

THE EFFECT OF LEVERAGE, FIRM SIZE, PROFITABILITY, AND OPERATING ACTIVITIES ON EARNINGS QUALITY OF CONSUMER NON-CYCLICALS LISTED ON IDX

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ABSTRACT

This study examines the effects of leverage, firm size, profitability, and operating activities on the earnings quality of Consumer Non-Cyclicals companies listed on the Indonesia Stock Exchange (IDX) during 2021–2025. This sector was chosen because its relatively stable demand provides a suitable context for assessing earnings quality. Secondary data from annual financial statements were analyzed using multiple linear regression on 205 firm-year observations obtained through purposive sampling. The findings indicate that leverage has no significant effect on earnings quality. In contrast, firm size has a significant positive effect, whereas profitability and operating activities have significant negative effects. Collectively, the independent variables significantly explain earnings quality, with an adjusted coefficient of determination of 20.7%. These results broaden empirical evidence on earnings quality within the Consumer Non-Cyclicals sector and provide useful considerations for investors, corporate managers, and other stakeholders when evaluating the credibility of reported earnings.

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INTRODUCTION

Earnings quality represents one among the indicators that are most important for evaluating the credibility of financial reporting because it reflects whether reported earnings is accurate in portraying the actual economic performance of a firm. Earnings, according to Dechow et al. (2010), are deemed of high quality when they faithfully represent a company's financial condition and provide information that is reliable for predicting future performance. Consequently, high-quality earnings become an essential source of information for investors, creditors, along with other stakeholders when assessing corporate performance and making economic decisions. In contrast, reported earnings that are not backed by sufficient operating cash flows can reduce the reliability of financial statements and lead to increased uncertainty regarding a firm's true financial condition (Handayani & Syaiful, 2025; Saleem & Ahmed, 2020). Therefore, earnings quality remains a fundamental aspect of financial reporting that deserves continuous academic attention.

One factor frequently associated with earnings quality is leverage, which measures how much a company depends on debt financing for its operations. Companies with relatively high leverage generally face greater financial obligations and are therefore subject to increased monitoring from creditors. This condition may influence managerial decisions related to financial reporting because managers are expected to demonstrate the firm's capability in meeting its contractual commitments. Previous studies have suggested that a substantial debt burden can motivate managers to maintain favorable financial performance, potentially affecting the quality of reported earnings (Maulita & Dewi, 2023; Insania et al., 2025; Yasa et al., 2020). In addition, leverage reflects the degree of financial risk arising from the use of external financing,

which may further increase management's incentives to maintain the credibility of financial reporting under creditor supervision (Prameswari et al., 2025). Accordingly, leverage is considered an important determinant in explaining variations in earnings quality.

Firm size is another variable that has received considerable attention in the earnings quality literature. The scale of a company's operations is reflected by firm size and it commonly represents the amount of resources under management, particularly total assets. In general, larger firms possess stronger internal control systems, more sophisticated governance mechanisms, and greater transparency in financial reporting than smaller firms. They are also subject to closer supervision by regulators, investors, and other external stakeholders, creating stronger incentives to produce reliable financial information. Total assets are widely recognized as an appropriate indicator of firm size because they reflect the overall economic resources available to support business operations (Prameswari et al., 2025). As a result, larger companies are generally expected to report earnings with higher credibility and better quality (Kurniawati, 2023; Siagian et al., 2022; Tsania et al., 2025).

Profitability has also been widely recognized as a factor that may influence earnings quality because it is a reflection of management's effectiveness in generating returns from the resources available to the company. Firms with higher profitability are commonly seen as having stronger operational performance as well as better prospects for sustaining future earnings. Such conditions often enhance investor confidence and improve market perceptions of corporate performance. Furthermore, firms with stronger profitability are generally more capable of financing their operations through internally generated funds, reducing their dependence on external financing and reflecting more efficient resource utilization (Kusumawati et al., 2017). Nevertheless, the existence of high accounting profits alone does not automatically guarantee that those earnings are backed by sufficient operating cash flows. Therefore, examining the relationship between profitability as well as earnings quality remains important in determining whether reported earnings genuinely reflect sustainable business performance (Aprilia et al., 2020; Salma & Riska, 2019; Tsania et al., 2025).

Besides leverage, firm size, and profitability, operating activities are also considered an important factor in explaining earnings quality. Operating activities reflect how effective is a company in utilizing the resources that it owns to generate revenue through its core business operations. Companies that efficiently manage their operational resources are generally expected to achieve better financial performance and stronger operating cash flows. Since operating cash flow represents the primary source supporting reported earnings, its relationship with earnings quality has attracted increasing attention in accounting research. Saleem & Ahmed (2020) argued that earnings accompanied by strong operating cash flows provide a representation of a company's economic performance that is more accurate than earnings that primarily arise from accounting adjustments. Consequently, operating activities are expected to contribute to the production of higher-quality earnings. Higher operational efficiency enables companies to utilize their resources more productively, thereby strengthening operating cash flows that support the credibility of reported earnings (Karim et al., 2023).

