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Strength of Capital Structure, Prudence and Audit Committee in Enhancing Profit Quality

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ABSTRACT

This study aims to determine the Effect of Capital Structure, Prudence and Audit Committee on Profit Quality. This study used a sample of manufacturing companies in the food and bavarages sub-sector listed on the Indonesia Stock Exchange during the period 2016 to 2020, the number of companies sampled in this study was 12 companies with observations for 5 years. Based on the purposive sampling method, the total sample of this study is 60 annual reports. The data collection method used is secondary data, which is data obtained by researchers indirectly through intermediary media and literature studies. The data in this study was obtained from the official website of the Indonesia Stock Exchange and several company websites. From the results of the t test analysis (partial) shows that the Capital Structure and Prudence have a significant influence on the quality of profits. Meanwhile, the Audit Committee does not have a significant influence on the quality of profits. so, audit committee will not be too important to organized

Keywords: Audit Committee, Capital Structure, Profit Quality, Prudence.

INTRODUCTION

The company provides a wide variety of information to external parties, especially investors and creditors (Huu Nguyen et al., 2021). One of the information provided is profit. Profit is used by external parties as an indicator to measure the operational performance of the Enterprise (Rahma, Lusiana, & Indriani, 2019). Managers as internal parties of the company have more information about the condition of the company than external parties. This is what causes the actions of the company's management to report profits that do not describe the actual condition of the company for personal interests, for example to get bonuses. If this happens, it will result in low quality profits. The low quality of profits will make decision-making mistakes for its users such as investors and creditors. Profits that do not show actual information about management performance can mislead the user of the report (Weerawardena, Salunke, Haigh, & Sullivan Mort, 2021). Profit can be said to be of high quality if the reported profit can be used by users of financial statements to make the best decisions and meet the qualitative characteristics of financial statements, namely relevant and reliability (Banjarnahor, 2019; Oktavia & Susanto, 2022; Susanto & Meiryani, 2019).

The quality of profit is the profit in the financial statements that reflect the actual financial performance of the company (Syafrizal, Sugiyanto, & Kartolo, 2019). The quality of profits is the center of attention of users of financial statements, namely investors, creditors, accounting policy makers, and the government. Profit in financial statements is an indicator that can be used to measure the operational performance of a company (Chan, M'ng, Rahman, & Sannacy, 2017). Information about profit measures the success or failure of a business in achieving the set operating goals so that they can reduce information risk. Investors do not expect low quality of profit information because it is a signal of poor resource allocation (Andriani, Nurnajamuddin, & Rosyadah, 2021).

For Investors, profit information can be used as a basis for making the right investment decisions in buying, holding, or selling company shares (Made et al., 2020; Weerawardena et al.,

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2021). The company's profit information is one of the information that can affect investors' responses in making investments (Irsan & Ramadona, 2021; Ienakirerhi & Chijuka, 2016). The response is caused by investors' confidence in companies that make profitable profits, while non-profit companies are considered to have not had high performance and are considered unable to provide profitable returns for investors.

Capital structure is a financial measure between short-term debt, long-term debt and own capital in carrying out company activities (Rahma et al., 2019). Capital structure can be an important issue for a company because the good or bad of the capital structure will have a direct effect on the financial position of the company (Rahma & Bawamenewi, 2018). Capital structure has an influence on the quality of profits because if the company's assets are financed by debt more than its capital, the role of investors will decrease. The company is considered unable to maintain a financial balance in the use of funds between the amount of capital available and the capital needed. The higher the level of debt, the higher the financial leverage (Rahma, Pratiwi, Mary, & Indriyenni, 2022). So, although the company's profit conditions are getting better and better, shareholders assume that the profit only benefits creditors. So that the profit generated by the company is not responded to by the market (Syafrizal, Sugiyanto, & Kartolo, 2019).

Prudence is a substitute for the concept of conservatism. Along with the convergence of IFRS, the concept of conservatism is now replaced by Prudence, what is meant by Prudence in IFRS is that revenue recognition can be recognized even though it is still a potential, as long as it meets the provisions of revenue recognition but still uses the principle of prudence in its recognition (Aristiani, Suharto, & Sari, 2017). After SAK adopted IFRS, THE IASB said that in fact neither Prudence nor conservatism was the desired quality of accounting information thus creating IFRS in the hope that financial statements could become relevant and reliable (Idrus, Fatimah, Mukhtar, & Salam, 2022). However, in reality companies still have to deal with uncertainty in the midst of the IFRS era. The thing that is considered good to overcome this uncertainty is to adhere to Prudence at the right level in the financial statements.

