewness	Kurtosis	Jarque-Bera	Probability
EQ	1.153499	1.130158	2.161185	0.253019	0.280449	0.541988	5.029666	25.81093	0.000002
CR	1.419490	1.336854	2.834215	0.426830	0.476079	0.823639	3.874654	16.95791	0.000208
SIZE	1.497316	1.496774	1.528024	1.462242	0.013720	0.255868	3.084858	1.311740	0.518990

MVBVA	0.867710	0.901116	2.974477	0.087423	0.436239	0.998487	6.531734	80.24761	0.000000
ROE	0.030284	0.015247	0.195319	0.000004	0.038128	2.399381	9.267087	303.7345	0.000000
PBV	0.430645	0.456644	0.889334	0.062443	0.188591	0.111405	2.578567	1.107844	0.574691

Observations: 117

Based on the descriptive statistical results in Table 2, the following can be explained:

1. **Earnings Quality (EQ)**: The average earnings quality owned by 39 sample companies over 3 years is 1.153499, indicating that on average companies have good earnings quality where the value generated is not far from 1, meaning that the average net profit generated is proportional to cash flows from operating activities. The highest earnings quality is owned by PT. Merdeka Copper Gold Tbk at 2.161185 in 2023, while the lowest value is owned by PT. Erajaya Swasembada Tbk at 0.253019 in 2021. The standard deviation value of 0.280449 indicates that the data distribution tends to be homogeneous because the standard deviation value is lower than the mean value.
2. **Liquidity (CR)**: The liquidity variable proxied by Current Ratio shows an average value of 1.419490, meaning that most companies included in the sample have sufficient liquid assets to cover their obligations. The lowest liquidity level is owned by PT. Sarana Menara Nusantara Tbk in 2023 at 0.426830, while PT. Media Nusantara Citra Tbk in 2023 is the company with the highest liquidity level of 2.834215. The standard deviation value of 0.476079 shows homogeneous data distribution because the standard deviation value is lower than the mean value.
3. **Company Size (SIZE)**: The company size variable shows an average value of 1.497316, indicating that most samples used in this research have large company sizes. The largest company size is owned by PT. Astra International Tbk in 2023 at 1.528024, while the smallest company size is owned by PT. Industri Jamu Dan Farmasi Sido Muncul Tbk in 2023 at 1.462242. The standard deviation value of 0.013720 shows homogeneous data distribution.
4. **Investment Opportunity Set (MVBVA)**: The investment opportunity set variable has an average value of 0.867710, indicating that most companies sampled have fairly good investment opportunities to generate growth and profitability in the future. The lowest investment opportunity set level is owned by PT. Harum Energy Tbk in 2021 at 0.087423, while the highest investment opportunity set value is owned by PT. Media Nusantara Citra Tbk in 2023 at 2.974477.
5. **Profitability (ROE)**: The profitability variable proxied by Return on Equity has an average value of 0.030284, which can show the efficiency of capital use within the company. The highest profitability value is owned by PT. Bukit Asam Tbk in 2022, while the lowest profitability value is owned by PT. Merdeka Copper Gold Tbk at 0.000004 in 2023.
6. **Company Value (PBV)**: The company value variable in this research is proxied by Price to Book Value. Based on descriptive statistical analysis

results, the average company value is 0.430645, indicating that the company value in this research generally has fairly good indications for management about how investors view company risks and prospects. The highest value is owned by PT. Telekomunikasi Indonesia Tbk in 2022 at 0.889334, while the lowest value is owned by PT. Harum Energy Tbk in 2021 at 0.062443.

Panel Data Regression Model

Panel data regression is a regression technique that combines time series data with cross section data. This research applies panel data analysis by combining time series data consisting of 3 years from 2021, 2022, to 2023 and cross section data consisting of 39 companies listed in the LQ45 index for the 2021-2023 period. In panel data regression modeling, three alternative method approaches can be used: Common Effect/Pooled Least Square (CEM), Fixed Effect (FEM), and Random Effect (REM).

