Accounting Conservatism, Auditor Size, Leverage, and Related Party Transactions on Earnings Quality

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Abstract

This study aims to provide empirical evidence on accounting conservatism, investment opportunity set, auditor size, leverage, and related party transactions on earnings quality. The sample used in this study is all consumer cyclical and non-cyclical companies listed on the Indonesia Stock Exchange in 2020-2022. The sample selection used the purposive sampling method, which obtained 399 data points. The statistical test used in this study uses a panel data regression model – fixed effect. The results of this study show that leverage affects earnings quality. However, accounting conservatism, auditor size, and related party transactions do not affect earnings quality.

Keywords: Earnings Quality, Accounting Conservatism, Auditor Size, Leverage, Related Party Transactions

1. Introduction

Financial statements are a reflection of the company's business activities. A company's financial statements can show the company's condition, both in good and bad condition. Companies need good and correct financial statements because potential investors and creditors can assess and make decisions appropriately (Hung and Van, 2020). In preparing financial statements, companies must pay attention to earnings so that they remain stable, there are no material misstatements, and still display the earnings condition as it is without manipulating readers and users of financial statements. Earnings are a significant part of the company's financial statements. One of the reasons is that earnings are a reference or benchmark for the smooth sustainability of a company's business for internal parties, such as management, and external parties, such as investors and creditors (Lestari and Khafid, 2021). Earnings quality is one of the essential components the company must pay attention to make it easier for interested parties to use financial statements in making decisions (Yasa et al., 2019).

Several factors can affect earnings quality, such as accounting conservatism, auditor size, leverage, and related party transactions, which, in previous research, were inconsistent. Accounting conservatism has been found to have a significant impact on earnings quality. Accounting conservatism positively affects earnings quality (Utomo, Pamungkas, and Machmuddah, 2018). However, Delkhosh and Sadeghi (2017) demonstrated a negative

relationship between conservatism and earnings quality. These conflicting findings highlight the complex relationship between accounting conservatism and earnings quality, suggesting that contextual factors and measurement methods may play crucial roles in determining outcomes.
The auditor size that audits a company will affect the quality of implementing its audit duties. The quality of the implementation of audit tasks will affect the earnings quality from the company's financial statements (Puteri and Saraswati, 2021). The impact of auditor size on earnings quality has been a subject of research with mixed findings. Some studies suggest that larger audit firms, mainly the Big 4/8, provide higher quality audits and more effectively constrain earnings management (Jordan, Clark, and Hames, 2010; Teoh and Wong, 1993). That is reflected in higher earnings response coefficients for Big Eight clients (Teoh and Wong, 1993) and less evidence of EPS rounding among Big Four clients (Jordan et al., 2010). However, other research indicates that the effect of auditor size on earnings quality may be limited or context-dependent. Sumiadji, Chandrarin, and Subiyantoro (2019) show that auditor size affects earnings quality in Indonesia, while Ajekwe and Ibiamke (2017) reported no statistically significant impact of Big 4 auditors on earnings management in Nigeria. These conflicting results suggest that the relationship between auditor size and earnings quality may vary across different markets and regulatory environments.

Leverage shows the comparison level between the company's debt and assets. The more outstanding or smaller debt that the company has can motivate it to increase or decrease its earnings from its actual situation to maximize the earnings it will obtain (Anggraeni and Widati, 2022). Recent studies have examined the relationship between leverage and earnings quality, yielding mixed results. While Pangesti, Sugiarti, and Siddiq (2023) found no significant effect of leverage on earnings quality in Indonesian manufacturing companies, Nirmalasari and Vidati (2022) reported a significant negative impact. Lin and Lee (2016) observed that firms with leverage deficits have higher earnings quality.

Related party transactions (RPTs) have been a subject of concern regarding their impact on earnings quality. RPTs can negatively affect earnings quality, especially in firms with substantial family ownership (Munir and Saleh, 2010). RPTs have been used as a medium for fraud and can be influenced by relationships between involved parties (Suffian, Sanusi, and Ghafar, 2018). The existence of RPTs may represent a potential conflict of interest, providing incentives for controlling shareholders to expropriate minority shareholders and manage earnings to conceal such actions (Hasnan, Daie, and Hussain, 2016). However, the negative effects of RPTs on earnings quality can be mitigated by strong corporate governance mechanisms, particularly board independence and audit quality (Hasnan et al., 2016). These findings highlight the complex relationship between RPTs and earnings quality, emphasizing the importance of corporate governance in managing potential negative impacts.

