

## **The Effect of Profit Persistence, Book Tax Differences and Capital Structure on Profit Quality with Accounting Conservatism as a Moderation Variable (Empirical Study on Service Companies Listed on the IDX for the 2021-2023 Period)"**

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### **ABSTRACT**

This study aims to analyze the effect of profit persistence, book-tax differences, and capital structure on profit quality, with accounting conservatism serving as a moderating variable. Utilizing secondary data from the financial statements of service companies listed on the Indonesia Stock Exchange during the 2021-2023 period, the research employs a quantitative method with a causal design. The findings indicate that profit persistence has a positive effect on profit quality, suggesting that stable earnings are perceived as high-quality profits. Conversely, book-tax differences do not significantly impact profit quality, indicating that legal policy differences rather than manipulation may explain this relationship. Additionally, capital structure is shown to have a negative effect on profit quality, as higher debt levels may raise financial risk and lower market reactions to profits. Importantly, accounting conservatism is found to moderate the relationship between profit persistence and profit quality, as well as between book-tax differences and profit quality. Furthermore, it enhances the relationship between capital structure and profit quality, indicating that conservative accounting practices can improve the reliability of reported profits. This research provides valuable insights for investors and corporate management, highlighting the importance of profit quality and the need for effective management strategies to enhance financial reporting.

**Keywords:** Profit Quality, Profit Persistence, Book-Tax Differences, Capital Structure, Accounting Conservatism.

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### **INTRODUCTION**

Financial statements are essential as they provide critical information about a company's condition and performance. These statements serve both internal and external stakeholders, such as investors and creditors, and contain data regarding the financial position, performance, and changes in financial standing that aid a wide array of users in making informed decisions. Among the various components of financial statements, *profit* is one of the most closely observed elements, particularly by external parties (Anggrainy, 2019). The accuracy and transparency of financial statements are pivotal in shaping investor confidence and enabling effective resource management by a company's leadership.

The concept of *profit quality* refers to the ability of financial statements to reflect the company's true performance (Rahmah & Suyanto, 2020). According to Marpaung (2019), profit quality pertains to how accurately financial statements portray actual company earnings and their usefulness in forecasting future profits. Trisnawati (2020) underscores that profits must be presented accurately to avoid misleading stakeholders when making long-term investment decisions. High-quality profits indicate long-term sustainability and support strategic decision-making that impacts economic, social, and environmental dimensions (*sustainability*).

The issue of profit quality attracts significant attention, especially in the service sector, which relies heavily on public trust. Good profit quality mirrors a company's actual financial condition and serves as a key indicator of sustainable financial performance (Anjani et al., 2024). However, numerous instances of financial statement manipulation reveal that profit quality can be compromised by factors that are not yet fully understood. One example is the alleged manipulation of profits by the President Director of Bank NTT, where actual profits of only Rp 87 billion were reportedly inflated to Rp 300 billion. Bank NTT's net profit as of September 2023 was Rp 87,662,000,000, indicating poor financial health. The claim by President Director Harry Aleks Riwu Kaho (HARK) that the net profit reached Rp 300 billion is allegedly a manipulated figure, misleading stakeholders and presenting a falsely optimistic view ([www.korantimor.com](http://www.korantimor.com)). Such manipulations not only undermine corporate credibility but also erode public and regulatory trust, threatening business sustainability.

A similar case occurred at WanaArtha Life. In 2019, its financial statements reported liabilities of Rp 3.7 trillion, assets of Rp 4.712 trillion, and positive equity of Rp 977 billion. However, a 2020 audit revealed that several policies were not recorded, causing liabilities to surge to Rp 15.84 trillion. This disparity left WanaArtha Life unable to meet the OJK's solvency requirement of at least 120% of liabilities, with the audit showing a solvency ratio of minus 2,000%. The company's failure to attract new capital led to the revocation of its business license. According to President Director Adi Yulistanto, who took office in December 2021, these issues stemmed from the previous board. An independent audit revealed alleged financial crimes related to the manipulation of liabilities and financial reporting (<https://katadata.co.id>). This case emphasizes the importance of profit quality in assessing financial health—particularly in financial services such as banking, insurance, and financial institutions. The Bank NTT and WanaArtha Life cases demonstrate how manipulated financial reports can distort a company's actual condition, harming stakeholders and public trust in the financial industry.

Understanding the factors influencing profit quality is crucial. One such factor is *profit persistence*. Stable and consistent profit growth reflects effective and efficient resource management, while sharp fluctuations may suggest operational risks or poor management. High profit quality is often marked by profits that are persistent, predictable, and representative of true economic conditions (Ammar & Achyani, 2024). *Profit persistence* refers to the capacity of earnings to convey information about future company performance (Supattarakul & Rueangsuwan, 2024). Persistent profits are considered higher in quality as they provide a stable and reliable outlook on long-term profitability (Fatma & Hidayat, 2019). Studies have found a positive correlation between profit persistence and profit quality, as it helps predict future cash flows accurately (Ammar & Achyani, 2024; Asyifa et al., 2024; Nisa, 2023). However, Priskanodi et al. (2022) found no significant effect, a finding echoed by Sari (2020) and Ahabba & Sebrina (2020).

Conversely, Sormin & Aryati (2021) reported a negative relationship between profit persistence and profit quality, suggesting that profit management strategies may distort reported earnings, thereby lowering actual quality. Under pressure to maintain investor confidence, companies might manipulate reported profits, resulting in inflated or misleading figures. Accrual-based earnings management is one such method used to report stable but potentially distorted profits. These conflicting findings indicate a *research gap*, necessitating further study to clarify the true relationship between profit persistence and profit quality.

