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DETERMINANT FACTORS AFFECTING EARNINGS QUALITY ON MANUFACTURING COMPANIES

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***Abstract*:** The problem statement of this paper is to get empirical about factors that impact earnings quality such as the earnings persistence, institutional ownership, accrual components, leverage, liquidity, investment opportunity set, independent commissioners, and profitability. The sample in this paper is manufacturing firm listed on IDX from 2017-2021. The population, which passed the sampling criteria, is 51 firms with 255 data. The sampling used in this research is purposive that requires criteria to be examined. To analyze all the data, the research used multiple regression analysis method. From the multiple regression tests, it can be showed that independent commissioner and profitability have an affect on earnings quality. While earnings persistence, institutional ownership, accrual components leverage, liquidity and investment opportunity set shows no affect on earnings quality. If a company has a party that supervise the work of management, the firm performance is likely to align with the interests of its shareholders. Which this leads to the increasing quality of an entity's earnings.

Keywords: earnings quality, earnings persistence, institutional ownership, accrual components, leverage, liquidity, investment opportunity set, independent commissioners, profitability

INTRODUCTION

Financial statements are one of the most and most vital components in a company, which means all information must be exact, precise, and comply with applicable accounting standards. With financial reports, companies can make the proper choices, which effecting the firm's condition within the future. All data contained in financial statements can be valuable for company users, accounting managers, management, directors, regulators, customers, labor unions, and even useful for company prospect in the future time.

Earnings quality described as a earnings that is able to reflect the real firm's performance especially their financial performance. Knowing the earnings quality of a company, it will be beneficial for many parties. Such as creditors, investors, and also public. For example, is creditor. With the knowledge about the quality of earnings, creditors will know whether the company is qualified or unqualified for credit. When earnings not showing the actual data about the company performance, it may mislead the users of the financial reports. The significance of earnings information makes companies compete to continuously improve the earnings quality. When management performs the act of earnings management, this could diminish earnings quality (Niwat 2023).

The significance of earnings information makes companies compete to continuously improve the earnings quality. Numerous companies use benefit as a benchmark. For example, benchmarks for giving rewards, benchmarks for performance quality, and management accomplishments. This can be one of the reasons why management uses all means to increase earnings. When management performs earnings management, this could diminish earnings quality.

Particularly in Indonesia, earnings quality problems often occur, causing a decline in investor confidence in earnings quality. This related to the case of PT Garuda Indonesia (GI), as one of the companies owned by Indonesia government entity, that certainly required to maintain the earnings quality considering that the performance of government entity is certainly much highlighted by the wider community. GI's performance, which managed to record a net income of US$809 thousand in 2018, in contrast to the 2017 net income, which recorded a loss of US$216.58 million. This earnings recording is quite surprising because until September 2018 Garuda's earnings was still recorded as a loss of US $ 114.08 million. This indicates that Garuda Indonesia are conducting an earnings management act to make their annual financial statements have a good result. It turns out that the actual loss amount of GI should be loss US$ 1750 million.

Developing from the previous research, which in the previous research there are three variables, which are earnings persistence, institutional ownership, and accrual components. There are five new variables such as leverage, liquidity, investment opportunity set, independent commissioner, and profitability (Murniati 2019). There is reason of addition of each variable such as, leverage is a ratio which measures company funding through debt. When the leverage is high, the management usually try to do various ways to getting investors, this may affect how the earnings quality of the entity. The second one is the liquidity, liquidity is used because liquidity may show the real financial information of the entity. With liquidity, it will show the company's quality. The third one is IOS, which indicates when company have high IOS, the management will try to attract investors with various ways, which impact the earnings quality. The fourth one is independent commissioner; this variable is added because when a company have an independent party, they believed that would be increasing the firm's earnings quality. The last variable is profitability, this have an effect to low earnings quality when the profitability is low. When the profitability is low, management tend to increase manage the earnings to look better.

There are several differences between this research and the previous research, which is the observed data. The previous research object is bank in Indonesia listed on IDX, while for this current research object is manufacturing company in Indonesia listed on IDX. The last difference between this research and the previous one is the year of the research, which in the previous research was conducted between 2011 and 2015 while this research conducted between 2019 and 2021.

The research question to be discussed in this research is does earnings persistence, institutional ownership, accrual component, leverage, liquidity, investment opportunity set, independent commissioner, and profitability have an affect on earnings quality?

