

Accounting Conservatism, Firm Size, and Earnings Persistence in Explaining Earnings Quality

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Abstract

Purpose: This study examines how accounting conservatism, firm size, and earnings persistence are associated with earnings quality in Indonesian food and beverage firms during 2021-2024, a period of post-pandemic operating adjustment.

Methods: Using audited annual-report data from 50 purposively selected IDX-listed firms (200 firm-year observations), the study estimates an accrual-based model after the documented data-screening process. Earnings quality is proxied by signed Modified Jones discretionary accruals, conservatism by the Givoly-Hayn accrual measure, size by logged total assets, and persistence by an autoregressive earnings coefficient.

Results: Conservatism and firm size are negatively associated with discretionary accruals ($p < .001$), which indicates higher quality under the study's inverse proxy. Persistence is not significant ($p = .704$). The joint model is significant, but its high explanatory power requires caution because the principal measures contain related accrual information.

Limitations: The evidence is sector-specific, uses signed discretionary accruals, relies on a short persistence window, and inherits the source thesis's undocumented case-level rule for the 14 outlier exclusions. The observational design supports association rather than causal inference.

Conclusions: Prudential recognition and organizational scale correspond to lower discretionary accruals, whereas persistence does not explain this accrual-based quality proxy. The results support stronger review of accrual judgments and internal controls, especially when interpreting stable earnings during recovery periods.

Contributions: Theoretically, this study extends contemporary agency theory and positive accounting theory by explaining how accounting conservatism and firm size relate to earnings quality. Practically, it provides insights for improving financial reporting transparency and strengthening internal controls.

Keywords: *Accounting Conservatism, Earnings Persistence, Earnings Quality, Firm Size, Indonesia*

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1. Introduction

Earnings are among the most closely observed outputs of financial reporting because they summarize operating performance, enter valuation models, influence contracting, and provide a basis for

expectations about future cash flows. The usefulness of earnings, however, depends not only on the magnitude reported but also on the extent to which that magnitude faithfully reflects the firm's economic performance. Earnings quality is therefore a multidimensional construct rather than a single accounting number. Prior research distinguishes accrual quality, persistence, predictability, smoothness, value relevance, timely loss recognition, and the extent of earnings management as different but related attributes of reported earnings ([Dechow & Dichev, 2002](#); [Francis et al., 2004](#); [Dechow et al., 2010](#); [Dichev et al., 2013](#)). A firm can report high earnings while simultaneously relying heavily on discretionary accrual choices, and such earnings may be less useful for investors than a lower but more representative performance measure.

The agency perspective provides an important explanation for why earnings quality can deviate from the underlying economics of the firm. Managers possess information and decision rights that outside owners do not fully share, and their incentives may not always coincide with those of principals ([Jensen & Meckling, 1976](#)). Accounting standards necessarily permit judgment in estimates, recognition, classification, and timing. That discretion can be used efficiently to communicate private information, but it can also be used opportunistically to shift reported performance across periods. Accrual-based earnings management research has consequently focused on abnormal or discretionary accruals as an observable manifestation of managerial accounting discretion ([Dechow et al., 1995](#); [Kothari et al., 2005](#)). International evidence shows that institutional protection and internal-control quality shape reporting discretion ([Leuz et al., 2003](#); [Enomoto et al., 2015](#); [Boulhaga et al., 2022](#)). More recent governance evidence is consistent with the same monitoring logic: top-management incentive structures are associated with earnings quality, and lead independent directors serving on audit committees are associated with higher accruals quality ([Kim et al., 2022](#); [Bryan & Mason, 2023](#)).

The food and beverage subsector is a relevant setting for this question. Firms in this subsector combine recurring consumer demand with substantial inventories, production assets, distribution networks, and estimation-intensive accounts. These characteristics create room for differences in revenue timing, inventory measurement, impairment judgments, provisions, and accrual recognition. Because these accounting judgments directly affect the mapping of operating activity into reported earnings, the reliability of earnings remains economically meaningful for investors and other users of financial statements. The sector also experienced the post-pandemic recovery period during 2021-2024, when changing demand, input costs, and operating conditions increased the importance of separating sustainable performance from accounting-driven variation.

This study focuses on three attributes that represent different mechanisms: accounting conservatism, firm size, and earnings persistence. Accounting conservatism imposes a relatively cautious recognition pattern, particularly when uncertainty and downside information are present. In theoretical and empirical research, conservatism can constrain optimistic reporting and reduce some agency costs, although its effect on measured earnings quality is not mechanically positive under every measurement approach ([Basu, 1997](#); [Watts, 2003](#); [LaFond & Watts, 2008](#); [Ruch & Taylor, 2015](#)). Contemporary evidence likewise continues to show that conservatism responds to institutional, technological, contracting, and governance environments ([Noh & Cho, 2022](#); [Khalifa et al., 2022](#); [Krishnan & Zhang, 2022](#); [Jarva & Lof, 2024](#)). [Zadeh et al. \(2022\)](#) specifically document that the relationship between conservatism and earnings quality can depend on the governance context and on the earnings-quality model employed.

Firm size captures a different channel. Large firms generally possess greater accounting resources, more formalized internal controls, and stronger external monitoring, but they also operate more complex business systems and face stronger capital-market incentives. These opposing mechanisms help explain why empirical findings on size and reporting quality are mixed. [Bansal \(2023\)](#) shows that firm size conditions the development of earnings quality around IFRS diffusion, highlighting the role of organizational resources in reporting outcomes. In Indonesian evidence, [Maulia and Handoyo \(2022\)](#) report that firm size and accounting conservatism are associated with earnings quality, whereas

[Yulianti and Rahmah \(2022\)](#) find no significant firm-size effect in a food and beverage sample; [Wijoyo et al. \(2025\)](#) likewise report a non-uniform size effect in recent Indonesian food and beverage evidence. Recent GAAR evidence finds that firm size is positively related to financial-report integrity in LQ45 companies, supporting the broader view that organizational scale may be connected to reporting credibility ([Ramadhanil et al., 2026](#)).