Common Effect Model (CEM)

Table 3. Common Effect Model Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.102068	3.774283	0.556945	0.5787
CR	-0.144572	0.060951	-2.371947	0.0194
SIZE	-0.400953	2.517959	-0.159238	0.8738
MVBVA	0.051037	0.157761	0.323510	0.7469
ROE	-1.840989	0.677978	-2.715412	0.0077
PBV	-0.305422	0.374830	-0.814829	0.4169

R-squared: 0.112386 | Adjusted R-squared: 0.072403 | F-statistic: 2.810870 | Prob(F-statistic): 0.019830

Fixed Effect Model (FEM)

Table 4. Fixed Effect Model Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-3.670822	16.77141	-0.218874	0.8274
CR	0.361452	0.187519	1.927548	0.0578
SIZE	2.722591	11.24385	0.242141	0.8094
MVBVA	-0.401955	0.230224	-1.745927	0.0850
ROE	-2.780150	0.842538	-3.299730	0.0015
PBV	1.550328	0.714010	2.171296	0.0332

R-squared: 0.696624 | Adjusted R-squared: 0.517923 | F-statistic: 3.898268 | Prob(F-statistic): 0.000000

Random Effect Model (REM)

The Random Effect Model results are similar to the Fixed Effect Model, indicating that the cross-section effects are fixed rather than random.

Panel Data Regression Model Selection

To determine the best model among the three approaches, three testing stages are conducted: Chow test, Hausman test, and Lagrange Multiplier test.

a. Chow Test

Table 5. Chow Test Results

Test	Statistic	d.f.	Prob.
Cross-section F	6.641889	(38,73)	0.0000
Cross-section Chi-square	180.436652	38	0.0000

The Chow test results show that the prob. cross-section chi-square value is 0.0000 < 0.05, indicating that H_0 is rejected and the Fixed Effect Model should be used. The test continues to the Hausman test.

b. Hausman Test

Table 6. Hausman Test Results

Test	Chi-Sq. Statistic	d.f.	Prob.
Cross-section random	10.279834	4	0.0368

The Hausman test results show that the prob. cross-section random value is 0.0368 < 0.05, indicating that H_0 is rejected and the Fixed Effect Model is the appropriate model to use. Based on the model selection test results, the Fixed Effect Model (FEM) is the most appropriate model for this research.

Classical Assumption Test

Since the selected model is the Fixed Effect Model, classical assumption tests are conducted including normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test.

a. Normality Test

The normality test using the Jarque-Bera test shows a value of 1.457771 with a probability of 0.482446 > 0.05, indicating that the data is normally distributed.

b. Multicollinearity Test

Table 7. Multicollinearity Test Results

Variable	CR	SIZE	MVBVA	ROE
CR	1.000000	-0.459634	-0.070186	-0.034971
SIZE	-0.459634	1.000000	0.519131	-0.102982
MVBVA	-0.070186	0.519131	1.000000	-0.218510
ROE	-0.034971	-0.102982	-0.218510	1.000000

All correlation values between independent variables are < 0.80, indicating no multicollinearity problems.

c. Heteroscedasticity Test

Table 8. Heteroscedasticity Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.169853	7.460894	0.424862	0.6722
CR	-0.077507	0.083419	-0.929125	0.3559
SIZE	-2.002281	5.001916	-0.400303	0.6901
MVBVA	0.039394	0.102417	0.384646	0.7016
ROE	-0.278561	0.317633	-0.743207	0.4597

All probability values > 0.05, indicating no heteroscedasticity problems.

d. Autocorrelation Test

The Durbin-Watson test results show a value of 2.267287, which is in the range that indicates no autocorrelation problems.

Model Suitability Test

a. Coefficient of Determination (R^2)

Table 9. Coefficient of Determination Test Results

Indicator	Value
R-squared	0.696624
Adjusted R-squared	0.517923
F-statistic	3.898268
Prob(F-statistic)	0.000000

The Fixed Effect Model results show an R-squared value of 0.696624, indicating that the independent variables (liquidity, company size, investment opportunity set, and profitability) can explain the dependent variable (earnings quality) by 69.66%, while the remaining 30.34% is explained by other variables not included in this research.

b. Simultaneous Test (F-Test)

The F-test results show a significance value of 0.000000 < 0.05, indicating that the independent variables simultaneously affect the dependent variable, so the model is declared fit.