Idrus et al. (2022) define Prudence as an initial recognition of costs and losses and delay recognition for income and profits. Prudence is an accounting principle that if applied will produce low profit and asset figures, and cost and debt figures tend to be high. Such a tendency occurred because Prudence adhered to the principle of slowing down revenue recognition as well as accelerating biata recognition. As a result, reported profits tend to be too low. Financial Accounting Standards (SAK) that use the prudence concept are PSAK No.14 on inventory and PSAK No.48 on asset impairment. In PSAK No.14 it is explained that the inventory in the balance sheet is presented on the basis of the lowest value between the acquisition price and the net realized value, while in PSAK No.48 it is explained that the decrease in the value of assets is a loss that must be immediately recognized in the comprehensive income statement. So based on the explanation above, it can be concluded that Prudence is an act of prudence in recognizing assets or income (good news) and recognizing bad news such as expenses, reserve losses of uncollectible receivables more quickly to avoid or reduce risks that may occur due to uncertainty in doing business. Prudence is a conference of accounting conservatism or which means the principle of prudence in recognizing income or assets and expenses that can result in shrinking the profits generated by a company in order to reduce the risk of future uncertainty.

The task of the Audit Committee is related to the quality of financial statements, because the audit committee is expected to assist the board of commissioners in the implementation of their duties, namely supervising the financial reporting process by management. The role of the audit committee is very important because it affects the quality of the company's profits which is one of the important information available to the public and can be used by investors to assess the company. Investors as outside the company cannot observe directly the quality of the company's information system (Babaei, branch, & Beikzad Banab branch, 2013). The profit response coefficient of companies that form audit committees is statistically greater than companies that do not form audit committees. The results showed that the market assessed that the profit reported by the company that formed the audit committee was of better quality than the profit reported by the company that did not form the audit committee. A higher profit response coefficient for

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companies that form audit committees shows that the market considers the audit committee to have performed its role well, especially in monitoring the financial reporting process.

LITERATURE STUDY

According to Jensen and Meckling (1976) agency theory is a relationship or contract between one or more people (principals) involving other people (agents). Within the company there is a separation of interests between principals and agents. Principals are people who invest their capital into the company while agents are people who work and provide information to the principal. The relationship between the principal and the agent When the principal authorizes the agent to make profitable business decisions in the company, it will be used as a source of information like the principal in making decisions. Agency theory results in an asymmetric relationship between owners and managers, to avoid the occurrence of asymmetric relationships, a concept is needed, namely the concept of corporate governance which aims to make the company healthier. The application of corporate governance based on agency theory, namely agency theory can be related to the relationship between management and owners, management as an agent is morally responsible for optimizing the profits of the owners, the agent is morally responsible for optimizing the profits of the owners and in return will get compensation in accordance with the contract.

In agency theory, the so-called agent is management and the principal is the shareholder or investor. The relationship between principal and agent should result in a mutually beneficial relationship. However, what happens is the emergence of a conflict of interest between shareholders or investors and management, which is called an agency problem (agency conflict). This conflict occurs because in carrying out the duties and authorities of each individual, it puts his own interests first. Agency conflicts can be minimized by the existence of supervisory procedures to align the interests of the company both on the part of shareholders and managers. So a concept called corporate governance was formed which is expected to function to suppress or reduce conflicts and agency costs that occur and can provide confidence to shareholders in management's performance in managing the company.

According to Nugroho, Firdaus, Andati, & Irawan (2018) agency theory explains that the agent relationship occurs when the principal hires another person (agent) to provide a service and then delegates decision-making authority to the agent. Thus agents can manipulate reporting about the company to be conveyed to the principal, this is because each manager has great economic needs, including maximizing his compensation by conducting profit management practices. Agency theory is used to understand the issues of corporate governance and profit management. Lestari & Cahyati (2017) explained that profit is an increase in assets in a period due to productive activities that can be divided or distributed to creditors, government, shareholders (in the form of interest, taxes and dividends) without affecting the integrity of shareholders' equity. Dalimunthe & Purwanto (2015) defines profit quality as the ability of profit to reflect the correctness of a company's profit and help predict future profits, taking into account profit stability and persistence.

