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Analysis of Commercial and Fiscal Profits, Leverage on Profit Persistence at PT. Mighty True Great

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Difference in commercial and fiscal profit, persistence of profit, permanent difference, temporary difference, leverage

Abstract

This study, titled "Analysis of Commercial and Fiscal Profits, Leverage on Profit Persistence at PT. Mighty True Great," aims to investigate the impact of differences in commercial and fiscal profits, leverage, and their combined effects on profit persistence at PT. Mighty True Great. The research employs quantitative methods and utilizes financial statements from 2017 to 2019 for data analysis. Financial statements serve as a crucial tool for conveying a company's financial status to various stakeholders. Profit quality, particularly profit persistence, is an essential component in assessing a company's performance and making informed decisions. The study focuses on the phenomenon of differences between accounting profits and fiscal profits, known as Book-Tax Differences, and how these differences influence profit persistence. The research explores the role of leverage in shaping financial statements and its potential impact on profit persistence. Leverage, represented by the Debt to Equity Ratio, is highlighted as a significant factor affecting profit persistence. The study specifically investigates PT. Mighty True Great, a company operating in the animal feed industry, and analyzes its profit trends and the influence of leverage on profit persistence. The findings reveal that differences in commercial and fiscal profits, both temporary and permanent, have no significant impact on profit persistence at PT. Mighty True Great. However, the study identifies that leverage has a notable influence on profit persistence, suggesting that the company's debt levels affect its ability to sustain profits over time. In conclusion, the research emphasizes the importance of companies paying attention to profit stability and persistence. For future studies, researchers are encouraged to explore additional variables that may impact profit persistence and extend the observation period to provide a more comprehensive understanding. The recommendations aim to guide companies in decision-making and offer valuable insights for potential investors considering the persistence of a company's profits.

1. Introduction

Financial statements are a means used by companies to notify the financial condition of the results of transactions over a certain period of time to various interested parties, such as investors, creditors, governments, and policy stakeholders. Suteja (2018) suggests that financial statements are reports that show the company's current financial condition or in a certain period. According to Ng, Eng & Wahyuni (2013), the purpose of financial statements is to present information related to the financial condition of the entity whose purpose is used for current investors and potential investors and creditors in deciding resource planning for the company.

Therefore, the information presented in the financial statements is used as a parameter for stakeholders to make decisions. One of these important information can be seen from the company's income (loss) statement. According to Kasmir (2018), the income statement is a financial statement that describes the company's operating results in a certain period. Profit information contained in the income statement is used as a basis for interested parties to evaluate management performance, employee remuneration, and determine the amount and distribution of profits or dividends to stockholders. Information on the quality of accounting profits is the basis of information for potential investors and creditors in making the right decisions (Soa et al., 2021).

One component of profit quality is profit persistence. The phenomenon that often occurs in companies in Indonesia is the phenomenon of differences in accounting profits with fiscal profits or Book-Tax Differences, especially the difference between taxable income according to fiscal and profit before tax according to financial accounting standards. The cause of this phenomenon is due to differences in the goals and interests of users of profit information (Imanda Shefira et al., 2019). As a result of these differences in goals and interests, there are differences in the calculation of profit (loss) of entities.

However, this difference can also be used as a determinant of the quality of company profits, as revealed by Rianto & Murtiani (2019) that some information in the Tax Differences Book can affect the persistence of profits, thus helping investors in determining the quality of profits and company value. Leverage has an important role in the preparation of financial statements and certainly affects the persistence of profits. Official (2009) states that long-term debt that companies use to generate operating profits is subject to interest or expenses that may be associated with relatively large income tax deductions. High levels of leverage can increase a company's interest expense and impact current year's revenue and future earnings projections.

However, when leverage is high and used as efficiently as possible, funds from debt can generate profits that can pay interest and principal. (Nuraeni et al., 2019). This suggests that leverage can affect profit persistence. PT. PT. Perkasa Agung Sejati is a company engaged in the animal feed industry. From the income statement of PT. Perkasa Agung Sejati was found in 2017 the company generated a profit of Rp.6,944,378,658 then in 2018 there was a decrease in the amount of profit with a value of Rp.5,366,927,166 where there was a decline in profit of Rp. 1,577,451,492 this was caused by a decrease in feed sales. In the second year, it was also found that the largest expense incurred by the company was the interest cost of bank loans.