Agency Theory provides the underlying perspective for explaining the relationship between corporate financial characteristics and earnings quality. Jensen & Meckling (1976) argued that the separation of ownership and control creates a contractual relationship in which managers may pursue objectives that differ from those of shareholders. This condition is reinforced by information asymmetry, as managers generally possess more comprehensive knowledge of a firm's financial and operational conditions than external stakeholders, allowing greater discretion in financial reporting (Li, 2020; Zejbullahu, 2021; Imisiker & Tas, 2016). Consequently, managerial discretion arising from information asymmetry may affect the quality of reported earnings, making Agency Theory a relevant foundation for examining how leverage, firm size, profitability, and operating activities are associated with earnings quality.

Although the Consumer Non-Cyclicals sector is widely recognized for its relatively stable demand, companies within this sector have continued to experience differences in financial performance during the post-pandemic period. Rising operating costs, changing consumer purchasing patterns, and fluctuations in operating cash flows have created varying levels of earnings persistence among firms, indicating that reported accounting profits are not always accompanied by comparable cash-generating performance. These conditions have increased investors' attention toward earnings quality as an indicator of whether reported earnings genuinely reflect a firm's underlying economic performance.

This study focuses on companies operating in the Consumer Non-Cyclicals sector that are on the list of Indonesia Stock Exchange (IDX). Firms in this sector primarily provide products and services that satisfy consumers' essential daily needs, including food and beverages, household necessities, healthcare products, and other basic commodities. Because demand for these products tends to remain relatively stable under different economic conditions, companies within this sector generally experience lower fluctuations in business performance than firms operating in cyclical industries. Such characteristics make the Consumer Non-Cyclicals sector an appropriate setting for examining the determinants of earnings quality, as financial performance is less likely to be heavily influenced by short-term economic cycles.

Despite the relatively stable nature of this sector, the quality of reported earnings may still vary considerably among companies. Some firms report substantial accounting profits without generating operating cash flows at a comparable level, while others demonstrate stronger consistency between reported earnings and cash flow performance. These differences indicate that high profitability alone should not automatically be interpreted as evidence of high-quality earnings. Instead, the credibility of earnings should also be evaluated based on the extent to which accounting profits are supported by actual cash generated from operating activities. This condition highlights the importance of identifying the factors that explain variations in earnings quality among Consumer Non-Cyclicals companies.

Previous empirical studies examining earnings quality have produced inconsistent findings. The effects of leverage, firm size, as well as profitability has been reported differently across various studies, with some researchers identifying significant relationships while others found no statistically meaningful effects. Likewise, empirical evidence regarding operating activities remains relatively limited compared with other financial indicators. These inconsistencies indicate that the determinants of earnings quality have not yet been conclusively established, creating opportunities for further investigation using different research settings, observation periods, and measurement approaches. Furthermore, only a limited number of previous studies have specifically examined the Consumer Non-Cyclicals sector by simultaneously incorporating leverage, firm size, profitability, and operating activities within a single empirical model. This limitation leaves uncertainty regarding the relative contribution of these financial characteristics to earnings quality in a sector characterized by relatively stable business demand.

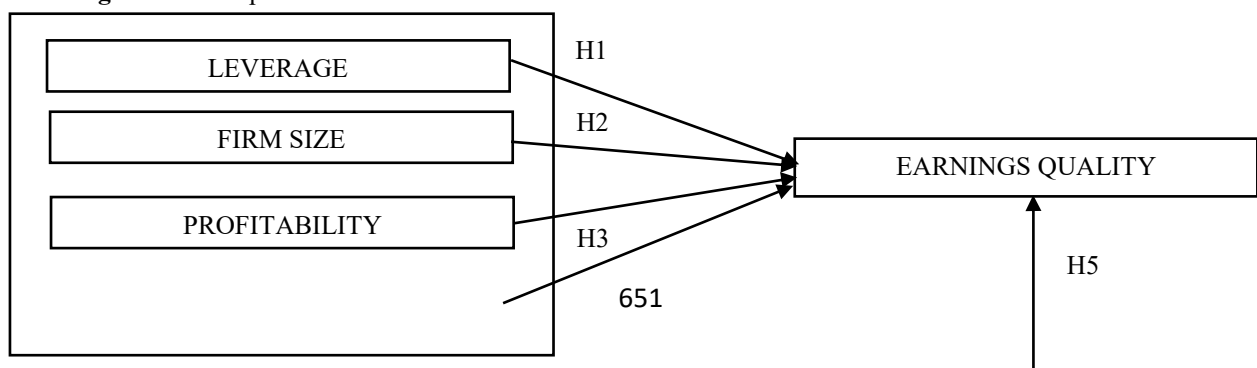
For example, Septiana & Desta (2021) reported that leverage and profitability negatively affected earnings quality, whereas firm size showed no significant influence. Similar findings were documented by Maulita & Dewi (2023), who also found insignificant evidence regarding firm size. In contrast, Kurniawati (2023) concluded that leverage did not significantly influence earnings quality, while firm size demonstrated a significant positive effect. Other studies conducted by Zatira et al. (2019), Salma & Riska (2019), Insania et al. (2025), and Saleem & Ahmed (2020) likewise produced varying conclusions regarding the relationships between the independent variables with earnings quality. These inconsistent results strengthen the need for further empirical examination.

