

The Impact of Earnings Management, Working Capital, Financial Distress, and Inflation On Financial Performance of Consumer Non-Cyclicals Sector Companies (Focus: Food And Beverage) Listed In IDX From 2020 to 2022

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Abstract

This research investigates the impact of earnings management, working capital, financial distress, and inflation on the financial performance of Consumer Noncyclical sector companies, with a specific focus on the food and beverage industry listed on the Indonesia Stock Exchange (BEI) from 2020 to 2022. Utilizing a quantitative approach and multiple linear regression analysis, the study analyses panel data from 38 selected companies to explore the relationships between these variables and Return on Assets (ROA). The findings reveal that earnings management significantly and positively influences ROA while working capital exhibits no significant impact. Financial distress emerges as a crucial factor positively affecting financial performance, while inflation shows no significant influence on ROA. The overall model explains 43.1% of the variation in ROA, providing nuanced insights into financial management practices. This study contributes valuable insights to financial management literature, guiding practitioners and policymakers in optimizing these determinants for enhanced financial outcomes in the food and beverage sector.

Keywords: Earnings Management, Financial Distress, Financial Performance, Inflation, Working Capital

I. INTRODUCTION

Indonesia, as the fourth most populous country in the world, faces significant economic impacts due to ongoing population growth. These impacts are particularly felt in the food and beverage industry, given that products in this sector are essential needs for the population. Demand for these products continues to rise in line with population growth, driven by increasing purchasing power among the populace [1].

Financial performance plays a crucial role in comprehensive company analysis, serving as an indicator of a company's ability to generate profits effectively. Key financial ratios, such as Return on Assets (ROA), serve as primary metrics for evaluating a company's financial performance [2]. However, it is important to note that financial performance is not only influenced but also shaped by several internal and external factors, including earnings management, working capital management, financial distress, and inflation.

Earnings management involves strategic actions by companies to influence financial statements, presenting a more favorable picture than actual performance [3]. Meanwhile, effective working capital management emerges as a critical element in a company's financial performance, with efficient practices potentially having a positive impact on profitability [4]. Financial distress refers to a serious situation in which companies struggle with significant financial challenges, potentially resulting in profit and asset value declines [5]. Inflation, characterized by a general increase in prices of goods and services in the economy, can affect

financial performance by reducing the purchasing power of income and assets during periods of high inflation [6].

The graph illustrates variations in earnings management outcomes each year across various companies, including those yielding negative values. These practices result in financial statement inaccuracies, confusing stakeholders, and potentially negatively impacting investment decisions.

Moreover, working capital is also a significant factor in a company's financial performance. Efficiently managed working capital can enhance financial performance by enabling companies to generate greater revenue than the assets used in their operations. However, poor working capital management can reduce a company's liquidity and potentially have negative impacts on financial performance. Based on data on working capital development from 10 companies in the Consumer Non-Cyclicals sector (with a focus on food and beverage) from 2020 to 2022.

Based on the data results of the working capital development in companies within the Consumer Non-Cyclicals sector (with a focus on food and beverage), it can be observed that each year experiences fluctuating developments. However, some companies consistently show an increase in working capital each year.

Financial distress is a serious condition in which companies struggle financially, such as being unable to pay debts. This can negatively impact financial performance, leading to profit and asset value declines. Based on data on financial distress development in the Consumer Non-Cyclicals sector (with a focus on food and beverage), it is evident that there is still instability in each company, as the influence of financial distress on financial performance is highly complex.

This study aims to investigate the influence of earnings management, working capital management, financial distress, and inflation on company financial performance in the Non-Cyclical Consumer sector, with a specific focus on the food and beverage subsector, listed on the Indonesia Stock Exchange (IDX) from 2020 to 2022. Insights gained from this study emphasize the importance of conscious attention from company management to these factors to enhance their financial performance. Unsatisfactory financial performance can have negative impacts on relationships with shareholders and investors, prompting companies to optimize their assets to achieve better productivity and efficiency.

