Jurnal Akuntansi Trisakti *ISSN : 2339-0832 (Online)*
Volume. 8 Nomor. 1 Februari 2021 : 137-150
Doi : http://dx.doi.org/10.25105/jat.v8i1.8663

AUDIT COMMITTEE, CAPITAL STRUCTURE AND LIQUIDITY: INTERACTION AND IMPACT ON EARNINGS QUALITY

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Abstract

The purpose of this research is to determine the effect of capital structure and liquidity on earnings quality with the audit committee as a moderating variable.

The research population was manufacturing companies listed on the Indonesia Stock Exchange (BEI) for the period 2017-2019 totaling of 144 companies. The sampling method used was purposive sampling and obtained 40 companies as a sample. The data analysis used was mulpiple regression and run under SPSS rogram.

The result shows that capital structure, liquidity, and committee audit silmutaneusly affect earnings quality. Partially, capital structure has negative significance effect on earnings quality, and liquidity has no significant effect on earnings quality. Meanwhile committee audit able to strengthen the effect of capital structure on earnings quality, and committee audit do not able to strengthen the effect of liquidity on earnings quality.

***Keywords**: Committee Audit; Capital Structure; Earnings Quality; Liquidity.*

Submission date : 2021-01-15 *Accepted Date: 2021-02-12*

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INTRODUCTION

Earnings information contained in financial reports is important for stakeholders of financial statements for the purpose of decision making. Profit is used by external parties as an indicator to measure the company's operating performance. Managers as internal parties of the company have more information about the condition of the company than external parties. This has led to actions by company management to report earnings that do not reflect the actual condition of the company (earnings management) for personal gain, for example, to get bonuses (Warianto & Rusiti, 2014). This can cause management to take profit-oriented accounting practices to achieve performance.

The phenomenon of earnings management practices has been carried out in several cases in accounting reporting that can be widely known, such as the accounting scandal occurred at PT. Garuda Indonesia. The 2018 financial statements of Garuda

Indonesia posted a net profit of USD809.85 thousand or the equivalent of IDR 11.33 billion (assuming an exchange rate of IDR 14,000 per US dollar). This figure jumped sharply compared to 2017, which suffered a loss of USD216.5 million. Two of Garuda Indonesia commissioners, Chairal Tanjung and Dony Oskaria, considered that Garuda Indonesia's 2018 financial statements were not in accordance with PSAK. This chaotic of Garuda Indonesia financial report also serves the name Mahata Aero Teknologi. The reason is, Mahata, a company that was just founded on November 3, 2017 with a capital of not more than Rp. 10 billion, which is brave, in cooperation with Garuda Indonesia which is valid for 15 years. By cooperating with Garuda, Mahata recorded a debt of USD239 million to Garuda and Garuda recorded as income. The funds are still in the form of an account, but the account has been recorded by Garuda Indonesia's management as income. The phenomenon accured at PT Garuda is related to the quality of earnings because PT Garuda has not shown actual earnings information. This causes the quality of the resulting earnings to be low which can cause investors to make mistakes in making decisions.

Based on the data published by Otoritas Jasa Keuangan (OJK) through the Ticmi data center, the phenomenon occured in manufacturing companies listed on the Indonesia Stock Exchange showed the average earnings quality in the period 2017-2019 has decreased. In 2017 the average earnings quality of the company was 1.0722, in 2018 the average earnings quality of the company decreased to 1.0140, and in 2018 the average quality of the company's earnings decreased to 0.7428. The existence of cases of manipulation of financial statements occured indicates that management has not yet presented the true earnings information to the principal. Principals will give negative reactions to companies hat have proven manipulating financial statements. The engineering of financial statements has an impact on decreasing the quality of earnings reported by the company. The decline in reported earnings quality indicates that the earnings reported by the company are not in accordance with the actual conditions of the company. The misinformation of earnings reported by the company makes the stakeholders wrong in making business decisions on the company.

Companies that have high debt will cause high-interest costs, so that they will reduce company profits. The earnings quality will decline if the level of leverage is much greater than the capital, and the company must manage leverage so as not to bring harmful effects (Manurung, 2019).