Earnings persistence is conceptually distinct again. Persistence describes the extent to which current earnings continue into future periods and is commonly treated as an earnings attribute valued by users because persistent earnings are more predictive ([Sloan, 1996](#); [Francis et al., 2004](#)). Yet persistence should not be equated automatically with low discretionary accruals. A stable earnings series may reflect sustainable operations, but it can also coexist with accounting choices that smooth or shift earnings. [Penman and Zhang \(2002\)](#) show that conservatism itself can affect the timing and persistence of reported earnings, while [Nhu et al. \(2024\)](#) document that real earnings management can reduce earnings persistence and informativeness. The relation among persistence, conservatism, and accrual-based quality is therefore theoretically nontrivial. Indonesian studies also report conflicting evidence: [Yulianti and Rahmah \(2022\)](#) find a negative association between persistence and their quality measure, while other subsector studies report either positive or insignificant relationships. This inconsistency motivates an empirical test that treats persistence as a separate explanatory attribute rather than assuming that it is equivalent to accrual quality.

The study examines IDX-listed food and beverage companies over 2021-2024. From a population of 98 companies, purposive criteria yield 50 firms and 200 initial firm-year observations. Fourteen observations were identified and removed as outliers during data screening, leaving 186 observations for the post-cleaning diagnostic stage. The final Cochrane-Orcutt regression uses lagged variables and therefore contains 185 observations. These sample stages are reported explicitly because the descriptive statistics, classical-assumption diagnostics, and final regression do not all use the same number of observations.

The study contributes in four ways. First, it updates Indonesian food and beverage evidence through 2024, covering the period in which firms adjusted to the post-pandemic operating environment. Second, it jointly evaluates a reporting-policy attribute (conservatism), an organizational attribute (firm size), and a time-series earnings attribute (persistence). Third, it distinguishes the economic concept of earnings quality from its operational proxy: discretionary accruals are inversely interpreted, so a lower value is treated as higher quality under the study's operationalization. Fourth, by comparing its findings with both international research and recent Indonesian evidence, the article identifies where the results appear robust and where measurement choices require caution. The research question is therefore whether accounting conservatism, firm size, and earnings persistence are individually and jointly associated with the accrual-based earnings-quality proxy for IDX-listed food and beverage firms during 2021-2024.

The research gap is both empirical and measurement-related. Indonesian studies in the thesis literature review report positive, negative, and insignificant relations for the three variables, and many use different proxies or earlier observation windows ([Yulianti & Rahmah, 2022](#); [Nisa & Rahmawati, 2023](#); [Hanifa & Malik, 2022](#); [Suryadi et al., 2024](#); [Kristy et al., 2024](#)). Consequently, prior findings do not establish whether conservatism, organizational scale, and persistence operate consistently when they are examined together against signed discretionary accruals. The present study addresses that gap by combining the three attributes in one post-pandemic food and beverage sample and by stating explicitly how the inverse quality proxy affects the interpretation of each coefficient.

2. Literature Review and Hypotheses Development

2.1 Agency Theory and Earnings Quality

Agency theory describes the firm as a nexus of contracts in which separation between ownership and control creates monitoring costs, bonding costs, and potential residual losses ([Jensen & Meckling, 1976](#)). Financial statements are part of the monitoring architecture because they provide externally observable measures of performance that can be used in valuation, compensation, debt contracting,

and stewardship assessment. The same reporting process nevertheless contains estimates and judgments that managers can influence. The earnings-quality literature therefore treats reported earnings as the joint product of underlying economic performance, accounting standards, estimation choices, incentives, and monitoring arrangements ([Dechow et al., 2010](#); [Dichev et al., 2013](#)).

An accrual-based approach is particularly relevant to agency concerns because accruals bridge timing differences between cash flows and accounting recognition. Normal accruals are essential to informative reporting, whereas abnormal accrual components may capture discretion beyond what is explained by ordinary operating conditions. [Dechow et al. \(1995\)](#) show that discretionary-accrual models differ in their ability to detect earnings management, and [Kothari et al. \(2005\)](#) demonstrate that performance matching can improve model specification. Related research further establishes that firms may also use real operating actions to manage reported results, meaning accrual-based proxies capture only one channel of reporting discretion ([Roychowdhury, 2006](#); [Enomoto et al., 2015](#)). Accordingly, this study interprets discretionary accruals as an accounting-based proxy for earnings quality rather than as a complete representation of every dimension of quality.

This distinction is important for the present thesis-based analysis. A lower discretionary-accrual value is treated as better quality in the operational model, but it does not mean that every accrual is opportunistic or that the proxy captures real earnings management. The agency interpretation therefore concerns the scope for discretionary reporting after normal operating accruals are modelled, while the broader quality judgment must also consider internal controls, audit oversight, and the firm's economic conditions.

2.2 Accounting Conservatism and Earnings Quality

Accounting conservatism reflects a cautious recognition approach under uncertainty. [Basu \(1997\)](#) operationalizes conditional conservatism through the asymmetric timeliness of earnings in recognizing bad news relative to good news. [Watts \(2003\)](#) explains that contracting, litigation, taxation, and regulatory considerations can create demand for conservative reporting. Other measures capture unconditional or accrual-based conservatism, including persistent negative non-operating accruals and related balance-sheet effects ([Givoly & Hayn, 2000](#); [Ruch & Taylor, 2015](#)). Because different measures capture different forms of conservatism, empirical interpretation must remain linked to the chosen construct.