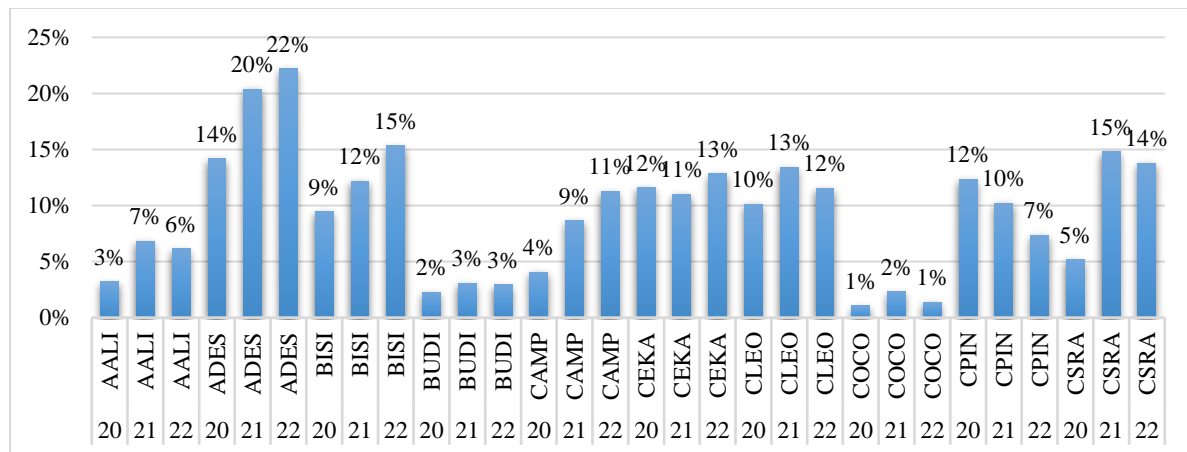


Figure 1. Development of ROA Data 2020-2022

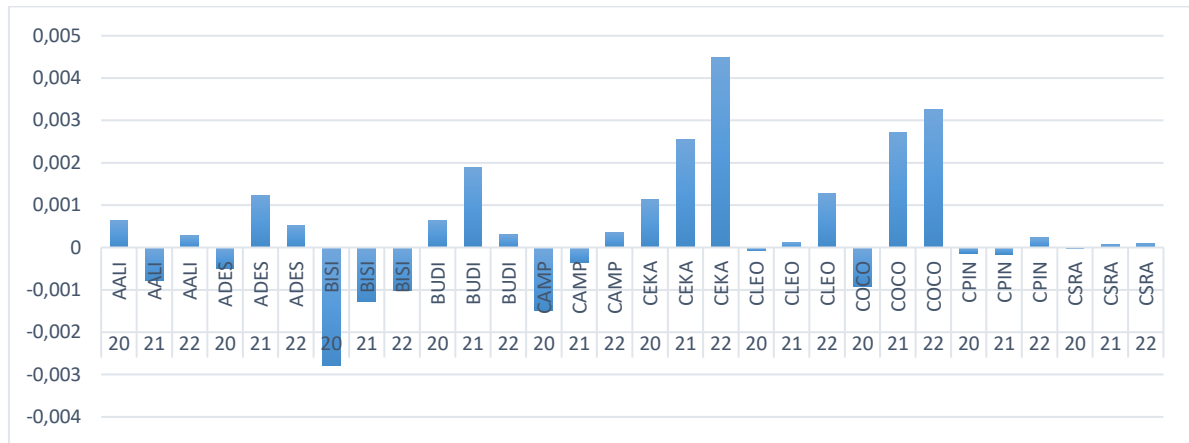


Figure 1. Earnings Management Data 2020-2022

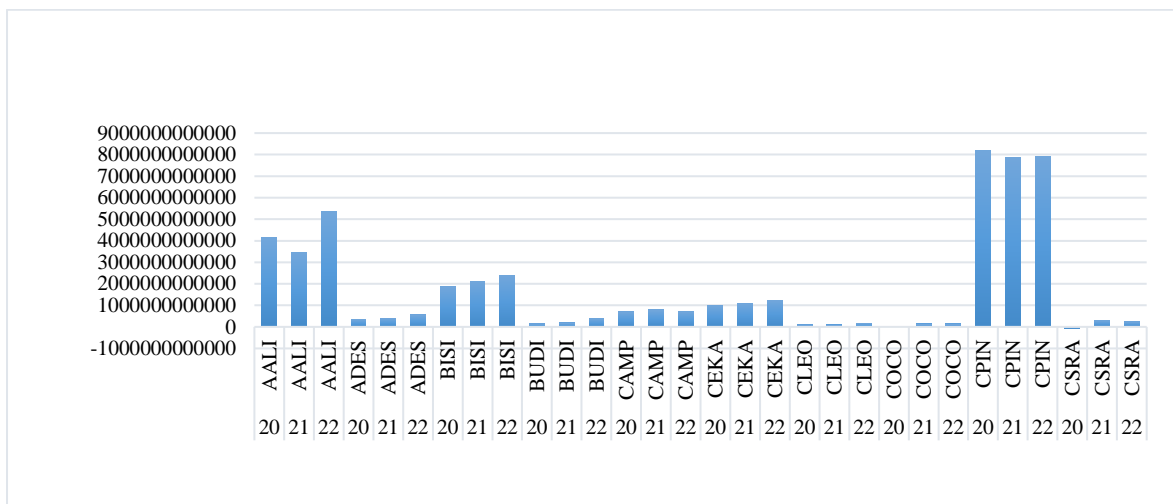


Figure 2. Data Development of Working Capital

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

A. Signaling Theory

Signaling Theory represents a mechanism through which companies convey information to external parties, particularly investors who heavily rely on financial statements. Signaling Theory aims to provide guidelines on how companies should strategically communicate with users of financial statements. Effective implementation of the Signaling Theory suggests that financial statements should disclose pertinent and precise financial information, presenting the company in a favorable light [7]. Fundamentally, the Signaling Theory underscores the importance of transparent and accurate financial reporting practices in shaping stakeholders' perceptions and expectations of a company's performance and prospects.

Companies continuously strive to use the information they possess to convey messages to information users about their performance achievements. These messages are perceived as either positive or negative signals by external parties, allowing the market to respond by evaluating the company's quality. This, in turn, assists companies in making policy decisions to enhance their performance [8]. Predicting financial distress provides a signal for company management to make decisions regarding their performance, and external parties find it valuable for predicting the company's health, especially for sustaining collaborations [9].

B. Financial Performance