Liquidity is the company's ability to pay the short-term debt. Companies that can maintain the availability of liquidity will finance the company's operations to increase sales. Increasing company performance will affect increasing the quality of earnings which is getting higher. High liquidity ratios and industry ratios still affect improving performance and increasing profits (Manurung, 2019), (Altaf & Ahmad, 2019).

The audit committee is a committee that can oversee company performance and report. Audit Committee expected to control, supervise and monitor whether decisions made by management are correct or not. Decisions made by management must not take sides and must adhere to the company's goals. It is expected that the audit committee can strengthen the company's internal control. With the functions and duties of the audit committee so that in this study, it was appointed as a moderating variable (Klein A., 2002).

Based on the results of research conducted by (Silfi, 2016), (Irawati, 2012) and (Ramadan, 2015), it is said that capital structure affects earnings quality. Other results of (Dira & Astika, 2014) and (Murniati et al., 2018) show that capital structure does not affect earnings quality. The results of research conducted by (Silfi, 2016), (Irawati, 2012), (Zulman & Abbas, 2019), shows that liquidity affects earnings quality. In the research of (Murniati et al., 2018) and (Dira & Astika, 2014) and (Helina & Permanasari, 2017) it is shown that liquidity does not affect earnings quality. Based on the exposure to the phenomena occurred, the research gap, and previous studies, the author Conduct this research, "Audit Committee, Capital Structure And Liquidity: Interaction And Impact On Earnings Quality."

The novelty of this research is whether the variables of capital structure and liquidity are affect significantly to the earnings quality by using the audit committee as a moderating variable. The author uses the audit committee as a moderation because it is a committee supervising the financial reporting. Using the audit committee as moderation, the author wants to test whether it can strengthen or weaken the earnings quality.

LITERATURE REVIEW & HYPOTHESES

According to (Jensen & Meckling, 1976) in (Dira & Astika, 2014), agency theory states that management and owners have different interests. The existence of different interests causes conflicts. According to (Rachmawati & Triatmoko, 2007) in (Dira & Astika, 2014), agency conflict causes management to report excessive earnings to maximize personal interests. If this happens, it will result in a low quality of the resulting earnings because quality earnings are profits that can accurately reflect the company's current operating performance, can provide useful indicators of future company performance, and can be a good measure to assess the company's performance.

Theory of Signaling shows the importance of information issued by the company for investment decisions by investors. Signaling theory affects the quality of company earnings. If the signal in the form of financial information provided by company management to investors does not show the real situation, it will cause the company's earnings quality to below. The information disclosed in the financial statements becomes a consideration for investors before making investment decisions. Signaling theory is the theoretical foundation in this study because it illustrates the importance of information for financial statements: Profit Quality (Warianto & Rusiti, 2014)

Earnings quality are profits that have three characteristics as follows; able to reflect the company's current operating performance accurately and provide a good indicator of the company's future performance, it can be a good measure to assess the company's performance. According to (Darsono & Ashari, 2010;73) in (Murniati et al., 2018) one of the characteristics that determine earnings quality is the relationship between accounting profit and cash flow. The higher the relationship or, the lower the difference between cash flow and company profits, the higher the earnings quality. This is because the more income and expense transactions are cash transactions (cash basis) and not accruals. Therefore, high earnings quality can be realized into cash.

According to (Fahmi, 2017) the capital structure is a description of the company's financial proportion, namely between the capital owned, which comes from long-term debt, and the capital itself, which is the source of a company's financing. The results of (Irawati, 2012) study showed the simultaneously affect the quality of earnings, but partially capital structure does not affect earnings quality. In the research of (Warianto

& Rusiti, 2014) showed that simultaneously capital structure affects earnings quality, and partially capital structure has a positive effect on earnings quality. In (Murniati et al., 2018) study showed that partially the capital structure (leverage) does not affect earnings quality. In the research of Ramadan (2015), capital structure (leverage) affects the quality of earnings.