Profits in financial statements are often used by management to attract potential investors and creditors so that such profits are often engineered in such a way by management to influence the final decisions of those parties. This is in accordance with signaling theory. Signaling theory explains that signaling is carried out by managers to reduce information asymmetry (Sumantri, 2018). The company's internal parties in general have more information about the company's current real condition and future prospects than external parties. Therefore, the quality of the reported accounting profit can be used by users of financial statements to make the best decisions and meet the qualitative characteristics of financial statements, namely relevant and reliability (Silfi, 2016).

The quality of profit recognizes the fact that the economic impact of transactions that occur will vary between companies as a function of the basic character of the business and is variously formulated as a profit level that shows whether the underlying economic impact is better at estimating cash flows or can also be foreseen. The quality of profit is higher if it approaches the initial planning or exceeds the target of the original plan. The quality of profit in

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this study was measured using the penman & zhang (2002) approach where the quality of profit was measured from the results of Operating Cash Flow / Net Income.

Capital structure is a permanent expenditure that reflects the consideration or comparison between long-term debt and own capital. The financial stability and insolvency risk of an enterprise depend on the source of funding and the type and amount of assets it has. Companies with a large proportion of debt will have higher interest and debt payments so that they have the possibility of insolvency during periods of declining income or difficult times. A company that has high financial leverage means having a lot of debt to outsiders. This means that the company has a high financial risk due to financial distress due to high laws and conditions.

Capital structure has an influence on the quality of profits because if a company's assets are financed more by debt than its capital, the role of investors decreases. The company is considered unable to maintain a financial balance in the use of funds between the amount of capital available and the capital needed. Therefore, if the leverage level of a company is higher, the quality of its profits will be lower. Debt To Equity Ratio or DER can be used to see the capital structure of a company because a high DER indicates that the business capital structure utilizes more relative debts to equity (Arisonda, 2018),. The measurement scale used is the ratio scale.

Prudence, is a substitute for the concept of conservatism. Along with the convergence of IFRS, the concept of conservatism is now replaced by Prudence, what is meant by Prudence in IFRS is that revenue recognition can be recognized even though it is still a potential, as long as it meets the provisions of revenue recognition but still uses the principle of prudence in its recognition (Aristiani et al., 2017). After SAK adopted IFRS, THE IASB said that in fact neither Prudence nor conservatism was the desired quality of accounting information thus creating IFRS in the hope that financial statements could become relevant and reliable. However, in reality companies still have to deal with uncertainty in the midst of the IFRS era. The thing that is considered good to overcome this uncertainty is to adhere to Prudence at the right level in the financial statements.

Prudence as a form of prudential action in reporting financial statements in recognizing and measuring assets and profits and immediately recognizing losses and debts that are likely to occur (Oreshkova, 2017). Prudence is a method that allows recognizing costs or losses more quickly without having to wait for real evidence to be obtained, but this concept tends to delay the recognition of income/profits (Sebrina & Taqwa, 2019). Prudence is a reason as a tendency owned by an accountant or manager that requires a more detailed and more careful level of review to recognize profits (good news in eranings) than to admit losses (bad news in earnings). Prudence is related to reporting the least optimistic view when facing uncertainty in measurement (Šestanj-Perić & Keglević Kozjak, 2020).

METHOD

In this research, the type of research used is quantitative research. The object of this study was carried out at the Food and Bavarages Sub-Sector Manufacturing Company listed on the Indonesia Stock Exchange (IDX). In this study, the authors chose the manufacturing sector of the food and bavarages sub-sector as the object of research. This is because manufacturing companies in the food and bavarages sub-sector have a very important role in meeting the needs of people's lives.

Research Variables

Profit Quality

In this study, the dependent variable used was the quality of kaba. The quality of profit in this study can be seen from the results of Operating Cash Flow / Net Income. The operating cash flow result is divided by net profit, if the result of the profit quality ratio is greater than 1.0, it shows the quality of a high profit, while if the ratio is less than 1.0, it shows the quality of a low profit.