Another influencing factor is *Book-Tax Differences* (BTD), which represent the gap between accounting profits and taxable income. These differences may arise from variations in revenue recognition, timing, or expense allocation. A large BTD often signals earnings management, which can reduce reported profit quality (Huang & Wang, 2013). Managers may

exploit accounting flexibility to inflate reported earnings without affecting taxable income (Rizky et al., 2018). Ashma & Rahmawati (2019) found that BTD significantly impacts profit quality. In contrast, studies by Hasna and Aris (2022) and Sari (2020) found no such effect. This discrepancy suggests an ongoing *research gap*, requiring further investigation into the relationship between BTD and profit quality.

In addition, a company's *capital structure*—the mix of debt and equity financing—can also affect profit quality. While an optimal structure can reduce the cost of capital and boost firm value, excessive reliance on debt increases bankruptcy risk, which may influence earnings management and profit quality. Research by Ashma and Rahmawati (2019) showed that *accounting conservatism* could moderate the effect of BTD on profit quality by encouraging earlier recognition of losses, thereby narrowing the gap between accounting and taxable profits. However, Maulida et al. (2022) found that conservatism did not significantly moderate this relationship, suggesting further research is needed to clarify the role of accounting conservatism as a moderating variable.

This study aims to examine the effect of *profit persistence*, *Book-Tax Differences*, and *capital structure* on *profit quality* among service companies listed on the IDX from 2021 to 2023, with *accounting conservatism* as a moderating variable. This research is critical, as profit quality is essential in assessing financial health for investors, creditors, and stakeholders. Understanding its determinants ensures more accurate and transparent financial reporting. Furthermore, accounting conservatism may either enhance or diminish the influence of these variables on profit quality. This study contributes to *agency theory* by exploring how accounting conservatism mitigates information asymmetry between management and shareholders, enhancing the accuracy and reliability of profit reporting.

The findings of this research offer valuable insights for various stakeholders. Company management can better manage profit persistence, BTD, and capital structure to enhance profit quality. Investors can make more informed decisions based on reliable profit indicators. Regulators and policymakers may also benefit from these insights to design policies that promote transparency and integrity in financial reporting, ultimately improving corporate governance in capital markets.

## RESEARCH METHOD

This study employs a quantitative method with a *causal* design to examine the relationship between independent and dependent variables—specifically, the effect of *profit persistence*, *Book-Tax Differences*, and *capital structure* on *profit quality*, moderated by *accounting conservatism*. The research population includes all service companies listed on the Indonesia Stock Exchange, totaling 78 companies. The sample was selected using the *purposive sampling* technique, resulting in 72 companies that met specific criteria, including the completeness of financial statement data for the 2021–2023 period.

Data were collected through *documentation* and *literature studies*. The documentation method involved gathering information from publicly available financial statements, while the literature study focused on reviewing relevant academic sources. The dependent variable in this study is *profit quality*, measured using a formula that relates cash flow from operating activities to earnings before interest and taxes. The independent variables include *profit persistence*, which reflects the stability of profits over time, as well as *Book-Tax Differences* and *capital structure*, each measured using appropriate financial formulas. *Accounting conservatism*, serving as the moderating variable, is measured through a formula that captures the difference between profit and cash flow.

Data analysis was conducted using *panel data regression*, employing the *Common Effect Model*, *Fixed Effect Model*, and *Random Effect Model* approaches to assess the relationships

among variables. Classical assumption tests were performed to validate the regression model, including tests for normality, multicollinearity, heteroscedasticity, and autocorrelation. In addition, hypothesis testing was carried out using the *t-test* to evaluate the influence of each independent variable on the dependent variable, and the *F-test* to assess the simultaneous effect of the independent variables. The coefficient of determination ( $R^2$ ) was used to measure how well the model explains the variation in the dependent variable, with particular attention to the *adjusted*  $R^2$  value for a more accurate evaluation of model performance.

## RESULT AND DISCUSSION

### Descriptive Statistical Analysis

Descriptive statistical analysis aims to present information related to the collection, summarization and presentation of data until the data is ready to be analyzed. Descriptive statistical analysis provides an overview of data seen from maximum values, minimum values, mean values and standard deviations (Ghozali, 2021). The results of the descriptive statistical test can be seen in the following table:

Table 1. Descriptive Statistical Test					
	Descriptive Statistics				
	N	Minimum	Maximum	Mean	Hours of deviation
AT	216	-62.32	108.98	.9559	12.79127
PL	216	-.39	53.21	.4428	3.71443
BTD	216	-3.39	1.11	.0141	.27679
THE	216	.00	15.31	3.2777	2.99565
Valid N (listwise)	216				

Source: Researcher's Processing Results (2024)

Based on the table above, it shows that the profit quality variable (KL) has a minimum value of -62.32 and a maximum value of 108.98 with a mean value of 0.9559 and a standard deviation value of 12.79127. Furthermore, the profit persistence variable (PL) has a minimum value of -0.39 and a maximum value of 53.21 with a mean value of 0.4428 and a standard deviation value of 3.71443. Meanwhile, the variable book tax difference (BTD) has a minimum value of -3.39 and a maximum value of 1.11 with a mean value of 0.20141 and a standard deviation value of 0.27679. Furthermore, the capital structure variable (DER) has a minimum value of 0.00 and a maximum value of 15.31 with a mean value of 3.2777 and a standard deviation value of 2.99565.