The concept of financial performance, according to Tulak et al. [10], encompasses financial activities over a specific period reported in financial statements, including income statements and balance sheets. Financial performance can be assessed using analytical tools. Financial performance reflects a company's ability to manage and control its resources. Hamidah [11] states that the return level of a company can be observed through its profit size. If a company's profit is high, the return on investment will also be high, attracting investors to buy shares, thereby potentially raising the stock price. In this study, Return on Assets (ROA) is utilized as the performance measurement tool.

C. Earnings Management

Earnings management is a manager's manipulation of accounting policies to achieve specific goals. Earnings management is used to create sound financial statements. Sound financials, in turn, attract investors to purchase the company's shares as it is perceived to have good performance. According to Wandi [12], earnings management is a process of maximizing profits, often viewed as a company's goal. Earnings maximization is frequently seen as a corporate objective. Earnings management is a specific intervention in the external financial reporting process aimed at personal gain [13]. The Modified Jones Model is employed to calculate discretionary accrual utilization as a proxy for earnings management.

D. Working Capital

According to Muhajir [14], working capital represents the capital used for a company's operational activities. Working capital is defined as the investment in short-term assets or current assets, such as cash, securities, receivables, inventory, and other current assets, according to Widagdo [15]. These types of assets are classified on the company's balance sheet as current assets or assets that can be converted into cash within a year. Therefore, current assets are also referred to as working capital.