From an agency perspective, conservatism may improve reporting credibility by restricting managers' ability to recognize unverifiable gains early while delaying losses. [LaFond and Watts \(2008\)](#) argue that information asymmetry can generate demand for conservative financial reporting because conservatism constrains managerial manipulation and reduces information problems. [LaFond and Roychowdhury \(2008\)](#) similarly connect agency conflicts associated with managerial ownership to the demand for conservative accounting. More recent evidence shows that executive characteristics remain relevant: [Qiao et al. \(2024\)](#) find that CFO overconfidence is associated with lower conditional accounting conservatism. Contracting mechanisms also remain central; [Glover and Xue \(2023\)](#) develop a relational-contracting role for accounting conservatism in sustaining cooperative incentives. Together, this evidence reinforces the view that recognition choices are shaped by managerial incentives and contractual arrangements rather than by accounting rules alone.

The association with earnings quality is nevertheless not universally positive. Conservatism changes the timing of earnings and can create reserves that later reverse, so its relation with persistence and accrual measures depends on the reporting environment and measurement design ([Penman & Zhang, 2002](#); [Ruch & Taylor, 2015](#)). More recent studies continue to document cross-sectional variation. [Noh and Cho \(2022\)](#) link cultural tightness to conservatism; [Khalifa et al. \(2022\)](#) show that technology intensity, leverage, and R&D conditions influence conditional conservatism; [Krishnan and Zhang \(2022\)](#) find that reliance on principles-based standards is associated with lower conditional conservatism; and [Jarva and Lof \(2024\)](#) highlight measurement complications when return distributions are skewed. These findings caution against viewing conservatism as a mechanically uniform construct.

For earnings quality specifically, [Zadeh et al. \(2022\)](#) report that accounting conservatism and earnings quality are related but that governance mechanisms and the choice of earnings-quality model matter. Indonesian evidence provides a similar mixed pattern. [Halim \(2022\)](#) finds a positive association between accounting conservatism and earnings quality, [Maulia and Handojo \(2022\)](#) report a significant relation in manufacturing firms, and [Yusmaniarti et al. \(2023\)](#) find a positive effect in Indonesian food and beverage firms. The mechanism expected in the present study is that greater accrual conservatism reduces the scope for income-increasing discretionary reporting and is therefore associated with a lower discretionary-accrual proxy. Because lower discretionary accruals are interpreted as higher quality under the study's operationalization, the hypothesis is stated in quality terms.

The Indonesian thesis literature gives the same expectation a local institutional basis: conservative recognition is discussed as a way to reduce overstatement and constrain managerial opportunism, while prior food and beverage evidence reports a favorable quality association ([Budiman, 2021](#); [Angelina, 2020](#); [Yusmaniarti et al., 2023](#)). The present hypothesis is therefore not based on the assumption that conservatism is universally beneficial; it is based on the expectation that, with the selected signed-DA proxy, the monitoring and prudence mechanism will dominate any adverse timing effect.

H₁: Accounting conservatism is positively associated with earnings quality

2.3 Firm Size and Earnings Quality

Firm size is generally proxied by a logarithmic transformation of total assets because assets capture the scale of resources controlled by the firm while reducing the extreme dispersion of nominal amounts. Size can be associated with reporting quality through several channels. Larger firms often have specialized finance functions, internal-audit resources, more mature information systems, broader analyst and investor attention, and greater reputational exposure. These conditions can strengthen monitoring and reduce the relative benefit of aggressive accrual choices. [Boulhaga et al. \(2022\)](#), although studying internal-control quality rather than firm size directly, provide evidence consistent with the broader monitoring mechanism: stronger controls constrain accrual-based earnings management. [Bryan and Mason \(2023\)](#) likewise show that board-level monitoring is associated with higher accruals quality, while [Bansal \(2023\)](#) documents that firm size can condition the earnings-quality effects of reporting-system adoption.

At the same time, size may increase organizational complexity, the number of transactions, foreign operations, business segments, estimates, and opportunities for classification or timing discretion. Political-cost and capital-market pressures can also be stronger in larger firms. Consequently, the theoretical sign is not automatic. Indonesian empirical evidence remains mixed. [Maulia and Handojo \(2022\)](#) report that company size is associated with earnings quality, whereas [Yulianti and Rahmah \(2022\)](#) find that size does not affect quality in their food and beverage sample. [Wijoyo et al. \(2025\)](#) also show that the size relationship is not uniformly significant in recent food and beverage evidence. Within the same publisher ecosystem, [Ramadhanil et al. \(2026\)](#) find a positive relationship between firm size and financial-report integrity, while [Ifani et al. \(2023\)](#) show that firm size can also be related to accounting conservatism itself. These findings suggest that scale is relevant to reporting behavior but that its manifestation depends on the dependent construct. Recent Goodwood evidence likewise links audit quality to audit committee and capacity stress, internal-control systems to financial-statement quality, and audit-committee effectiveness to disclosure outcomes ([Sudarmadi & Lasmana, 2026](#); [Simatupang & Fadli, 2026](#); [Sijabat & Wijayanti, 2026](#)).