### Classic Assumption Test

The classical assumption test aims to determine the feasibility of using the regression model in this study. A classical assumption test must be performed in this study, as it is to test whether the data meets the classical assumptions. This is to avoid biased estimates considering that not all data can be applied regression. The classical assumption test used in this study is as follows:

#### 1. Normality Test

Ghozali (2021) stated that to test whether in a regression model, dependent variables, independent variables or both have normal distributions or cannot be known using the normality test. In this study, the normality test will be carried out with a significant value through SPSS statistical software. If the probability value (p-value) is less than the significance level of 5%, then the data is not normally distributed. The data will be distributed normally if

the probability value (p-value) is greater than the significance level of 5%. The results of the normality test in this study can be seen in the following table.

<b>Table 2. Normality Test Without Moderation</b>		
<b>One-Sample Kolmogorov-Smirnov Test</b>		
		Unstandardized Residual
N		175
Normal Parameters <sup>a,b</sup>	Mean	.0000000
	Hours of deviation	1.64298191
Most Extreme Differences	Absolute	.067
	Positive	.051
	Negative	-.067
Test Statistic		.067
Asymp. Sig. (2-tailed)		.051 <sup>c</sup>
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		

Source: Researcher's Processing Results (2024)

<b>Table 3. Test Normality With Moderation</b>		
<b>One-Sample Kolmogorov-Smirnov Test</b>		
		Unstandardized Residual
N		165
Normal Parameters <sup>a,b</sup>	Mean	.0000000
	Hours of deviation	.87308717
Most Extreme Differences	Absolute	.053
	Positive	.037
	Negative	-.053
Test Statistic		.053
Asymp. Sig. (2-tailed)		.200 <sup>c,d</sup>
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		
d. This is a lower bound of the true significance.		

Source: Researcher's Processing Results (2024)

It is known in table 3 that the sig value is 0.051 which is greater than the significant level of 0.05, so it can be concluded that the data without the moderation variable has been distributed normally. Furthermore, Figure 4.4 shows that the sig value of 0.200 is greater than the significant level of 0.05, so it can be concluded that the data with moderation variables has been distributed normally.

## 2. Multicollinearity Test

To test multicollinearity in this study, it is seen from the value of tolerance and Variance Inflation Factor (VIF). These two measures indicate which independent variable is described by the other independent variable. To show the existence of multicollinearity, the tolerance value  $< 0.10$  or equal to the VIF value  $\geq 10$  (Ghozali, 2021). The results of the multicollinearity test in this study can be seen in Table 4.

**Table 4. Multicollinearity Test Results Without Moderation**

Coefficients <sup>a</sup>								
Model	Unstandardized Coefficients		Standardized Coefficients	t	Itself	Collinearity Statistics		
	B	Std. Error	Beta			Tolerance	BRIGHT	
1 (Constant)	.004	.189		.024	.981			
PL	.122	.031	.288	3.953	.000	.990	1.010	
BTD	-.016	.410	-.003	.039	.969	.996	1.004	
THE	.095	.041	.168	2.294	.023	.986	1.015	

a. Variable Dependent: KL

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Source: Researcher's Processing Results (2024)

**Table 5. Multicollinearity Test Results with Moderation**

Coefficients <sup>a</sup>								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Its elf	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	B RI G H T
1	(Constan t)	.496	.106		4.657	.000		
	PL	-.065	.057	-.133	-1.133	.259	.085	1.823
	BTD	.090	.225	.014	.401	.689	.984	1.016
	THE	-.002	.023	-.003	-.099	.921	.957	1.045
	CON_A CC	17.004	.928	.929	18.328	.000	.451	2.216
	CON_P L	-1.054	.246	-.515	-4.278	.000	.080	2.498
	CON_B TD	-14.506	1.655	-.338	-8.763	.000	.778	1.286
	CON_D ER	.919	.313	.125	2.936	.004	.638	1.568
a. Variable Dependent: KL								

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Source: Researcher's Processing Results (2024)

Based on the results of the analysis in the table above, it can be seen that the VIF value of all variables in model t is less than 10. Thus, it can be concluded that all variables are free from the problem of multicollinearity because the value of  $VIF < 10$ .

### 3. Heteroscedasticity Test

Heteroscedasticity test is a residual condition or error that has a variant that is not constant or variable. If the variance of the residual observations is fixed, it is called homoscedasticity

and if it is different it is called heteroscedasticity. To determine heteroscedasticity, the glazer test can be used. If the significance test results are more than 0.05, heteroscedasticity does not occur. On the other hand, if the significance is less than 0.05, heteroscedasticity occurs (Ghozali, 2021).

**Table 6. Heteroscedasticity Test Results Without Moderation**

Coefficients <sup>a</sup>					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Itself
	B	Std. Error	Beta		
1 (Constant)	1.089	.122		8.902	.000
PL	-.021	.020	-.081	-1.064	.289
BTD	-.049	.266	-.014	-.183	.855
THE	.046	.027	.132	1.736	.084

a. Dependent Variable: ABS RES

Source: Researcher's Processing Results (2024)

**Table 7. Heteroscedasticity Test Results with Moderation**

Coefficients <sup>a</sup>					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Its elf
	B	Std. Error	Beta		
1 (Constant)	.740	.062		11.879	.000
PL	.065	.033	.504	1.947	.053
BTD	.027	.132	.015	.202	.840
THE	-.023	.014	-.132	-1.719	.088
CON_A	-.301	.542	-.062	-.555	.579
CON_P	.326	.144	.603	2.264	.025
CON_B	.317	.968	.028	.328	.744
CON_D	.533	.183	.275	2.914	.004

a. Dependent Variable: ABS RES

Source: Researcher's Processing Results (2024)

Based on the results of the heteroscedasticity test, in the model without a moderation variable, significant values in the variable of profit persistence, *boox tax difference* and capital structure have sig values of 0.289, 0.855 and 0.084 > 0.05, meaning that heteroscedasticity does not occur. In the model with the moderation variable, there are 2 independent variables that have a sig value less than 0.05, which means that heteroscedasticity occurs.