According to (Wahlen et al., 2015: 355) in (Murniati et al., 2018), liquidity is the ability of a company's other assets to be converted into cash to meet its short-term debt that is due. Liquidity refers to a company's ability to meet its short-term obligations. The company's inability to fulfill its short-term or current liabilities can harm the company's assets. The research results by (Warianto & Rusiti, 2014) showed that partial liquidity harms earnings quality. (Irawati's research, 2012) showed that liquidity harms earnings quality. In (Helina & Permanasari's Research, 2017) study, showed that partially liquidity (current ratio) does not affect earnings quality. In (Murniati et al. research, 2018) said that liquidity does not affect earnings quality. The audit committee is in charge of assisting the board of commissioners to monitor financial reporting by management to increase financial reports' credibility (Bradbury et al. 2004 in T Suryanto 2016). The audit committee's duties include reviewing accounting policies implemented by the company, assessing internal control, reviewing external reporting systems, and compliance with regulations. In carrying out its duties, the committee provides formal communication between the board, management, external auditors, and internal auditors (Bradbury et al., 2004) (Suryanto, 2016). Silfi's research result (2016) that the audit committee harms earnings quality. Sayuthi's research (2017) showed that the audit committee affects earnings quality. In (Rilo & Laksito, 2017) study said, the audit committee's size does not affect earnings quality.

Effect of capital structure on earnings quality

The higher the debt, the higher the costs. It will decrease the company's profit so that it will bring the company closer to the possibility of violating debt contracts, and motivating management to manipulate profits, in order to avoid violating debt contracts which results in high costs and results in company bankruptcy. Therefore, if the level of leverage of a company is higher, the quality of earnings will be lower (Irawati, 2012). Based on the results of research conducted by (Silfi, 2016), (Warianto & Rusiti, 2014) and (Ramadan, 2015) stated that capital structure affects earnings quality.

H1: capital structure has significant effects on earnings quality

The effect of liquidity on earnings quality

Liquidity reflects the company's ability to fulfill its short-term obligations, which means that it has adequate financial performance in fulfilling its current debt. The company does not need to practice profit manipulation (Silfi, 2016). A high liquidity ratio will encourage managers to present real information to show that their performance is good. Financial reporting based on these actual conditions makes the profit which is a component in higher quality financial statements. Vice versa, if liquidity is low, the quality of earnings will also decline because managers tend to report financial information that does not match the actual conditions in order to attract investors and users of financial statements. The results of research conducted by (Silfi, 2016), (Irawati, 2012), (Warianto & Rusiti, 2014) and (Zulman & Abbas, 2019) showed that liquidity affects earnings quality.

H2: liquidity has a significant effect on earnings quality

The effect of capital structure and liquidity on earnings quality

The higher the debt, the higher the costs. It will decrease the company's profit. It will bring the company closer to the possibility of violating debt contracts and motivating management to manipulate profits in order to avoid violating debt contracts which results in high costs and results in company bankruptcy. Therefore, if the level of leverage of a company is higher, the quality of earnings will be lower (Irawati, 2012). A high liquidity ratio will encourage managers to present real information to show that the company's performance is good. Financial reporting based on these actual conditions makes a profit which is a component in the financial statements of higher quality. Vice versa, if liquidity is low, the quality of earnings will also decline because managers tend to report financial information that does not match the actual conditions in order to attract investors and users of financial statements. The results of research by (Silfi, 2016), (Warianto & Rusiti, 2014) showed that capital structure and liquidity have an effect on earnings quality.

H3: capital structure and liquidity affect earnings quality

The audit committee is able to moderate the relationship between capital structure and earnings quality

With the existence of an audit committee in the company is able to produce a low capital structure and high-quality earnings (Kajananthan, 2012) on (Kurniawan & Rahardjo, 2014). With the audit committee, it is expected to be able to control and monitor the manager's decisions are correct. It is correct in this context that the decision does not take the side of one party but all interested parties in the company. With the existence of this audit committee, the company's internal control can be carried out well. According to (Kajananthan, 2012) in (Kurniawan & Rahardjo, 2014), the more audit committees in the company, the company's funding decisions will prefer to issue new shares rather than debt because funding with debt will be detrimental to shareholders. After all, the interest expense will increase if a company can not manage the debt and the debt ratio higher than the industry ratio. Increasing interest expense will reduce company profits, and shareholders' dividends will decrease, and the effect for earnings quality will decrease (Pressman & Scott, 2009). That way, the audit committee can strengthen the relationship between capital structure and earnings quality.