This research aimed to get empirical evidence about the affect of earnings persistence, institutional ownership, accrual components, leverage, liquidity, investment opportunity set, independent commissioners, and profitability on earnings quality. Hence, this research is a continuation of previous work done by Himmah (2017). The sample used is all manufacturing companies listed on IDX.

Earnings quality are company's earnings, which be able to reflect the real financial performance where the data displayed doesn't contain the recognition of vulnerability. It shows, the lower the vulnerability of a financial report, the greater the earnings quality. When earnings not showing the actual data about the company performance, it may mislead the users of the financial reports. If such data being used by financial specialists to evaluate the firm value, the earnings can't explain the genuine firm value.

Earnings quality are some earnings that is useful enough for the decision making. Where it must have three characteristics such as, relevance with the current economic situation, or the company situation. The second one is how the information and data stated on the earnings report must be reliable and trustworthy. The last characteristic is comparability and consistency, where the earnings must be able to compared with the past period, and stay consistent (Himmah 2017).

One characteristic decides the earnings quality is the relationship between an entity's earnings and the cash flows. Where, when the relationship is higher or the lower the contrast between cash streams and earnings, it will be resulting in the increase of earnings quality. The reason behind this is because the more revenues and transactions using cash basis rather than accrual basis, the more objective is the acknowledgement of revenues and costs in the earnings statement. Hence, a great earnings quality can be realized into cash.

Earnings quality is a crucial and vital component of an entity's earnings. With a good earnings quality, the management or the managers would more likely to make a great decision for the company. Therefore, with a high quality of earnings, it may also beneficial for the shareholders, investors, and public. Where it will increase trust in management in running the company on behalf of the investors.

Earnings persistence is commonly utilized as a reference for profit quality in the financial statements that are used to reflect the truth of profit and anticipate future earnings. The higher the earnings persistence used, the higher the earnings quality generated. It can also be said that earnings persistence can show the ability of company to maintain their earnings from time to time.

Earnings persistence is an indicator that explains the company's ability in maintaining earnings from year to year to remain stable. According to investors, a company that maintains high earnings will attract investors to invest, because they think if the company has an earnings persistence, then the company can maintain a stable financial condition. Based on the agency theory, it explains that in the relationships between management and investors there is a desire from management to maintain earnings in order to remain good when the investors look at it. One way to maintain a good response from investors to the company is by looking at the earnings persistence. External parties tend to choose companies that have earnings persistence because earnings are less persistent will cause external parties to experience inaccuracies in decision making investment decision (Ashma' and Rahmawati 2019).

Earnings persistence can be deciphered as a degree that clarifies the company's capacity to maintain the amount of earnings earned nowadays until the future (Oktavia and Susanto 2022). Earnings persistence is commonly utilized as a reference for earnings quality in financial statements that is able to reflect the real of earnings and anticipate future earnings. When a company's earnings persistence is high, the better the earnings quality, and the earnings persistence can be a factor for predicting the entity's earnings in the future (Rizqi, Murdayanti, and Utaminingtyas 2020; Zia and Malik 2022). On the other side, earnings persistence has no affect on earnings

quality (Ashma' and Rahmawati 2019). Based on these prior researches, it can be concluded that the hypothesis of the research is:
H_1: Earnings persistence has an affect on earnings quality

An institutional ownership is a condition where the ownership of company shares is owned by parties outside the company. An increasing in the institutional ownership level can lead to increase the supervisory efforts by institutional investors thus discouraging the opportunistic behavior of managers when managing earnings. When the ownership of the company is owned by outside parties, it will increase the earnings quality, because the management knows that many parties take interests to the firm performance (Fathussalmi, Darmayanti, and Fauziati 2019). In contrast to the results stated before, based on the research conducted by Himmah (2017), it is stated that institutional ownership has no affect on earnings quality (Dewi, Endiana, and Arizona 2020). Based on this prior research, it can be concluded that the hypothesis is:
H_2: Institutional ownership has an affect on earnings quality

Accrual component is described as the difference between earnings with cash components. In addition, accruals are the assurance of income and expenses of an assets and liabilities position without ascertaining whether the cash exchange has occurred. The company's accrual components have a positive affect on earnings quality. With a high component of accruals, it can show the true value of the company itself. So, it will lead to a high quality of earnings too (Himmah, 2017). Based on this prior research, it can be concluded that the hypothesis is:
H_3: Accrual components has an affect on earnings quality

The firm uses the leverage to know how much their liabilities or debt is used to fund the assets. The quality of company earnings could be influenced by leverage (Ashma' and Rahmawati 2019). Large companies will be followed by managers' efforts to improve performance and generate high earnings. This is resulting managers can still gain trust when looking for sources of income from the debt market (Noviyanti and Santioso 2022).