Thus, the phenomenon of declining fluctuating profits causes the persistence of company profits to be questioned, because these fluctuating profits will affect investors and potential investors in decision making (Fanani, 2010). Research related to Book Tax Differences and leverage on profit persistence has been conducted by several researchers before. Research results of Achyarsyah & Purwanti (2018) mentioned that the difference in commercial and fiscal profits has no significant effect on profit persistence, and leverage has a negative and significant effect on profit persistence. Then further research shows that book-tax differences and debt levels stimulantly affect profit persistence (Gunarto, 2019).

Then the most recent research conducted by Maleong et al., (2021) suggests that the variables of permanent differences and debt levels have no effect on profit persistence while temporary difference variables have an effect on profit persistence. With the difference in the results of previous studies, the researchers conducted another test to review the consistency of research results in analyzing the difference in commercial and fiscal profits and leverage on profit persistence with the research title "Commercial and Fiscal Profit Analysis, Leverage on Profit Persistence at PT. True Great Mighty".

2. Literature Review

2.1 Signaling Theory

Signaling theory explains how a company should communicate signals to users of financial statements. These signals consist of information about the actions management has taken to meet the expectations of the owners. Signals can include promotions or other forms of information indicating that the company is performing better than its competitors. Managers convey these signals through financial statements, demonstrating that they apply conservative accounting policies. This approach results in higher-quality earnings, as it prevents the overstatement of profits and assists users of financial statements by presenting earnings and assets more accurately.

2.2 Profit Persistence

The persistence of profit quality is evaluated based on its usefulness in decision-making, particularly in stock valuation. High-quality profit is defined as profit with strong profitability that reliably predicts future earnings (Schipper & Vincent, 2003). On this basis, high-quality profit is characterized by its persistence, meaning it provides a reliable indication of sustainable profit—continuous, durable, and not short-lived. Profit persistence at the company level is determined by the consistency of profits over time for each company.

2.3 Definition of Fiscal Reconciliation

According to Kusuma et al. (2019) in their book *Income Tax Practicum (Corporate Income Tax)*, fiscal adjustment (fiscal reconciliation) is the process of adjusting financial statements—particularly income statements—prepared based on Financial Accounting Standard Guidelines (PSAK) to align with tax regulations.

2.4 Differences in Fiscal Reconciliation

Differences in the basis of preparation for calculating profits according to commercial accounting versus fiscal or tax accounting result in discrepancies between pre-tax income (accounting profit) and taxable income (fiscal profit). The causes of these differences can be categorized into permanent differences and temporary differences (Trisnasari et al., 2017).

3. Research Methods

The type of research used in this research is quantitative descriptive research. Quantitative research is defined as a research method based on the philosophy of positivism, used to research certain populations or samples, collect data using research instruments, analyze quantitative/statistical data, with the aim of testing predetermined hypotheses (Sugiyono, 2019). In this research, the data used is quantitative data used is the financial report of PT. Truly Great and Mighty.

Descriptive research is used as a basis for analyzing and drawing conclusions to analyze the influence of differences in commercial and fiscal profits and leverage on the persistence of PT. Truly Great and Mighty. Sugiyono (2017) stated that this descriptive research method was carried out to determine the existence of independent variables, either only on one variable or more. (a stand-alone variable or independent variable) without comparing the variable itself and looking for relationships with other variables.

4. Results and Discussion

4.1 Research result

4.1.1 Commercial Profit of PT. True Great Mighty

Profit persistence refers to the profit (before fiscal reconciliation) expected in the future and is projected based on the current year's profit. The commercial profit of PT. True Great Mighty over a three-year period from 2017 to 2019 is as follows:

Table 4.1
Commercial Profit Data of PT. True Great Mighty (in millions)

Year	Commercial Profit / Accounting
2017	Rp. 6,944,378.66
2018	Rp. 5,366,927.17
2019	Rp. 6,415,816.97

Source: Financial Report of PT. True Great Mighty

Based on Table 4.1, the profit obtained by PT. True Great Mighty during the period from 2017 to 2019 fluctuated between Rp. 18 billion and Rp. 20 billion. It can be observed that the profit from 2017 to 2019 is not persistent, showing a decrease of Rp. 1.5 billion compared to the previous year. The more persistent the profit, the higher the expectation of future profit increases.