H4: The audit committee can strengthen the relationship between capital structure and earnings quality

The audit committee is able to moderated the relationship between liquidity and earnings quality

The task of the audit committee is related to the quality of financial reports because the audit committee assists the board of commissioners in carrying out their duties, namely overseeing the financial reporting process by management. In this case, the audit committee is expected to be able to supervise managers in carrying out their duties so that the company's performance is good. One of which is being able to pay the short-term debt on time using current assets without using loan funds from outside the company, so that the company's liquidity is high which will improve the quality of the company's earnings. With the existence of an audit committee within the company, the liquidity of the company is adequate and indicates that the company's performance is

good because it is able to pay its short-term debt on time so that the quality of the company's earnings improves (Bilal et al., 2018).
H5: The audit committee is able to strengthen the relationship between liquidity and earnings quality

RESEARCH METHODS

The objective of the research is to determine that capital structure and liquidity as independent variables, audit committee as moderating variables, and earnings quality as the dependent variable. The population used in this study are manufacturing companies listed in the Indonesia Stock Exchange (BEI) for the period of 2017-2019. Sampling used in this study was purposive sampling. Table 2 shows the criterias of the sampling.

Table 1
Criteria of Sample Selection

No	Criteria	Observation
1	Manufacturing companies listed on IDX period 2017-2019	144
	Less :	
2	Financial report not available	(22)
3	Companies without consistent earnings	(46)
4	Delisted on the research insight	(5)
5	Without information of audit committee	(3)
6	Without submit report on IDR	(15)
7	Without informed positive cashflow during 2017-2019	(13)
Total Samples		40
Observation Year		3
Total Observation Data		120

Source: Ticmi, BEI

The capital structure in this study is measured by the Debt to Equity Ratio (DER) or also known as financial leverage, which is the company's ability to pay debts that are due. DER also a measure of a company's ability to repay the obligations. DER ratio becomes critical when examining the health of a company. If the DER ratio is increasing, then the company is being financed by creditors rather than from its own financial sources, which may be more dangerous. Kasmir, (2018), Debt to Equity Ratio (DER) is measured by the following formula.

$$DER = \frac{Total\ Debt}{Equity}$$

Liquidity in this study was measured using the formula Current Ratio (CR) that is the company's ability to pay/cover short-term liabilities. Kasmir (2018), Current Ratio (CR) is measured by:

$$CurrentRatio = \frac{Current\ Asset}{Current\ Liability}$$

Moderating variable in this study is an audit committee. (Rilo & Laksito, 2017) the audit committee is measured by the total members of the audit committee. If the total members of the audit committee are more effective, then it has been a subject of increasing interests and increased concerns about the earnings quality of corporate financial reporting process caused by recent scandals of accounting (Lin et al., 2006).

Audit committee = Total number of members the committee audit

Earnings quality in this study is measured by using earnings quality ratios by looking at the relationship between accounting earnings and cash flow. Ramadan (2015) states that the earnings quality ratio is measured by

$$E\_Q = \frac{Cash\ \ Flow\ From\ Operating\ Activity}{EBIT}$$

Data were analyzed using multiple linear regression techniques, and processed with SPSS software, which include: normality test, heteroscedasticity, multicollinearity test, the coefficient of determination (R2), test the feasibility of a model (f test), and t-test. This multiple regression analysis is to answer the proposed research hypothesis, which shows the relationship between the independent variable and the dependent variable. The equation for multiple linear regression analysis is as follows:

$$Y=a+B1X1+B2X2\ +B3Z+B4(X1*Z)+B5(X2*Z)+e$$

Y	:	Earnings quality
a.	:	Constanta
$X1$	:	Capital structure
$X2$	:	Liquidity
Z	:	Audit Commitee
$B1-B5$	:	Coeficient regression
e	:	*error*

RESULT & DISCUSSION

Research conducted on manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2019 period. The total unit of analysis used was 120 objects with descriptive statistical analysis of the data used as follows:

Table 2
Descriptive Statistics

	N	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
Earning quality	120	0,01	5,76	0,9397	0,41735
Audit Commitee	120	3,00	5,00	3,2250	0,55911
Capital structure	120	0,19	3,79	0,8764	0,58304
Liquidity	120	0,61	5,76	2,1517	1,52117

	N	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
Valid N(listwise)	120				

Source: Data result

From the descriptive statistics table above, it can be seen the minimum and maximum data and the mean and standard deviation of the data used in the study. Earnings quality has an average value of 0.9397, the audit committee has an average value of 3.2250, the capital structure has an average value of 0.8764, and liquidity has an average value of 2.1517. Earnings quality variable has a minimum data 0.01 and maximum of 5.76, audit committee has a minimum data 3 and maximum of 5, capital structure has a minimum data 0.19, and maximum data 3.79 and liquidity has a minimum data 0.61 and maximum data 5.76

Normality test

The normality test aims to test whether in a regression model, the dependent variable, the independent variable, or both have a normal distribution or not. The normality test can be shown in the following table:

Table 3
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		120
Normal Parameters[a,b]	*Mean*	0,0000000
	Std. Deviation	0,3903301
Most Extreme Differences	*Absolute*	0,080
	Positive	0,080
	Negative	-0,056
TestStatistic		0,080
Asymp.Sig.(2-tailed)		0,054[c]

Source: Data result

The Kolmogorov-Smirnov test results in the table above show a significance value of 0.054. It can be concluded that the residual data is normally distributed (0.054> 0.05). In other words, the regression model used meets the normality assumption.

Heteroscedasticity Test

The Heteroscedasticity test is a test that assesses whether there is an inequality of variance from the residuals for all observations in the linear regression model. If the assumption of heteroscedasticity is not met, the regression model is declared invalid as a forecasting tool. The heteroscedasticity test can be shown in the following table:

Table 4
Coefficients[a]

		Unstandardized Coefficients		*Standardized Coefficients*		
	Model B	*B*	*Std. Error*	*Beta*	*T*	*Sig.*
1	*(Constant)*	0,060	0,373		0,161	0,873
	Capital structure	-0,079	0,068	-0,181	-1,164	0,247

Model B	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	T	Sig.
Liquidity	-0,010	0,029	-0,062	-0,358	0,721
Audit commitee	0,118	0,109	0,259	1,081	0,282
Z1	-0,013	0,056	-0,056	-0,236	0,814
Z2	-0,039	0,053	-0,181	-0,722	0,471

Source: Data result

From the table above, it appears that the two independent variables have no symptoms of heteroskedasticity Sig. > 0.05. The Audit Committee as a moderating variable also does not indicate heteroscedasticity.

A good regression model should not have a correlation between the independent variables. If there is a correlation, then there is multicollinearity. To detect the presence or absence of multicollinearity, it can be seen from the tolerance value and VIF value. If the tolerance value is above 0.10 and the VIF is below the value of 10, it is declared multicollinearity free. The multicollinearity test can be shown in the following table:

Table 5
Coefficients[a]

Model	Tolerance	Collinearity Statistics Tolerance	VIF
1	Capital structure	0,346	2,887
	Liquidity	0,280	3,575
	Audit committee	0,146	6,852
	Z1	0,149	6,703
	Z2	0,133	7,513

Source: Data result

The multicollinearity test results show that none of the independent variables have a tolerance value below 0.10 and a Variance Inflation Factor (VIF) value above 10. It can be concluded that there is no multicollinearity between the independent variables in this regression model—coefficient of Determination (R2). The coefficient of determination is indicated by the adjusted R-Square value. The adjusted R-Square value of the regression model is used to determine how much the ability of the independent variable (independent) to explain the dependent variable (dependent). Analysis of the coefficient of determination can be shown in the following table:

Table 6
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,354[a]	0,125	0,087	0,39880

a. Predictors: (Constant), Z2 capital structure, liquidity, Z1, audit commitee

Source: Data result

From the table above, it can be seen that the adjusted R square value is 0.087. This means that 8.7% of Earning Quality can be explained by variations in the independent variables, namely Capital Structure and Liquidity which are moderated by the Audit Committee, the remaining 91.3% is explained by other variables outside of this study such as audit tenure, conservatism, investment opportunity set, size of company and others. The simultaneous significance test (F test) is used to show whether all the independent variables included in the model have a joint influence on the dependent variable. The F test can be shown in the following table:

Table 7
ANOVA[a]

Model		*Sum of Squares*	*Df*	*Mean Square*	*F*	*Sig.*	*Result*
1	Regression	2,597	5	0,519	3,265	0,009[b]	accepted
	Residual	18,131	114	0,159			
	Total	20,727	119				

Source: Data result

From the Anova test or F-test on table 8, the F value is 3.265 with significance value of 0.009.The probability test value is smaller than 0.05.This shows that with a significance level of 5%, Earning Quality is influenced simultaneously by the Capital Structure, Liquidity, and the Audit Committee.

The t-test was conducted to determine whether the independent variables in the regression model have an individual effect on the dependent variable.The T test can be shown in the following table:

Table 8
Coefficients[a]

Model		*Unstandardized Coefficients* *B*	*Std.Error*	*Standardized Coefficients Beta*	*t*	*Sig.*	Hypotheses Result
1	(Constant)	2,429	0,586		4,141	0,000	
	Capital structure	-0,231	0,107	-0,322	-2,166	0,032	H1=accepted
	Liquidity	-0,043	0,045	-0,157	-0,946	0,346	H2=rejected
	Audit commitee	-0,568	0,171	-0,761	-3,320	0,001	H3=accepted
	Z1	0,205	0,089	0,524	2,309	0,023	H4=accepted
	Z2	0,131	0,084	0,375	1,563	0,121	H5=rejected

Source: data results

From the table 9, it is shown that the capital structure has a t-count of -2.2166 with a significance value of 0.032. It can be concluded that the capital structure has a significant negative effect on earnings quality. Liquidity has a t-count of -0.946 with a significance value of 0.346. This shows that liquidity has a negative but insignificant effect on earnings quality. The audit committee has a t-count of -3,320 with a significance value of 0.001. This shows that the audit committee independently has a significant negative effect on earnings quality. Z1 (audit committee) as a moderation between capital structure and earnings quality has a t-value of 2.309 with a significance value of 0.023. It can be concluded that the audit committee is a quasi-moderation between capital structure and earnings quality. Z2 (audit committee) as a moderation between liquidity and earnings quality has a t-count value of 1.563 with a significance value of 0.121. It can be concluded that the audit committee is a predictor of moderation between liquidity and earnings quality.

Capital structure has a negative significant on earnings quality

Based on the test results, it can be seen that the capital structure has a negative and significant effect on earnings quality. The results of this study are in line with research conducted by (Ghosh & Moon, 2010), (Silfi, 2016), (Marpaung, 2019) namely that capital structure has a negative effect on earnings quality. This means that the higher the capital structure of a company, the lower its profit quality will be. The underlying logic is that the higher the debt, the higher the costs, so that it will decrease the company's profits so that it will bring the company closer to the possibility of violating the debt contract. Thus management is motivated to carry out earnings management in order to avoid breaching debt contracts which will result in very high costs and result in company bankruptcy. If management performs earnings management, it causes the quality of the resulting earnings to be low because the profits generated are not able to accurately reflect the company's current operating performance, are unable to provide good indicators of future company performance and can not be a good measure for assessing company performance.

Liquidity has no significant on earnings quality

Based on the test results, it can be seen that liquidity has no effect on earnings quality. The results of this study are in line with research conducted by (Murniati et al., 2018), (Helina & Permanasari, 2017) and (Dira & Astika, 2014) which stated that liquidity has no effect on earnings quality. This means that the size of liquidity as measured by the current ratio has no effect on the level of earnings quality. Liquidity does not affect on the earnings quality because refer to the sample used in this study on the statistical data, namely 0.61 and a maximum of 5.6. The average current ratio is 2.2. This indicates a high level of the current ratio embedded in the company's current assets. The available liquidity only pays short-term obligations. Excess of current assets cannot be used by the company to turn over assets aimed at increasing revenue. The costs incurred are not used to increase the revenue. If the revenue does not go up or down then the earnings quality has no effect. This study support research from Subramanyam, (2014) in (Helina & Permanasari, 2017).