Using debt effectively and efficiently increases the value of a company. Leverage describes the source of operating funds a company uses, and leverage also can indicate the risks faced by the company (Hakim and Abbas 2019). The greater the risk a firm is exposed to, the greater the uncertainty that generated future earnings. There is a relationship between leverage and company returns, meaning that debt can be used to predict possible earnings for investors if they invest in a company (Noviyanti and Santioso 2022).

Contrary to the research result, leverage has been shown to have a negative impact on a company's earnings quality (Alvin and Susanto 2022; Listyaningsih 2020). The greater the leverage of an entity, then the earnings quality will be smaller (Pratama and Sunarto 2018; Dewi, Endiana, and Arizona 2020). Based on this prior research, the hypothesis is able to be formulated
H_4: Leverage has an affect on earnings quality

Liquidity is a business venture defined as the firm ability to meet all its maturing obligations. Liquidity is an indicator of whether the company has cash flow problems or not. The firm ability to pay its short-term debts when they come due is indicated from the company's liquidity (Hakim and Abbas 2019).

When a firm have a high level of liquidity, where the firm have big capability to get cash when it is needed, the company are more likely to have a reliable and trustworthy quality of earnings. Where corporate liquidity is actually an important consideration for creditors and investors to make decisions (Hakim and Abbas 2019).

Liquidity defines firm's expertise to meet its short-term obligations (Ginting 2017). Liquidity does not affect the quality of earnings, as it does not ensure that a company can manage its business activities properly (Noviyanti and Santioso 2022). Based on this prior research, the hypothesis is able to be formulated:

H_5: Liquidity has an affect on earnings quality

Investment opportunity is described as the size of the investment opportunity for a company, which depends on the company's expenses on future plan. Investment is one way for companies to be able to develop their companies, but many companies are unable to take advantage of this opportunity (Ashma' and Rahmawati 2019).

A high level of investment opportunity in company means they likely have a high business growth in the future (Murniati 2019). The existence of growth opportunities marked by the investment opportunity set causes the earnings to increase in the future. So, the market will respond more to the companies that have the opportunity to grow (Indriana and Handayani 2021; Dewi, Endiana, and Arizona 2020).

Contrary to the findings above, investment opportunity set shows a negative affect on the earnings quality (Listyaningsih 2020). IOS shows a negative effect when it has a significant effect, such as increasing investment opportunity set on discretionary accrual, which is a proxy for earnings quality. The relationship between discretionary accruals and earnings quality goes in the opposite direction (Warianto and Rusiti 2014). Based on this prior research, it can be concluded that the hypothesis is:

H_6: Investment opportunity set has an affect on earnings quality

Independent commissioner is not included as the member of management, the entire of shareholder, official or in any other way related directly or indirectly to the shareholder as a whole in a firm that oversees the management of the company. The duty of the board of commissioners in a firm is to monitor the implementation of policies by the board of directors so that the performance is in line with the interests of shareholders (Pratama and Sunarto 2018).

If a company has a party that supervise the work of management, the firm performance is likely to align with the interests of its shareholders (Riswandi 2015). Which this leads to the increasing quality of an entity's earnings. This result also supported by several researchers such as (Fathussalmi, Darmayanti, and Fauziati 2019).

On contrary to this statement, when a company have a commissary board who supervise the work of the management, the quality of earnings may be lowered. It is because they are pressured to have an align interest with the board, so they may conduct earnings management act in the company, which resulting in a low quality of earnings (Setiawan 2018). Based on this prior research, the hypothesis is able to be formulated:

H_7: Independent commissioner has an affect on earnings quality

The ability of a firm is known well if they can make earnings through resources. For measuring the company's profitability can be looked at the comparison between earnings and assets (Ginting 2017). The level of profitability may determine the earnings quality. The greater the company's ability in generating profits, the economic value of selling the company's net assets or using their own capital will increase (Sejati et al. 2021).