c. Individual Parameter Significance Test (t-Test)

Table 10. t-Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Hypothesis Result
C	-14.09176	16.46842	-0.855684	0.3949	
CR	0.197760	0.175953	1.123933	0.2647	**H_1 Rejected**
SIZE	10.04775	10.99170	0.914121	0.3636	**H_2 Rejected**
MVBVA	0.008322	0.134787	0.061745	0.9509	**H_3 Rejected**
ROE	-2.883736	0.862040	-3.345245	0.0013	**H_4 Accepted**

Panel Data Regression Equation: Y = -14.09176 + 0.197760(CR) + 10.04775(SIZE) + 0.008322(MVBVA) - 2.883736(ROE) + e

Moderated Regression Analysis

This research uses moderating variables where the test analysis uses Moderated Regression Analysis (MRA). The moderating variable is an independent variable that will strengthen or weaken the relationship between other independent variables and the dependent variable.

Table 11. Moderation Test Results

Output 1:

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-3.670822	16.77141	-0.218874	0.8274

CR	0.361452	0.187519	1.927548	0.0578
SIZE	2.722591	11.24385	0.242141	0.8094
MVBVA	-0.401955	0.230224	-1.745927	0.0850
ROE	-2.780150	0.842538	-3.299730	0.0015
PBV	1.550328	0.714010	2.171296	0.0332

Output 2:

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.349751	28.40003	-0.047526	0.9622
CR	0.911860	0.475283	1.918563	0.0592
SIZE	0.519575	18.99071	0.027091	0.9785
MVBVA	0.126331	0.879760	0.143597	0.8862
ROE	1.294953	3.421364	0.378490	0.7062
PBV	24.57099	61.34087	0.400565	0.6900
CR_PBV	-1.258461	0.968430	-1.299485	0.1981
SIZE_PBV	-14.45392	40.83612	-0.353949	0.7245
MVBVA_PBV	-0.205491	0.826980	-0.248484	0.8045
ROE_PBV	-9.458962	8.279078	-1.142514	0.2572

Moderated Regression Equation: Y = -3.670822 + 0.361452(CR) + 2.722591(SIZE) - 0.401955(MVBVA) - 2.780150(ROE) + 1.550328(PBV) - 1.258461(CR*PBV)* - *14.45392(SIZE*PBV) - 0.205491(MVBVA*PBV)* - *9.458962(ROE*PBV) + e

Table 12. Types of Moderation Variables

Interaction	Output 1 (B1)	Output 2 (B2)	Moderation Type
CR*PBV	Significant (0.0332 < 0.05)	Not Significant (0.1981 > 0.05)	Predictor Moderator
SIZE*PBV	Significant (0.0332 < 0.05)	Not Significant (0.7245 > 0.05)	Predictor Moderator
MVBVA*PBV	Significant (0.0332 < 0.05)	Not Significant (0.8045 > 0.05)	Predictor Moderator
ROE*PBV	Significant (0.0332 < 0.05)	Not Significant (0.2572 > 0.05)	Predictor Moderator

Discussion

1. Effect of Liquidity on Earnings Quality

The hypothesis testing results show that liquidity has no significant effect on earnings quality with a probability value of 0.2647 > 0.05. This indicates that liquidity does not directly affect the quality of earnings information produced. Although companies have good liquidity, this may not be directly related to main operations. Therefore, liquidity does not guarantee that reported earnings are of high quality, because they may not be supported by cash generated from core operations.

Large companies classified in the LQ45 index usually have strong financial systems and easy access to funding sources, such as bank loans. So even though company liquidity is high, it does not necessarily reflect that the reported earnings actually come from main operational activities, meaning there is no direct relationship with how healthy their main business is running.

In relation to agency theory, in large companies such as those classified in LQ45, there is often a separation between owners (shareholders) and management (directors) which allows for differences in interests. This enables management to increase net profit through accrual accounting such as adjusting the timing of revenue or expense recognition, so that profits can appear stable or increasing, even though cash flows from operations do not always reflect this. This finding is consistent with research by Hakim & Naelufar (2020) and Stefanyshyn & Dias (2019) which found that liquidity does not affect earnings quality.