Building upon those previous studies, the present research re-examines the influence of leverage, firm size, profitability, along with operating activities on earnings quality by focusing on Consumer Non-Cyclicals companies that are on the IDX list throughout the 2021–2025 period. Unlike many previous studies that examined only selected financial determinants, this study simultaneously investigates leverage, firm size, profitability, and operating activities within the Consumer Non-Cyclicals sector over the 2021–2025 period. This approach provides more comprehensive empirical evidence regarding the determinants of earnings quality in Indonesian listed companies.

Accordingly, this study's primary objective is to analyze both the individual and simultaneous effects of leverage, firm size, profitability, along with operating activities on the earnings quality of Consumer Non-Cyclicals companies that are on the list of Indonesia Stock Exchange throughout the 2021–2025 observation period.

Based on the theoretical arguments and empirical evidence presented above, leverage, firm size, profitability, and operating activities are expected to influence earnings quality. The proposed relationships among these variables are illustrated in Figure 1.

Figure 1. Conceptual Framework



OPERATING ACTIVITIES

H4

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Based on the conceptual framework and the preceding discussion, the hypotheses are proposed as follows:

- H1:** Leverage affects the earnings quality of Consumer Non-Cyclicals companies listed on the Indonesia Stock Exchange (IDX).
- H2:** Firm size affects the earnings quality of Consumer Non-Cyclicals companies listed on the Indonesia Stock Exchange (IDX).
- H3:** Profitability affects the earnings quality of Consumer Non-Cyclicals companies listed on the Indonesia Stock Exchange (IDX).
- H4:** Operating activities affect the earnings quality of Consumer Non-Cyclicals companies listed on the Indonesia Stock Exchange (IDX).
- H5:** Leverage, firm size, profitability, and operating activities simultaneously affect the earnings quality of Consumer Non-Cyclicals companies listed on the Indonesia Stock Exchange (IDX).

METHODS

A quantitative approach was implemented in this study to examine the effects of leverage, firm size, profitability, as well as operating activities on the earnings quality of Consumer Non-Cyclicals companies that are on the Indonesia Stock Exchange (IDX) list. A quantitative design was selected because the research investigates causal relationships among measurable financial variables using statistical techniques. The population consisted of 132 Consumer Non-Cyclicals companies on the IDX list throughout the 2021–2025 observation period. The selection of samples were decided through purposive sampling in accordance with the predetermined criteria, which are: (1) companies that had been on the IDX list before 2021; (2) companies that consistently publish complete annual financial statements throughout the period of observation; (3) companies providing adequate information to calculate all research variables; (4) companies presenting their financial statements in Indonesian Rupiah (IDR); (5) companies reporting positive net income in each year of the observation period. After these criteria were applied, a total of 41 companies were chosen, which results in 205 firm-year observations.

Secondary data was utilized for this study and gathered from the annual financial statements of Consumer Non-Cyclicals companies published on the official website of IDX. The financial information gathered included total liabilities, shareholders' equity, total assets, net income, operating cash flows, and net sales, which were subsequently used to calculate all variables in this research. Earnings quality served as the dependent variable and was measured with the Earnings Quality Ratio (EQ), calculated as the ratio of operating cash flows to net income. The independent variables consisted of leverage, proxied by DER; firm size, measured with the natural logarithm of total assets (SIZE); profitability, represented by ROA; with operating activities, measured using Total Asset Turnover (TATO).

Although the dataset consists of firm-year observations from multiple companies over the 2021–2025 period, the analysis employed Ordinary Least Squares (OLS) regression by treating all 205 observations as a pooled dataset. This approach was considered appropriate because the study was designed to examine the overall relationship between leverage, firm size, profitability, operating activities, and earnings quality rather than to estimate firm-specific or time-specific effects. Data analysis was performed with the use of the Statistical Package for the Social Sciences (SPSS). The analytical procedure began with descriptive statistical analysis, followed by a series of classical assumption tests comprising tests for normality, multicollinearity, heteroscedasticity, and autocorrelation using the Kolmogorov–Smirnov, Variance Inflation Factor (VIF), Scatterplot, and Durbin–Watson methods, respectively. Since the dataset contained 205 observations, the sample size was considered sufficiently large for statistical inference. Based on the Central Limit Theorem (CLT), minor deviations from the normality assumption were not expected to substantially affect the validity of the regression estimates (Gujarati & Porter, 2009; Wooldridge, 2016). Because financial statement data frequently exhibit heteroscedasticity, Robust Standard Errors (HC3) were employed to obtain more reliable statistical inference without altering the estimated regression coefficients (MacKinnon & White, 1983; Long & Ervin, 1999). Accordingly, hypothesis testing through the t-test, F-test, and the coefficient of determination (Adjusted R²) was conducted using the robust estimates.