#### 4. Autocorrelation Test

The autocorrelation test aims to test whether in the linear regression model there is a correlation between the disruptive error in the t-period and the disruptive error in the t-1 (previous) period. To detect the presence or absence of autocorrelation in this study, the Durbin Watson test and the Run Test were used. As a result, if the significance of the run test is more than 0.05, the regression model is said to have no autocorrelation (Ghozali, 2021). The

autocorrelation test uses the Durbin-Watson test (DW test) which uses the critical points, namely the lower limit (dL) and the upper limit (dU).

**Table 8. Autocorrelation Test Results Without Moderation**

Model Summary <sup>b</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.318 <sup>a</sup>	.101	.086	1.65733	1.901
a. Predictors: (Constant), DER, BTD, PL					
b. Dependent Variable: KL					

Source: Researcher's Processing Results (2024)

**Table 9. Autocorrelation Test Results with Moderation**

Model Summary <sup>b</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.904 <sup>a</sup>	.818	.810	.89234	1.747
a. Predictors: (Constant), CON DER, PL, BTD, CON BTD, DER, CON ACC, CON PL					
b. Dependent Variable: KL					

Source: Researcher's Processing Results (2024)

Based on  $n = 216$  and  $k = 3$ , we can refer to the Durbin-Watson table with values  $dl = 1.402$  and  $du = 1.460$ . From the results in table 4.9, the *durbin value of Watson* is 1.901, because  $DW = 1.901$ , which is greater than  $dU = 1.460$ , this shows that there is no autocorrelation in the regression model. From the results in table 4.10, it is obtained *that the Watson durbin* value is 1.747, since  $DW = 1.747$ , which is greater than  $dU = 1.460$ , this shows that there is no autocorrelation in the regression model.

### Moderated Regression Analysis

Multiple Linear Regression Analysis Regression analysis is carried out with the aim of testing the influence of one independent variable with the dependent variable. The purpose of regression analysis is to predict the average value of dependent variables based on known variable tests. In this study, 2 regression analysis models were used. The purpose of running a test using two regression models is to compare the results of the test. The regression model I was used to test the influence of the two independent variables on the dependent variables without including the moderation variable. For the regression II model, all variables were included in the research test. In testing the influence of the moderation variable, an interaction test was used.

**Table 10. Regression Test Results Without Moderation**

Coefficients <sup>a</sup>					
Model		Unstandardized Coefficients		Standardized Coefficients	t
		B	Std. Error	Beta	
1	(Constant)	.004	.189		.024
	PL	.122	.031	.288	3.953
	BTB	-.016	.410	-.003	-.039
	THE	-.095	.041	-.168	2.294
a. Variable Dependent: KL					

Source: Researcher's Processing Results (2024)



The regression model used in the study based on the above test is as follows:

$$Y = 0.004 KL + 0.122 PL - 0.016 BT D - 0.095 DER + \varepsilon$$

From the equation model above, it can be explained that based on the results of the regression test without moderation, it shows that the variables of *book tax difference* and capital structure have a negative relationship. Meanwhile, in the persistence variable, profit has a positive relationship.

**Table 11. Regression Test Results with Moderation**

Model		Coefficients <sup>a</sup>			t	Its elf.
		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta		
1	(Constant)	.496	.106		4.657	.000
	PL	-.065	.057	-.133	-1.133	.259
	BT D	.090	.225	.014	.401	.689
	THE	-.002	.023	-.003	-.099	.921
	CON_AC C	17.004	.928	.929	18.328	.000
	CON_PL	-1.054	.246	-.515	-4.278	.000
	CON_BT D	-14.506	1.655	-.338	-8.763	.000
	CON_DE R	.919	.313	.125	2.936	.004

a. Variable Dependent: KL

The regression model used in the study based on the above test is as follows:

$$Y = -0.065 X1 + 0.090 X2 - 0.002 X3 + 17.004 Z - 1.054 X1Z - 14.506 X2Z + 0.919 X3Z + \varepsilon$$

From the equation model above, it can be explained that based on the results of the regression test with moderation, it shows that the moderation variable, namely accounting conservatism, has a positive relationship, then profit persistence has a negative relationship with profit quality with accounting conservatism moderated, *book tax differentiation* has a negative relationship with profit quality with moderate accounting conservatism, capital structure has a positive relationship with quality Profit with moderate accounting conservatism.

## Hypothesis Test

### 1. Partial Test (T Test)

The t statistical test was carried out to test the influence and significance of independent variables on dependent variables (Ghozali, 2021). To find out the truth of a hypothesis criteria are used. If the significance value  $\leq 0.05$ , it means that the independent variable affects the dependent variable. If the significance value  $\geq 0.05$ , it means that the independent variable does not affect the dependent variable. The results of the hypothesis test in this study can be seen in the following table.