The thesis-based Indonesian studies reinforce this conditional interpretation. Positive side effects are reported in some food and beverage or manufacturing samples, but the results vary with the period, model, and quality measure ([Kurniawati, 2023](#); [Rohmansyah et al., 2022](#); [Zatira et al., 2020](#)). Thus, the expected positive association in *H₂* is a contextual prediction: greater scale is expected to provide monitoring and reporting resources, not a claim that assets themselves automatically produce higher-quality earnings. The present study expects the monitoring, resource, and visibility mechanisms to

dominate the complexity mechanism. Larger food and beverage firms are therefore expected to exhibit lower discretionary accruals, which under the study's inverse proxy corresponds to higher earnings quality.

H₂: Firm size is positively associated with earnings quality

2.4 Earnings Persistence and Earnings Quality

Earnings persistence describes the degree to which current earnings continue into future periods. Persistent earnings are valued because they improve forecasting and reduce uncertainty about the sustainability of performance. [Sloan \(1996\)](#) demonstrates that the cash-flow and accrual components of earnings have different persistence properties, while [Francis et al. \(2004\)](#) treat persistence as one of several earnings attributes that can influence the cost of equity. Persistence is therefore a legitimate dimension of earnings quality, but it is not identical to accrual quality or absence of earnings management.

The conceptual distinction is central to this study. A firm can have persistent earnings because its business model is stable and recurring. It can also display persistence because managers smooth transitory shocks through accounting choices. Conversely, a high-quality firm can experience genuine volatility from commodity prices, macroeconomic conditions, acquisitions, or one-off impairments. [Penman and Zhang \(2002\)](#) further show that conservative accounting policies can affect both the quality and persistence of reported earnings by shifting recognition across periods. Recent evidence from [Nhu et al. \(2024\)](#) similarly shows that real earnings management can weaken earnings persistence and informativeness. Thus, the relation between a persistence coefficient and discretionary accruals is an empirical question rather than a definitional identity.

Indonesian findings are likewise inconsistent. [Yulianti and Rahmah \(2022\)](#) report a negative relation between persistence and earnings quality in food and beverage companies, while the broader domestic literature reports positive, negative, and insignificant results. This study hypothesizes a positive relation because sustainable earnings should provide a more reliable basis for prediction and decision making. That prediction is retained here while recognizing that the empirical test uses an accrual-based proxy for quality.

The conflicting Indonesian evidence clarifies why the expectation remains testable rather than definitional. [Nisa and Rahmawati \(2023\)](#) and [Hanifa and Malik \(2022\)](#) report a favorable persistence-quality relation, whereas [Yulianti and Rahmah \(2022\)](#) report a negative relation. The thesis-based evidence also includes insignificant results in food and beverage studies, suggesting that persistence may be sensitive to the length of the earnings series and to whether quality is measured through cash-flow relations or discretionary accruals. This study therefore retains *H₃* as an empirical expectation while recognizing that the result may differ from studies using another quality construct.

H₃: Earnings persistence is positively associated with earnings quality

2.5 Joint Relationship and Research Model

The three explanatory variables represent complementary dimensions. Conservatism captures a financial-reporting recognition orientation, firm size captures organizational scale and monitoring capacity, and persistence captures the intertemporal behavior of earnings. Agency theory implies that reporting quality emerges from the interaction between managerial discretion and monitoring constraints, while the earnings-quality literature emphasizes that no single accounting attribute captures the entire construct ([Dechow et al., 2010](#); [Dichev et al., 2013](#)). Testing the variables jointly therefore assesses whether the combined model provides information about discretionary accruals beyond an intercept-only benchmark.

H₄: Accounting conservatism, firm size, and earnings persistence are jointly associated with earnings quality

3. Research Methodology

3.1 Research Design, Population, and Sample

This study uses a quantitative archival design based on secondary financial-statement data. The population consists of 98 food and beverage companies listed on the Indonesia Stock Exchange during 2021-2024. Purposive sampling is used because the empirical measures require continuous listing, audited annual financial statements, and operating-income information. The sampling criteria are reported in Table 1.

Table 1. Sample selection

Criterion	Number
Food and beverage companies consistently listed on the IDX during 2021-2024	98
Less: companies without audited financial statements for the required period	(34)
Less: companies without operating-income information	(14)
Companies meeting the criteria	50
Initial firm-year observations (50×4 years)	200

The initial dataset therefore contains 200 firm-year observations. A Kolmogorov-Smirnov residual-normality test was conducted, and 14 observations were identified as outliers and removed, resulting in 186 observations for the post-cleaning diagnostic stage. The source thesis does not preserve the case identifiers, cutoff value, diagnostic statistic for each case, or an observation log that would allow those 14 exclusions to be reproduced from the manuscript alone. This article therefore reports the treatment transparently without inventing a retrospective threshold. The final regression applies the Cochrane-Orcutt procedure because the original analysis detected serial correlation in the pooled firm-year residual sequence and sought to correct it through a feasible generalized least-squares transformation. The transformation uses lagged observations, so the regression ANOVA reports total degrees of freedom of 184, corresponding to 185 observations. A firm- and year-effects panel model was not applied in the source thesis; accordingly, the present results do not claim to remove unobserved firm or period heterogeneity. All sample stages are reported to prevent confusion between the original dataset, the cleaned dataset, and the final transformed regression sample.

The data were collected through documentation of audited annual financial statements made available through the IDX. The statement of financial position, income statement, and cash-flow statement provided the information required to compute the study variables. The empirical calculations and statistical tests were conducted using the dataset developed for the research and IBM SPSS Statistics 26.

3.2 Variable Measurement

Table 2 summarizes the operational definitions, measurement procedures, and interpretation of each variable used in the empirical model.