E. Financial Distress

Financial distress is a condition where a company cannot generate sufficient income to meet its financial obligations [16]. Financial distress arises from various conditions that lead to economic difficulties for the company. From a financial need perspective, three aspects cause financial distress, including a lack of capital, higher debt burdens, and sustained losses Rachmawati [17]. Several methods can predict financial distress, such as Altman Z-Score, Springate S-Score, and others. However, The Altman Z-Score method from Edward I. Altman is a proven method for predicting financial distress, using the Multiple Discriminant Analysis (MDA) statistical model Prihadi [18].

F. Inflation

Inflation is a process of rising prices in an economy [19]. According to Fadillah [20], inflation is the tendency for prices to continually rise. The increase in one or two types of goods and non-goods is referred to as inflation. Inflation measurement is calculated by monitoring the percentage change in the price index. The Central Statistics Agency and Bank Indonesia measure inflation using the Consumer Price Index (CPI) indicator. CPI is an index that measures the average price of specific goods purchased by consumers.

G. Impact of Earnings Management on Financial Performance

The practice of earnings management can render financial statements unstable and inconsistent from period to period, disrupting trend analysis and company performance evaluation. Return On Assets (ROA) is one of the financial performance metrics that can be influenced by earnings management. Earnings management can enhance ROA by manipulating

income and expenses, providing a better picture of the company's profitability than reality. Research conducted by Okoro and Ihenyen [21] suggests that earnings management has a significant and positive impact on financial performance. However, the findings of Melania and Dewi [22] indicate that earnings management has a positive but insignificant effect on financial performance.

H1: There is a positive and significant influence between the level of earnings management conducted by companies in the Consumer Non-Cyclicals Sector (Focus on Food and Beverage) on financial performance.

H. Impact of Working Capital on Financial Performance

The relationship between working capital and Return on Assets (ROA) is crucial in the context of corporate financial performance. Efficient working capital can have a positive impact on ROA. If working capital is not managed properly, a company may have excessive current assets, which can reduce ROA. Sastra [23] states that working capital has a significant and positive effect on financial performance, while the studies by Firmansyah and Riduwan [24] and Septiano et al. [25] indicate that working capital does not affect financial performance.

H2: There is a positive and significant influence between the working capital of companies in the Consumer Non-Cyclicals Sector (Focus on Food and Beverage) on financial performance.

I. Impact of Financial Distress on Financial Performance

Financial distress can have a significantly negative impact on ROA because companies experiencing financial problems usually face a decrease in profits and asset value. ROA can serve as a good indicator to identify companies that are potentially experiencing financial distress. Research conducted by Susilowati [26] suggests that financial distress has a significant and positive effect on financial performance.

H3: There is a positive and significant influence between the level of financial distress experienced by companies in the Consumer Non-Cyclicals Sector (Focus on Food and Beverage) on financial performance.

J. Impact of Inflation on Financial Performance

Inflation can affect financial statements and the measurement of Return on Assets (ROA). Inflation can lead to increased operating costs and sales revenue. Research by Pratami [27] and Indriwati & Purwana [28] suggests that inflation does not affect ROA. However, Yamani and Kye [29] state in their research that inflation has an impact on ROA. States that inflation has a positive and significant effect on ROA Asyasideq & Sudiyatno's study [30].

H4: There is a negative and significant influence between the level of inflation faced by companies in the Consumer Non-Cyclicals Sector (Focus on Food and Beverage) on financial performance.

III. METHOD

A. Research Object

This study adopts a quantitative approach employing secondary data to explore the relationships between earnings management, working capital, financial distress, and inflation on the financial performance of companies in the Consumer Non-Cyclicals sector, specifically

focusing on the food and beverage industry listed on the Indonesia Stock Exchange during the period 2020-2022. The operational variables in this research are defined in the Table I.

