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ACCOUNTING CONSERVATISM AND FINANCIAL RATIO DRIVERS OF EARNING QUALITY: STUDY OF INDONESIA'S MANUFACTURING SECTOR

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ABSTRACT

This study investigates the influence of accounting conservatism, profitability, and capital structure on earnings quality in manufacturing firms listed on the Indonesia Stock Exchange (IDX) during the post-pandemic period of 2021–2023. As the manufacturing sector plays a pivotal role in Indonesia's economic recovery, the reliability of reported earnings is crucial for informed decision-making by investors, regulators, and other stakeholders. Using a sample of 67 firms and 194 firm-year observations, this research employs multiple regression analysis to test the impact of selected financial indicators on earnings quality. The findings reveal that accounting conservatism has a significant positive effect on earnings quality, suggesting that prudent reporting practices enhance financial transparency. Conversely, profitability shows a significant negative relationship with earnings quality, indicating that high-performing firms may engage in aggressive accounting to meet external expectations. Meanwhile, capital structure does not significantly influence earnings quality, implying that financing choices alone are insufficient predictors of reporting reliability. The results underscore the importance of internal financial policies in shaping the quality of financial disclosures and highlight the need for stronger corporate governance to mitigate potential reporting biases in Indonesia's manufacturing industry.

KEYWORDS - Accounting conservatism, Capital structure, Profitability, Earning quality, Manufacturing sector

1. INTRODUCTION

In the pursuit of sustainable value creation, firms are fundamentally driven by the objective of maximizing shareholder wealth. This goal is closely tied to the quality of earnings reported in financial statements, as high-quality earnings serve as credible indicators of a firm's operational performance and future cash flow. (Hasna & Sinarasri [1]; Heriansyah & Permata [2]). Reliable earnings not only reflect accurate financial performance but also guide investment, credit, and management decisions, thereby enhancing firm reputation and stakeholder trust.

To support ongoing operations and strategic growth, companies typically rely on combination of internal financing such as retained earnings and external sources, including debt and equity. The availability and cost of external capital are often contingent on perceived transparency and integrity of firm's financial reports. consequently, earning quality play a pivotal role in reducing information asymmetry between firms and their stakeholders. (Azahra et al.) [3]

The quality of profits, or the extent to which reported earnings accurately depict the company's financial performance and are unaltered by manipulation or distortion, is a crucial component of the income statement. Good earnings are crucial for the efficient operation of the capital market and provide insightful information about a company's operations. Scott [4] asserts that the trustworthiness, sustainability, and economic significance of the reported data are just as important to earnings quality as numerical precision. Creditors and investors use this data to estimate future profitability, evaluate the company's worth, and reduce risk. On the other hand, low-quality earnings, which are frequently the result of financial distortion or earnings management, mislead stakeholders, erode market trust, and may have legal or regulatory repercussions. Laudiansyah & Kusumawati [5]

Manufacturing companies play a vital role in Indonesia's economic structure, with a substantial contribution to national GDP and workforce absorption. Due to its responsiveness to changes in market conditions, the sector requires a high level of financial accuracy and transparency. Despite this, financial reporting within the industry often faces challenges such as earnings manipulation, information asymmetry, and complex regulatory environments—all of which can negatively impact the quality of reported earnings. Heriansyah & Permata [2]. Therefore, identifying the factors that influence earnings quality in this sector is of significant importance.

This study focuses on manufacturing companies due to their crucial position within Indonesia's economic landscape and the unique challenges they encounter in financial reporting. As noted by the Ministry of Industry [6], the manufacturing sector contributes more than 19% to the nation's GDP, highlighting its substantial economic impact. Given their extensive asset holdings, capital-intensive operations, and complex production systems, these firms are expected to maintain high standards of financial transparency and reporting accuracy.

During the 2021–2023 period, the manufacturing industry in Indonesia experienced substantial transitions, particularly in the aftermath of the COVID-19 pandemic. Many companies were forced to adapt to disrupted supply chains, fluctuating demand, and shifts in production costs, which put pressure on earnings performance. These pressures heightened the risk of earnings management practices, as firms sought to maintain investor confidence and meet performance expectations in a volatile market environment (Heriansyah & Permata)[2]. Recent years have revealed several high-profile cases of earnings manipulation in Indonesia, underscoring systemic issues in corporate governance and financial transparency. One such case involved PT Indofarma, a state-owned pharmaceutical firm, which in 2023–2024 was investigated by the Supreme Audit Agency (BPK) and Attorney General's Office (AGO) for inflating revenues and presenting fictitious accounts receivable in its 2021–2022 financial statements. The manipulation allegedly caused state losses of over IDR 300 billion and triggered governance reforms within the BUMN sector (Sandi, 2024).