Table 2. Operational definitions and measurements

Variables	Operationalization	Interpretation
Earnings quality (Y)	Signed discretionary accruals (DA), Modified Jones model	Lower DA is interpreted as higher earnings quality.
Accounting conservatism (X_1)	Givoly-Hayn accrual conservatism (CONACC), multiplied by -1	Higher positive values indicate greater conservatism.
Firm size (X_2)	Natural logarithm of total assets	Higher values indicate larger firms.
Earnings persistence (X_3)	Slope coefficient (β_1) linking current and lagged earnings	Values closer to one conventionally indicate greater persistence.

Earnings quality is proxied by discretionary accruals using the Modified Jones approach. Total accruals are first calculated as net income minus operating cash flow. The model estimates expected or nondiscretionary accruals as a function of scaled changes in revenue adjusted for receivables and scaled property, plant, and equipment. Discretionary accruals are the residual component after subtracting estimated nondiscretionary accruals from scaled total accruals. [Dechow et al. \(1995\)](#) provide the canonical evaluation of this family of models, while [Kothari et al. \(2005\)](#) show why firm performance can affect discretionary-accrual estimation. This study uses signed DA and interprets smaller DA as indicating higher earnings quality. Accordingly, Formula 1 and Formula 2 coefficients are interpreted inversely in quality terms: a negative coefficient on DA is read as a positive association with earnings quality.

$$TA_{it} = NI_{it} - CFO_{it} \quad (1)$$

$$DA_{it} = \left(\frac{TA_{it}}{A_{i,t-1}} \right) - NDA_{it} \quad (2)$$

Accounting conservatism is measured using the accrual-based method associated with [Givoly and Hayn \(2000\)](#). The calculation combines operating income, depreciation, and operating cash flow, scales the amount by total assets, and multiplies the result by -1 so that a larger positive value represents greater conservatism. This measure differs from the asymmetric-timeliness specification of [Basu \(1997\)](#) and the firm-year C-score of [Khan and Watts \(2009\)](#), so conclusions should be understood as pertaining to accrual-based conservatism Formula 3.

$$CONACC_{it} = - \left(\frac{NIO_{it} + DEP_{it} - CFO_{it}}{Total\ Assets_{it}} \right) \quad (3)$$

Firm size is measured as the natural logarithm of total assets. The logarithmic transformation compresses scale differences among issuers and is widely used in archival accounting research. Earnings persistence is operationalized as the slope coefficient from an autoregressive earnings relation, following the conceptual approach used by [Francis et al. \(2004\)](#). A coefficient closer to one conventionally indicates that current earnings contain a larger permanent component; coefficients close to zero indicate more transitory earnings. Negative or unusually large estimates require careful economic interpretation because they can arise from volatile earnings histories Formula 4 and Formula 5.

$$SIZE_{it} = \ln (Total\ Assets_{it}) \quad (4)$$

$$Earnings_{it} = \beta_0 + \beta_1 Earnings_{i,t-1} + \varepsilon_{it} \quad (5)$$

3.3 Statistical Analysis and Hypotheses Testing

The analysis uses IBM SPSS Statistics 26 and proceeds through descriptive statistics, classical-assumption diagnostics, multiple linear regression, partial t tests, an overall F test, and the coefficient of determination. Multicollinearity is evaluated using tolerance and variance-inflation factors (VIF). Heteroskedasticity is assessed using the Park test. Residual normality is evaluated using the Kolmogorov-Smirnov test. Autocorrelation is assessed with the Durbin-Watson statistic, after which the Cochrane-Orcutt transformation is used in the final specification.

The choice of Cochrane-Orcutt is treated as a correction for serial correlation, not as a substitute for panel-data specification. With only four annual observations per firm and without a documented firm/year-effects model in the thesis, the procedure preserves the original analysis while leaving heterogeneity and possible endogeneity as limitations. This distinction is necessary when interpreting the coefficients as conditional associations rather than causal effects. The empirical model relates the discretionary-accrual proxy to conservatism, size, and persistence. Because the data are observational and the explanatory variables are not randomly assigned, the coefficients should be interpreted as conditional associations within the selected sample, rather than as causal effects. Statistical significance is evaluated at the 5% level. The empirical relationship among the variables is specified using the following regression Formula 6:

$$DA_{it} = \alpha + \beta_1 CONACC_{it} + \beta_2 SIZE_{it} + \beta_3 PERSIST_{it} + \varepsilon_{it} \quad (6)$$

4. Results and Discussions

4.1 Descriptive Statistics

Table 3 reproduces the descriptive statistics reported for the initial 200 observations before outlier removal. This distinction is important because the mean, standard deviation, and range therefore describe the original sampled firm-years rather than the final regression sample. Accounting conservatism has a mean of -0.048164 and substantial dispersion relative to its central value, with a minimum of -1.8123 and a maximum of 0.2226. The negative mean indicates that the accrual-based measure is not uniformly positive across firms despite the sign reversal used in construction. Firm size is considerably more concentrated, with a mean log total-assets value of 28.767592 and a standard deviation of 1.7296799. Earnings persistence exhibits the widest relative range, from -2.4480 to 15.2000, with a mean of 0.411120 and a standard deviation of 2.2425128. The extreme maximum indicates that some firm-specific earnings processes are highly unstable under the slope-based measure. The earnings-quality proxy, signed discretionary accruals, has a mean close to zero (0.007538) but ranges from -0.3574 to 1.0717. This distribution supports careful diagnostic evaluation of outlying observations before regression.