Below is the multiple linear regression model tested in this study:

$$EQ = \alpha + \beta_1 DER + \beta_2 SIZE + \beta_3 ROA + \beta_4 TATO + \varepsilon$$

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

To give an overview of the characteristics of the research data, descriptive statistical analysis was conducted using the minimum value, maximum value, mean, as well as standard deviation of the variables. The analysis was performed using 205 observations obtained from Consumer Non-Cyclicals companies that are on the IDX list throughout the 2021–2025 observation period. The descriptive statistical analysis results are displayed below.

Table 1. Descriptive Statistical Analysis Results

Variable	N	Minimum	Maximum	Mean	Std. Deviasi
Leverage (DER)	205	0,06	6,47	0,8184	0,82847
Firm Size (SIZE)	205	25,72	33,02	29,4823	1,60288
Profitability (ROA)	205	0,01	0,38	0,1043	0,06757
Operating Activities (TATO)	205	0,27	3,50	1,1476	0,68870
Earnings Quality (EQ)	205	0,04	7,46	1,5588	1,08081

Source: SPSS output, data processed (2026).

Referring to Table 1, the leverage variable measured by DER recorded a value at 0.8184 for mean with a standard deviation at 0.82847. The observed values ranged from 0.06 for minimum to 6.47 for maximum. The standard deviation, which slightly exceeds the mean, signifies considerable variation in the capital structures of the sampled companies, suggesting differences in their reliance on debt financing throughout the observation period.

Firm size (SIZE) recorded a value at 29.4823 for average with a standard deviation at 1.60288. The minimum and maximum values were respectively 25.72 and 33.02. Because the standard deviation was substantially not exceeding the mean, the distribution of firm size was relatively homogeneous, indicating that the sampled companies did not differ substantially in terms of their total assets.

The profitability variable, represented by ROA, had a mean value at 0.1043 and a value at 0.06757 for standard deviation. The observed values ranged from 0.01 to 0.38, signifying differences in the companies' capability to generate earnings from the assets that they own. Nevertheless, the relatively low standard deviation compared with the mean suggests that profitability remained reasonably concentrated around its average value.

Operating activities, measured using Total Asset Turnover (TATO), produced a value at 1.1476 for mean with a standard deviation at 0.68870. The minimum and maximum values were respectively 0.27 and 3.50. These findings indicate that the efficiency of how companies utilize the assets that they own to generate sales varied across the sample, although the variation remained within a moderate range.

The dependent variable, earnings quality (EQ), recorded a value at 1.5588 for average and a standard deviation at 1.08081. The range of the values is from 0.04 to 7.46, demonstrating differences in the degree to which reported earnings were backed by operating cash flows among the sampled companies. Even so, because the standard deviation remained below the mean, the overall variation in earnings quality can be considered relatively moderate throughout the observation period.

Classic Assumption Test

The classical assumption tests were performed to evaluate whether the regression model satisfied the assumptions of multiple linear regression analysis. These tests comprised the normality, multicollinearity, heteroscedasticity, as well as autocorrelation test. Since this study employed a relatively large sample consisting of 205 firm-year observations, the interpretation of the normality test also considered the Central Limit Theorem (CLT). Furthermore, to improve the reliability of statistical inference in the presence of heteroscedasticity, the regression model was estimated using Robust Standard Errors based on the Heteroskedasticity-Consistent Covariance Matrix Estimator version 3 (HC3).

Normality Test

The normality test was performed as a determinant of whether the regression residuals showed a distribution that is normal. Normality was assessed through the use of the One-Sample Kolmogorov–Smirnov test and was further evaluated through visual inspection of the histogram and the Normal P–P Plot.

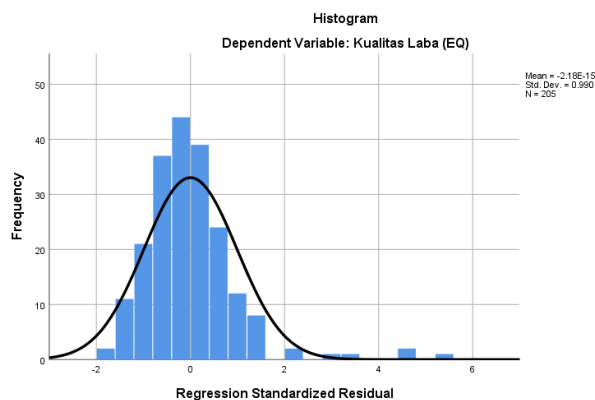
Table 2. Normality Test Results

Remarks	Value
N	205
Test Statistic	0,111
Asymp. Sig. (2-tailed)	0,000

Source: SPSS output, data processed (2026).