Capital Structure

Capital structure measured by leverage is a variable that is to find out how much the company's assets are financed by the company's debt. Leverage can also be interpreted as the

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level of a company's dependence on debt in financing its operations, thus leverage also reflects the level of the company's financial risk. Debt or leverage can be measured using debt ratio (DR) and debt to equity ratio (DER). Violita & Sulasmiyati (2017) stated, Debt Ratio is a debt ratio used to measure the comparison between total debt and total assets. Meanwhile, the Debt Ratio Equity Ratio is a ratio used to assess debt to equity. The calculation model used here is DER, which is as follows:

Prudence

Prudence is a prudential action in recognizing assets or income (good news) and recognizing bad news such as expenses, reserves of uncollectible receivables losses more quickly to avoid or reduce risks that may occur due to uncertainty in doing business. Prudence is a conference of accounting conservatism or which means the principle of prudence in recognizing income or assets and expenses that can result in excluding profits generated by a company in order to reduce the risk of uncertainty in the future. Prudence was measured based on the model of Givoly and Hayn (2000) also used by Wirama (2008) and Ahmed et al. (2000). Here's the calculation formula:

$$\text{Total Accruals} = \frac{(\text{Net Profit} + \text{Depreciation} - \text{Operating Cash Flow}) \text{ x } (-1)}{\text{Total Assets}}$$

Audit Committee

The Audit Committee is a committee formed by the board of commissioners, which must be free from the influence of the company's management and have an independent nature, and be responsible to the board of commissioners in increasing the supervision of the board of commissioners on the performance of the company's board of directors. The audit committee is established by a commissioner who is responsible for supervising financial statements, supervising financial statements, supervising external audits and observing the internal control system. Issuers that go public must have an audit committee of at least three members led by independent commissioners and the rest are external members who have a background and master accounting or finance. The Audit Committee is measured in the following way comparing with the total number of audit committees.

Data Analysis Techniques

Descriptive Statistics

Descriptive statistics describe or describe a data seen from the average value (mean), median, mode, standard deviation, maximum and mínimum (Ghozali, 2018).

Panel Data Regression

To determine the panel data regression estimation model, what was used in this study was a combination of time series and cross section data. The estimation is carried out by combining the two data which is called data pooling or data panels by processing data using Eviews version 10 software to explain the relationship between independent variables and dependent variables. There are several data available for statistical analysis, including time series data, cross-section data and panel data, which is a combination of time series and cross-section data. The data analysis method in this study uses a quantitative method that aims to determine whether a free variable affects a bound variable both individually and simultaneously. According to Basuki (2016), to choose the most appropriate model in managing panel data, there are several tests that can be done, namely the Chow Test, Hausman Test, Lagrange Multiplier Test.

Test of Classical Assumptions

Before testing hypotheses with multiple regression analysis, a classical test must be carried out first, this is to find out the relationship between research variables in the regression model. The classical assumption test is carried out by conducting a normality test, a multicollinearity test, a heteroskedasticity test and an autocorrelation test for data validation. The four classical assumption tests were analyzed using the EVIEWS 10 program.

Multiple Linear Regression Test

In this study, the data analysis technique used multiple linear regression, which is an

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analysis technique to determine the influence of independent variables on dependent variables. The models in this study are:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + e$$

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Tabel 1. Descriptive Analysis Results

	Y	X1	X2	X3
Mean	1.487500	0.711667	0.313667	0.718333
Median	1.345000	0.655000	0.295000	0.670000
Maximum	3.340000	1.770000	0.700000	1.000000
Minimum	0.080000	0.160000	0.090000	0.330000
Std. Dev.	0.727854	0.402350	0.132011	0.202168
Skewness	0.465259	0.368645	0.821791	-0.117014
Kurtosis	2.896379	2.381540	3.483889	2.683742
Jarque-Bera	2.191503	2.315221	7.338778	0.386971
Probability	0.334288	0.314236	0.025492	0.824082
Sum	89.25000	42.70000	18.82000	43.10000
Sum Sq. Dev.	31.25652	9.551233	1.028193	2.411433
Observations	60	60	60	60

Source: Data Processed, 2022

Panel Data Regression Model Selection Test

Common effect model

Table 2. Common effect model Result

Variable	Method	Coefficient	Prob.
Profit Quality	Common effect model	0.921747	0.0105
Capital Structure		-0.460865	0.0233
Prudence		3.488875	0.0000
Audit Committee		-0.279270	0.4864
Adj. R-Squared	0.354018		