It is important to conduct this research to determine several factors affecting earnings quality, namely accounting conservatism, auditor size, leverage, and related party transactions. In some previous studies, the results are still inconsistent, so this study needs to be conducted. The inconsistency of prior research results can be influenced by the scope of the study or the existence of certain conditions or situations that can affect the company environment, for example, changes in policies and regulations or the occurrence of certain specific conditions such as COVID-19. For this reason, this study uses data on consumer cyclical and non-cyclical consumer companies listed on the Indonesia Stock Exchange, which are still rare to be researched and uses a research period during the COVID-19 outbreak, which will impact the earnings quality.

The study seeks empirical evidence of the influence of accounting conservatism, auditor size, leverage, and related party transactions on earnings quality. This study makes a theoretical contribution by providing additional literature reviews on factors that affect audit quality, such as accounting conservatism, auditor size, leverage, and related party transactions. This study also offers practical studies for creditors in providing debt policies by considering the earnings quality. This research also contributes to users of financial reports in making decisions.

1.1. Agency Theory

This agency theory is a theory that connects the relationship between the party acting as the authorized or principal as the company's shareholders and the party acting as the authorized or agent as the company's management (Jensen and Mackling, 1976). The principal, as a shareholder, and the agent, as the company's management, have different goals and interests that can cause agency conflicts (Helina and Permanasari, 2018). This agency conflict will make it difficult for principals, shareholders, agents, or management to unite their goals, so the company's management often manipulates earnings. Earnings manipulation can be done by increasing or decreasing earnings in the company's financial statements to meet its interests. Earnings manipulation carried out by the company's management will reduce the earnings quality because the earnings are not reported under the actual circumstances. As a result, the readers and users of financial statements who make decisions will be wrong (Helina and Permanasari, 2018).

1.2. Earnings Quality

Earnings quality It is a determination of the good or bad condition of the earnings in the company's financial statements. Sarawana and Destriana (2015) state that Earnings quality has three characteristics. The first characteristic is earnings quality, which can accurately show or describe the operating conditions of a company in the relevant period. The second characteristic is earnings quality, which can show how to forecast the company's performance in the future. The third characteristic is earnings quality. It can be a summary indicator that users of financial statements can use to see the value of a company. The condition of earnings in the financial statements recorded in the actual state can show the company's sustainability level in the future, which is good quality earnings (Hasanuddin et al., 2021).

The company's management can make decisions to affect the company's earnings by earnings management. The company's management can increase or decrease earnings from the actual situation because it has flexibility in dealing with the accrual system (Mousa and Desoky, 2019). Earnings management can lower a company's earnings quality because it does not report earnings in actual circumstances, so it cannot reflect its financial performance well. This study uses the Modified Jones Model (Dechow, Sloan, and Sweeney, 1995) concerning earnings management and quality. Modified Jones Model Calculating the discretionary accrual (DAC) value by looking at the difference between total accrual and normal accrual or non-discretionary accrual.

1.3. Accounting Conservatism and Earnings Quality

Application accounting conservatism in a company can affect the company's quality of earnings. Application accounting conservatism This can affect the decision of the company's management. The company's management, which implements accounting conservatism, will be more careful and will not increase or decrease earnings excessively. The earnings reported by the company in an actual state and not exaggerated can indicate that the earnings in the company's financial statements are of good quality (Yasa et al., 2019).

