EARNINGS QUALITY AND COVID-19 OUTBREAKS IN INDONESIA

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Abstract

Earnings quality is a critical indicator and an important element of a company's financial statement performance especially in the COVID-19 Outbreaks. This research aims at proving whether there was a difference in earnings quality before and during the COVID-19 Outbreak. The scope of this research was restricted to LQ-45 firms and the final sample in the observation period was 166 from 584 observations for the period 2010-2022. The sampling technique used purposive sampling and hypothesis testing used the independent T Test method. This research found that earnings quality on LQ-45 in the Indonesia Stock Exchange during the COVID-19 outbreak had higher earnings quality than before the COVID-19 outbreak. Therefore, it was feasible that other rising countries' results might differ from those of Indonesian firms. The results of this research were used to help investors make investment decisions.

INTRODUCTION

The financial statement serves as a vehicle for exchanging financial data regarding management accountability for performance. Managerial practices that present profits but conceal the state of the business that ultimately produces the profit raise questions about their quality. This problem could hurt a lot of people who use financial statements. Every party has particular interests concerning the information from the financial statement. For those who use financial reports, the quality of earnings in particular and the quality of financial statements in general matter when it comes to contract reasons and investment decision-making. The company's management will release earnings data, which investors use to forecast future profits and make investment decisions. Investors buy shares when they are confident that future profits will drive up the price of the stock. When making decisions, consumers of financial statements want a company to be able to report high-quality earnings because they can use that information as a signal. The user's expectations and objectives have that as their only purpose. The

pressures management faces make it more likely that they fabricate accounting data to satisfy the market and achieve their objectives. Management will take advantage of the opportunity to set accounting standards so that accurate financial statements and earnings data are generated following projections to strive the profit targets. Widiastuti et al. (2022) revealed that forward-looking information disclosure did not affect firm value. However, firm performance had a positive effect on firm value. Therefore, the interaction of firm performance and forward-looking information positively affected firm value. During the pandemic, managers disclose more forward-looking information than before the pandemic. Hariadi et al. (2022) revealed that e-commerce, innovation and accounting information systems had a significant effect on MSMEs' performance during the COVID-19 pandemic. There had been a significant change in cashless mobile banking transactions during the pandemic. This research added new insights into the latest developments and evaluation topics for banking companies (Anggraeni, et al., 2023).

The COVID-19 pandemic had significantly impacted the Indonesian economy, causing shifts in the global supply chain and a decrease in foreign investment in the country. The economic growth rate slowed from 5.02 per cent in 2019 to 2.97 per cent in 2020, indicating the decline. The number of unemployed people increased as well, rising from 5.28 per cent in 2019 to 7.07 per cent in 2020. According to World Bank data, following the slowdown in economic growth, COVID-19 outbreaks in Indonesia led to a great deal of economic uncertainty. This eventually turned into one of the primary reasons for the drop in investor confidence, which in turn affected the drop in the amount of money invested. The public used money carefully in response to the uncertainty brought on by COVID-19 outbreaks. There were several ways in which this uncertainty might appear, including wage deductions and job termination. The demand for goods and services decreased as a result, which negatively impacted the earnings of the companies that supplied them. A decrease in stock prices was unavoidable since the majority of companies listed on the Indonesia Stock Exchange are impacted by uncertainty and a drop in the demand for goods and services (Dinata, 2023).

The news of PT Toshiba's CEO, Hisao Tanaka, and other senior officials' resignations stunned the business community in July 2015. After their inflated earnings reached 151.8 billion yen, or 16 trillion rupiah, over the previous few years, they resigned (Carpenter, 2021). Business actors, including directors and shareholders/investors, might become frustrated by the phenomenon of declining profit quality both during the COVID-19 outbreak and in regular times. As a result, investors truly needed information on earnings quality as a tool for making decisions. That phenomenon, though, was merely an instance. Did the quality of earnings differ before and during the COVID-19 outbreaks? That was the question. A company's objective, according to signal theory, was to raise its value by communicating with parties outside the company. Nauruzbayev & Berniyazova (2023), found that COVID-19 positively affected earnings quality in partially state-owned companies and its effect was stronger compared to earnings quality in 100 % owned private and state enterprises. Despite such an immediate and positive reaction, in the post-COVID-19 2021 year, earnings quality deteriorated in partial state-owned companies (with 50-99 % Government ownership) up to the level of 100 % private/state companies. The way a company used information to convey both positive and negative signals to the wearer was explained by signal theory. In this case, investors received a signal regarding the company's health based on the quality of earnings at a given point in time. Signaling Theory highlights the significance of information provided by the company on the investment decisions made by parties other than the company. Since the information provided notes, descriptions, and information about the past, present, and future conditions for a company's survival and how the market affected it, information was a crucial component for investors and business people. As a tool for analysis, capital market investors needed information that was timely, accurate, relevant, and comprehensive.