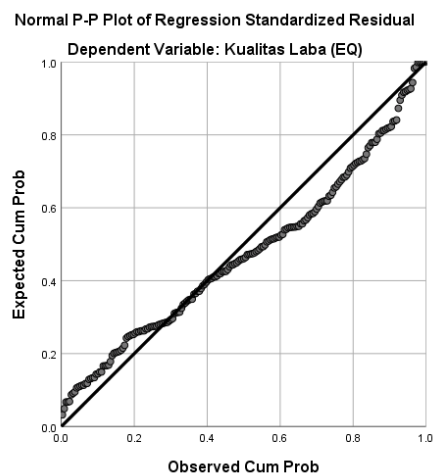
From the One-Sample Kolmogorov–Smirnov test results, the significance value was 0.000, which was below 0.05. Statistically, this result signifies that the regression residuals did not show a distribution that is normal.

Figure 2. Histogram Residual



Source: SPSS output, data processed (2026).

Figure 3. Normal P-P Plot



Source: SPSS output, data processed (2026).

However, visual inspection of Figure 2 shows that the histogram approximately follows a normal distribution, while Figure 3 indicates that most of the residuals are clustered closely around the diagonal line in the Normal P–P Plot. These findings suggest that the deviation from normality was not substantial. Furthermore, this study included 205 observations; therefore, based on the Central Limit Theorem (CLT), the sampling distribution of the estimator is expected to approximate a distribution that is normal when the sample size is sufficiently large. Accordingly, the normality assumption was considered adequately satisfied, and for subsequent analyses, the regression model was deemed appropriate.

Multicollinearity Test

The classical assumption tests were carried out to evaluate whether the regression model satisfied the assumptions of multiple linear regression analysis. These tests consisted of the normality, multicollinearity, heteroscedasticity, as well as autocorrelation test. Since this study employed a relatively large sample consisting of 205 firm-year observations, the interpretation of the normality test also considered the Central Limit Theorem (CLT). Furthermore, to improve the reliability of statistical inference in the presence of heteroscedasticity, the regression model was estimated with the use of Robust Standard Errors based on the Heteroskedasticity-Consistent Covariance Matrix Estimator version 3 (HC3).

Table 3. Multicollinearity Test Results

Variable	Tolerance VIF	
Leverage (DER)	0,838	1,193
Firm Size (SIZE)	0,880	1,136
Profitability (ROA)	0,888	1,126

Variable	Tolerance VIF	
Operating Activities (TATO)	0,923	1,084

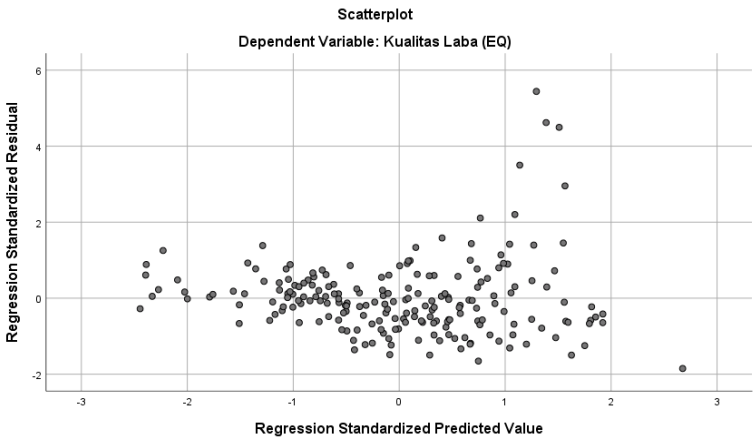
Source: SPSS output, data processed (2026).

As displayed on Table 3, all independent variables recorded Tolerance values exceeding 0.10 and VIF values well below 10. As indicated by these results, no serious multicollinearity problem was detected among leverage, firm size, profitability, and operating activities. Accordingly, each independent variable was considered to provide distinct information in explaining variations in earnings quality, allowing the regression coefficients to be interpreted without concern for excessive collinearity.

Heteroscedasticity Test

Heteroscedasticity was evaluated through visual inspection of the Scatterplot of standardized residuals. In addition, the regression model was estimated using Robust Standard Errors based on the HC3 estimator to ensure that statistical inference remained reliable even if heteroscedasticity was present. The Scatterplot is presented in Figure 4.

Figure 4. Scatterplot



Source: SPSS output, data processed (2026).

The Scatterplot illustrates that the residuals are distributed in a random way around the zero line, with no clear systematic pattern, like a funnel-shaped or wave-like distribution. This visual evidence suggests that no apparent heteroscedasticity problem exists in the regression model. Moreover, the application of Robust Standard Errors (HC3) further strengthens the reliability of the estimated standard errors because this estimator remains consistent under heteroscedastic conditions. Consequently, the regression coefficients can be interpreted with greater confidence throughout the hypothesis-testing process.