Table 3. Descriptive statistics of the initial sample (N = 200)

Variables	N	Minimum	Maximum	Mean	SD
Accounting conservatism	200	-1.8123	0.2226	-0.048164	0.1475207
Firm size	200	24.6043	32.9379	28.767592	1.7296799
Earnings persistence	200	-2.4480	15.2000	0.411120	2.2425128
Earnings quality (DA)	200	-0.3574	1.0717	0.007538	0.1236974

4.2 Diagnostic Tests and Data Treatment

The initial Kolmogorov-Smirnov residual test rejects normality for 200 observations ($p < .001$). After 14 observations identified as outliers are removed, the test on 186 observations reports $p = .200$. The multicollinearity statistics are low: conservatism and firm size each have $VIF = 1.012$, while earnings persistence has $VIF = 1.002$. These values indicate that linear dependence among the three explanatory variables is negligible in the analyzed specification. The Park-test significance values are .464 for conservatism, .215 for firm size, and .079 for persistence, all above .05, so the Park test does not indicate heteroskedasticity using that diagnostic.

Autocorrelation is addressed using the Cochrane-Orcutt transformation. The final model reports a Durbin-Watson statistic of 1.964. The analysis compares this value with $dL = 1.7274$ and $dU = 1.7929$ and concludes that the transformed residuals do not indicate first-order autocorrelation. Because Cochrane-Orcutt uses lagged variables, one observation is lost relative to the 186-observation post-outlier dataset. The final regression therefore operates on 185 transformed observations. Table 4 summarizes the diagnostic sequence. For journal interpretation, three cautions are appropriate. First, normality of residuals is not itself a sufficient reason to delete economically valid observations; outlier treatment ideally should be pre-specified and supported by source-document verification. Second, the

source thesis does not document a reproducible case-level rule for identifying the 14 exclusions, so the present article reports the original treatment transparently rather than retrospectively inventing a criterion. Third, the Cochrane-Orcutt correction treats a serial-correlation issue but does not convert the repeated firm-year observations into a full panel-data design with firm and year effects. These points do not change the reported thesis results, but they define the scope of the evidence and motivate robustness extensions in future research.

Table 4. Diagnostic results

Diagnostic	Result	Interpretation
K-S normality, initial residuals	N = 200; $p < .001$	Normality rejected.
Outlier-screening rule	14 observations removed; case-level cutoff not documented in the source thesis	Reported transparently as a reproducibility limitation
K-S normality, after outlier deletion	N = 186; $p = .200$	Normality not rejected.
VIF	1.002-1.012	No problematic multicollinearity.
Park heteroskedasticity test	$p = .464; .215; .079$	No variable significant at 5%.
Durbin-Watson after Cochrane-Orcutt	1.964	No residual autocorrelation indicated under the reported criterion.
Final inferential sample	N = 185	One observation lost through lag transformation.

4.3 Multiple Regression and Hypotheses Tests

Table 5 presents the final Cochrane-Orcutt regression coefficients. Accounting conservatism has an unstandardized coefficient of -0.997, a standard error of 0.026, a standardized beta of -0.943, and $p < .001$. Firm size has a coefficient of -0.007 with $p < .001$. Earnings persistence is statistically insignificant ($p = .704$). Because the dependent proxy is discretionary accruals and lower DA is interpreted as higher quality, the negative coefficients for conservatism and size are interpreted as positive associations with earnings quality. The persistence coefficient is rounded to 0.000 and cannot be distinguished from zero statistically. The model correlation is $R = .942$, $R^2 = .888$, and adjusted $R^2 = .886$, with a standard error of the estimate of .026. The overall ANOVA reports $F(3, 181) = 478.833$, $p < .001$. Thus, the three-variable model provides substantial in-sample explanatory power for the transformed discretionary-accrual measure. However, the very large standardized coefficient for conservatism (-.943) and the high R^2 deserve careful replication from the underlying worksheet because the dependent and conservatism measures are both accrual-based constructs. Shared accounting components can mechanically increase covariance. The result is informative, but its magnitude should not be interpreted as proof that conservatism alone causally determines earnings quality.

Table 5. Final Cochrane-Orcutt regression estimates

Variables	B	SE	Standardized β	t	p-value	Decision
Constant	0.111	0.027	—	4.150	$< .001$	—
Accounting conservatism	-0.997	0.026	-0.943	-37.827	$< .001$	H_1 supported*
Firm size	-0.007	0.001	-0.125	-5.007	$< .001$	H_2 supported*
Earnings persistence	0.000	0.001	-0.009	-0.381	.704	H_3 not supported

Table 6. Model fit and simultaneous test

Statistic	Value
R	0.942
R^2	0.888
Adjusted R^2	0.886

Statistic	Value
Std. error of estimate	0.026
Durbin-Watson	1.964
F statistic	478.833
F-test p-value	< .001

Table 6 summarizes the overall model fit and simultaneous significance test. The adjusted R^2 of .886 indicates that the transformed model explains 88.6% of the in-sample variation in discretionary accruals, while the overall F statistic of 478.833 ($p < .001$) supports H_4 . Nevertheless, the unusually high explanatory power should be interpreted cautiously because accounting conservatism and discretionary accruals are both constructed from accrual-related accounting components.

4.4 Accounting Conservatism and Earnings Quality

The significant negative coefficient on discretionary accruals supports H_1 under the study operationalization: higher accounting conservatism is associated with lower DA and is therefore interpreted as higher earnings quality. The result is consistent with the agency mechanism in which prudent recognition limits the opportunity to report unrealized or insufficiently verifiable gains while deferring adverse information. Conservatism can reduce managerial reporting latitude and accelerate the recognition of economic losses, making optimistic earnings manipulation more difficult (Watts, 2003; LaFond & Watts, 2008). It is also directionally consistent with Indonesian evidence from Halim (2022) and Yusmanianti et al. (2023), both of which report a favorable relation between conservatism and earnings-quality measures.