Researchers defined earning quality differently. Tuovila (2021) asserted that a company's quality of earnings could be ascertained by eliminating any irregularities, accounting gimmicks, or one-time occurrences that might distort the true performance metrics. It was clear how much money was made from higher sales or lower expenses when these were deducted. Elements unrelated to the company may impact an evaluation of the quality of earnings. For example, most businesses felt that their profits were of low quality when there was a lot of inflation. Their sales figures were also exaggerated. Earnings that were conservatively calculated were typically thought to be more reliable than those that are the result of aggressive accounting techniques. Accounting practices could lower the quality of earnings by hiding low sales or increased business risk. According to Tuovila (2021). The goals of financial analysis were to analyze the company's performance, determine whether the current stock price reflects intrinsic firm value, and determine the degree to which the company's performance was indicative of future performance. From this perspective, a high-quality earnings figure was one that accurately represents the company's current operating performance, acted as a solid indicator of future operating performance, and provided a useful summary metric for assessing the firm's worth. When the earnings number correctly annuitized the firm's intrinsic value, authors considered the earnings to be of high quality. According to An (2017), conservatism and accruals quality were used to measure earnings quality as stewardship (or accountability), and persistence and value-relevance were used to measure earnings quality as decision usefulness.

Lassoued & Khanchel (2021) declared that the COVID-19 pandemic had threatened the sustainability of businesses and reported that, during COVID-19 restrictions, companies were tempted to use aggressive accounting practices to cope with the pandemic. In fact, due to the significant impact of accounting information on the good functioning of the capital market, the International Organization of Securities Commissions had urged companies to enhance disclosure practices to promote high earnings quality (Lassoued & Khanchel, 2021). High earnings quality was described as an earnings number that was free from earnings manipulation, it was an earnings number that truly represented the company's performance and it was useful for the users in their economic decision-making (Šodana, 2015; Dombeu, et al., 2022). Therefore, an empirical examination of earnings quality (EQ) during the COVID-19 pandemic was necessary.

Islam et al. (2022) showed that companies that generate low-quality earnings would have less financial flexibility; consequently, companies that generated high-quality earnings had more financial flexibility. The writer looked into the connection between financial flexibility and earnings quality because of how important it was. According to Mandiri & Sebrina (2023), there were variations in the sample companies' earnings persistence before and after the COVID-19 Outbreaks. This difference was substantiated by a decline in earnings persistence, with the sample companies' profit persistence being better and more stable before the COVID-19 Outbreaks than it was during them. According to the empirical findings, there was a significant negative correlation between the degree of corporate financial flexibility and poor earnings quality (Islam, et al., 2022). The results also demonstrated that corporate governance could significantly and favourably moderate the relationship between financial flexibility and earnings quality. This suggested that when earnings quality was low, businesses were less likely to be financially flexible in maintaining liquidity. More specifically, businesses with low-quality earnings would have less financial flexibility; consequently, businesses with high-quality earnings needed to have more financial flexibility. According to research findings, the COVID-19 Outbreaks did not affect trends in sales growth, profit generation, cash ratio, debt to assets ratio, or current ratio for the majority of businesses (Kurniawan & Damayanti, 2022). However, the tendency of business profitability results, such as the gross margin ratio, return on investment, and return on equity, had been impacted by the COVID-19 Outbreaks (Kurniawan & Damayanti, 2022).