Autocorrelation Test

The presence of autocorrelation was examined with the use of the Durbin–Watson statistic. This test was intended to determine whether the residuals were serially correlated across observations. The Durbin–Watson test results are displayed below in Table 4.

Table 4. Autocorrelation Test Results

Durbin-Watson	dL	dU	Conclusion
1,286	1,723	1,803	Indications of positive autocorrelation

Source: SPSS output, data processed (2026).

The Durbin–Watson statistic of 1.286 was lower than the lower critical value (dL = 1.723), indicating the presence of positive autocorrelation in the regression residuals. This result suggests that the residuals may exhibit serial dependence, which can occur when financial data include observations over consecutive periods (Gujarati & Porter, 2009). To improve the reliability of statistical inference under heteroscedasticity, this study applied Robust Standard Errors (HC3) (MacKinnon & White, 1983; Long & Ervin, 1999). However, because HC3 is intended to correct heteroscedasticity rather than serial correlation, the evidence of autocorrelation was carefully considered when interpreting the empirical findings and is recognized as one of the limitations of this study.

Multiple Linear Regression Analysis

Multiple linear regression analysis was performed to evaluate how leverage, firm size, profitability, along with operating activities affect earnings quality. Since the regression model was estimated with the use of Robust Standard Errors based on the HC3 estimator, the interpretation of the regression coefficients and their statistical significance relied on the robust estimation results. The regression output is displayed on Table 5.

Table 5. Results of Multiple Linear Regression Analysis (Robust Standard Errors HC3)

Variable	Koefisien (B)	Robust Std. Error	t	Sig.
Konstanta	-1,852	1,413	-1,311	0,191
Leverage (DER)	0,217	0,125	1,736	0,084
Firm Size (SIZE)	0,138	0,050	2,760	0,006
Profitability (ROA)	-5,529	1,127	-4,906	0,000
Operation Activities (TATO)	-0,214	0,099	-2,164	0,032

a. HC3 method

Source: SPSS output, data processed (2026).

The following is the estimated regression equation:

$$EQ = -1,852 + 0,217 DER + 0,138 SIZE - 5,529 ROA - 0,214 TATO$$

The constant coefficient of -1.852 indicates the estimated value of earnings quality when all independent variables are assumed to remain constant. The regression coefficient of leverage (DER) is 0.217, suggesting that an increased leverage is likely to be accompanied by an increased earnings quality, although the magnitude and significance of this relationship must be evaluated through hypothesis testing. Firm size (SIZE) shows a positive coefficient at 0.138, an indication that larger companies are likely to report higher earnings quality. Conversely, profitability (ROA) records a coefficient of -5.529, implying an inverse relationship between profitability and earnings quality. Likewise, operating activities (TATO) show a negative coefficient at -0.214, signifying that higher operating activity is accompanied by lower earnings quality after controlling for the other explanatory variables.

Hypothesis Test

Hypothesis testing was performed to determine the regression model's explanatory power as well as to evaluate each independent variable's significance in explaining earnings quality. The evaluation consisted of the coefficient of determination (Adjusted R²), the simultaneous significance test (F-test), along with the partial significance test (t-test). Because the regression model employed Robust Standard Errors (HC3), all statistical decisions were based on the robust estimation results.

Coefficient of Determination Test (Adjusted R²)

The coefficient of determination indicates the proportion of variation in earnings quality explained by leverage, firm size, profitability, and operating activities. The outcomes of the model summary are displayed on Table 6.

Table 6. Coefficient of Determination Test Result (Model Summary)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,471	0,222	0,207	0,96272

Source: SPSS output, data processed (2026).

The regression model produced an Adjusted R² value at 0.207, an indication that 20.7% of the variations in earnings quality can be interpreted collectively by the model's independent variables. The remaining 79.3% is attributable to other determinants that were not incorporated into this study. These findings suggest that earnings quality is influenced by additional financial and non-financial factors beyond leverage, firm size, profitability, and operating activities.

Simultaneous Test (F-Test)

The regression model's overall significance was subsequently evaluated with the use of the F-test. This test determines whether all independent variables jointly contribute to explaining earnings quality. The outcomes are displayed on Table 7.

Table 7. Simultaneous Test Result (F-Test)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	52,941	4	13,235	14,280	0,000
Residual	185,364	200	0,927		

Model	Sum of Squares	df	Mean Square	F	Sig.
Total	238,305	204			

Source: SPSS output, data processed (2026)..

The F-test recorded an F-statistic at 14.280 with a significance value at **0.000**. Since this probability is below 5%, the regression model is considered statistically significant. Accordingly, Hypothesis 5 (H5) is accepted, an indication that leverage, firm size, profitability, and operating activities simultaneously influence earnings quality in Consumer Non-Cyclicals companies that are on the IDX list throughout the 2021–2025 period.

Partial Test (t-test)

The individual contribution of each explanatory variable was further examined through the partial significance test (t-test). Because the regression coefficients were estimated using the HC3 robust estimator, the statistical conclusions were based on the corresponding robust t-statistics. The outcomes are summarized on Table 8.