Capital structure and liquidity have a positive significant on earnings quality

Based on the results of the F-test, it can be seen that capital structure and liquidity simultaneously have a positive effect on earnings quality. The results of this study are in line with research conducted by (Irawati, 2012) and (Silfi, 2016) which stated that capital structure and liquidity simultaneously affect earnings quality. These results indicate that capital structure and liquidity together affect earnings quality. The level of capital structure and liquidity affects the quality of earnings. The higher the company's debt, the more dynamic the company will be. Management will be more motivated to improve its performance so that the company's debts can be fulfilled. The positive impact is that the company will grow (Dira & Astika, 2014). High company liquidity shows that the company is able to pay short-term expenses or obligations before maturity. High liquidity shows good company performance because the company is able to pay its short-term debt using current assets without using funds from loans (outside). Meanwhile, low liquidity indicates poor company performance, because the current assets owned are not sufficient to pay short-term liabilities (Murniati et al., 2018). Liquidity reflects the company's ability to fulfill its short-term obligations, which means that the company has good financial performance in meeting its current debt so that the company does not need to practice profit manipulation (Silfi, 2016).

The audit committee moderates the relationship between capital structure and earnings quality

The results of this study indicate that the audit committee as moderating the relationship between capital structure and earnings quality is quasi moderating. This means that the audit committee functions as an independent variable and is able to interact with the capital structure. The audit committee can strengthen the earnings quality of a company with a low capital structure. With the existence of an audit committee, the company's capital structure is low and the quality of the company's earnings is high. With more audit committees in the company, the decisions in company funding will be better, namely by issuing new shares rather than with debt. Because funding with debt will be detrimental to shareholders because the interest expense will increase. Increasing interest expense will reduce company profits and dividends received by shareholders will decrease.

The audit committee can not moderate the relationship between liquidity and earnings quality

Audit committee can not moderate the liquidity and earnings quality. The existence of an audit committee or the absence of an audit committee does not moderate the relationship between the liquidity of the company and the quality of the resulting earnings. Predictor nature means that the audit committee functions as an independent variable, but does not interact with liquidity. This result can be explained that audit committee could not moderate the relationship between liquidity and earnings quality because the results of the data sample showed that liquidity had no effect on earnings quality. No matter how large the number of the audit committee is, it will not change management decisions or policies on the use of liquidity. Because liquidity is used to pay short-term obligations. Expenditures or cash outflow made are not to increase income. So that the role of the audit committee has absolutely no effect. This result is in line with research conducted by (Sayuthi, 2017) which stated that the audit committee has a negative effect on earnings quality.

CONCLUSION, LIMITATION, SUGGESTION AND IMPLICATION

Conclusion

It is cocluded that the capital structure has a negative effect on the earnings quality, the audit committee has a negative effect on the earnings quality. Otherwise, the liquidity has no effect on earnings quality but liquidity and capital structure simultaneously affect on earnings quality. The audit committee can strengthen the relationship between capital structure and earnings quality, on the contrary, it cannot strengthen the relationship between liquidity and earnings quality.

Limitation

This research has several limitations. First, sampling found that there were several companies that have not provide audit committee information. Second, from the total sample in manufacturing companies for the period of 2017-2019, it was found that 32% of samples have not earnings consistent.

Suggestion

First, We found that R square is quite small 8.7%, the suggestion for further research is to add other research variables such as governance variables or behavior variables, investment opportunities and so on. Second, further researchers should consider using measurement models outside of this study. Third, the observation should be extended not only in the manufacturing industry sector, and the year the observation is expanded.

Implications

The implication of this study for investors is to increase their cautions in business decisions, not only focused on profit information, but also consider the non-financial information such as the company's internal mechanism with variable indicators of this research that the audit committee and the company's liquidity. This is so that the company is able to improve the quality of the company's earnings which in turn will attract investors to invest in the company.

The implication for managerial is to to improve company performance every year in order to maintain the earnings quality. For future research is that the audit committee is a factor that can strengthen the company in terms of monitoring the use of leverage. Financial reporting processes can be monitored, internal control and audit quality can be maintained. Motivation and professionalism of each member of the audit committee must be put forward so that management can carry out its duties properly.

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