In 2023, PT Rimo International Lestari Tbk (RIMO), a retail and property investment firm, came under scrutiny after failing to publish audited financial statements. The Indonesia Stock Exchange (IDX) suspended the company's shares due to suspicions of asset overstatement and non-compliance with disclosure requirements. This lack of transparency raised investor concerns about the firm's earnings quality and internal controls. (Afriyadi) [7] Choosing this timeframe also aligns with recent changes in financial reporting standards, digital transformation in accounting systems, and government incentives aimed at economic recovery. These changes affected how companies prepared and disclosed financial information, making the study of earnings quality in this period particularly timely and relevant.

These observations underscore the persistent challenges surrounding earnings quality within Indonesia's financial reporting environment. They highlight the necessity of identifying and understanding internal financial factors that influence the reliability of reported earnings. Three internal financial variables are accounting conservatism, and profitability, and capital structure are the specific focus of this study, which builds on studies by Laudiansyah & Kusumawati [5]and Azahra et al. [3].

These three variables were chosen based on both theoretical and empirical factors. First, accounting conservatism emerges as a critical element influencing earning quality. Conservatism accounting practices, characterized by the timely recognition of losses and delayed recognition of gains, are intended to crub managerial opportunism and enhance the reliability of reported earnings (Anindita et al. [8]; Hasna & Sinarasri [1]). Accounting conservatism is an established accounting principle that requires firms to recognize potential losses earlier than gains. This principle is widely acknowledged for its role in constraining managerial opportunism and providing more reliable earnings figures [4] Given that conservatism can either enhance or obscure earnings transparency depending on its application, it remains a variable of high relevance to earnings quality research.

Second, Profitability, as a reflection of a firm's efficiency and market competitiveness, is also frequently linked to earning quality. Higher profitability is expected to be associated with less incentive for earnings manipulation, as firms with solid financial performance have less need to distort result. Nonetheless, some empirical findings challenge this assumption, suggesting that even profitable firms may engage in earnings management for strategic reasons (Heriansyah & Permata)[2]

Third, a company's funding decisions between debt and equity are reflected in its capital structure. Businesses with more debt (leverage) are frequently under more pressure to fulfill debt covenants and interest payments, which could encourage manipulating results. Accordingly, from the perspective of agency theory, capital structure and profits quality are directly related. (Azahra et al.) [3].

This research investigates how Return on accounting conservatism, profitability (ROA), and capital structure affect earnings quality in manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2023 period. This timeframe captures a pivotal stage of post-pandemic recovery, where businesses faced mounting expectations to demonstrate profitability and financial resilience. By concentrating on the manufacturing sector, an economic cornerstone in Indonesia. This study provides timely empirical insights into the financial and accounting practices that influence the reliability of reported earnings. The findings are expected to enrich the ongoing academic and practical discussion on earnings quality and offer valuable input for investors**,** regulators**,** and corporate decision-makers aiming to strengthen transparency and financial governance in emerging markets.

2. LITERATURE REVIEW AND HYPOTHESIS

2.1 Agency Theory

According to agency theory, which was first put forth by Jensen and Meckling [9] , owners (principals) and managers (agents) are distinct in contemporary organizations. Because managers may act in their own self-interest rather than putting the interests of shareholders first, this division raises the possibility of conflicts of interest. Agency issues result from these conflicts, especially in financial reporting when managers may falsify results to satisfy external standards, obtain performance-based rewards, or gain personal advantages. Earnings quality becomes a major concern in this situation. High-quality earnings should be devoid of managerial bias or distortion and should accurately represent a company's economic success. However, managers frequently have an incentive to manipulate results because of agency conflicts, which damages the credibility of reported earnings.