Table 8. Partial Test Results (t-test)

Variable	t Value	Sig.	Verdict
Leverage (DER)	1,736	0,084	H1 Not Supported
Firm Size (SIZE)	2,760	0,006	H2 Supported
Profitability (ROA)	-4,906	0,000	H3 Supported
Operating Activities (TATO)	-2,164	0,032	H4 Supported

Source: SPSS output, data processed (2026).

The empirical results demonstrate that leverage (DER) obtained a t-statistic at 1.736 with a value at 0.084 for significance, exceeding the 5% significance threshold. Consequently, leverage does not show a statistically significant influence on earnings quality, and thus, signifying the rejection of Hypothesis 1 (H1). Whereas firm size (SIZE) recorded a t-statistic at 2.760 with a significance value at 0.006, an indication of a positive and statistically significant influence on earnings quality. This signifies the acceptance of Hypothesis 2 (H2).

Profitability (ROA) generated a t-statistic at -4.906 with a significance value at 0.000, demonstrating a significant negative relationship with earnings quality. These findings support Hypothesis 3 (H3). Similarly, operating activities (TATO) yielded a t-statistic at -2.164 with a significance value at 0.032, confirming a significant negative influence on earnings quality. Accordingly, Hypothesis 4 (H4) is also supported.

Effect of Leverage on Earnings Quality (H1)

The findings suggest that differences in leverage do not substantially explain variations in earnings quality among Consumer Non-Cyclicals companies listed on the Indonesia Stock Exchange during the 2021–2025 period. This indicates that a greater reliance on debt financing does not necessarily reduce or improve the credibility of reported earnings within the observed companies. From an Agency Theory perspective, debt is often expected to strengthen external monitoring because creditors require companies to demonstrate their ability to meet contractual obligations. However, the absence of a significant relationship suggests that creditor monitoring alone may not be sufficient to influence the quality of reported earnings in this sector. The relatively stable demand for essential consumer products enables firms to maintain business performance despite differences in capital structure, thereby reducing managerial pressure to alter financial reporting solely because of debt obligations.

This result also indicates that the credibility of earnings in Consumer Non-Cyclicals companies may depend more on operational performance and cash flow generation than on financing decisions. As long as companies are able to sustain stable operating activities and fulfill their financial commitments, leverage becomes less relevant in explaining earnings quality. These findings are consistent with Maulita & Dewi (2023), who likewise reported no significant association between leverage and earnings quality. In contrast, Yasa et al. (2020) documented a significant relationship. The inconsistency may be attributable to differences in observation periods, industrial characteristics, and the earnings quality proxies employed. Unlike studies covering more heterogeneous sectors, the present research focuses exclusively on Consumer Non-Cyclicals companies, whose relatively stable business environment may weaken the influence of leverage on financial reporting quality.

Effect of Firm Size on Earnings Quality (H2)

The results indicate that larger companies tend to report higher earnings quality than smaller firms. This finding suggests that the availability of greater economic resources supports the development of stronger internal control systems, more structured financial reporting procedures, and broader corporate governance practices, all of which contribute to more credible financial information. Agency Theory provides an explanation for this relationship by emphasizing that

larger firms generally face greater agency costs because they are monitored by a wider range of stakeholders, including investors, creditors, regulators, and auditors. Such extensive monitoring encourages managers to present financial statements that more faithfully reflect the company's underlying economic performance and reduces opportunities for opportunistic reporting behavior.

Within the Consumer Non-Cyclicals sector, companies with larger asset bases are also more capable of maintaining stable operations and investing in financial reporting systems that enhance reporting reliability. Consequently, firm size serves not only as an indicator of operational scale but also as a reflection of a firm's capacity to support transparent and accountable financial reporting. This evidence is in line with the findings of Siagian et al. (2022) and Tsania et al. (2025), both of whom concluded that larger firms tend to produce higher-quality earnings. However, Septiana & Desta (2021) reported no significant relationship. Such differences may stem from variations in research settings, earnings quality measurements, and company characteristics, indicating that the influence of firm size is likely to depend on the institutional and industrial context in which companies operate.

Effect of Profitability on Earnings Quality (H3)

The findings indicate that higher profitability is associated with lower earnings quality among Consumer Non-Cyclicals companies during the observation period. This suggests that increases in accounting profit are not always accompanied by proportional improvements in operating cash flows. Consequently, high profitability should not automatically be interpreted as evidence of high-quality earnings, particularly when earnings quality is assessed using the Earnings Quality Ratio (EQ), which emphasizes the consistency between reported earnings and operating cash flows. From an accounting perspective, this result may indicate that profit growth is influenced more by accrual-based accounting recognition than by actual cash generated from operating activities. Companies may record higher earnings through increased sales, revenue recognition, or other accounting adjustments, while cash collections do not increase at the same pace. As a result, net income rises more rapidly than operating cash flows, leading to a decline in the Earnings Quality Ratio despite higher reported profitability.