**Table 11. Statistical Test Results t**

Variable Relationships			B	Itself	Conclusion
Profit persistence	→	Quality Profit	0.122	0.000	Influential, H1 is accepted
Book Tax Difference	→	Quality Profit	-0.016	0.969	Not Affecting, H2 rejected
Capital Structure	→	Quality Profit	-0.095	0.023	Influential, H3 accepted
Accounting Conspiracy	→	Quality Profit	17.004	0.000	Influential, H4 accepted

Variable Relationships		B	Itself	Conclusion
Persistence of profit *Accounting Conservatism	→	Quality Profit -1.054	0.000	Influential, H5 is accepted
<i>Book Tax Difference</i> *Conservatism Akuntansi	→	Quality Profit -14.506	0.000	Influential, H6 is accepted
Capital Structure *Accounting Conservatism	→	Quality Profit 0.919	0.004	Influential, H7 accepted

Source: Researcher's Processing Results (2024)

### Hypothesis 1 (H1)

The first hypothesis (H1) tests whether profit persistence has an effect on the quality of profits in banking service companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the 2021-2023 period. The null hypothesis (Ho) and alternative hypotheses (Ha) sound as follows:

Ho1: Profit persistence has no effect on the quality of profits in banking services, financial institutions and insurance companies listed on the Indonesia Stock Exchange (IDX) for the 2021 – 2023 period.

Ha1: Profit persistence has a positive effect on the quality of profits in banking services, financial institutions and insurance companies listed on the Indonesia Stock Exchange (IDX) for the 2021 – 2023 period.

Based on the results of the t-test on the regression model, a *coefficient* value ( $\beta$ ) was obtained with a positive direction of 0.122 and a significance value of  $0.000 < 0.05$  (significance level of 5%). Thus, it can be concluded that the first hypothesis is accepted. This means that profit persistence has a positive effect on the quality of profits in banking services, financial institutions and insurance companies listed on the Indonesia Stock Exchange (IDX) for the 2021 - 2023 period.

### Hypothesis 2 (H2)

The second hypothesis (H2) tests whether *book tax difference* affects the quality of profits in banking service companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the 2021-2023 period. The null hypothesis (Ho) and alternative hypotheses (Ha) sound as follows:

Ho2: *Book Tax Difference* has no effect on the quality of profits in banking service companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the 2021 – 2023 period.

Ha2: *Book Tax Difference* has a positive effect on the quality of profits in banking service companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the 2021 – 2023 period.

Based on the results of the t-test on the regression model, a *coefficient* value ( $\beta$ ) with a negative direction of -0.016 and a significance value of  $0.969 > 0.05$  (significance level of 5%). Thus, it can be concluded that the second hypothesis is rejected. This means that *the book tax difference* has no effect on the quality of profits in banking service companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the 2021-2023 period.

### **Hypothesis 3 (H3)**

The third hypothesis (H3) tests whether the capital structure affects the quality of profits in banking service companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the 2021-2023 period. The null hypothesis (Ho) and alternative hypotheses (Ha) sound as follows:

Ho3: Capital Structure has no effect on the quality of profits in banking service companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the 2021-2023 period.

Ha3: Capital Structure has a negative effect on the quality of profits in banking service companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the period 2021 – 2023.

Based on the results of the t-test on the regression model, a *coefficient* value ( $\beta$ ) with a negative direction of -0.095 and a significance value of  $0.023 < 0.05$  (significance level of 5%) was obtained. Thus, it can be concluded that the third hypothesis is accepted. This means that the capital structure has a negative effect on the quality of profits in banking service companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the 2021-2023 period.

### **Hypothesis 4 (H4)**

The fourth hypothesis (H4) examines whether accounting conservatism affects the quality of profits in banking service companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the period 2021 - 2023. The null hypothesis (Ho) and alternative hypotheses (Ha) sound as follows:

Ho4: Accounting Conservatism has no effect on the quality of profits in banking service companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the 2021 – 2023 period.

Ha4: Accounting Conservatism has a positive effect on the quality of profits in banking service companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the 2021 – 2023 period.

Based on the results of the t-test on the regression model, a *coefficient* value ( $\beta$ ) with a positive direction of 17.004 and a significance value of  $0.000 < 0.05$  (significance level of 5%) was obtained. Thus, it can be concluded that the fourth hypothesis is accepted. This means that accounting conservatism has a positive effect on the quality of profits in banking service companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the 2021 - 2023 period.

### **Hypothesis 5 (H5)**

The fifth hypothesis (H5) tests whether accounting conservatism can moderate the influence of profit persistence on profit quality in banking service companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the 2021-2023 period. The null hypothesis (Ho) and alternative hypotheses (Ha) sound as follows:

Ho5: Accounting Conservatism cannot moderate the effect of profit persistence on profit quality in banking service companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the 2021-2023 period.

Ha5: Accounting Conservatism can moderate the effect of profit persistence on profit quality in banking service companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the 2021 – 2023 period.

Based on the results of the t-test on the regression model, a *coefficient* value ( $\beta$ ) with a negative direction of -1.054 and a significance value of  $0.000 < 0.05$  (significance level of 5%) was

obtained. Thus, it can be concluded that the fifth hypothesis is accepted. This means that accounting conservatism can moderate the influence of profit persistence on profit quality in banking service companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the 2021-2023 period.

### Hypothesis 6 (H6)

The sixth hypothesis (H6) examines whether accounting conservatism can moderate the effect of *book tax difference* on profit quality in banking service companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the 2021 - 2023 period. The null hypothesis (Ho) and alternative hypotheses (Ha) sound as follows:

Ho6: Accounting Conservatism cannot moderate the effect of *book tax difference* on the quality of profits in banking service companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the 2021-2023 period.

Ha6: Accounting Conservatism can moderate the effect of *book tax difference* on the quality of profits in banking service companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the 2021 – 2023 period.