The results of additional research done by Lassoued & Khanchel (2021), which looked at the quality of earnings during COVID-19 outbreaks, indicated that management actions during the outbreaks led to a decline in the credibility of financial reports. Aljawaheri et al. (2021) examined how the COVID-19 Outbreaks affected the main industries affected by the economic crisis brought on by the outbreaks, concentrating on the lockdown measures implemented on the Iraqi stock exchange. The findings showed that the sample companies kept their profits afloat during the crisis by falsifying their earnings to appease investors about their financial stability. Several previous studies had examined the impact of the crisis on earnings quality. Research (Persakis & Iatridis, 2015; An, 2017), for example, showed that accruals' quality increased during the financial crisis and examined how the crisis had affected the quality of earnings as measured by accruals quality.

Prior research showed that even during the economic downturn, the quality of profits had improved before the COVID-19 outbreaks. Meanwhile, the quality of profits declined during a crisis. In this research, the writer put forth a hypothesis based on earlier research.

H1: The LQ-45 companies listed on the Indonesian Stock Exchange had varying earnings quality before and during the COVID-19 Outbreaks.

H2: The LQ-45 companies listed on the Indonesia Stock Exchange had a higher earnings quality during the COVID-19 outbreak compared to before the outbreak.

The conceptual framework of the research was likely to be as follows, based on the research background and prior research:
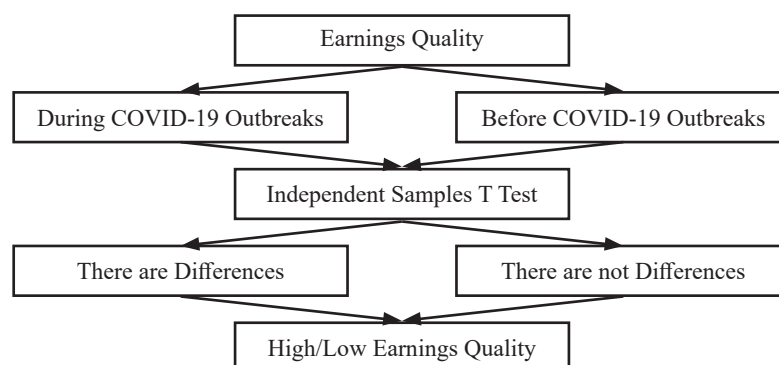

Figure 1. Conceptual framework

METHODS

The research sample comprised companies that fell under the LQ-45 category and were listed on the Indonesia Stock Exchange. Data collection for the 2010–2022 period that continuously survived in LQ–45 came from the Indonesia Stock Exchange website (www.idx.co.id), the Indonesia Capital Market Directory (ICMD), and other sources. The research's excluded sample was a result of irregularities (inconsistently in LQ-45 for the period 2010-2022) in the observation period. 166 out of 584 observations made up the final sample during the observation period.

High-quality earnings were those that fairly represent the company's actual earnings and could be used to gauge its recent performance. Higher measure values indicated lower-quality earnings, whereas lower measure values indicated higher-quality earnings (Islam, et al., 2022). Experts explained that the following formulas could be used to gauge the quality of earnings.

Persistence was the amount of current earnings that would continue to be earned from one period to the next and into the future. Persistence was computed using the slope-coefficient equation proposed by (An, 2017), was used to calculate persistence:

$$\frac{Earnings_{i,t}}{Total\ Assets_{i,t-1}} = \alpha + \beta_1 \frac{Earnings_{i,t-1}}{Total\ Assets_{i,t-1}} + \varepsilon_{i,t} \quad \dots\dots\dots\dots\dots\dots\dots(1)$$

Where for firm i and year t, $Earnings_{i,t}$ was net income before extraordinary items in the current year, $earnings_{i,t-1}$ was net income before extraordinary items in the previous year, $\varepsilon_{i,t}$ was the residuals, α was constants, and β_1 indicated highly persistence earnings.

Anees (2020) found that determining high-quality earnings was highly subjective. The proficiency of the individual determining the high-quality earnings determined its accuracy. The ability of the business to make money from its day-to-day operations was a key indicator of high-quality earnings. However, the following formula could still be used to determine the quality of earnings:

$$EQ = \frac{CFO}{EBIT} \quad \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots(2)$$

Where EQ was earning quality, CFO was cash flow from the operation, and EBIT was earnings before interest and taxes.