Source: Data Processed, 2022

In table 2 above, it shows that the common effect model has a constant value of 0.921747 the regression value of the variable X1, namely the capital structure of -0.460865 with a probability of 0.0233, the regression value of X2, namely Prudence of 3.488875 with a probability of 0.0000 and the regression value of X3, namely the audit committee of -0.279270 with a probability of 0.4864. This result shows that there are 2 variables that have a significant effect and 1 variable that has an effect but not significantly on the dependent variable with an Adj value. R-Squared 35.40%. This result will be applied if the common effect model is the best model to choose from.

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Fixed effect model

Tabel 3. Fixed effect model results

Variable	Metode	Coefficient	Prob.
Profit Quality	Fixed Effect Model	1.027348	0.0295
Capital Structure		-0.493062	0.1131
Prudence		3.689859	0.0001
Audit Commitee		-0.482141	0.3187
Adj. R-Squared	0.486543		

Source: Data Processed, 2022

In table 3 above, it shows that the fixed effect model has a constant value of 1.027348 the regression value of the variable X1, namely the capital structure of -0.493062 with a probability of 0.1131, the regression value of X2, namely Prudence of 3.689859 with a probability of 0.0001 and the regression value of X3, namely the audit committee, which is -0.482141 with a probability of 0.3187. This result shows that there is 1 variable that has a significant effect and 2 variables that have an effect but not significantly on the dependent variable with the Adj value. R-Squared 48.65%. This result will be applied if the fixed effect model is the best model to choose from.

Random effect model

Tabel 4. Random effect model results

Variable	Method	Coefficient	Prob.
Profit Quality	Random Effect Model	0.984449	0.0159
Capital Structure		-0.482493	0.0446
Prudence		3.589027	0.0000
Audit Committee		-0.388863	0.3642
Adj. R-Squared	0.327238		

Source: Data Processed, 2022

In table 4 above, it shows that the random effect model has a constant value of 0.984449 the regression value of the variable X1, namely the capital structure of -0.482493 with a probability of 0.0446, the regression value of X2, namely Prudence of 3.589027 with a probability of 0.0000 and the regression value of X3, namely the audit committee, which is -0.388863 with a probability of 0.3642. This result shows that there are 2 variables that have a significant effect and 1 variable that has an effect but not significantly on the dependent variable with an Adj value. R-Squared 32.72%. This result will be applied if the random effect model is the best model to choose from.

Chow Test

Tabel 5. Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.313981	(11,45)	0.0238
Cross-section Chi-square	26.897675	11	0.0048

Source: Data Processed, 2022

Based on the chow test results above the probability value of the Chi square cross section, which is 0.0048, it means that the probability value is smaller than 0.05, which means that what is selected in this chow test is fixed effect rather than common effect.

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Hausman Test

Tabel 6. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.213137	3	0.9754

Source: Data Processed, 2022

Based on the results of the hausman test above the probability value of cross-section random, which is 0.9754, it means that the probability value of cross-section random is greater than the alpha value of 0.05, the model used is random effect.

Langrange Multiplier Test

Tabel 7. Lagrange Multiplier Test Results

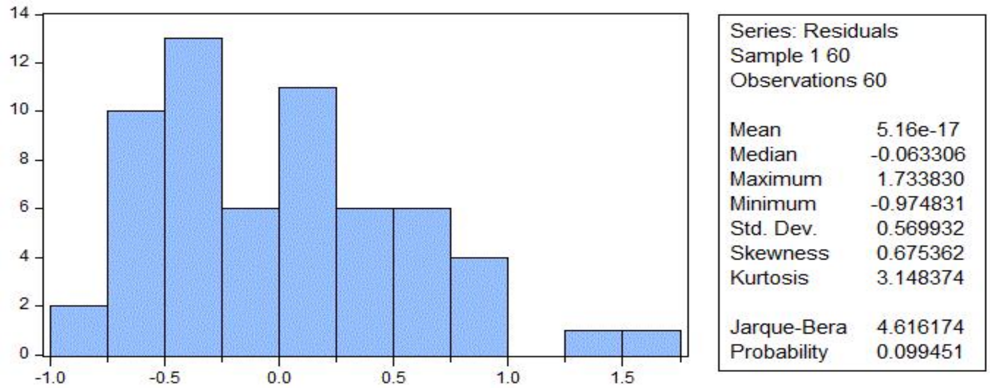
Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	2.725688	Prob. F(2,54)	0.0745
Obs*R-squared	5.501682	Prob. Chi-Square(2)	0.0639