Based on the results of the t-test on the regression model, a *coefficient* value ( $\beta$ ) with a negative direction of -14.506 and a significance value of  $0.000 < 0.05$  (significance level of 5%) was obtained. Thus, it can be concluded that the sixth hypothesis is accepted. This means that accounting conservatism can moderate the effect of *book tax difference* on the quality of profits in banking service companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the 2021-2023 period.

### Hypothesis 7 (H7)

The seventh hypothesis (H7) tests whether accounting conservatism can moderate the influence of capital structure on profit quality in banking service companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the 2021-2023 period. The null hypothesis (Ho) and alternative hypotheses (Ha) sound as follows:

Ho7: Accounting Conservatism cannot moderate the influence of capital structure on the quality of profits in banking service companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the 2021 – 2023 period.

Ha7: Accounting Conservatism can moderate the influence of capital structure on profit quality in banking service companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the period 2021 – 2023.

Based on the results of the t-test on the regression model, a *coefficient* value ( $\beta$ ) with a positive direction of 0.919 and a significance value of  $0.004 < 0.05$  (significance level of 5%) was obtained. Thus, it can be concluded that the seventh hypothesis is accepted. This means that accounting conservatism can moderate the influence of capital structure on the quality of profits in banking service companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the 2021-2023 period.

## 2. Coefficient of Determination Test ( $R^2$ )

The Coefficient of Determination (Test  $R^2$ ) essentially measures how far the model is able to explain the variation of dependent variables. The value of the coefficient of determination is between 0 and 1 or ( $0 < x < 1$ ). A small  $R^2$  value means that the ability of independent variables to explain dependent variables is very limited. For every additional one independent variable, then  $R^2$  will definitely increase, regardless of whether the variable has a significant effect on the dependent variable. Therefore, many researchers recommend using adjusted  $R^2$  when evaluating which regression model is best. In fact, the adjusted value of  $R^2$  can have a negative

value even if the desired value is positive. If in the empirical test there is a negative adjusted  $R^2$  value, then the adjusted  $R^2$  value is considered to be zero (Ghozali, 2021). The results of the determination coefficient test in this study are as follows:

**Table 12. Determination Analysis Results ( $R^2$ ) with Moderation**

Model Summary				
Type	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.904a	.818	.810	.89234
a. Predictors: (Constant), CON DER, PL, BT, CON BT, DER, CON ACC, CON PL				

Source: Researcher's Processing Results (2024)

Based on the results of data processing, the *R-squared* value of the model using moderation was 0.818. This can be interpreted that the independent variables in this study, namely profit persistence, *book tax difference*, capital structure, accounting conservatism, accounting conservatism\*profit persistence, accounting conservatism\**book tax difference*, accounting conservatism\*capital structure can together explain the bound variable, namely profit quality by 81.80%. The remaining 18.20% was explained by other variables outside the research model.

### 3. Simultaneous Test (F Test)

This test was carried out to prove whether the independent variables simultaneously (simultaneously) have an influence on the dependent variables (Ghozali, 2018). With the level of trust (5%), the decision taken is if the significant level of  $F < 0.05$  then it can be concluded that all independent variables simultaneously or simultaneously affect the independent variables. Then if the significant level of  $F > 0.05$ , then it can be concluded that all independent variables simultaneously or simultaneously have no effect on the dependent variables.

**Table 13. Results of F Statistical Test with Moderation**

ANOVA					
Model		Sum of Squares	df	Mean Square	F
1	Regression	561.678	7	80.240	100.770
	Residual	125.014	157	.796	
	Total	686.692	164		
a. Variable Dependent: KL					
b. Predictors: (Constant), CON DER, PL, BT, CON BT, DER, CON ACC, CON PL					

Source: Researcher's Processing Results (2024)

Based on the *Sig (F-statistic)* value in the model with moderation, it shows a sig value of 0.000. The value of the statistical sig F is smaller than the significant value of  $\alpha = 5\%$ , so it can be concluded that the independent variables in this study are profit persistence, *book tax difference*, capital structure, accounting conservatism, accounting conservatism\*profit persistence, accounting conservatism\**book tax difference*, accounting conservatism\*capital structure together have a significant effect on the variables tied to profit quality.

## Discussion

### *The Effect of Profit Persistence on Profit Quality*

Based on the results of the t-test on the regression model, a *coefficient* value ( $\beta$ ) was obtained with a positive direction of 0.122 and a significance value of  $0.000 < 0.05$  (significance level of 5%). Thus, it can be concluded that the first hypothesis is accepted. This means that profit persistence has a positive effect on the quality of profits in banking services,

financial institutions and insurance companies listed on the Indonesia Stock Exchange (IDX) for the 2021 - 2023 period. The effect of profit persistence on profit quality is important in analyzing how reliable and relevant the financial information presented by a company is. Profit persistence is a measure used to measure a company's ability to maintain profits earned from year to year. The persistence of high profits will increase investors' interest in investing their funds in companies (Ardianti, 2018). The high persistence of profit shows that the company is able to maintain its profits and produce quality profits. Profit persistence refers to the ability of an entity to maintain or be consistent in generating profits from one period to the next. Companies that are able to maintain annual profits attract more investors because according to investors, the company is able to maintain a stable corporate status. This means that it is becoming more permanent from year to year making investors more interested, because according to investors, this company can maintain its status to maintain stability. The reaction of investors is reflected in the high profit response coefficient, because this condition shows that the profits obtained by the company can be maintained. The higher the persistence of the benefit, the greater the response coefficient to the benefit. This shows that a company's profit is quality. These results are in line with research conducted by Nisa and Rahmawati (2023) which shows that profit persistence has a positive effect on profit quality. Then these results are not in line with research conducted by Krsity et al., (2024) which shows that profit persistence has no effect on profit quality.