Accounting conservatism is an action that is carried out because there is a feeling of not being optimistic about an uncertain event (Azizah and Khairuddin, 2019). Action accounting conservatism is done by carefully acknowledging the company's earnings and assets, not directly. Meanwhile, costs and debts are recognized first (Maulia and Handojo, 2022). Principle accounting conservatism strives to choose alternatives to minimize the company's high earnings and asset values (Safaruddin et al., 2022). Principle accounting conservatism This can take preventive measures against the company's management to present the company's earnings and assets excessively so that the earnings presented in the financial statements are reported as they are (Yasa et al., 2019). Investors will get positive signals on financial statements that use the principle of accounting conservatism. Conservative financial statements can minimize the possibility of investor error in assessing the high earnings of a company (Anggraeni and Widati, 2022).

Yasa et al. (2019), Maulia and Handojo (2022), Anggraeni and Widati (2022) indicate that accounting conservatism has a positive influence on earnings quality. Accounting conservatism is influential in improving earnings quality because the company is prudent when deciding on existing business risks. This cautious attitude will help the company strengthen its earnings quality because it will be more careful in making financial statements concerning its earnings and assets. Moreover, the accounting conservatism principle does not lower earnings quality because the displayed earnings are not manipulated, and the actual state is still displayed.

According to Kurniawan et al. (2019), Pratiwi and Pralita (2021), accounting conservatism negatively affects earnings quality. Accounting conservatism or a prudent attitude in decision-making against existing uncertainties does not improve the earnings quality. Application accounting conservatism in the company was found to reduce the earnings quality.

However, according to Azizah and Khairudin (2019), accounting conservatism does not influence earnings quality. Principle accounting conservatism: be careful in the presentation of financial statements against any uncertainties that may occur. Using accounting conservatism, delaying the recognition of earnings and assets did not affect the earnings quality.

H1: Accounting conservatism affects earnings quality.

1.4. Auditor Size and Earnings Quality

Auditor size can be seen from the size of the revenue scale and the size of the organization of the public accounting firm, which is commonly known as the Big Four, which consists of Deloitte Touche Tohmatsu (Deloitte), Pricewaterhouse Coopers (PwC), Ernst and Young (EY), from Klynveld Peat Marwick Goerdeler (KPMG) (Sumiadji et al., 2019). Auditors of the Big Four have better training and experience, so Big Four audit firms are better than Non-Big Four audit firms in preventing the company's management from manipulating earnings (Hadi and Handojo, 2017). Experience, techniques, abilities, and other factors that auditors have in Big Four audit firms make them more able to present information on a company's earnings more accurately and credibly to users of financial statements than Non-Big Four audit firms (Alvin and Susanto, 2022).

The earnings quality from a company's financial statements can also be influenced by the quality of audits conducted by external auditors. The quality of the audit can be seen from the auditor size; the better the audit quality of the external auditor, the more visible the assurance of accuracy carried out by the auditor in checking the presentation of financial statements. Poor audit quality cannot reflect the earnings quality under the actual circumstances because there is a possibility of misrepresentation or fraud by the company that is not detected (Sorialam et al., 2022). The audit firms are different, namely that a large audit firm has more resources and clients, so its reputation is better than a small audit firm (Christiani and Nugrahanti, 2014).

Sumiadji (2019), Alzoubi (2016), and Houqe et al. (2015) indicate that auditor size has a positive influence on earnings quality. According to Alvin and Susanto (2022), a company's earnings quality has improved because Big Four audit firms conduct continuous audits. External auditors working in Big Four audit firms are found to be of higher quality, more adequate in number, and have implementation procedures in carrying out their more structured duties than non-Big Four audit firms.

Alvin and Susanto (2022) indicate that auditor size negatively influences earnings quality. The earnings quality from companies audited by Big Four audit firms was found to have decreased. Auditing conducted by Big Four audit firms does not improve the earnings quality; on the contrary, it decreases the earnings quality.

Nevertheless, Sorialam et al. (2022); Putri and Fitriasari (2017) indicate that auditor size does not influence earnings quality. Audit firms such as Big Four or non-Big Four did not affect the company's earnings quality. The quality of auditing by Big Four and non-Big Four audit firms has not been confirmed. The quality of auditors in ASEAN countries can vary depending on many factors.

H2: Auditor size affects earnings quality.