4.1.2 Temporary Time Difference

Temporary differences arise due to the timing discrepancies between the recognition of income and expenses according to financial accounting standards (SAK) and tax regulations (Heri Prasetyo & Rafitaningsih, 2015). A positive time difference occurs when expenses are recognized later for accounting purposes than for tax purposes or when income is recognized later for tax purposes than for accounting purposes. Conversely, a negative time difference occurs when tax regulations recognize expenses later than accounting, or when income is recognized later in accounting than for tax purposes. For financial reporting, revenues are recognized when earned, and costs are recognized when incurred (accrual basis). According to Persada & Martani (2010), temporary differences can be an indicator of the difference between commercial and fiscal profits, calculated from the fiscal reconciliation section of financial statements and divided by total assets.

Temporary Difference = Total Temporary Difference / Total Assets

Table 4.2
Temporary Time Difference of Financial Statements of PT. True Great Mighty

Year	Account	Notional Value	Total Assets	Indicator
2017	Nature	Rp. 51,540.99	Rp. 132,979,206.27	0.000105
	Depreciation	(Rp. 37,546.88)		
	Total	Rp. 13,994.11		
2018	Nature	Rp. 67,784.46	Rp. 115,138,471.65	0.000204
	Depreciation	(Rp. 44,250.00)		
	Total	Rp. 23,534.46		
2019	Nature	Rp. 95,126.95	Rp. 159,881,922.10	0.000318
	Depreciation	(Rp. 44,250.00)		
	Total	Rp. 50,876.95		

Source: Financial Report of PT. True Great Mighty

Based on Table 4.2, the data can be interpreted as follows: a. In 2017, the amount of the temporary difference was Rp. 13.9 million. This means that the difference in profit recognized under tax regulations due to timing differences in the recognition of income and expenses amounted to Rp. 13.9 million. Consequently, this temporary difference increases fiscal profit, resulting in a higher taxable profit than the accounting profit. The temporary difference indicator value was 0.000105. b. In 2018, the temporary difference was Rp. 23.5 million, indicating that the profit difference recognized under tax regulations due to timing differences in income and expense recognition was Rp. 23.5 million. This increases the fiscal profit and the taxable profit exceeds the accounting profit. The temporary difference indicator value was 0.000204. c. In 2019, the temporary difference amounted to Rp. 50.8 million, meaning that the profit difference recognized under tax regulations due to timing differences in income and expense recognition was Rp. 50.8 million. This results in an increase in fiscal profit, with the taxable profit higher than the accounting profit. The temporary difference indicator value was 0.000318.

4.1.3 Permanent Time Difference

Permanent differences occur when tax regulations calculate fiscal profit differently from financial accounting standards, with no future corrections. For example, income from current account service fees might be recognized as income in accounting profit but not in fiscal profit. According to Persada & Martani (2010), permanent differences serve as an indicator of book-tax differences, calculated from the fiscal reconciliation section of financial statements and divided by total assets.

Permanent Difference = Total Permanent Difference / Total Assets

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Table 4.3
Permanent Time Difference in Financial Statements of PT. True Great Mighty

Year	Account	Notional Value	Total Assets	Indicator
2017	Current account service revenue	(Rp. 33,158.78)	Rp. 132,979,206.27	-0.000396
	Other income	(Rp. 30,000.00)		
	Official travel expenses	Rp. 10,500.00		
	Total	(Rp. 52,658.78)		
2018	Current account service revenue	(Rp. 55,739.02)	Rp. 115,138,471.65	-0.000590
	Other income	(Rp. 25,000.00)		
	Official travel expenses	Rp. 12,750.50		
	Total	(Rp. 67,988.52)		
2019	Current account service revenue	(Rp. 38,705.90)	Rp. 159,881,922.10	-0.000414
	Other income	(Rp. 33,000.00)		
	Official travel expenses	Rp. 5,465.87		
	Total	(Rp. 66,240.02)		