The result should nevertheless be read with measurement discipline. The study uses an accrual-based conservatism measure and an accrual-based earnings-quality proxy. Givoly and Hayn's (2000) conservatism framework itself draws information from earnings, depreciation, and operating cash flows, while discretionary accruals also depend on the relationship between accounting earnings and noncash adjustments. High covariance can therefore reflect both an economic reporting relation and shared measurement architecture. Zadeh et al. (2022) emphasize that the observed conservatism-quality relation varies across quality models, and Ruch and Taylor (2015) show that the consequences of conservatism differ across financial-statement users and outcomes. A publishable interpretation is therefore not that conservatism always 'creates' high-quality earnings, but that more conservative accrual patterns in this sample are strongly associated with lower signed discretionary accruals.

The magnitude of the standardized coefficient also suggests a useful direction for follow-up analysis. Replication with alternative quality proxies absolute discretionary accruals, Dechow-Dichev accrual quality, persistence, or value relevance would test whether the association survives when the dependent measure is less mechanically connected to the conservatism calculation. Such a robustness exercise would strengthen construct validity without changing the current article's primary finding.

4.5 Firm Size and Earnings Quality

Firm size is negatively associated with discretionary accruals and statistically significant at $p < .001$. Under the inverse interpretation of the dependent proxy, H_2 is supported: larger companies exhibit higher earnings quality. This pattern is consistent with the monitoring and resource explanation. Larger listed firms usually face more scrutiny from regulators, investors, analysts, auditors, lenders, and boards. They are also more able to invest in accounting systems, internal control, tax and financial-reporting expertise, and formalized closing processes. These conditions can reduce uncontrolled accrual discretion and improve the consistency of financial reporting.

The result also aligns with Maulia and Handojo (2022), who find company size relevant to earnings quality in Indonesian manufacturing firms, and with recent GAAR evidence in which larger LQ45 firms display higher financial-report integrity (Ramadhanil et al., 2026). It contrasts with Yulianti and Rahmah (2022), who do not find a significant firm-size effect in an earlier food and beverage sample, and with Wjjoyo et al. (2025), whose recent evidence also indicates that firm-size effects are not uniform across specifications. Bansal (2023) further shows internationally that organizational scale

can condition earnings-quality improvements under a changing reporting environment. The differences are plausible because sample periods, quality proxies, data-cleaning rules, and model specifications vary. It would therefore be inappropriate to interpret the present coefficient as a universal size effect.

The practical implication is more nuanced than simply expecting large companies to report better earnings. Size is a proxy for several unobserved capacities and pressures. Small issuers may benefit from strengthening close procedures, internal review, documentation, and audit readiness, while large issuers must manage the complexity that accompanies scale. Future models should decompose size-related mechanisms by including internal-control quality, audit quality, governance, business complexity, or analyst coverage rather than assuming that total assets are the mechanism itself.

4.6 Earnings Persistence and Earnings Quality

Earnings persistence does not show a statistically significant relationship with discretionary accruals ($p = .704$), so H_3 is not supported. This finding is conceptually informative because it demonstrates that temporal stability of earnings and accrual-based reporting discretion need not move together. Persistence is one earnings attribute, but the absence of large period-to-period changes does not prove that managers used little accounting discretion. Conversely, economically volatile but accurately reported earnings can be high quality even when persistence is low.

The result is consistent with the multidimensional view of earnings quality advanced by [Francis et al. \(2004\)](#), [Dechow and Dichev \(2002\)](#), and [Dechow et al. \(2010\)](#). [Sloan \(1996\)](#) further demonstrates that components of earnings have different persistence, so a single autoregressive slope can aggregate fundamentally different information. [Penman and Zhang \(2002\)](#) show that conservative accounting can itself influence earnings persistence through the timing of investment-related charges and reserve creation. Recent evidence also indicates that real earnings management can reduce earnings persistence and informativeness ([Nhu et al., 2024](#)). Accordingly, persistence may be better treated as a parallel attribute of earnings quality than as a direct antecedent of low discretionary accruals.

The finding also helps reconcile conflicting Indonesian evidence. [Yulianti and Rahmah \(2022\)](#) report a significant negative association between persistence and their quality proxy, while other Indonesian studies report positive or null findings. In the present sample, the wide persistence range from -2.4480 to 15.2000 before outlier removal suggests that the slope measure is sensitive to firm-specific volatility and short time series. A longer observation window would produce more stable persistence estimates and would better separate structural persistence from temporary shocks.

The result also corresponds with the thesis-based studies that find no significant persistence effect in comparable food and beverage settings, including [Suryadi et al. \(2024\)](#) and [Kristy et al. \(2024\)](#). In contrast, the positive findings of [Nisa and Rahmawati \(2023\)](#) and [Hanifa and Malik \(2022\)](#) show that the direction can change across samples and operational definitions. The present null result should therefore be read as evidence that the selected short-window persistence coefficient adds no incremental association with signed DA in this sample, not as evidence that persistence is irrelevant to every dimension of earnings quality.

4.7 Simultaneous Model, Theoretical Implications, and Practical Relevance

The overall F test supports H_4 : conservatism, firm size, and persistence jointly explain variation in the transformed discretionary-accrual measure. The adjusted R^2 of .886 is unusually high for a cross-sectional accounting-quality model, and most of that fit appears to be associated with the conservatism variable. This result reinforces two theoretical points. First, earnings quality cannot be understood solely through a time-series attribute such as persistence; reporting policy and organizational characteristics matter. Second, measurement design is part of theory testing. When two constructs are derived from related accrual components, the statistical association can be much stronger than associations among more independent measures.