1.5. Leverage and Earnings Quality

Leverage describes the relationship between debt and assets a company owns. A company is in good condition if it has less debt than its assets (Alvin and Susanto, 2022). Companies with low debt or liabilities can allocate more funds for operational activities so that the company's

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activities can be carried out better than companies with more loans (Kurniawan and Suryaningsih 2019). Leverage It also reflects the amount of assets a company has financed by the debt it owns. With more extensive leverage, the company will focus more on using its assets or wealth to pay debts than dividends to shareholders, thereby reducing investor confidence (Nariman and Ekadjaja, 2018).

Companies with good performance can be seen by looking at the amount of debt the company has and how it can pay off its debts. Companies with a lot of debt and difficulty paying off their debts will likely have poor performance. Companies that have more debt are likely to be able to increase earnings than they should to improve the earnings quality in their company's financial statements. The earnings quality from companies reported to be unreal can decrease quality (Anggraeni and Widati, 2022).

As'ad et al. (2021) and Kurniawan and Suryaningsih (2019) indicate that leverage positively influences earnings quality. Leverage, which is increasing, demonstrates that the company has more debt than its assets or capital. Debts owned by many companies can be used to earn earnings because they can continue to be rotated. The large earnings obtained from this debt turnover can improve the company's finances and prevent the company from manipulating earnings, reducing the earnings quality. It can be concluded that leverage can improve earnings quality without manipulating earnings and increase company finances.

Alvin and Susanto (2022), Purnamasari and Fachrurrozie (2020), and Nariman and Ekadjaja (2018) indicate that leverage has a negative influence on earnings quality. High leverage means that the company's debt exceeds its assets and capital. The company's high level of debt will cause the management to manipulate earnings against earnings in the company's financial statements. This manipulation of earnings is carried out due to high rates of leverage. The company can certainly reduce the quality of earnings.

Nevertheless, Nandika and Sunarto (2022), Anggraeni and Widati (2022), and Hasanuddin et al. (2021) indicate that leverage does not influence earnings quality. Leverage, which suggests that the company has debts greater than its assets or capital, does not affect the earnings quality.
H3: Leverage affects earnings quality.

1.6. Related Party Transactions and Earnings Quality

According to the Financial Accounting Standards Statement (PSAK) 7 regarding the disclosure of related parties, the party referred to as a related party is a party or entity that has a relationship or connection with the reporting company or the company that presents the financial statements is referred to as a related party. Related party transactions are transactions between the reporting entity and associated entities as a transfer of the entity's resources, services, or obligations (Kurnia and Daito, 2022). Related party transactions usually occur if a relationship between two parties has merged and can provide value for the company and the associated parties (Mohammed and Abibakar, 2020). Transactions with related parties can cause agency problems. The company's management takes opportunistic actions from this transaction to gain revenue for

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its interests and cause losses to the principal or shareholders. This management action affects earnings quality because management can manipulate earnings to achieve its interests (Kurnia and Daito, 2022).

Transactions obtained from related parties can increase the company's income or earnings. Increased company earnings can improve the earnings quality. A large company's earnings will also reduce the likelihood that the company will report higher earnings than it should, which can reduce the earnings quality of the company's financial statements. Transactions with related parties can also affect the usefulness of the company's earnings information, thereby affecting the views of investors and financial analysts (Mohammed and Abibakar, 2020).

Kurnia and Daito (2022) indicate that related party transactions positively influence earnings quality. The more transactions related parties carry, the greater the cash flow will be obtained. The amount of cash flow owned by the company will make the effect of aligning the controlling shareholders even greater. The controlling shareholder's desire to transact with opportunistic related parties. Given this, the earnings quality will be maintained and improved.

Mohammed and Abibakar (2020) indicate that related party transactions negatively influence earnings quality. Transactions made with related parties must be reduced. That is due to the view that the earnings quality will decrease with more transactions with related parties. Transactions that want to be carried out with related parties must be considered first by the applicable terms and regulations.
H4: Related party transactions affect earnings quality.

2. Method

The object of this study is cyclical and non-cyclical companies listed on the Indonesia Stock Exchange during the 2020-2022 period. The purposive sampling method is used for sample determination in this study. The table of sample selection results can be seen in Table 1.