When the level of the profitability is greater, the earnings quality is also higher. It means that the profitability has a positive effect on earnings quality (Maulita, Octaviani, and Nafiudin 2022). The higher level of assets used indicating the company's ability to generate earnings which can show the level of investment efficiency seen in the asset turnover rate (Niwat 2023).

On the contrary, a company's high profitability does not guarantee that the results reported in the financial statements reflect their actual financial position. These earnings could be the result of the firm manipulation to attract all of the investors. Hence, if a firm is highly profitable, it may cause companies feared to carry out earnings management which in turn can cause a low earnings quality (Soly and Wijaya 2017). Based on this prior research, the hypothesis is formulated:

H_8: Profitability has an affect on earnings quality

METHODS

In this research, the population used is all manufacturing companies listed on IDX from 2017-2021. The sampling used in this research is purposive which needed criteria to be examined. Based on the sampling criteria, the population, which passed the sampling criteria, is 51 companies with the 255 data. Therefore, this is the table of sample selection procedure:

Table 1. Sample Criteria

No.	Criteria Description	Companies	Data
1.	Manufacturing firms do not listed in IDX continuously from 2017-2021.	140	700
2.	Firms do not consistently used IDR currency in their financial statements.	(34)	(170)
3.	Firms have not consistently published financial statements as of December 31st.	(1)	(5)
4.	Firms do not consistently profitable.	(45)	(225)
5.	Firms without consistent institutional ownership in their financial statements.	(9)	(45)
	Number of samples firms used	**51**	**255**

Source: Data obtained from IDX's Website

For this specific research, the dependent variable that will be used is earnings quality. Quality earnings are earnings that is able to reflect the actual financial performance where the data displayed does not include any vulnerability (Himmah, 2017), and it will be measured by the calculating the discretionary accrual using the modified jones model stated below:

TA=NI-CFO

Description:

TA = Total Accrual

NI = The Company's Net Income

CFO = The Company's Cash Flows from Operations

$TA_t/A_{t-1} = b_1(1/A_{t-1}) + b_2(dRev_t/A_{t-1}) + b_3(PPE_t/A_{t-1}) + e$

$NDA = b_1(1/A_{t-1}) + b_2(dRev_t - dRec_t)/A_{t-1} + b_3(PPE_t/A_{t-1})$

$DAC_{it} = (TA_t/A_{t-1}) - NDA$

Description:

A_{t-1} = The company's asset total in period t-1

$dRev_t$ = The company's revenue changes in t period

PPE_t = The company's property, plant, and equipment in t period

b_1, b_2, b_3 = Regression Coefficient

$dRec_t$ = The company's accounts receivable changes in t period

DAC_{it} = Discretionary accruals in t period

NDA = Non-discretionary accruals

Earnings persistence can be described as a measure of firm ability to maintain their profit earned from now until the future (Oktavia and Susanto 2022). The earnings persistence can be an indicator for the company to predict the earnings in the future (Himmah, 2017). Therefore, earnings persistence will be measured by the following equation:

$Earnings_{jt}/Shares\ outstanding_{jt} = a + b_1 (Earnings_{jt-1}/Shares\ outstanding_{jt-1}) + e$

Description:

$Earnings_{jt}$ = The company's earnings before extraordinary items company j years t

$Earnings_{jt-1}$ = The company's earnings before extraordinary items company j last year

$Shares\ outstanding_{jt}$ = Company j's share outstanding years t

$Shares\ outstanding_{jt-1}$ = Company j's share outstanding last year

Institutional ownership is a condition where the ownership of company shares is owned by parties outside the firm. It is believed that institutional investors can be an effective oversight mechanism for all decisions managers make.

Accrual component is an accounting method that measures the difference between earnings with cash components in a company (Himmah 2017). Where all the receipts recorded only when the transactions already happened. So, when the company receives the cash, it will not be recognized as income.

Leverage is used to measure the extent to which a firm asset are financed with debt. Companies with high level of leverage indicate that the firm uses more debt in its capital structure and assets (Indriana and Handayani 2021). Leverage portrays the source of working reserves used by the company, use to show the risks faced by the company.

A company's high level of liquidity can be identified as a condition when the company is able to meet all of its short-term obligations coming due. Liquidity is a good indicator of whether the company has cash flow issues or not.

Investment opportunity set indicates the size of the investment opportunity for a company, but this opportunity depends on the company's expenses for future interests (Ashma' and Rahmawati 2019). The investment opportunity set is the basis for defining how much the company's growth in the future. It's because the perspective is influenced by the company's IOS (Warianto and Rusiti 2014).