#### ***The Effect of Book Tax Difference on Profit Quality***

Based on the results of the t-test on the regression model, a *coefficient* value ( $\beta$ ) with a negative direction of -0.016 and a significance value of  $0.969 > 0.05$  (significance level of 5%). Thus, it can be concluded that the second hypothesis is rejected. This means that *the book tax difference* has no effect on the quality of profits in banking service companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the 2021-2023 period. The ineffectual effect of *the book tax difference* on the quality of profit in this case is often due to a legal policy difference and not the result of manipulation or irregularities in the recognition of profits. The difference in the tax books is generally temporary and does not affect the economic reality or operational performance of the company. Therefore, as long as the company complies with applicable regulations, this difference does not reduce the quality of the profits reported in the financial statements. Companies in this sector generally have a better *corporate governance* structure, including having to be audited by a reputable external auditor. This transparency minimizes the opportunity for aggressive profit management, and makes indicators such as BTB less relevant in measuring the quality of profits. Reported earnings tend to reflect the company's actual financial condition. High or low BTBs do not necessarily reflect profit management practices, as the difference can be solely due to differences in legal accounting and taxation rules. The results of this study are in line with research conducted by Maulita (2022) which shows that *book tax differences* do not affect the quality of profits. The results of this study are also strengthened by the research of Pakpahan & Prabowo (2017) which shows that *the book tax difference* does not affect the quality of profits. This result is different from research conducted by Ashama and Rahmawati (2019), Murtiani (2019) shows that book tax differences have a negative effect on the quality of profits.

#### ***The Effect of Capital Structure on Profit Quality***

Based on the results of the t-test on the regression model, a *coefficient* value ( $\beta$ ) with a negative direction of -0.095 and a significance value of  $0.023 < 0.05$  (significance level of 5%) was obtained. Thus, it can be concluded that the third hypothesis is accepted. This means that the capital structure has a negative effect on the quality of profits in banking service

companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the 2021-2023 period. This is because the higher the level of debt that a company has can cause various risks that the company may have, so the company needs to spend more to overcome these risks. The results of negative and significant tests show that the impact of a company's capital structure results in a decrease in the quality of profits, because if the ownership of a company's assets uses more debt funds than private equity such as the company's own capital, then the role of investors is reduced so that investors are considered unable to maintain a balance between the amount of funds needed for fund management and the amount of funds available. This can later trigger a lower market reaction to the company's profits and reduce the quality of the company's revenue. Capital structure is an overview for companies in determining the use of external and internal funds in fulfilling company funding by calculating it by comparing the total debt divided by the company's capital (Pratama and Sunarto, 2018). This result is in line with research conducted by (Syawaluddin et al., 2019), (Tjahjadi & Nurdiniah, 2022), (Tarigan, 2022) stating that Capital Structure affects Profit Quality. These results are not in line with research conducted by Zatira et al., (2020) which shows that capital structure has no effect on the quality of profits.

#### ***The Influence of Accounting Conservatism on the Quality of Profits***

Based on the results of the t-test on the regression model, a *coefficient* value ( $\beta$ ) with a positive direction of 17.004 and a significance value of  $0.000 < 0.05$  (significance level of 5%) was obtained. Thus, it can be concluded that the fourth hypothesis is accepted. This means that accounting conservatism has a positive effect on the quality of profits in banking service companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the 2021 - 2023 period. Positive influence means that the higher the application of the principles of accounting conservatism, the higher the quality of the profit produced. This happens because the principle of conservatism prioritizes prudence so that the information presented in the financial statements is the real thing. This principle also aims to reduce the manipulation of financial statements carried out by management because it calms the nature of optimism, so that the profits generated are of high quality. Accounting conservatism can be useful to avoid conflicts of interest between principals and agents. The conservative attitude carried out by the management can avoid the distribution of excessive dividends to the investor, on the other hand, a conservative attitude can also provide quality profit information because the management will tend to be careful in managing the company. The higher the level of accounting conservatism applied, the higher the quality of the profits generated by the company. Accounting conservatism is an application of the nature of corporate prudence towards the measurement of assets and profits due to the uncertainty of the company's activities that can be seen in the preparation of the company's financial statements, so that later the company's financial statements can be useful for the users of the financial statements (Lestari, 2017). The nature of the prudence applied is not to report assets in overvalue and not to report debts in undervalue when an accountant assesses the company's assets and debts. Research conducted by Mayar (2020), Ayem and Lori (2020) found that accounting conservatism has a positive effect on the quality of profits. Meanwhile, research conducted by Azizah and Khairudin (2022) shows that accounting conservatism has no effect on the quality of profits.

#### ***Accounting Conservatism moderates the influence of Profit Persistence on Profit Quality***

Based on the results of the t-test on the regression model, a *coefficient* value ( $\beta$ ) with a negative direction of -1.054 and a significance value of  $0.000 < 0.05$  (significance level of 5%) was obtained. Thus, it can be concluded that the fifth hypothesis is accepted. This means that accounting conservatism can moderate the influence of profit persistence on profit quality in