2.2 Signaling Theory

Signaling theory, introduced by Market et al., (1973**)**, explains how one party (the signaler) conveys credible information to another (the receiver) in situations characterized by information asymmetry. In the context of corporate reporting, managers who possess better internal knowledge use financial statements to signal the company's financial health and future prospects to investors and other external parties. According to Ross [10] managers can use financial decisions, particularly financial reporting and capital structure choices, to signal the firm's true value and performance expectations. The underlying premise is that credible signals reduce uncertainty and build investor confidence in managerial competence. Companies with strong performance tend to issue positive signals**,** such as conservative and transparent financial reports, to distinguish themselves from lower-quality firms. These signals reduce uncertainty and build stakeholder trust, particularly when market participants have limited access to private internal information. Azahra et al. [3]

2.3 Earnings Quality

The quality of earnings is a measure of how well reported profit figures mirror a company's real economic performance. Scott [4] asserts that high-quality earnings include the reported profits' legitimacy, sustainability, and informative value in addition to their exact calculation. Since quality earnings offer a solid foundation for assessing managerial performance and projecting future profitability, they are a crucial statistic for stakeholders.

Users, including creditors, investors, and regulators, are able to make well-informed judgments when financial reports display high-quality earnings. Earnings represent managerial integrity and company transparency when they match actual operational outcomes and follow accepted accounting procedures. ani . Strong earnings quality, as noted by Andriani et al. [11] provides a more accurate depiction of financial health, lowering the possibility of market distortion and improving capital allocation efficiency by bridging the information gap between internal company actors and external stakeholders.

2.4 Accounting Conservatism and Earning Quality

Accounting conservatism refers to a prudent approach in financial reporting where firms tend to recognize potential losses and liabilities more rapidly than gains. This principle plays a vital role in enhancing the reliability of financial statements by limiting overstatement of income and assets. In recent years, scholars have examined the extent to which accounting conservatism contributes to the quality of earnings, particularly in emerging and post-crisis economies.

Zadeh, Askarany, and Asl [12] assert that accounting conservatism strengthens earnings quality by reducing managerial discretion and mitigating earnings manipulation. Their study indicates that conservative accounting provides a safeguard mechanism that leads to more stable and predictable earnings, thus increasing the credibility of reported financial information. Similarly, Al Ani and Chong [13] investigate the interplay between accounting and auditing conservatism in Oman. Their results suggest that a conservative accounting environment, supported by conservative auditing practices, significantly improves earnings quality by enforcing stricter revenue

recognition and enhancing the transparency of reported earnings. Cahyani and Khafid [14] find that accounting conservatism plays a moderating role in the relationship between firm-specific characteristics and earnings quality. Firms that adopt higher levels of conservatism tend to experience less earnings volatility, suggesting that conservative financial reporting mitigates the influence of managerial opportunism and enhances the integrity of earnings. Furthermore, Gaga et al. [15] emphasize the importance of conservatism in reinforcing corporate governance. In their study of emerging markets, they argue that conservative reporting improves financial disclosure quality, which in turn promotes effective monitoring and better governance outcomes, all of which are conducive to higher earnings quality. Laudiansyah and Kusumawati [5] explore the combined effects of corporate governance and financial performance on earnings quality. Although not the primary focus, they note that conservative accounting supports governance mechanisms by limiting opportunistic behaviors and promoting transparent financial practices.

Collectively, these studies underline the positive relationship between accounting conservatism and earnings quality. Conservative accounting policies not only enhance financial statement reliability but also act as a disciplinary tool that aligns management behavior with shareholder interests.

H1: Accounting Conservatism Affects Earnings Quality

2.5 Profitability and Earnings Quality

Profitabilit, typically gauged by Return on Assets (ROA), is a financial metric that shows how well a business can make money off of its activities and resources. ROA shows how well a business generates profits from its assets based on Andriani et al. [11]. Acccording to Laudiansyah & Kusumawati [5] demonstrates that profitability significantly improves the quality of earnings. According to the research, profitable businesses typically generate steady operating cash flows and more predictable earnings. Because it lessens the possibility of profits manipulation, this financial stability improves the accuracy of reported results. Strong profitability boosts investors' confidence in the caliber of reported earnings by sending a good signal about the company's performance and prospects for the future, according to signaling theory.

Pinem et al. [16] examined the influence of profitability on earnings quality, with capital structure as a mediating variable. Their findings revealed that higher profitability leads to better earnings quality, primarily because profitable firms tend to have less incentive to manipulate earnings. These firms are more capable of maintaining financial transparency, thereby enhancing the credibility of their reported earnings. Supporting this view, Duarte et al. [17] conducted a study on Portuguese SMEs and confirmed that profitability plays a central role in shaping earnings quality. They argued that firms with strong financial performance are more likely to exhibit stable, recurring earnings patterns that accurately reflect their economic activities. This relationship indicates that profitability enhances stakeholder confidence in financial statements.