Source: Financial Report of PT. True Great Mighty

Based on Table 4.3, the data can be explained as follows: a. In 2017, the amount of the permanent difference was Rp. 52.6 million. This indicates that the difference in profit recognized under tax regulations due to permanent differences in income and expense recognition, without any future correction, amounted to Rp. 52.6 million. As a result, the fiscal profit was reduced, leading to a decrease in the taxable profit compared to the accounting profit. The permanent difference indicator value was -0.000396. b. In 2018, the permanent difference was Rp. 67.9 million, meaning that the profit difference recognized under tax regulations due to permanent differences in income and expense recognition, without any future correction, amounted to Rp. 67.9 million. Consequently, the fiscal profit was reduced, leading to a decrease in the taxable profit compared to the accounting profit. The permanent difference indicator value was -0.000590. c. In 2019, the permanent difference was Rp. 66.2 million, meaning that the profit difference recognized under tax regulations due to permanent differences in income and expense recognition, without any future correction, amounted to Rp. 66.2 million. This resulted in a reduction of fiscal profit, leading to a decrease in taxable profit compared to accounting profit. The permanent difference indicator value was -0.000414.

4.1.4 Fiscal Reconciliation

Fiscal reconciliation (correction) is the process of adjusting financial statements, particularly income statements, prepared according to Financial Accounting Standard Guidelines (PSAK) to align with tax regulations (Kusuma et al., 2019). Differences between accounting and fiscal profits can be categorized into permanent differences and timing differences.

Table 4.4
Fiscal Reconciliation

Year	Commercial Profit	Temporary Difference	Permanent Difference	Fiscal Profit
2017	Rp. 6,944,378.66	Rp. 13,994.11	(Rp. 52,658.78)	Rp. 6,905,713.99
2018	Rp. 5,366,927.17	Rp. 23,534.46	(Rp. 67,988.52)	Rp. 5,322,473.11
2019	Rp. 6,415,816.97	Rp. 50,876.95	(Rp. 66,240.02)	Rp. 6,400,453.90

Source: Financial Report of PT. True Great Mighty

4.1.5 Leverage

Leverage measures a company's level of debt financing. It becomes greater when a company has substantial long-term debt. Leverage can be calculated using the Debt to Equity Ratio (DER).

DER = Total Debt / Total Equity

Table 4.5
Leverage

Year	Total Debt	Total Assets	Leverage
2017	Rp. 63,904,997.65	Rp. 132,979,206.27	0.5
2018	Rp. 42,872,400.78	Rp. 115,138,471.65	0.4
2019	Rp. 125,633,509.16	Rp. 159,881,922.10	0.8

Source: Financial Report of PT. True Great Mighty

4.1.6 Profit Persistence

Profit persistence is the profit (before fiscal reconciliation) expected in the future and is projected based on the current year's profit. The formula used to measure profit persistence is based on previous research conducted by Putri et al. (2017).

Profit Persistence = (Profit Before Tax t - Profit Before Tax t-1) / Total Assets

Table 4.6: Profit Persistence

Year	Profit Before Tax	Profit Before Tax (Previous Year)	Total Assets	Indicator
2017	Rp. 6,944,378.66	Rp. 5,607,540.49	Rp. 132,979,206.27	0.010053
2018	Rp. 5,366,927.17	Rp. 6,944,378.66	Rp. 115,138,471.65	(0.013700)
2019	Rp. 6,415,816.97	Rp. 5,366,927.17	Rp. 159,881,922.10	0.006560

Source: Financial Report of PT. True Great Mighty

A higher coefficient (close to 1) indicates high profit persistence, while a lower coefficient (close to 0) suggests low profit persistence or high transitory profit. A negative coefficient value indicates the opposite, where a higher value implies less persistent profit, and a lower value implies more persistent profit. Research on profit persistence using this model was conducted by Fanani (2010). Based on Table 4.6, the profit persistence indicator values from 2017 to 2019 range from -0.013700 to 0.010053. In 2017, the indicator value of 0.010053 suggests high profit persistence. In 2018, the value of -0.013700 indicates low profit persistence, while in 2019, the value of 0.006560 indicates lower profit persistence compared to 2017.