Independent commissioner is a commissioner who is not part of the management team or is directly or indirectly related to the entire shareholder of a firm overseeing the management of the company (Pratama and Sunarto 2018). When performing the function of overseeing the implementation of policies by the board so that performance is aligned with the interests of shareholders (Riswandi 2015).

The ability of a firm generating their earnings from the available resources is called profitability. The profitability of a firm can be measured by comparing earnings and assets (Ginting 2017). The way investors choose to continue holding their shares in the company is based on the profitability. It is a better signal for them if the profitability level is higher.

This research will be using multiple regression model analysis to test the hypothesis. The model used to test the hypothesis in this research is:
$EQ = a + b_1PERS + b_2INS + b_3ACCR + b_4LEV + b_5CR + b_6EP + b_7COM + b_8ROA + e$

Description:
EQ = Earnings quality
α = Constant
PERS = Earnings persistence
INST = Institutional ownership
ACCR = Accrual component
LEV = Leverage
CR = Liquidity
EP = Investment opportunity set
COM = Independent commissioner
ROA = Profitability
ε = Error

RESULT

These are the result from descriptive statistics that have been summarized as follows:

Table 2 Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
EQ	255	-0,32639	1,19214	0,00000	0,10539
PERS	255	-5,61787	5,75192	0,31845	1,42716
INST	255	0,04447	0,99711	0,69542	0,20825
ACCR	255	21,28780	30,25950	25,71860	1,55727
LEV	255	0,00347	5,44256	0,85388	0,79803
CR	255	0,61407	312,78817	5,82368	29,93294
EP	255	-0,00183	14,69799	0,18926	1,15962
COM	255	0,20000	0,83333	0,41352	0,10645
ROA	255	0,00028	0,92100	0,08570	0,09714

Source: Statistic Output

Table 2 shows that the total data observed by the researcher is 255. Earnings Quality (EQ) has a minimum value of -0,32639 belonging to Alakasa Industrindo Tbk (ALKA) in 2019 and an earnings quality maximum value of 1,19214 belonging to Merck Tbk (MERK) in 2018.

Profit Persistence (PERS) has minimum value of -5,61787 which belongs to Aneka Gas Industri Tbk (AGII) in 2021, while the maximum value of profit persistence is 5,75192 which belongs to Pyridam Farma Tbk (PYFA) in 2020.

Institutional Ownership (INST) has a minimum value of 0,044469247 which belongs to Kimia Farma (Persero) Tbk. (KAEF) in 2020 and 2021, while the maximum value of institutional ownership is 0,99711 which belongs to Fajar Surya Wisesa Tbk (FASW) in 2019, 2020, and 2021.

Accrual Components (ACCR) has a minimum value of 21,2878029 which belongs to Sekar Laut Tbk. (SKLT) in 2018, while the maximum value of accrual components is 30,259456 which belongs to Astra International Tbk (ASII) in 2021.

Leverage (LEV) has a minimum value of 0,00347 which belongs to Buana Artha Anugerah Tbk (STAR) in 2020, while the maximum value of leverage is 5,44256 which belongs to Alakasa Industrindo Tbk (ALKA) in 2018.

Liquidity (CR) has a minimum value of 0,61407 which belongs to Unilever Indonesia Tbk (UNVR) in 2021, while the maximum value of liquidity is 312,78817 which belongs to Buana Artha Anugerah Tbk (STAR) in 2021.

Investment Opportunity Set (EP) has a minimum value of -0,00183 which belongs to Kimia Farma (Persero) Tbk (KAEF) in 2019, while the maximum value of investment opportunity set is 14,69799 which belongs to Buana Artha Anugerah Tbk (STAR) in 2021.

Independent Commissioners (COM) has a minimum value of 0,20000 which belongs to Semen Baturaja (Persero) Tbk (SMBR) and Kimia Farma (Persero) Tbk (KAEF) in 2017, while the maximum value of independent commissioners is 0,83333 which belongs to (UNVR) in 2018, 2019, 2020, and 2021.

Profitability (ROA) has a minimum value of 0,00028 which belongs to Buana Artha Anugerah Tbk (STAR) in 2018, while the maximum value of profitability is 0,92100 which belongs to Merck Tbk (MERK) in 2018.