Table 1. Sample Selection Results

	Criterion	Number of Companies	Amount of Data
1	Consumer cyclical and consumer non-cyclical companies in Indonesia that are consistently listed on the Indonesia Stock Exchange during the 2019-2022 period	192	576
2	Companies that did not report their financial statements during the 2019-2022 period	(11)	(33)
3	Companies that did not report financial statements ended December 31 during the 2019-2022 period	(3)	(9)
4	Companies that did not report their financial statements in rupiah during the 2019-2022 period	(13)	(39)

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	Criterion	Number of Companies	Amount of Data
5	Companies subject to suspension during the 2020-2022 period	(3)	(9)
6	Companies that do not have complete data (Related Party Transactions, Sales, and Expenses) during the 2020-2022 period	(29)	(87)
	Number of Company Samples	133	399

Source: IDX and financial statements

2.1. Operational Definition and Variable Measurement

2.1.1 Earnings Quality

Earnings quality is information about a company's earnings that can provide an overview of the company's current performance and reflect the actual state of the earnings (Alvin and Susanto, 2022). In this study, earnings quality is measured by examining whether the company performs earnings management using the Modified Jones Model (Dechow et al., 1995). Modified Jones Model Calculating the discretionary accrual (DAC) value by looking at the difference between total accrual and normal accrual or non-discretionary accrual. Earnings quality is measured using a ratio scale with the formula (Mousa and Desoky, 2019) as follows:

$$TAC_{it} = EARNINGS_{it} – CFO_{it} \quad (1)$$

$$TAC_{it}/TASS_{it-1} = \alpha_0(1/TASS_{it-1})+\beta_1((\Delta REV-\Delta REC)/TASS_{it-1})+ \beta_2(PPE/TASS_{it-1})+\varepsilon_{it} \quad (2)$$

$$|DAC_{it}| = TAC_{it} - NAC_{it} \quad (3)$$

Information:

TAC_{it} = Total accrual company i in year t

$EARNINGS_{it}$ = Net income company i in year t

CFO_{it} = Operating cash flow company i in year t

$TASS_{it-1}$ = Total asset company i in t-1

ΔREV = Revenue company i in year t is deducted revenue in t-1

ΔREC = Accounts receivable company i in year t is deducted accounts receivable in t-1

PPE = Gross property, plant, and equipment company i in the year t

NAC_{it} = Normal accrual / non-discretionary accrual company i in year t

$|DAC_{it}|$ = Absolute discretionary accruals company i in year t

ε_{it} = Error

2.1.2. Accounting Conservatism

Accounting conservatism is a prudent attitude carried out in reporting company assets so that the value of the company's assets reported is not too high and the company's liabilities are not too low (Yasa et al., 2019). Accounting conservatism is measured by the proxy market to book value. Value market to book value of more than 1 indicates that the company uses the principle of accounting conservatism because the ratio shows understated assets and liabilities overstated (Sholikhah and Baroroh, 2021). Accounting conservatism is measured using a ratio scale with the formula (Yasa et al., 2019) as follows:

MTB_{it} = Market $Price_{it}$/ Book Value Per $Share_{it}$

Information:
MTB_{it} = Market to Book Value on date publication of financial statements

2.1.3. Auditor Size
According to Alvin and Susanto (2022), auditor size can represent how big the auditor's firm is, as seen from the amount of income owned by the auditor firm and the size of the organization. The auditor size is stated as large if the accounting firm is a Big Four audit firm. The auditor size uses a dummy with the following measurements:
Score 1 Big Four audit firm
Value 0 not Big Four audit firm

2.1.4. Leverage
According to Zahro et al. (2022), leverage (debt to asset ratio) is a measure of the amount of wealth or assets owned by the company that is covered by debts owned by the company (Zahro et al., 2022). Leverage is measured using a ratio scale with the formula (Alvin and Susanto, 2022) as follows:
Leverage = Total Debt / Total Asset