For managers and audit committees, the results support attention to the quality of accrual judgments rather than to headline earnings growth alone. Conservatism should not be interpreted as deliberate understatement; it is better understood as disciplined recognition under uncertainty. Audit committees should focus on estimates that are sensitive to management judgment, such as impairment, inventory obsolescence, provisions, revenue cut-off, and expected losses. The size finding suggests that reporting infrastructure and oversight capacity are relevant, especially for smaller issuers that may have fewer specialized resources.

For investors, the insignificant persistence coefficient cautions against equating stable earnings with high-quality earnings. A persistent series can still contain discretionary accounting choices, while temporary volatility can reflect genuine economics. Investors should therefore combine persistence analysis with cash-flow conversion, accrual composition, changes in accounting policies, auditor observations, and governance indicators. For regulators and standard setters, the study adds sector-specific evidence that reporting prudence and organizational scale are related to an accrual-based quality proxy, but stronger causal conclusions would require designs that address firm heterogeneity, endogeneity, and alternative measurement choices.

5. Conclusions

5.1 Conclusion

This study examines accounting conservatism, firm size, and earnings persistence in relation to earnings quality for Indonesian food and beverage companies listed on the IDX during 2021-2024. The initial sampling procedure yields 50 companies and 200 firm-year observations. Fourteen observations are removed as outliers during data screening, leaving 186 observations for post-cleaning diagnostics, and the Cochrane-Orcutt transformation produces 185 observations in the final regression. The findings support H_1 and H_2 but not H_3 . Accounting conservatism has a coefficient of -0.997 on the signed discretionary-accrual proxy ($p < .001$), while firm size has a coefficient of -0.007 ($p < .001$). Because lower discretionary accruals are interpreted as higher earnings quality in this study, both results are read as positive associations with earnings quality. Earnings persistence is insignificant ($p = .704$). Jointly, the variables are significant, $F(3, 181) = 478.833$, $p < .001$, with adjusted $R^2 = .886$. The central substantive conclusion is that accrual-based conservatism and organizational scale are associated with the study's accrual-based quality proxy, whereas a short-window persistence measure does not provide additional explanatory evidence.

The results are consistent with agency-based arguments that prudent recognition and stronger organizational monitoring can constrain discretionary reporting. At the same time, the findings reinforce the multidimensional nature of earnings quality. Persistence and discretionary accruals measure different characteristics, and the exceptionally strong conservatism coefficient should be interpreted in light of the shared accrual-based measurement structure.

For implementation, managers should document estimates that materially affect accruals, including revenue cut-off, inventory obsolescence, impairment, provisions, and expected losses. Audit committees can use that documentation to challenge unusual period-end adjustments, review the consistency of accounting policies, and connect internal-control testing to the accounts most exposed to judgment. Smaller issuers may prioritize closing checklists, segregation of duties, reconciliation routines, and audit-ready evidence, while larger issuers should monitor whether scale-related complexity creates new reporting risks. Investors and regulators should combine persistence with cash-flow conversion, accrual composition, auditor observations, and governance indicators. These recommendations follow the study's association-based evidence and do not imply that conservatism or size alone causes high earnings quality.

5.2 Research Limitations

Several limitations define the scope of the evidence. First, the sample is restricted to food and beverage companies and a four-year period, limiting generalization to other industries and longer economic cycles. Second, earnings quality is represented by signed discretionary accruals from the Modified Jones model. Signed DA captures the direction of accrual discretion and does not fully

distinguish the magnitude of earnings management; alternative studies often use absolute discretionary accruals or other accrual-quality measures. Third, the persistence coefficient is estimated from a relatively short time horizon, which may be unstable for firms experiencing large earnings shocks.

Fourth, the analysis removes 14 observations after a normality-related diagnostic. The source thesis does not retain a case-level exclusion rule or observation log that allows these deletions to be reproduced from the manuscript alone; this article therefore reports the original treatment without inventing a retrospective cutoff. Future work should predefine and document outlier rules and verify unusual values against original annual reports before exclusion. Fifth, Cochrane-Orcutt addresses serial correlation but does not control for all unobserved firm-level and year-level heterogeneity. Finally, the very high explanatory power and the large standardized conservatism coefficient may partly reflect overlap in the accounting components used to construct conservatism and discretionary accruals. These limitations do not invalidate the reported association, but they narrow the interpretation.

5.3 Suggestions and Directions for Future Research

Future research should replicate the analysis directly from a verified firm-year workbook and retain an auditable log of every data transformation and exclusion. The dependent construct should be tested with alternative measures such as absolute discretionary accruals, Dechow-Dichev accrual quality, cash-flow-based measures, or value relevance. Conservatism should likewise be tested using alternative definitions such as asymmetric timeliness or firm-year C-scores to determine whether the result depends on the accrual-based Givoly-Hayn measure.

A longer panel would improve the estimation of earnings persistence and permit panel-data methods with firm and year effects. Additional variables such as profitability, leverage, institutional ownership, audit quality, internal-control characteristics, dividends, business complexity, and governance can help explain the residual channels that firm size currently proxies. Researchers should also examine whether post-pandemic recovery conditions, commodity-price exposure, or subsector differences moderate the observed relationships.

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Author Contributions

SSZA was responsible for conceptualization, data collection and curation, methodology, formal analysis, interpretation, and preparation of the original draft. NN and UNA contributed to academic supervision, validation, manuscript review, and critical revision. All authors reviewed and approved the final manuscript and remain responsible for verifying the manuscript against the original dataset and institutional records before submission.

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