

ABSTRACT

Earnings quality is very important for shareholders and investors who make decisions based on accounting data. Earnings quality is the level of information about earnings that is publicly accessible, which can indicate the extent to which earnings can influence decision making and be used by investors to assess the company.

This study aims to analyze the effect of leverage, volatility cash flow, Investment Opportunity Set, and company size on earnings quality simultaneously and partially. Earnings quality is measured using the Earnings Response Coefficient (ERC). Indicators used in independent variables include leverage using the debt to asset ratio, volatility cash flow using the standard deviation of cash flow, Investment Opportunity Set using the ratio of capital expenditure to book value assets, and company size using the natural logarithm of assets.

This study uses a quantitative approach with a panel data regression analysis method. Data were obtained from the annual financial reports of companies that were the research samples, which were taken using a purposive sampling technique. The total sample of this study consisted of 9 companies in the forestry and paper industry with an observation period of 6 years. The analysis method used is descriptive statistical testing and panel data regression analysis.

The results of the study indicate that leverage, cash flow volatility, Investment Opportunity Set, and company size have a simultaneous effect on earnings quality. While partially cash flow volatility, Investment Opportunity Set, and company size do not have a partial effect on earnings quality, leverage have a partial effect on earnings quality in the Forestry and Paper Industry Listed on the Indonesia Stock Exchange in 2018-2023.

Further research is suggested to add other variables that can also contribute to the level of corporate earnings quality. In practical aspects, corporate management is suggested to increase the debt ratio in investing in assets. This suggestion is based on research results showing that the debt ratio has a positive effect on earnings quality.

Keywords: *earnings quality, firm size, Investment Opportunity Set, leverage, volatility cash flow*