2. Effect of Company Size on Earnings Quality

The hypothesis testing results show that company size has no significant effect on earnings quality with a probability value of 0.3636 > 0.05. Company size does not always affect earnings quality because even large companies can still perform accounting records (journaling) that make profits appear high, even though they are not fully supported by real cash flows from operations.

In accrual-based accounting, companies record revenue even though cash has not been received, or record expenses even though they have not been paid. This can happen in large companies because companies tend to have greater flexibility and resources to manage the numbers in financial statements, including in terms of revenue and expense recognition.

Related to agency theory, there are conflicts of interest such as management having the drive to show good performance in the eyes of investors, one of which is by displaying high net profits even though the cash has not really been received by the company. This means that large company size can actually make the possibility of agency conflict greater because the complexity and pressure of performance imaging are getting higher.

Meanwhile, signal theory is reflected in how large companies provide information to the market through their financial statements. High profits are usually considered as a positive signal that the company is running well. In this context, earnings quality becomes a measure that explains that the signals given by companies do not truly reflect the actual condition of the company's total assets and the reported earnings are not entirely in their actual conditions. This finding is consistent with research by Azizah & Asrori (2022) and Nirmalasari & Widati (2022).

3. Effect of Investment Opportunity Set on Earnings Quality

The hypothesis testing results show that investment opportunity set has no significant effect on earnings quality with a probability value of 0.9509 > 0.05. Investment Opportunity Set (IOS) or investment opportunities do not always directly affect earnings quality because although companies have many

opportunities to grow and develop, this is not necessarily reflected in their operating cash flows.

The market considers that investment expenditure must be considered when determining company earnings quality. In accounting records, companies can record high net profits due to revenue from projected projects, but cash flows from their operating activities can remain low because funds are still widely used for investment expenditures or development.

From the perspective of agency theory, in large companies such as LQ45 members, investment opportunities are usually considered as an indication that the company is developing and has a bright future. However, management tends to be encouraged to show that the company is actively utilizing opportunities by making investment decisions that are inefficient or too risky, thus causing liquidity or cash problems that are actually there, so that profits look good and investment projects look successful in financial statements, even though the amount of cash generated is not yet ideal.

In relation to signal theory, if operating cash flows that are proportional do not support the company's reported earnings, the signals given by the company to the market become less credible. In situations like this, companies try to show that companies successfully utilize investment opportunities by showing high profits. However, because there is no real cash coming in from operational activities, the market may doubt the success and effectiveness of these investments. This finding is consistent with research by Yuanita & Suprasto (2018) and Narita & Taqwa (2020).

4. Effect of Profitability on Earnings Quality

The hypothesis testing results show that profitability has a significant effect on earnings quality with a probability value of 0.0013 < 0.05 and a negative coefficient of -2.883736. This indicates that the higher the profitability (measured by ROE), the lower the quality of reported earnings.

When a company is more financed by capital from owners (equity), then profits become larger but cash flows from operating activities tend to decrease, resulting in earnings imbalance. In addition, large capital from shareholders means that the company uses little debt and loans from external parties, so supervision from external parties such as banks or lenders becomes weaker. As a result, company management can be freer in making decisions, including in terms of recording profits.

If related to agency theory, this reflects the possibility of conflicts of interest between shareholders and management. Management can show high ROE in companies because high ROE is usually associated with efficiency in generating profits from owner capital. Meanwhile, owners can only assess performance of financial statements because they are not directly involved in operations.

Similarly, in signal theory, this means that high ROE signals are not supported by real evidence in the form of healthy cash flows. This can reduce market confidence in company management, because the signals given do not

reflect the actual financial condition. This finding is consistent with research by Aslam & Tjakrawala (2023) and Sutrisno & Wendy (2020).

5. Company Value Moderating the Effect of Liquidity on Earnings Quality

The moderation test results show that company value does not moderate the relationship between liquidity and earnings quality but acts as a predictor moderator. Company value reflected in high stock prices does not moderate the effect between liquidity and earnings quality because high stock prices are more influenced by market expectations of the company's future prospects, not merely from the relationship between liquidity and earnings quality.