4.2 Research Discussion

4.2.1 The Difference Between Commercial Profit and Fiscal Profit (Temporary Differences) on Profit Persistence

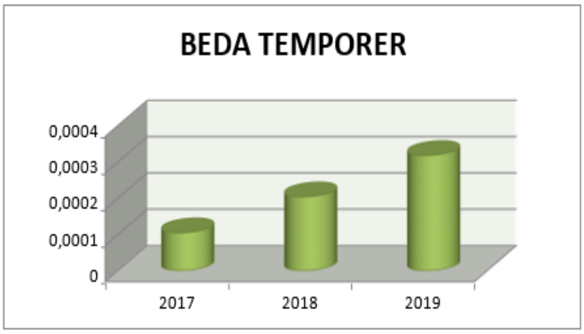
Temporary differences arise due to discrepancies in the timing of income and expense recognition, regulations, and methods of recording revenues and costs in determining company profits. These differences occur because tax regulations provide for the deduction of income and expenses in periods that may differ from the accounting period.

Table 1:
Analysis of Temporary Profit Differences on Profit Persistence

Year	Temporary Difference Indicator Value	Profit Persistence Indicator Value
2017	0.000105	0.010053
2018	0.000204	(0.013700)
2019	0.000318	0.006560

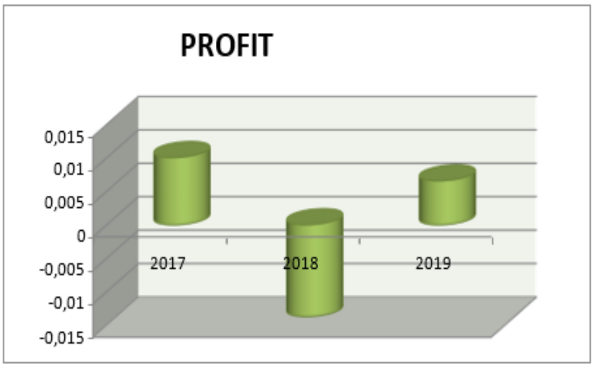
Source: Financial Statements of PT. True Great Mighty

Figure 1: Temporary Difference Indicator Chart



Temporary Difference Indicator Chart here

Figure 2: Profit Persistence Indicator Chart



Profit Persistence Indicator Chart here

This study found that the temporary differences in commercial and fiscal profits for PT. Perkasa Agung Sejati over the 3-year period showed the largest positive fiscal correction in 2019, amounting to Rp. 50.8 million. Notably, there were no negative fiscal corrections during these years. Based on the tables and graphs, there appears to be no consistent relationship between the magnitude of temporary differences and profit persistence. Therefore, it can be concluded that from 2017 to 2019, high or low temporary differences did not significantly impact profit persistence for PT. Perkasa Agung Sejati.

4.2.2 The Difference Between Commercial Profit and Fiscal Profit (Permanent Differences) on Profit Persistence

Permanent differences occur because tax regulations calculate fiscal profit differently from accounting profit according to financial accounting standards, without any future corrections. For example, income from current account service fees might be recognized in accounting profit but not in fiscal profit. Conversely, certain expenses, like donation costs, may be recognized as expenses in commercial accounting but not in tax accounting.

Table 2:
Analysis of Permanent Profit Differences on Profit Persistence

Year	Permanent Difference Indicator Value	Profit Persistence Indicator Value
2017	(0.000396)	0.010053
2018	(0.000590)	(0.013700)
2019	(0.000414)	0.006560

Source: Financial Statements of PT. True Great Mighty

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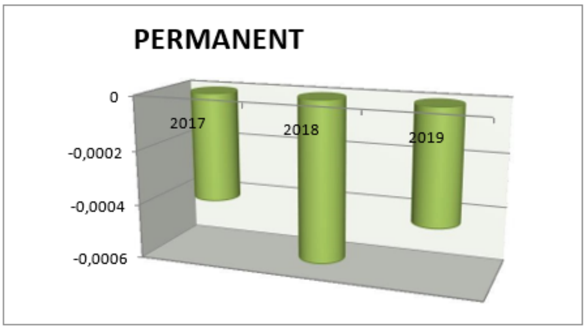
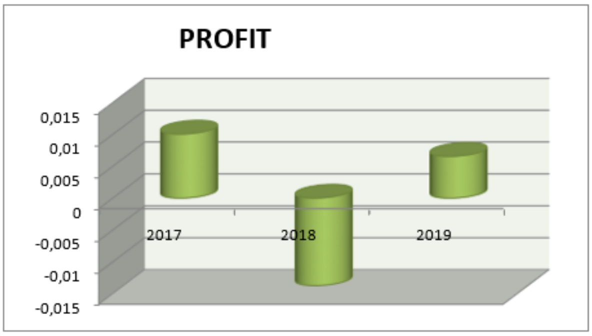
Figure 3: Permanent Difference Indicator Chart