The sample companies were carefully selected using purposive sampling, which limits the selection of samples randomly based on predetermined criteria, including criteria such as companies in the Consumer Non-Cyclicals sector (with a focus on food and beverage) listed on the Indonesia Stock Exchange from 2020 to 2022, companies that did not incur losses or consistently made profits during the period 2020-2022, data obtained without significant outliers, companies that did not change their primary business from food and beverage, and companies established since 2019. This resulted in 38 companies meeting the inclusion criteria out of a total of 111 companies or 114 sample data. Inclusion criteria encompassed stipulations that companies did not incur losses during the 2020-2022 period, did not exhibit significant outliers, did not undergo substantial changes in their primary business type from food and beverage, presented complete financial statements, and had been established since 2019.

B. Statistical Analysis

The statistical approach in this research involves the use of SPSS version 26 software. Statistical analyses include Descriptive Analysis for providing an overview and a series of Classical Assumption Tests comprising the Normality Test, Multicollinearity Test, Heteroskedasticity Test, as well as Autocorrelation Test (Durbin Watson and Cochrane Orcutt) to verify the model's fitness. The primary analysis method applied is Multiple Linear Regression Analysis, enabling an assessment of the impact of independent variables on the dependent variable, namely Return on Assets (ROA). Hypothesis testing is directed towards the R² Test, F Test for overall model significance, and t-test for individual significance at a certain confidence level. Overall, this research aims to provide in-depth insights into the factors influencing the financial performance of companies in the Consumer Non-Cyclicals sector in Indonesia. The multiple linear regression equation utilized in this study is expressed as follows:

$$ROA = \alpha + \beta_1 \text{Earnings Management} + \beta_2 \text{Working Capital} + \beta_3 \text{Financial Distress} + \beta_4 \text{Inflation} + e \quad (1)$$

Where:

α = Constant

β = Regression Coefficient

e = Standard Error

IV. RESULTS AND DISCUSSION

A. Descriptive Statistical Analysis

Based on the results of the descriptive analysis, it is evident that there are 114 observations, constituting panel data from a sample of 38 companies listed on the Indonesia Stock Exchange in the Consumer Non-Cyclicals sector, with a specific focus on the food and beverage industry, spanning the years 2020 to 2022. Within this timeframe, data were collected to provide a comprehensive overview of relevant parameters concerning the financial and operational conditions of companies within the examined sector.

TABLE I. OPERATIONAL VARIABLES

Variable	Definition Measurement	Definition Measurement
Dependent (Y):		
Return On Asset (ROA)	Profitability ratio	ROA = Net Profit / Total Assets (Saputra, [31])
Independent (X):		
Earnings Management (X1)	Utilizing the Modified Jones Method	TACit = NIit – CFOit TAit/Ait -1 = β_1 (1/Ait -1) + β_2 (REVit/Ait -1) + β_3 (PPEit/Ait -1) NDAit = β_1 (1/Ait -1) + β_2 ((REVit/Ait -1) - (RECit/Ait -1)) + β_3 (PPEit/Ait -1) DAit = (TACit /Ait -1) – NDAit (Suyono, [32])
Working Capital (X2)	Using the Net Working Capital Formula	NWC = Asset Lancar - Hutang Lancar (Muharromah, [33])
Financial Distress (X3)	Employing the Altman Z Score Method	Z = 1,21T1 + 1,4T2 + 3,3T3 + 0,64T4 + 1,0T5
Inflation (X4)	Utilizing the General Inflation Rate	(www.bps.go.id)

TABLE II. DESCRIPTIVE STATISTICAL RESULTS

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Earnings Management	114	-.0444	.0336	.001918	.0096921
Working Capital	114	-1020978	24150726	2526038.41	4157944.134
Financial Distress	114	.88	13.22	5.2058	3.25825
Inflation	114	1.68	5.51	3.0200	1.77018
Financial Performance	114	.01	22.18	8.2028	5.41712
Valid N (listwise)	114				

TABLE III. NORMALITY TEST

One-Sample Kolmogorov-Smirnov Test			
			Unstandardized Residual
N			114
Normal Parameters ^b	Mean		.0000000
	Std. Deviation		4.01161280
Most Extreme Differences	Absolute		.097
	Positive		.097
	Negative		-.048
Test Statistic			.097
Asymp. Sig. (2-tailed)			.010 ^c
Monte Carlo Sig. (2-tailed)	Sig.		.217 ^d
	99% Confidence Interval	Lower Bound	.206
		Upper Bound	.227
a. Test distribution is Normal.			
b. Calculated from data.			
c. Lilliefors Significance Correction.			
d. Based on 10000 sampled tables with starting seed 926214481.			