Agency Theory also provides a relevant explanation for this relationship. Managers are often encouraged to demonstrate favorable financial performance to satisfy shareholders and maintain positive market perceptions. Under these circumstances, greater emphasis may be placed on achieving accounting profit targets, whereas improvements in cash flow generation require stronger operational performance and generally cannot be realized within the same reporting period. This difference between accounting earnings and cash realization may ultimately reduce the credibility of reported earnings. The present findings differ from those of Aprilia et al. (2020) and Salma & Riska (2019), who reported a positive relationship between profitability and earnings quality. One possible explanation lies in the measurement of earnings quality. While previous studies employed different proxies that primarily emphasized accounting performance, this study uses the Earnings Quality Ratio (EQ), which directly evaluates whether reported earnings are supported by operating cash flows. Differences in industrial characteristics and the post-pandemic observation period may also have influenced companies' ability to convert accounting earnings into operating cash inflows, contributing to the contrasting empirical results.

Effect of Operating Activities on Earnings Quality (H4)

The findings demonstrate that higher operating efficiency does not necessarily lead to higher earnings quality. Although companies with higher Total Asset Turnover (TATO) are generally more effective in utilizing their assets to generate sales, stronger sales performance alone does not guarantee that reported earnings are supported by sufficient operating cash flows. From an accounting perspective, this relationship may arise because sales growth is frequently accompanied by increased credit sales rather than immediate cash receipts. Under such circumstances, higher sales contribute to greater accounting profit while operating cash inflows remain relatively limited due to the accumulation of trade receivables. Consequently, operating cash flows increase more slowly than net income, causing the Earnings Quality Ratio to decline despite improvements in operational efficiency.

These findings suggest that efficient asset utilization should not be interpreted solely as evidence of high-quality earnings. Instead, the quality of reported earnings also depends on the company's ability to convert sales into operating cash flows that genuinely support accounting profit. For companies operating in the Consumer Non-Cyclicals sector, maintaining stable sales performance is important, but the sustainability of earnings ultimately depends on the effectiveness of cash flow management rather than sales growth alone. The findings also complement the argument of Saleem & Ahmed (2020), who emphasized that earnings supported by strong operating cash flows provide a more reliable representation of a company's economic performance. Although higher operating efficiency is generally expected to strengthen financial performance, the present study indicates that its contribution to earnings quality depends on whether improvements in sales are accompanied by proportional cash inflows. This explains why operational efficiency alone was insufficient to improve earnings quality within the observed companies.

CONCLUSION

This study demonstrates that the financial characteristics examined contribute differently to explaining earnings quality among Consumer Non-Cyclicals companies listed on the Indonesia Stock Exchange during the 2021–2025 period. Leverage was not found to influence earnings quality, whereas firm size showed a positive association. In contrast, profitability and operating activities exhibited negative relationships with earnings quality, indicating that stronger accounting performance or higher operational efficiency does not necessarily imply that reported earnings are supported by operating cash flows. Collectively, these variables explain a portion of the variation in earnings quality, while the remaining variation reflects the influence of other factors beyond the scope of this study.

These findings contribute to the development of Agency Theory by demonstrating that firm-specific financial characteristics do not influence earnings quality in a uniform manner. While Agency Theory suggests that monitoring mechanisms and managerial incentives affect the credibility of financial reporting, the present study shows that the explanatory power of individual financial indicators varies when earnings quality is assessed through the consistency between accounting earnings and operating cash flows. Accordingly, this research provides additional empirical evidence that enriches the literature on earnings quality in Indonesian public companies, particularly within the Consumer Non-Cyclicals sector.

From a practical perspective, the findings suggest that investors, creditors, and other financial statement users should avoid relying solely on profitability or sales efficiency when evaluating corporate performance. Greater attention should also be given to operating cash flows and their consistency with reported earnings, as the combination of profitability ratios and cash flow information provides a more comprehensive assessment of earnings quality and financial reporting credibility.

This study is subject to several limitations. First, the analysis was confined to Consumer Non-Cyclicals companies listed on the Indonesia Stock Exchange during the 2021–2025 period, limiting the generalizability of the findings to other industrial sectors. Second, earnings quality was measured exclusively using the Earnings Quality Ratio (EQ), while other proxies may capture different dimensions of earnings quality. Third, the analytical model employed pooled Ordinary Least Squares (OLS) with Robust Standard Errors (HC3), and the Durbin–Watson test indicated the presence of positive autocorrelation, which should be considered when interpreting the empirical findings.

Future studies are encouraged to broaden the research scope by including companies from different industries, extending the observation period, and incorporating additional determinants such as corporate governance, audit quality, institutional ownership, earnings management, liquidity, firm growth, and dividend policy. Furthermore, employing alternative analytical approaches, including panel data regression models such as Fixed Effects, Random Effects, or Generalized Least Squares (GLS), together with multiple earnings quality proxies, may provide a more comprehensive understanding of the factors influencing earnings quality.

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