An (2017), stated that when accruals had a lower estimation error, earnings would be more indicative of future cash flows. The writers applied the methodology of Egbunike & Odum (2018) to evaluate accruals quality.

$$\frac{TCA_{i,t}}{TA_{i,t-1}} = \alpha + \beta_1 \frac{OCF_{i,t-1}}{TA_{1,t-1}} + \beta_2 \frac{OCF_{i,t}}{TA_{i,t-1}} + \beta_3 \frac{OCF_{i,t+1}}{TA_{i,t-1}} + \beta_4 \frac{\Delta REV_{i,t}}{TA_{i,t-1}} + \beta_5 \frac{PPE_{i,t}}{TA_{i,t-1}} + \varepsilon_{1,t} \quad \dots..(3)$$

Where $TCA_{1,t}$ was firm i's total current accruals in the current year, $OCF_{i,t-1}$ was operating cash flow, $OCF_{i,t}$ was operating cash flow $OCF_{i,t+1}$ was operating cash flow, $\Delta REV_{i,t}$ was changed in operating revenue, $PPE_{i,t}$ was firm i's property, plant, and equipment, $TA_{i,t-1}$ was total asset, $\varepsilon_{i,t}$ was residuals, and α was constant.

As suggested by An (2017) value-relevance was the explanatory power of earnings and book value of equity for stock returns. The value-relevance formula was thus as follows.

$$P_{i,t} = \alpha_0 + \beta_1 BV_{i,t} + \beta_2 EPS_{i,t} + \varepsilon_{i,t} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots(4)$$

Where $P_{1,t}$ was the stock price at the end of the year, α_0 constants, $\varepsilon_{i,t}$ residuals, $\beta_1 BV_{i,t}$ was the book value of the stock at the end of the year, $EPS_{i,t}$ was earnings per share at the end of the year.

The means of two unrelated groups of samples were compared using the independent samples t-test. This implied that different individuals were giving each group a rating. Finding out if the samples differed from one another was the aim of this test. The process of hypothesis testing involved comparing the quality of earnings before and during the COVID-19 outbreaks to identify any true variations in the firms that were consistently included in the LQ-45 group between 2010 and 2022. The independent t-test was used in research at a significance level of 5% or 0.05.

An overview of the variables to be studied was the aim of descriptive statistical analysis. Each variable's mean, median, maximum, and standard deviation would be used as descriptive statistics in this investigation. In t-test independent testing, the normality test needed to be run and the data needed to be normally distributed. In hypothesis testing for the independent sample t-test, statistical conclusions were drawn regarding the similarity of the two population means. Compare the sample t-test table value to the estimated value of the independent sample t-test. The null hypothesis was rejected and the means of the two groups differed if the computed result of the independent sample t-test was greater than the table value of the chosen significance level. If the computed outcome of the independent sample t-test was less than the table value, we would assert that the means of the two groups were equal. During the test phases, the following formulas were utilized: 1) The statistical hypothesis, determined whether the variations were similar by using Leven's test for equality of variations. (a) form of a statistical hypothesis, H0: σ21 = σ22 atau σ21 - σ22 = 0 and H1: σ21 ≠ σ22 atau σ21 - σ22 ≠ 0. (b) the actual level (α) used was 5% (0.05) and (c) how to choose a choice, reject H0 if it could be determined that the total variety of the first data distribution was significant (significant) and that the second data distribution yielded a variety of data total and the value of significance (sig.) was smaller (<) from the real level (α) used. It could be concluded that the total variety of the first data distribution is the same (not significant) with a variety of total data yielding the second data distribution. Receive H0 if the value of significance (sig.) Is greater (>) than the real level (α) used.