Source: Data Processed, 2022

Based on the Lagrange Multiplier test above the Breusch-Godfrey value of 0.0639 greater than the alpha value of 0.05, the most appropriate model is the common effect on the data. With this, the model used is the common effect because the Lagrange Multiplier test shows a common effect that is suitable for use.

Test of Classical Assumptions

Normality Test



Gambar 1. Histogram-Normality Test Results

Histogram-Normality Test Results after removing Outlier. Based on Figure 4.1, the probability value is 0.099451 > 0.05 then H0 received H1 is rejected which means that it can be concluded that the data in this assessment are normally distributed.

Multicholinearity Test

Table 8. Multicholinearity Test

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.121155	21.24149	NA
X1	0.039043	4.556524	1.089662
X2	0.370036	7.494713	1.111754
X3	0.158853	15.49039	1.119336

Source: Data Processed, 2022

Based on the table above, the Coefficients value in the Collinearity Statistics section, it is known that the VIF value for the Capital Structure variable (X1) is 1.089662, Prudence (X2) is

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1.111754 and the Audit Committee (X3) is 1.119336 which means that all these independent variables are smaller than 10.00 and the data does not occur symptoms of multicholinearity.

Heteroskedasticity Test

Table 9. Heteroskedasticity Test with Harvey Test

F-statistic	0.903070	Prob. F(3,56)	0.4455
Obs*R-squared	2.768776	Prob. Chi-Square(3)	0.4287
Scaled explained SS	2.309201	Prob. Chi-Square(3)	0.5108

Source: Data Processed, 2022

Multiple Linear Regression Analysis Test

In this study, the data analysis technique used multiple linear regression, which is an analysis technique to determine the influence of independent variables on dependent variables. The results of processing multiple linear regression analysis using Eviews 10 are as follows:

Table 10. Multiple Linear Regression Test Results

Variabel	Coefficient	Std. Error	t-Statistic	Prob.
C	0.921747	0.348074	2.648135	0.0105
X1	-0.460865	0.197593	-2.332397	0.0233
X2	3.488875	0.608305	5.735401	0.0000
X3	-0.279270	0.398563	-0.700691	0.4864
R-squared	0.386864	Mean dependent var		1.487500
Adjusted R-squared	0.354018	S.D. dependent var		0.727854
S.E. of regression	0.584998	Akaike info criterion		1.829925
Sum squared resid	19.16449	Schwarz criterion		1.969548
Log likelihood	-50.89776	Hannan-Quinn criter.		1.884539
F-statistic	11.77792	Durbin-Watson stat		0.834138
Prob(F-statistic)	0.000004			

Source: Data Processed, 2022

Discussion

The Effect of Capital Structure on Profit Quality

Capital structure is a permanent expenditure that reflects the consideration or comparison between long-term debt and own capital (Syafrizal et al., 2019). The financial stability and insolvency risk of an enterprise depend on the source of funding and the type and amount of assets it has. Based on the results of statistical data processing, the hypothesis test results in this study show that there is a significant difference between the capital structure variables based on the Sig value. from the capital structure of 0.0233 < 0.05 with a regression coefficient value (-0.460865) negative signs indicate an opposite relationship between the variables of the capital structure and the quality of the company's profit. Because the value of the coefficient obtained is negative, the higher the value of the capital structure applied, the quality of the profit produced decreases. So that it can be concluded that this capital structure has a significant and negative influence on the quality of profits, then the hypothesis on the capital structure on the quality of profits is accepted.

The capital structure affects the quality of profits, but the relationship between the capital structure and the quality of the company's profits is negative. Capital structure has a significant effect on the quality of profits because the level of capital structure of a company is one of the things that investors consider in making investment decisions. This is because the size of a company's debt level greatly affects the quality of profits in the company. The results of this study are supported by the previous theoretical foundation which states that agency conflicts can allow management not to try to maximize company profits by improving company performance, but

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management funds its operational costs through company debt.