2.1.5 Related Party Transactions
According to Kurnia and Daito (2022), related party transactions are a collection of transactions that occur that are related to the company and other parties who have a relationship with the company. Related party transactions are measured by looking at the sales and expenses related to party transactions on the equity value in the company's financial statements. Related party transactions are calculated using a ratio scale with the following formula.
RPTSE = (RPT Sales + RPT Expenses) / Equity
Information:
RPTSE = Related Party Transactions
RPT Sales = Sales proceeds related to transactions with related parties
RPT Expenses = Expenses transactions with related parties
Equity = Total capital owned by the company

2.2. Variable Control
2.2.1. Growth Opportunity
Growth opportunity is the opportunity for a company to continue to grow. The greater the company's chances of growing in the future, the greater the company's earnings ability and prospects (Dewi and Suryani, 2020). Growth Opportunity This is measured using a ratio scale. Growth opportunity is measured using a ratio scale with the formula (Alvin and Susanto, 2022) as follows:

$$\text{Growth Opportunity} = \frac{(\text{Sales}_t) - (\text{Sales}_{t-1})}{\text{Sales}_{t-1}} \times 100\%$$

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2.2.2. Firm Size

Firm size is a measurement that measures the size or size of assets and total sales owned by a company, which can explain the size of the company (David and Chrisnanti, 2021). Firm size is measured using a ratio scale with the formula (Alvin and Susanto, 2022) as follows:

Firm Size = Natural Logarithm of Total Assets

2.3. Data Analysis Methods

This study uses a multiple regression analysis equation model to test a hypothesis with a confidence level of 95% (alpha 5%). The regression equation model from the hypothesis testing used in this study can be seen from the following equations:

$EQ = \alpha + \beta_1 AC + \beta_2 AS + \beta_3 LEV + \beta_4 RPT + \beta_5 GO + \beta_6 FS + \varepsilon$

Information:

EQ = Earnings Quality
AC = Accounting Conservatism
AS = Auditor Size
LEV = Leverage
RPT = Related Party Transactions
GO = Growth Opportunity
FS = Firm Size

3. Results

The results of the descriptive statistical test of 399 total data during the 2020-2022 period in this study can be seen in Table 2. Earnings quality (EQ) has an average value of 0.1567 and a standard deviation value of 0.3398. Accounting conservatism (AC) has an average value of 2.9870 and a standard deviation 6.0674. Auditor size (AS) has an average value of 0.3700 and a standard deviation of 0.4820. Table 3 shows that out of 399 sample companies, there are 146 companies audited by the Big Four audit firm and 253 companies not audited by the Big Four audit firm. Leverage (LEV) has an average value of 1.1124 and a standard deviation value of 7.0813. Related party transactions (RPT) had an average value of 0.3770 and a standard deviation of 1.1945. Variable control: The growth opportunity (GO) control variable had an average value of 0.1600 and a standard deviation of 1.1367. The firm size (FS) control variable had an average value of 28.6795 and a standard deviation value of 1.6082.

Table 2. Descriptive Statistical Test Results

Variable	N	Minimum	Maximum	Mean	Std. Deviation
EQ	399	0,0006	5,6036	0,1567	0,3398
AC	399	-20,4997	56,7919	2,9870	6,0674
AS	399	0	1	0,3700	0,4820
LEV	399	0,0004	101,8660	1,1124	7,0813
RPT	399	-5,7736	19,3116	0,3770	1,1945
GO	399	-0,8892	15,2505	0,1600	1,1367
FS	399	22,9374	32,8264	28,6795	1,6082

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EQ = earnings quality; AC = Accounting conservatism; AS = Auditor size; LEV = Leverage; RPT = Related party transactions; GO = Growth Opportunity; FS = Firm size

Table 3. Auditor Size Frequency Distribution

Information	Frequency	Percentage
Non-Big Four audit firm	253	63,4
Big Four audit firm	146	36,6
Total	399	100

The results of the F test in Table 4 show that the sig. value of 0.000 < 0.05, so it can be concluded that the fit and model are suitable for use in the study. Value Adjusted R2 (determination coefficient) of 0.617, which means that statistically, the magnitude of the value of the variation of the independent variable can explain the earnings quality (EQ) as a dependent variable is 62%, the remaining 38% is explained by other variables that have not been included in the regression model.