Table II shows that the variable Earnings Management has a mean value of 0.001918 with a standard deviation of 0.0096921. The maximum value for Earnings Management is 0.0336 achieved by Morenzo Abadi Perkasa Tbk in 2021, while the minimum value is -0.0444 held by Multi Bintang Indonesia Tbk in 2020. The Working Capital variable has a mean value of 2526038.41 with a standard deviation of 4157944.134. The maximum value is 24150726, and the minimum value is -1020978. The Financial Distress variable, calculated using the Altman Z Score method, has a mean value of 5.2058, with a standard deviation of 3.25825. The maximum Financial Distress value is 13.22, and the minimum value is 0.88. For the Inflation variable, the minimum value is 1.68 in the year 2020, and the maximum value is 5.51 in the year 2022. The mean value is 3.0200, and the standard deviation is 1.77018. The Financial Performance variable, calculated using return on assets (ROA), has a mean value of 8.2028 with a standard deviation of 5.41712. The minimum value is 0.01, and the maximum value is 22.18.

B. Classic Assumption Test

The classic assumption test in this study consists of four types of tests: normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. The sample data used passed the four types of classic assumption Tests. Based on the data testing using the One-Sample Kolmogorov-Smirnov Test as shown in Table III, it can be assessed that the obtained result indicates that the data is normally distributed with a significance value of Asymp. Sig. (2-tailed) at 0.01. This means the significance value of Asymp. Sig. (2-tailed) is 0.010. In other words, the significance value of Asymp. Sig. (2-tailed) is 0.010, which is smaller than the predetermined significance level of 0.05 ($0.010 < 0.05$), indicating that the data is not normally distributed. Therefore, a Monte Carlo test is conducted, yielding a significance value of 0.217, which is greater than 0.05. Thus, it can be concluded that the data in this study is normally distributed.

Based on the results of the multicollinearity test conducted and present in Table IV, it can be observed that the tolerance values for the independent variables are as follows: Earnings Management 0.918, Working Capital 0.969, Financial Distress 0.898, and Inflation 0.988. Meanwhile, the variance inflation factors (VIF) for Earnings Management, Working Capital, Financial Distress, and Inflation are 1.090, 1.032, 1.113, and 1.012, respectively. From the conducted test results, the tolerance values for these variables are greater than 0.10, and the VIF values are less than 10. Therefore, it can be concluded that there is no multicollinearity issue in the regression model, indicating that this regression model is suitable for use as there is no correlation between the independent variables.

C. Coefficient Determination Test (R^2)

The results of the Coefficient of Determination test (Table V) indicate that the Adjusted R-squared value is 0.431. This signifies that the independent variables utilized in this study, namely Earnings Management, Working Capital, Financial Distress, and Inflation, collectively account for approximately 43.1% of the variation in the dependent variable, ROA (Return on Assets). The remaining 56.9% is attributed to other factors beyond the scope of this study.

D. F Test

Based on the results of the hypothesis testing as present in Table VI, it is evident that the obtained F-test value is 22.440, and the significance value (sig.) is 0.000. The calculated F value (22.440) surpasses the critical F-table value (2.45), i.e., $22.440 > 2.45$, and the significance level (0.000) is less than 0.05, specifically $0.000 < 0.05$. This implies that at least one or more independent variables in this study, namely Earnings Management, Working

Capital, Financial Distress, and Inflation, have a significant influence on the dependent variable, which is financial performance measured by ROA (Return on Assets).