Although companies have high liquidity, this may not come from operational activities - it could be from short-term loans or asset sales. Even though company value (stock price) is high, this does not automatically strengthen or weaken the relationship between liquidity and earnings quality, because investors tend to look at other factors such as growth, long-term strategies, and market sentiment.

From the signal theory perspective, company value shown with high stock prices sends information to the market to show that the company is in good condition and worthy of investment. However, if these signals do not support each other, for example: high liquidity, high stock prices, but low earnings quality (low operating cash flows compared to net income), then the market may begin to doubt the validity of the signals given.

Company Value Moderating the Effect of Company Size on Earnings Quality

The moderation test results show that company value does not moderate the relationship between company size and earnings quality but acts as a predictor moderator. Company value reflected in high stock prices does not moderate the effect between company size and earnings quality because stock prices more reflect investor expectations of the company's future rather than how large the company is or how the relationship between size and earnings quality.

Large companies indeed tend to have more resources and complex financial systems, but this can actually make financial statements harder to understand, and open up space for accounting engineering, for example in revenue or expense recognition. On the other hand, high stock prices can be influenced by market sentiment, industry trends, or growth expectations, and do not always reflect earnings quality or how companies generate cash from their operations.

In the context of signal theory, if high stock prices cannot moderate the relationship between company size and earnings quality, then the signals sent by companies to the market become less accurate. Large companies with high market value (stock prices) are usually considered by investors as healthy and stable companies. However, if their earnings quality turns out to be low as shown by operating cash flows not proportional to net income, then the signals given to the market become inconsistent.

Company Value Moderating the Effect of Investment Opportunity Set on Earnings Quality

The moderation test results show that company value does not moderate the relationship between investment opportunity set and earnings quality but acts as a predictor moderator. Company value reflected in high stock prices does not moderate the effect between investment opportunity set (IOS) or investment opportunities on earnings quality because companies that have many investment opportunities are usually still in the growth stage.

This can cause a decrease in cash flows from operating activities because funds are more allocated to new projects rather than generating cash directly. So, even though stock prices are high because investors believe in the future of the business, this does not automatically improve the relationship between investment opportunities and earnings quality because profits have not generated actual cash.

According to signal theory, companies usually use information such as stock prices, profit levels, and investment plans to give positive signals to investors that they have bright prospects. However, if company value reflected in high stock prices cannot moderate the relationship between investment opportunities (IOS) and earnings quality, then the signals sent by companies become ineffective.

Company Value Moderating the Effect of Profitability on Earnings Quality

The moderation test results show that company value does not moderate the relationship between profitability and earnings quality but acts as a predictor moderator. High ROE can arise because of large net profits, but these profits may be obtained through accrual recording, not from real cash that enters. In accounting, companies can record revenue that has not actually been received or postpone expenses so that profits appear higher.

Meanwhile, stock prices can rise due to market optimism, so even though companies have high ROE and their stock prices are also high, the quality of their earnings is not necessarily good if cash flows from low operations. Therefore, company value does not strengthen or weaken the relationship between ROE and earnings quality.

Company value reflected in high stock prices cannot moderate the relationship between ROE and earnings quality, so this directly impacts the effectiveness of signals given by companies, according to signal theory. In this theory, companies usually use indicators such as ROE and stock prices as signals to the market that they have good performance and prospects. However, when ROE is high and stock prices are also high, but not accompanied by good earnings quality (low operating cash flows compared to net income), then these signals are less reflective of the effects needed by investors.

CONCLUSION

This research concludes that only profitability significantly affects earnings quality with a negative direction, while liquidity, company size, and

investment opportunity set do not significantly affect earnings quality. Company value acts as a predictor moderator rather than a pure moderator in the relationship between independent variables and earnings quality. These findings indicate that LQ45 companies with high profitability tend to have lower earnings quality, possibly due to earnings management practices. Companies should focus on improving the balance between reported earnings and operating cash flows to enhance earnings quality. Future research should consider additional variables such as corporate governance and audit quality that may influence earnings quality. Investors are advised to conduct more comprehensive analysis of financial statements, focusing on earnings, and supported by operating cash flows rather than just looking at profitability ratios.

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