In a related study, Winata and Simon [18] explored the effect of profitability on earnings management, a practice closely linked to earnings quality. Their results indicated that more profitable firms exhibit lower levels of earnings management, suggesting that strong profitability acts as a deterrent to opportunistic accounting behavior. The literature strongly supports the view that profitability enhances earnings quality by reducing incentives for earnings manipulation, improving financial transparency, and promoting more consistent reporting behavior.

H2: Profitability affects Earnings Quality

2.6 Capital Structure and Earnings Quality

The term capital structure describes how a business pays its operations by combining internal like equity and external like debt as a financial source. While equity financing requires the business to give returns to shareholders prior to their initial commitment, debt financing entails interest costs. Brilian & Effriyanti [19] The percentage of debt used to fund business operations does not directly improve or lower the caliber of reported earnings. Azahra et al. [3] An ideal capital structure can indicate financial stability and lessen agency conflicts, but it does not always result in higher-quality earnings, according to the study. The results imply that large investment is not a guarantee of accurate or credible earnings presentation. A different perspective, Alsaadi [20] provided empirical evidence that firms with higher leverage are more likely to engage in earnings management. This behavior reduces earnings quality, especially in less-regulated environments where lenders impose strict performance expectations. This supports the view that capital structure can introduce agency conflicts between creditors and managers, leading to reduced reporting quality. Synn and Williams [21] extended the discussion by linking capital structure to financial reporting quality. Their findings suggest that firms with an optimal capital structure, balancing debt and equity efficiently tend to produce higher quality financial reports. Such firms face lower information

asymmetry and are under less pressure to manipulate earnings, leading to more trustworthy financial statements.

The literature emphasizes that capital structure exerts a meaningful influence on earnings quality. While moderate leverage can enhance discipline and reduce agency costs, excessive debt may lead to financial distress and earnings manipulation, thereby reducing the credibility of reported earnings.

H3: Capital Structure Affects Earnings Quality

3. METHODOLOGY AND PROCEDURES

Table 1. Criteria Sample

No	Criteria	Total Data
1	Manufacturing firms that remained continuously listed on the Indonesia Stock Exchange (IDX) throughout the 2021–2023 period.	489
2	Manufacturing firms that did not consistently finalize their financial statements as of December 31 each year between 2021 and 2023.	(45)
3	Manufacturing companies that did not consistently prepare their financial statements in Indonesian Rupiah during 2021–2023.	(81)
4	Manufacturing companies that did not consistently report net income during 2021–2023.	(162)
Total of Research Samples (67 company x 3 years)		201
Outlier Data During Processing Time		7
Total Fix Research Samples		194

This study uses secondary data from the 2021-2023 annual financial statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX). To ensure data consistency, the initial pool of 489 firms was narrowed down using specific screening criteria. Companies were excluded if they didn't consistently report financial statements ending on December 31st, didn't use Indonesian Rupiah, or didn't consistently declare net income. After applying these criteria, the final sample consisted of 67 companies, resulting in 201 company year observations. After removing 7 outlier data points, the final analysis was conducted on 194 reliable observations. For every factor examined in this study, the following measurements are used:

Table 2. Measurement

Variable	Indicators	Source
Earnings Quality	Earnings Quality = Operating Cash Flow / Net Profit	Laudiansyah & Kusumawati (2023)
Accounting Conservatism	Accounting Conservatism = (Current Years Profit + Depreciation – Operating Cash Flow) / Total Asset x (-1)	Azahra et al., n.d. (2024)
Profitability	ROA = Net Profit / Total Asset	Laudiansyah & Kusumawati (2023)
Capital Structure	Capital Structure = Total Debt/Total Asset	Azahra et al., n.d. (2024)

Multiple regression analysis was used to test hypotheses in this study. This technique uses a multivariate linear regression approach to assist determine the link between each independent variable and the dependent variable.

$EQ = \alpha + \beta 1\ CNSV + \beta 2\ ROA + \beta 3\ CS + \varepsilon$

EQ = Earnings Quality
α = Constant
CNSV = Conservatism
ROA = Profitability
CS = Capital Structure

4. RESULT AND DISCUSSION

4.1 Result

The study analyzes 194 observations to determine how accounting conservatism (X1_CNSV), profitability (X2_ROA), and capital structure (X3_CS) affect earnings quality (Y).