Calculate the standard deviation for the independent sample t-test by using this formula:

$$\sigma = \sqrt{\frac{\Sigma(X_1 - \bar{X}_2)^2 + \Sigma(X_2 - \bar{X}_2)^2}{n_1 + n_2 - 2}} \quad \text{...(5)}$$

Where σ is the standard deviation.
Use the following formula to determine the standard deviation for the independent sample t-test:

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sigma}\sqrt{\frac{n_1 n_2}{n_1 + n_2}} \quad \text{..(6)}$$

where σ is the standard deviation, X_1 was the mean of the first sample, X_2 was the mean of the second sample, n_1 was the size of the first sample, and n_2 i was the size of the second sample.
For the independent sample t-test, the degree of freedom:

$$V = n_1 + n_2\text{-}2 \quad \text{...(7)}$$

To perform the independent sample t-test hypothesis test, statistical assumptions regarding the identity of the two population means must be made. Compare the sample t-test table value to the estimated value of the independent sample t-test. The null hypothesis was rejected and the means of the two groups differed if the computed result of the independent sample t-test was greater than the table value of the chosen significance level. If the computed outcome of the independent sample t-test was less than the table value, we would assert that the means of the two groups were equal.

RESULTS

Descriptive statistics of our earnings quality proxies were shown in Table 1. It was known that 166 observations—116 from before the pandemic and 50 from during—qualified as a sample out of the 584 observations that were included in this research. Persistence-wise, earnings had a mean value of 0.9861122 before COVID-19 outbreaks and a mean value of 1.1253120 during COVID-19 outbreaks, which was higher than before COVID-19 outbreaks. Before the COVID-19 outbreaks, the standard deviation was 0.30677365; during the outbreaks, it was 0.25861616; additionally, the median value was 0.9806200 before the outbreaks and 1.1463950 during them.

Table 1. Descriptive Statistics

Descriptives				Statistic	Std. Error
Earnings Quality	Before COVID-19 Outbreaks	Mean		.9861122	.02848322
		95% Confidence Interval for Mean	Lower Bound	.9296925	
			Upper Bound	1.0425320	
		5% Trimmed Mean		.9850973	
		Median		.9806200	
		Variance		.094	
		Std. Deviation		.30677365	
		Minimum		.02915	
		Maximum		1.66641	
		Range		1.63726	
		Interquartile Range		.36698	
		Skewness		.071	.225
		Kurtosis		.412	.446
	During COVID-19 Outbreaks	Mean		1.1253120	.03657385
		95% Confidence Interval for Mean	Lower Bound	1.0518141	
			Upper Bound	1.1988099	
		5% Trimmed Mean		1.1253044	
		Median		1.1463950	
		Variance		.067	
		Std. Deviation		.25861616	
		Minimum		.47327	
		Maximum		1.66811	
		Range		1.19484	
		Interquartile Range		.35734	
		Skewness		-.040	.337
		Kurtosis		.050	.662

Table 2. Tests of Normality

		Kolmogorov-Smirnova			Shapiro-Wilk		
	Group	Statistic	df	Sig.	Statistic	df	Sig.
Earnings Quality	Before COVID-19 Outbreaks	.078	116	.079	.982	116	.111
	During COVID-19 Outbreaks	.086	50	.200*	.986	50	.805

      As presented in Table 2, the data normality test results before and during the COVID-19 outbreaks. The Kolmogorov-Smirnov test results showed that all of the data were normally distributed and had sig values. For the data gathered before and during the COVID-19 Outbreaks, specifically 0.079 before and 0.200 during, it was greater than 5%. Similarly, the Shapiro-Wilk test produced values greater than 5% in both the before and during periods, 0.805 and 0.111, respectively. These results confirmed that the data was appropriate for additional testing and regularly distributed. After the data was checked for normality, the hypothesis was tested by comparing the quality of earnings before and during the COVID-19 Outbreaks. The hypothesis was tested using the t-test, also known as the independent t-test for the difference between two unpaired means.

Table 3. Group Statistics

	Group	N	Mean	Std. Deviation	Std. Error Mean
Earnings Quality	Before COVID-19 Outbreaks	116	1.0119743	.30116958	.02796289
	During COVID-19 Outbreaks	50	1.1253120	.25861616	.03657385

Table 2 of the Group Statistics output suggested that there were 50 earnings quality data points during the COVID-19 outbreaks and 116 data points before the outbreaks. The mean earnings quality value before the COVID-19 Outbreaks was 1.0119743; during the COVID-19 Outbreaks, it was 1.1253120. Thus, it was possible to conclude that there were differences in average earnings quality before and during the COVID-19 Outbreaks using descriptive statistics. The significance of the earnings quality difference was then assessed using an independent t-test.