The results of this study are in line with the results of previous research conducted by Anggrainy (2017) which showed the results that the capital structure had a significant and negative effect on the quality of profits. Because a company that has a high level of capital structure means that it has a greater debt than capital. Thus, if there is an increase in profit, the debt holders who benefit are debt holders, because the debtor has confidence that the company will be able to make payments on debt. However, this will be responded negatively by investors, because investors will assume that the company will prioritize debt repayment over dividend payments. However, the results of this study are not in line with research conducted by Irawati (2012) which states that capital structure does not affect the quality of profits.

The Effect of Prudence on Profit Quality

Prudence, is a substitute for the concept of conservatism. Along with the convergence of IFRS, the concept of conservatism is now replaced by Prudence, what is meant by Prudence in IFRS is that revenue recognition can be recognized even though it is still a potential, as long as it meets the provisions of revenue recognition but still uses the principle of prudence in its recognition (Aristiani et al., 2017). Based on the results of statistical data processing, the results of hypothesis tests in this study show that there is a significant difference between the Prudence variables based on the Sig value from Prudence of 0.0000 < 0.05 with a regression coefficient value (3.488875) means that this Prudence has a positive and significant influence on the quality of profits, that is, the application of Prudence to a company has an influence on the quality of profits. Because the value of the coefficient obtained is positive, it means that the higher the prudence value applied, the quality of the profit produced increases. Then the hypothesis on Prudence against the quality of profit is accepted.

The results of this study are supported by the previous theoretical foundation which stated that companies that implement Prudence get a positive response from investors based on the profits presented. Investors will give a good response to accountants who have the principle of prudence in submitting financial statements. By having the principle of prudence, investors will trust more that the financial information provided by the accountant is quality information. The results of this study are in line with the results of previous research conducted by (Helmi, 2014) which showed the results that Prudence had a significant and positive effect on the quality of profits. However, the results of this study are not in line with research conducted by Herawati (2018) which states that prudence does not affect the quality of profits.

The Effect of Audit Committee on Profit Quality

The Audit Committee is a committee established by the board of commissioners, which must be free from the influence of the company's management and have an independent nature, and be responsible to the board of commissioners in increasing the supervision of the board of commissioners on the performance of the company's board of directors. Based on the results of statistical data processing, the results of the hypothesis test in this study showed that there was nothing significant between the audit committee variables based on the Sig value from the audit committee of 0.4864 > 0.05 with a regression coefficient value (-0.279270) means that this audit committee has an insignificant and negative influence on the quality of profits. The absence of a significant influence between the audit committee and the quality of profits can be caused by the low practice of implementing corporate governance in companies in Indonesia. The company has not been able to optimize the performance of the audit committee. Then the hypothesis on the audit committee against the quality of profit is not accepted.

The results of this study are supported by the previous theoretical foundation which stated that the audit committee was formed with the aim of maximizing supervision in the implementation and implementation of all activities related to the interests of the company carried out by management. Members of the audit committee may be elected on the recommendation of the controlling shareholder, not on the basis of the ability and expertise of the prospective members of the audit committee. Audit committee members who are elected not on the basis of their abilities may lead to ineffective performance of the audit committee in the supervision of financial reporting by management. Without the effectiveness of the supervision of management's

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financial reporting by the audit committee, we cannot believe in the quality of the profits presented by management.

The results of this study are in line with the results of previous research conducted by Puspitowati (2012) which showed the results that the audit committee had no significant and negative effect on the quality of profits. However, the results of this study contradict the results of previous research conducted by (Silfi, 2011) which showed that the results of the audit committee had a positive effect on the quality of profits.

CONCLUSION

Based on the results of research on the influence of Capital Structure, Prudence and Audit Committee on Profit Quality (Empirical Study on Manufacturing Companies of the Food and Bavarages Sub-Sector listed on the Indonesia Stock Exchange in 2016-2020), conclusions can be drawn that the results of the first hypothesis testing can be drawn conclusions that empirically proven that capital structure has a significant influence on profit quality. The results of testing the second hypothesis can be concluded that empirically proven Prudence has a significant influence on the quality of profits. The results of testing the third hypothesis can be concluded that it is empirically proven that the audit committee has an insignificant influence on the quality of profits.

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