Table 3 Result

Variables	N	Mean	Std. Dev	Min	Max
Earnings Quality	194	1.990216695	4.912674364	-2.75160821	59.33190150
Conservatism (X1_CNSV)	194	-0.013463027	0.0587687484	-0.178765363	0.1897283268
Profitability (X_ROA)	194	0.0834324716	0.0622438664	0.0012539184	0.2928664490
Capital Structure (X3_CS)	194	0.3353336132	0.1625981674	0.0326609069	0.7970943021
Valid N	194				

Source: SPSS (2025)

Earnings Quality (Y) shows substantial variation, with a standard deviation of 4.91 and values ranging from -2.75 to 59.33, despite having an average of approximately 1.99. Conservatism (X1_CNSV) has a mean of -0.0135 and a standard deviation of 0.0588, with values ranging from -0.1788 to 0.1897. Profitability (X2_ROA) shows a lower standard deviation of 0.0622 and an average of 0.0834, with values between 0.0013 and 0.2929. Meanwhile, Capital Structure (X3_CS) has a mean of 0.3355 and a standard deviation of 0.1626, with values ranging from 0.0327 to 0.7971.

Table 4 Classical Assumption Test

Testing	Result	Standard	Information
Normality – One Sample Kolmogorov Smirnov Test	(CNSV) Sig. = 0.004 (ROA) : Sig. = 0.000 (CS) : Sig. = 0.200	Sig. ≥ 0.05	The data of Conservatism and Profitability was not distributed normally, but Capital Structure has been distributed normally.
Multicollinearity – Tolerance and VIF Values	(CNSV) Tolerance = 0.954 (CSNV) VIF = 1.049 (ROA) Tolerance = 0.968 (ROA) VIF = 1.033 (CS) Tolerance = 0.924 (CS) VIF = 1.082	VIF < 10 and Tolerance > 0.1	The data has been free from Multicollinearity Symptoms.
Heteroscedasticity – White Test	Calculated Chi Square = 4.074 Chi Square Table (df 2, ∝ 0,05) = 5.591	Calculated Chi Square < Chi Square Table	The data has been free from Heteroscedasticity Symptoms.
Autocorrelation – Breusch - Godfrey	Sig. = 0.681	Sig. > 0.05	The data has been free from Autocorrelation Symtomps.

Source: SPSS (2025)

The one-sample Kolmogorov-Smirnov test was employed in this study's normality test. The results showed that the significant values for profitability (ROA) and conservatism (CNSV) were below the 0.05 cutoff, at 0.000 and 0.004, respectively. Although this suggests that the two variables' data are not regularly distributed, this does **not necessarily violate the assumptions** of regression analysis because if the sample size is sufficiently large (n > 30), the sampling distribution of the regression coefficients will tend to be normally distributed regardless of the shape of the data distribution. On the other hand, a normal distribution was shown by the Capital Structure (CS) variable's significance value of 0.200, which is higher than 0.05. The Tolerance and Variance Inflation Factor (VIF) values were used to test for multicollinearity. The VIF values are between 1.033 and 1.082, whereas the tolerance values for all variables fall between 0.924 and 0.968. All VIF values are below 10 and all tolerance

values are over 0.1, indicating that the regression model does not exhibit any signs of multicollinearity. Therefore, there are no multicollinearity issues with the data.

The White Test was used to perform the heteroscedasticity test. The chi-square critical value (df = 2, α = 0.05) was 5.591, and the computed chi-square value was 4.074. The data does not show signs of heteroscedasticity because the computed chi-square is less than the table value. The regression model is therefore regarded as homoscedastic. The Breusch-Godfrey test was used to perform the autocorrelation test. The obtained significance value, 0.681, is higher than 0.05. This outcome suggests that there is no autocorrelation in the data. Thus, it may be said that there are no autocorrelation symptoms in the regression model.

Table 5. Coefficient of determination

R	R Square	Adjusted R Square
0.392	0.154	0.140

Source: SPSS (2025)

With an adjusted R Square value of 0.140, the study's independent variables in the regression model can account for around 14% of the variation in the dependent variable, earnings quality. This suggests that although the model has some predictive potential, other factors may also have a major impact on earnings quality. This is indicated by the relatively low explanatory power.

Table 6. F Test

	Sum of Squares	df	Mean Square	F	Sig
Regression	716.666	3	238.889	11.516	0.000
Residual	3941.268	190	20.744		
Total	4657.933	193			

Source: SPSS (2025)

An important factor in assessing the overall fit of the regression model is the F-statistic value, which is 11.516 in the ANOVA table. When compared to a model without predictors, the F-test determines if the model as a whole significantly improves the dependent variable's prediction. Most importantly, the corresponding significance value (Sig.) is 0.000, which is far below the threshold of 0.05. This means the likelihood that such a high F-value occurred by chance is extremely low. Therefore, we reject the null hypothesis that all regression coefficients are equal to zero.