Permanent Difference Indicator Chart

Figure 4: Profit Persistence Indicator Chart



Profit Persistence Indicator Chart

This study found that the permanent differences in commercial and fiscal profits for PT. Perkasa Agung Sejati over the 3-year period showed the largest negative fiscal correction in 2018, amounting to Rp. 67.9 million, with no positive fiscal corrections during these years. The data suggest that there is no consistent relationship between the magnitude of permanent differences and profit persistence. Therefore, it can be concluded that from 2017 to 2019, high or low permanent differences did not significantly impact profit persistence for PT. Perkasa Agung Sejati.

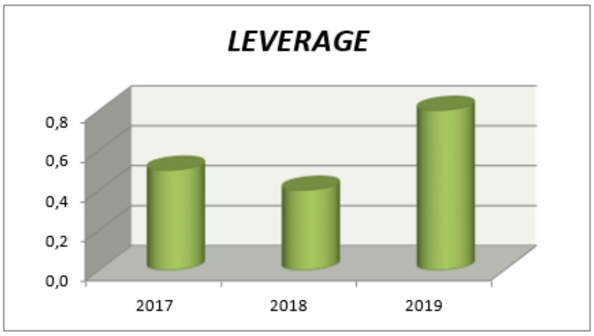
4.2.3 The Impact of Leverage on Profit Persistence

Leverage refers to the use of assets financed by debt with the goal of increasing potential returns for shareholders. However, higher leverage ratios also indicate a greater risk of the company being unable to meet its financial obligations. Companies with a high debt-to-asset ratio may face significant financial risks due to the heavy debt burden.

Table 4.9:
Analysis of Leverage on Profit Persistence

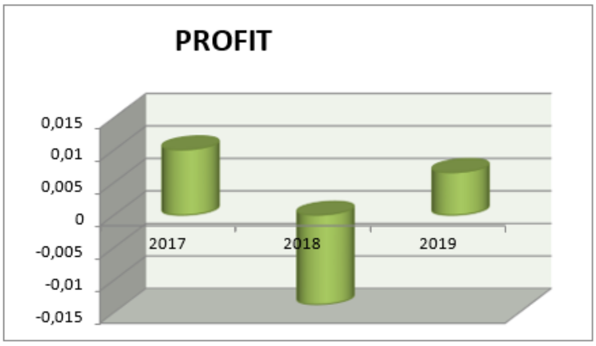
Year	Leverage Indicator Value	Profit Persistence Indicator Value
2017	0.5	0.010053
2018	0.4	(0.013700)
2019	0.8	0.006560

Figure 4.7: Leverage Indicator Chart



Leverage Indicator Chart

Figure 4.8: Profit Persistence Indicator Chart



Profit Persistence Indicator Chart

From Table 4.9, it can be observed that in 2017, the leverage ratio for PT. Perkasa Agung Sejati was 0.5, meaning that 50% of the company's assets were financed by debt. In 2018, the leverage ratio decreased to 0.4, indicating that 40% of assets were financed by debt. However, in 2019, the leverage ratio increased to 0.8, meaning that 80% of the company's assets were financed by long-term debt. From the comparison of the table and charts, it can be concluded that leverage does influence profit persistence.

5. Closing

5.1 Conclusion

Based on the results of the research and discussion, it can be concluded that the differences in commercial profit and fiscal profit, both in terms of temporary and permanent differences, did not have an influence on profit persistence for PT. Perkasa Agung Sejati over the 3-year period from 2017 to 2019. However, leverage had an influence on profit persistence during the same period.

5.2 Suggestions

Based on the conclusions outlined above, the following suggestions are proposed:

1. **For Companies**: It is recommended that companies place greater emphasis on ensuring stability and profit persistence. When formulating policies, considerations should be made regarding how financial statement users will interpret these policies in decision-making processes, such as evaluating management performance, determining managerial compensation, and distributing dividends to shareholders.
2. **For Future Researchers**: Future researchers who wish to build on this study are encouraged to consider additional independent variables that may affect profit persistence. Extending the observation period to include more years could also yield more comprehensive insights, providing valuable information for potential investors as they make decisions, particularly with respect to the persistence of company profits.

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