TABLE IV. RESULT OF MULTICOLLINEARITY TEST

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Manajemen Laba	.918	1.090
	Modal Kerja	.969	1.032
	Financial Distress	.898	1.113
	Inflasi	.988	1.012

TABLE V. RESULTS OF THE COEFFICIENT OF DETERMINATION (R2) TEST

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.672 ^a	.452	.431	4.08456
a. Predictors: (Constant), inflation, Earnings Management, Working Capital, Financial Distress				
b. Dependent Variable: Financial Performance				

TABLE VI. RESULT OF THE F TEST

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1497.490	4	374.372	22.440	.000 ^b
	Residual	1818.513	109	16.684		
	Total	3316.003	113			
a. Dependent Variable: Financial Performance						
b. Predictors: (Constant), inflation, Earnings Management, Working Capital, Financial Distress						

TABLE VII. RESULT OF THE T-TEST

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.104	1.031		1.071	.286
	Earnings Management	84.509	41.388	.151	2.042	.044
	Working Capital	2.484E-8	.000	.019	.265	.792
	Financial Distress	1.149	.124	.691	9.233	.000
	Inflasi	.296	.218	.097	1.355	.178
a. Dependent Variable: Financial Performance						

E. T Test

According to the research findings, the multiple regression model equation is as follows:

$$\text{ROA} = 1.104 + 0.151 \text{ Earnings Management} + 0.019 \text{ Working Capital} + 0.691 \text{ Financial Distress} + 0.097 \text{ Inflation} + e \quad (2)$$

From the multiple linear regression equation above, it can be explained as follows:

1. The t-test results for the Earnings Management variable show a t-value of 0.151 with a significant level (sig.) of 0.044. The test indicates that the Earnings Management variable has a significantly positive impact on financial performance (ROA), as evidenced by the significance level ($0.044 < 0.05$). Therefore, it can be concluded that the first hypothesis (H1) is accepted.
2. The t-test results for the Working Capital variable show a computed t-value of 0.019 with a significant level (sig.) of 0.792. The test indicates that the Working Capital variable does not significantly affect financial performance (ROA), as evidenced by the significance level ($0.792 > 0.05$). Therefore, the second hypothesis (H2) is rejected.
3. The t-test results for the Inflation variable show a computed t-value of 0.097 with a significance level (sig.) of 0.178. The test indicates that the Inflation variable does not significantly impact financial performance (ROA), as evidenced by the significance level ($0.178 > 0.05$). Therefore, the fourth hypothesis (H4) is rejected.
4. The t-test results for the Financial Distress variable show a computed t-value of 0.691 with a significance level (sig.) of 0.000. The test indicates that the Financial Distress variable has a significantly positive impact on financial performance (ROA), as evidenced by the significance level ($0.000 < 0.05$). Therefore, the third hypothesis (H3) is accepted.

F. Effect of Earnings Management on Financial Performance

This study asserts that Earnings Management significantly influences financial performance (ROA). This finding is supported by Okoro and Ihenyen [21], who concluded that Earnings Management has a significant and positive impact on financial performance. However, this finding contradicts the results presented by Melania and Dewi [22], who found a positive but insignificant influence of Earnings Management on financial performance. Nevertheless, it is important to note that these findings have significant implications for both academic and practical fields in financial management. It highlights the complexity of the relationship between earnings management practices and their impact on financial indicators. This calls for further exploration of factors that may moderate or mediate this relationship. Additionally, it underscores the importance of considering diverse methodologies, sample characteristics, and analytical frameworks in research to capture existing dynamics. In the context of these divergent findings, future research should aim to elucidate the mechanisms underlying the relationship between earnings management and financial performance, considering the complexities of various industries, regulatory environments, and organizational contexts.

G. Effect of Working Capital on Financial Performance

This study's analysis leads to the conclusion that Working Capital does not exert a significant impact on financial performance, particularly Return on Assets (ROA). This observation is primarily attributed to the nature of inventory management practices within the food and beverage industry. The perishable and short-lived nature of raw materials necessitates rapid inventory turnover, effectively minimizing the need for substantial working capital. Additionally, the implementation of efficient inventory management techniques, such as just-

in-time production, allows companies to tailor their inventory levels to match customer demand, thereby reducing the requirement for large working capital investments in inventory storage.