Table 3 Hypothesis Test

Variable	Coefficients	Significance
Constant	0,200	
PERS	-0,004	0,399
INST	-0,034	0,275
ACCR	-0,005	0,199
LEV	-0,003	0,681
CR	0,000	0,414
EP	-0,001	0,923
COM	-0,179	0,005
ROA	0,484	0,000

Dependent Variable: Earnings Quality (EQ)
Source: Statistic Output

Earnings persistence (PERS) has a significant value of 0,399, which higher than alpha 0,05. H_1 is rejected which means that earnings persistence doesn't effect on earnings quality. In determining investment decisions, investors do not only judge based on earnings, but investors also assess other aspects that may affect their investment. One thing that makes earnings not attractive to investors is uninformed earnings, it is the condition where a transitory earnings component occur and only increase earnings in the related period only (Ashma' and Rahmawati 2019).

Institutional ownership (INST) has a significant value of 0,275, which higher than alpha 0,05. H_2 is rejected which means that institutional ownership does not affect on earnings quality. The size of institutional ownership in a company are not closely monitoring and supervising the performance carried out by management to generate earnings quality. Investors cannot directly influence the process of preparing financial reports by management they focus on market response through increasing stock prices, so that the size of shares owned by institutions does not affect the earnings quality (Dewi, Endiana, and Arizona 2020).

Accrual components (ACCR) has a significant value of 0,199, which higher than alpha 0,05. H_3 is rejected which means that accrual component does not affect on earnings quality. The value of company and the earnigns quality are influenced by several factors. Therefore, accrual components can't be the only measurement to analyze a company's earnings quality.

Leverage (LEV) has a significant value of 0,681, which higher than alpha 0,05. Ha4 is rejected which means that leverage doesn't affect on earnings quality. From this result, it can be concluded that the source of funding used will not affect the earnings because the greater amount of leverage is actually caused by small amount of capital. Where, the small capital amount makes it hard for the company to do operational activity and it makes them to find another source of funds that resulting in a high leverage (Murniati 2019).

Liquidity (CR) has a significant value of 0,414, which is higher than alpha 0,05. Ha5 is rejected which means that liquidity does not affect earnings quality. Liquidity defines the firm's ability to meet their short-term obligations. Liquidity does not affect the quality of earnings, as it does not ensure that a company can manage its business activities properly (Ginting 2017).

Investment Opportunity Set (EP) has a significant value of 0,923, which is higher than alpha 0,05. H_6 is rejected which means that investment opportunity set doesn't affect earnings quality. IOS is not the focus of investors when making investment decisions. They pay less attention to the company's IOS value, but more concerned with the earnings (Yusuf, Wicaksono, and Nuryanti 2021).

Independent Commissioner (COM) has a significant value of 0,005, which lower than alpha 0,05. H_7 is accepted which means that independent commissioner effects on earnings quality. A negative coefficient means that discretionary accrual has a negative impact, while discretionary accrual has a positive affect. It means independent commissioner has positive effects on earnings quality. If a company has a party that oversees the work of management, the performance of the company will likely be the same with the interest of the shareholders. So, the greater number of independent commissioners, the quality of earnings will be better (Riswandi 2015).

Profitability (ROA) has a significant value of 0,000000000071612, which is lower than alpha 0,05. H_8 is accepted which means that profitability effects the earnings quality. Positive coefficient means that there is a positive effect to discretionary accrual, while discretionary accrual to earnings quality has negative affect. It means profitability has negative effects on earnings quality. A high-level profitability is no guarantee that the earnings reported in the financial statements reflect the actual financial condition of the company. This earnings could be the result of the company's manipulation to attract investors. Hence, if a company is highly profitable, it may cause companies feared to carry out earnings management which in turn can cause a low earnings quality (Soly and Wijaya 2017).

CONCLUSION

The research can be concluded that independent commissioner and profitability have an effect on earnings quality. Six other variables, including earnings persistence, institutional ownership, accrual components leverage, liquidity and investment opportunity set shows no affect on earnings quality. When a company can show the actual condition, the earnings quality will be increased.

The research has several limitations, including small research population, which only represent manufacturing firms listed on IDX. Second, the adjusted R-Square of this research is only 17,8% of dependent variables that can be explained by the independent variables. According to the limitations stated above, the researcher recommends conducting further research to improve the quality of the research. It is also suggested for using bigger population, not only manufacturing firms. The last recommendation is to use more variables to better explain the dependent variables.

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