Table 7. Result of Multiple Linear Regression

	Unstandardized B	Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	2.816	0.970		2.904	0.004
X1_CNSV	24.847	5.713	0.297	4.349	0.000
X2_ROA	-15.556	5.354	-0.197	-2.905	0.004
X3_CS	2.406	2.097	0.080	1.147	0.253

4.2 The Influence of Accounting Conservatism on Earning Quality

The findings of the regression analysis indicate that, with a t-value of 4.349 and a significance level (p-value) of 0.000, the accounting conservatism variable (X1_CNSV) significantly affects earnings quality. Accounting conservatism has a favorable impact on earnings quality, as indicated by the positive coefficient. This indicates that businesses with a more cautious accounting style typically generate higher-quality earnings. This finding bolsters the notion that more trustworthy and dependable earnings data is produced by conservative financial reporting, which prioritizes early expense recognition and delayed revenue recognition. This kind of caution lowers the possibility of inflated profits and aids in avoiding opportunistic manipulation of earnings. As a result, stakeholders, such as creditors and investors, are able to make better decisions by using reliable financial data.

However, the outcome is different from Azahra et al. [3] findings. Accounting conservatism has a detrimental impact on earnings quality, according to their research (t = -2.221, Sig = 0.030). This suggests that in their analysis, more conservative accounting actually resulted in lower quality results, maybe because overly conservative accounting could induce needless delays in income recognition or disguise important performance information.

4.3 The Influence Profitability on Earning Quality

Referring to the findings, the profitability variable produced a significance value of 0.004 and a t-value of -2.905. These results indicate that profitability has a significant negative influence on earnings quality, thereby rejecting the second hypothesis. In this context, increasing profitability may introduce complexities that unintentionally diminish the reliability of financial reports. While higher ROA levels can reflect strong financial performance, they may also lead to aggressive accounting practices that, though not necessarily manipulative, can obscure the true economic picture.

This finding is consistent with the study of Laudiansyah & Kusumawati [5], which empirically demonstrated that profitability significantly affects earnings quality. They suggest that higher ROA levels can signal better performance, but such performance may be manipulated for strategic signaling, particularly in non-financial companies. Similarly, Azahra et al. [3]found that profitability, although traditionally seen as an indicator of financial health, may distort earnings quality if used opportunistically to manage external perceptions.

4.4 The Influence Capital Structure on Earning Quality

The influence of the capital structure variable (X3_CS) is statistically not significant, as indicated by its significance value of 0.253, which is higher than 0.05. Therefore, capital structure has no effect on earnings quality, and the theory that it does is disproved.

According to this research, a company's reported earnings are not always affected by how it finances its activities, whether it does so with debt or equity. A well-balanced or highly leveraged capital structure does not ensure higher-quality results. The outcome suggests that other internal or external elements, such corporate governance, management conduct, or outside inspection, might have a greater influence on the caliber of earnings.

This result is aligned with the study by Azahra et al. [3]who also found that capital structure had no significant effect on earnings quality (Sig. = 0.682). Their explanation points out that although capital structure reflects how well a company finances its activities, it does not directly contribute to enhancing earnings transparency or reliability, especially when managerial practices override capital efficiency.

5. CONCLUSION

This study concludes by highlighting the complex connections between earnings quality and other financial variables. The study supports the idea that a conservative approach to financial reporting, with early expense recognition and delayed revenue recognition, produces more trustworthy financial data. It also demonstrates that accounting conservatism has a beneficial impact on earnings quality. This stands in contrast, nevertheless, to several earlier studies that suggested that over conservatism can have drawbacks.
On the other hand, the study finds a negative correlation between earnings quality and profitability. Strong performance might be indicated by great profitability, but it can also bring complications that inadvertently reduce the accuracy of financial reports. Aggressive accounting procedures may result from the urge to preserve favorable perceptions, according to previous research.

Lastly, the study shows that earnings quality is not substantially impacted by capital structure. This implies that other internal and external issues, such as corporate governance and management conduct, may have a greater impact than a company's financing choices, which do not always translate into higher quality earnings. All things considered, these results highlight how critical it is to take into account both profitability and accounting conservatism when assessing earnings quality, while also acknowledging that elements other than capital structure are vital in determining the accuracy of financial reporting.

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