The findings of this study resonate with prior research conducted by Firmansyah and Riduwan [24] and Septiano et al. [25], both of which similarly found no significant association between Working Capital and financial performance. These studies corroborate the notion that the impact of Working Capital on financial outcomes is mitigated within the food and beverage sector due to the industry's unique operational dynamics.

However, it is noteworthy that these conclusions contradict the findings of Sastra [23], who reported a significant and positive relationship between Working Capital and financial performance. This discrepancy underscores the need for further investigation into the specific contextual factors and industry nuances that may influence the relationship between Working Capital management and financial outcomes.

In summary, while Working Capital may not emerge as a significant determinant of financial performance within the food and beverage industry, the divergent findings across studies underscore the importance of considering industry-specific contexts and operational practices in understanding the nuances of Working Capital management's impact on organizational performance. Such insights are essential for informing strategic decision-making and financial management practices within the sector.

H. Effect of Financial Distress on Financial Performance

This study concludes that Financial Distress significantly influences financial performance, particularly Return on Assets (ROA). This finding is consistent with the research conducted by Susilowati [26], which indicates a significant and positive impact of Financial Distress on financial performance. This result underscores that the financial distress condition experienced by companies can affect their ability to generate profits from their assets, as reflected in the ROA. This condition may be caused by various factors, including high debt burdens, low liquidity, or other financial difficulties that hinder the operational and financial performance of the company. The implications of this finding emphasize the importance of paying attention to signs of financial distress and taking appropriate steps to address these issues, such as debt restructuring, better liquidity management, or implementing suitable recovery strategies. By understanding the impact of financial distress on financial performance, companies can take proactive measures to maintain stability and ensure the continuity of their business.

I. Effect of the Inflation on Financial Performance

This study concludes that Inflation does not influence financial performance (ROA). This is attributed to the perception of food and beverage products as essential, with demand remaining relatively stable even in the face of inflation. This finding aligns with the studies by Pratami [27] and Indriwati & Purwana [28], which found no significant impact of Inflation on ROA. However, it contradicts Yamani and Kye [29], who reported an impact of Inflation on financial performance. It also contradicts the findings of Asyasidiq & Sudiyatno [30], who concluded that Inflation has a negative and significant impact on financial performance.

V. CONCLUSION

In this study, a detailed examination of 114 observations derived from panel data representing 38 companies within the Consumer Non-Cyclicals sector, with a specific focus on the food and beverage industry, was conducted for the years 2020 to 2022. The descriptive statistical analysis provided a comprehensive overview of key financial and operational

parameters within this sector. Furthermore, classic assumption tests ensured that the dataset met the necessary prerequisites for regression analysis.

The Coefficient of Determination (R²) test revealed that the independent variables, namely Earnings Management, Working Capital, Financial Distress, and Inflation, collectively explained approximately 43.1% of the variation in financial performance measured by Return on Assets (ROA). Subsequent hypothesis testing confirmed the overall significance of the model, with the F-test indicating that at least one independent variable significantly influenced ROA.

Delving into individual variable impacts, the t-tests provided nuanced insights:

1. Earnings Management demonstrated a statistically significant positive impact on ROA, aligning with the acceptance of the first hypothesis (H1).
2. Working Capital did not significantly affect ROA, leading to the rejection of the second hypothesis (H2).
3. Financial Distress exhibited a statistically significant positive impact on ROA, supporting the acceptance of the third hypothesis (H3).
4. Inflation did not significantly influence ROA, resulting in the rejection of the fourth hypothesis (H4).

These findings underscore the importance of Earnings Management and Financial Distress in influencing financial performance within the examined sector. Practical implications suggest that financial managers and policy makers should prioritize effective management of these factors to positively impact ROA. However, the limited impact of Working Capital and Inflation in this context invites further exploration and consideration of industry-specific nuances. Overall, this study contributes valuable insights into financial management literature and offers avenues for future research to delve deeper into the determinants of financial performance in the food and beverage sector.

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