The t-test results in Table 4 show that the variable accounting conservatism (AC) had a significant value of 0.777 greater than 0.05. The results showed that H1 was not accepted; accounting conservatism (AC) does not influence earnings quality (EQ). An increase or decrease in value accounting conservatism does not affect earnings quality Because the company is more focused on increasing the company's earnings to gain market attention and trust than doing accounting conservatism. The company's management is also more interested in improving the value of its shares because a high stock value can reflect the company's performance and attract the attention of investors and creditors (Rahmawati and Aufa, 2023).

Auditor size (AS) has a significant value of 0.180, greater than 0.05. The results showed that H2 was not accepted; auditor size (AS) does not influence earnings quality (EQ). Big or small auditor size does not affect a company's earnings quality. Audit firms' Big Four and the Non-Big Four are focused on lowering earnings management. Instead, it increases the credibility of the company's financial statements (Christiani and Nugrahanti, 2014).

Leverage (LEV) has a significant value of 0.000, less than 0.05. This significant value indicates that Ha6 is accepted; leverage (LEV) affects earnings quality (EQ). A beta coefficient value of 0.09 suggests that leverage positively affects earnings management, which means leverage negatively affects earnings quality. The higher the leverage, the higher the company's earnings management, which caused the declining earnings quality. Companies with high leverage will depend on creditors, motivating the company to breach the debt contract. Companies with large funding sources of debt risk being unable to pay off the debt. This risk will impact the high probability that the company will not be able to make a large amount of earnings in the future (Dewi and Fachrurrozie, 2021). Companies with large debts will also focus more on paying debts than paying dividends to shareholders, which can reduce investor confidence (Nariman and Ekadjaja, 2018). Investors will assume that the company's earnings are not good quality because it has assets financed by debt larger than its capital (Dewi et al., 2020). Leverage will also motivate managers to manage earnings by lowering debt and increasing the assets owned by the company to increase the company's earnings and reduce earnings quality (Fandriani & Tunjung, 2019).

Related party transactions (RPT) have a significant value of 0.958, greater than 0.05. This significant value indicates that H4 is not accepted, related party transactions (RPT) do not influence earnings quality (EQ). An increase or decrease in value-related party transactions does not affect earnings quality from a company because the company conducts its transactions with related parties and does not take action in earnings management (Teguh and Eriandani, 2021). The results of this study show that the size of the transactions of the related parties does not affect earnings quality.

Table 4. Hypothesis Testing

Dependent Variable: Earnings Quality	Coeff.	Sig.
Independent Variables:		
AC	0.001	0.777
AS	-0.138	0.180
LEV	0.0863362***	0.000
RPT	-0.001	0.958
Control Variables:		
GO	0.015	0.126
FS	0.113	0.173
Constant	-3.129	0.188
Adj. R2	0.617	
F Test	26.350	
F Sig.	0.000	
Observations	399	
Number of id	133	

EQ = earnings quality; AC = Accounting conservatism; AS = Auditor size; LEV = Leverage; RPT = Related party transactions; GO = Growth Opportunity; FS = Firm size

4. Discussion

This study sought empirical evidence of the influence of accounting conservatism, auditor size, leverage, and related party transactions on earnings quality. This study's results indicate that leverage negatively impacts earnings quality, while accounting conservatism, auditor size, and related party transactions do not impact earnings quality.

The higher debt illustrates the company's vulnerability to facing the financial pressure to return funds, so the company's management becomes more motivated to earnings management, which shows low earnings quality. In contrast, conservative accounting policies, auditor size and related party transactions are not factors in the high or low earnings quality because earnings quality is more determined by internal policies that can be controlled by the company's management rather than the dominance of external parties such as the policy of implementing specific accounting standards, the auditor size or transactions with related parties.

The implications of conducting this research are to provide various parties, especially creditors and investors, with an understanding of leverage that can reduce earnings quality. Creditors can be more careful in determining the provision of loans, and investors can be more cautious in making investment decisions on the company.

This study has limitations: the sample is limited because it only uses data from consumer cyclical and non-cyclical companies in 2020-2022. The recommendation for future research is to use a sample of non-financial companies listed on the Indonesia Stock Exchange for five years to produce more representative data.

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