banking service companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the 2021-2023 period. Profit persistence is a measure of how stable and sustainable a company's profits are over time. The higher the persistence of profits, the more it is considered that the profit is of good quality because it is reliable to predict future profits. However, the level of persistence alone is not enough to guarantee the quality of profits, especially when affected by accounting manipulation. Accounting conservatism is an approach applied in the preparation of financial statements to anticipate potential asset value declines and take into account potential losses ahead of potential gains. This has a significant impact on how earnings are reported in financial statements and how earnings persistence affects the quality of earnings. Accounting conservatism tends to encourage asset valuation in more conservative ways, such as acknowledging a decline in asset value faster than acknowledging an increase in asset value. This can reduce the impact of profit persistence that may be caused by delayed recognition of losses or impairment. Accounting conservatism will make profits more persistent because they reflect the company's financial reality, which can ultimately be considered a higher quality of profit. Thus, accounting conservatism can reinforce the influence of profit persistence on profit quality. Accounting conservatism is not only important as a prudential principle, but it also strengthens the relationship between profit persistence and profit quality. With conservatism, persistent profits become of higher quality because they are reported more realistically and accountably. In the context of financial services companies, this is crucial to build investor confidence and maintain the stability of the national financial sector. This is in accordance with the research of Ashma and Rahmawati (2019), Ayem and Lori (2020) that accounting conservatism strengthens the influence of profit persistence on the quality of profits.

#### ***Accounting Conservatism moderates the effect of Book Tax Difference on the Quality of Profits***

Based on the results of the t-test on the regression model, a *coefficient* value ( $\beta$ ) with a negative direction of -14.506 and a significance value of  $0.000 < 0.05$  (significance level of 5%) was obtained. Thus, it can be concluded that the sixth hypothesis is accepted. This means that accounting conservatism can moderate the effect of *book tax difference* on the quality of profits in banking service companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the 2021-2023 period. *Book Tax Differences* refers to the difference between the profit reported in the financial statements (based on accounting principles used for financial reporting purposes) and the profit used for tax purposes (based on tax rules). Accounting conservatism tends to affect the recognition of income and expenses in a more careful way, which can affect *Book Tax Differences*. Differences in revenue or expense recognition between financial statements and tax statements can be moderated to ensure more consistent and relevant profit quality. Accounting conservatism can help avoid potential profit manipulation that may arise from the difference between reported profits and taxable profits. By applying the principles of conservatism, companies are more likely to recognize the influence of Book Tax Differences more transparently and in accordance with actual economic conditions. The application of accounting conservatism as a moderation of the influence of Book Tax Differences on the quality of profits can increase the reliability, relevance, and transparency of the company's financial statements. This ensures that the reported earnings better reflect the actual performance of the company, reduce the potential for uncertainty or manipulation, and provide more useful information to stakeholders. This is in accordance with the research of Ashama and Rahmawati (2019) showing that accounting conservatism weakens the influence of *book tax differences* on profit quality.



### ***Accounting Conservatism moderates the influence of Capital Structure on the Quality of Profits***

Based on the results of the t-test on the regression model, a *coefficient* value ( $\beta$ ) with a positive direction of 0.919 and a significance value of  $0.004 < 0.05$  (significance level of 5%) was obtained. Thus, it can be concluded that the seventh hypothesis is accepted. This means that accounting conservatism can moderate the influence of capital structure on the quality of profits in banking service companies, financial institutions and insurance listed on the Indonesia Stock Exchange (IDX) for the 2021-2023 period. Capital structure refers to the composition of a company's funding sources, including debt and equity, as well as how the company uses these financial resources to generate profits. By applying the principles of conservatism, financial statements tend to be more transparent and have a higher level of predictability. This helps reduce volatility in reported earnings that may be caused by complex or risky capital structures. Accounting conservatism can moderate the influence of capital structure on the quality of profits by influencing the way companies report financial performance, particularly in relation to debt and equity. In situations where the company has very high leverage, profits may fluctuate significantly due to high interest obligations and pressure to comply with debt covenants. However, with the application of conservatism, companies are more likely to acknowledge interest and other expense expenses earlier or more accurately. As a result, even though the company has high debt, the quality of profits can still be better maintained with more conservative recognition. In this case, conservatism will strengthen the relationship between the capital structure and the quality of profits, if the level of capital structure increases, the company will apply more accounting conservatism so that the profits produced will be of higher quality. The increasing debt level will trigger creditors to continue to monitor the company's operational activities, so that the information gap will decrease and the company will constantly improve its financial statement information (Munika et al., 2016). Because of this, creditors will certainly demand that the company carry out accounting conservatism for the security of the funds lent. The capital structure is closely related to funding both from debt and capital, companies with high debt levels will encourage creditors to always monitor the company's operational activities in order to obtain good profits. For this reason, creditors will certainly demand companies to apply Accounting Conservatism for the security of the funds lent to anticipate the risk of loss. Companies that use Accounting Conservatism will have good governance to protect the funds lent so that the profits generated will be optimal. This is in accordance with the research of Ashama and Rahmawati (2019) showing that accounting conservatism weakens the influence of capital structure on profit quality.

### **CONCLUSION**

Based on the analysis and discussion, the conclusions of this study are as follows: *Profit persistence* affects *profit quality* in banking service companies, financial institutions, and insurance firms listed on the Indonesia Stock Exchange (IDX) for the 2021–2023 period. The *Book-Tax Difference* has no effect on *profit quality* in banking service companies, financial institutions, and insurance firms listed on the IDX for the 2021–2023 period. *Capital structure* affects *profit quality* in banking service companies, financial institutions, and insurance firms listed on the IDX for the same period. *Accounting conservatism* also affects *profit quality* in banking service companies, financial institutions, and insurance firms listed on the IDX during the 2021–2023 period.

Furthermore, *accounting conservatism* can moderate the effect of *profit persistence* on *profit quality* in these companies. It can also moderate the effect of *Book-Tax Differences* on *profit quality*, and similarly, it can moderate the influence of *capital structure* on *profit quality*

in banking service companies, financial institutions, and insurance firms listed on the *IDX* for the 2021–2023 period.

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