The results of the Independent T-Test yielded a Sig, as Table 4 demonstrated. Levene's test for equality of variances, which assumed equal variances before and during COVID-19 outbreaks, had a value of 0.370>0.05. According to Sujarweni (2014), this showed that the data variance between Earnings Quality before and during COVID-19 Outbreaks was homogeneous.

As a result of the fact that the value of sig. (2-tailed) table 4's "equal variances assumed" section was known to be 0.0220.05, it was possible to use this information as the basis for decision-making in the Independent T-Test, which led to the realization that Ha was accepted and H0 was rejected as a possibility. Before and during the COVID-19 Outbreaks, the LQ-45 company's average earnings quality from 2010 to 2022 were substantially different from one another. As a result, it was possible to assert that there was a considerable difference between the two periods.

Table 4. Independent Samples Test

| | | Levene's Test for Equality of Variances | | t-test for Equality of Means | | | | | | |
| | | | | | | | | | 95% Confidence Interval of the Difference | |
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Earnings Quality	Equal variances assumed	.809	.370	-2.317	164	.022	-.11333769	.04891101	-.20991417	-.01676121
	Equal variances not assumed			-2.462	107.394	.015	-.11333769	.04603879	-.20460039	-.02207499

It was known that the "mean difference" value is 0.11333769 based on the output above. The difference between the average quality earnings before and during COVID-19 outbreaks, or the mean value of 1,0119743 reduced by 1,1253120, was shown by this value (see Table 3). The 95% confidence interval of the difference, which ranged from -0.20991417 to -0.01676121, was shown in Table 4.

DISCUSSION

Based on the results of this research using LQ-45, which survived the observation period and was consistently listed on the Indonesia Stock Exchange between 2010 and 2022, both before and during COVID-19 outbreaks. The writers found significant differences in the quality of earnings before and during COVID-19 outbreaks. Differences in the quality of earnings suggested that before the COVID-19 outbreaks, the quality of earnings was not as high as it was during the outbreaks. This indicated that the quality of earnings for the companies listed in LQ-45 was higher during the observation period.

This research found that the earnings quality of LQ-45 in the Indonesian Stock Exchange was relatively lower before COVID-19, this result was in line with An (2017), which stated earnings quality of Korean firms was relatively lower for the period 1995-2006. Hidayah et al. (2023), there was no significant difference between the earnings quality before and after the announcement of the COVID-19 pandemic in Indonesia. Sementara Junaidi & Salim (2021), revealed that there was a negative and significant difference between company performance before the COVID-19 pandemic and company performance during the pandemic. Sulistyaningrum (2022), revealed the negative influence of the impact of the COVID-19 pandemic on changes in ROA and the fact that historical managerial skills were unable to moderate the effect of the impact of the COVID-19 pandemic on company performance. Kusumawardani et al. (2022) also revealed that there was a difference between the quality of financial reports before COVID-19 and the quality of financial reports

after COVID-19. In addition, based on descriptive data, the average quality of financial reports in the sample had decreased during COVID-19. Based on the results of the research above, it could be concluded that the difference in profit quality in companies before and during COVID-19 depended on the type or category of the company, not all companies during COVID-19 had low profit quality.

Signalling theory suggested that profitable companies disclosed more information to signal their performance. Based on the standpoint of signal theory, the company was attempting to use market signals to address information problems. To alleviate asymmetry information and provide additional information regarding differences in the earnings quality, directors could smooth income. As a signal to lessen asymmetry information, the policy in this case of raising the informativeness of income and accounting data might be understood. The results of this research during COVID-19 stated that earnings quality was higher than before COVID-19, this was in line with Nauruzbayev & Berniyazova (2023) found that COVID-19 positively affected earnings quality in partially state-owned companies and the effect was stronger compared to earnings quality effect in private/state enterprises. Despite such a quick and positive reaction, a year later in post-COVID-19, earnings quality deteriorated in partial state-owned companies (particularly with 50-99 % government ownership) up to the level of private/state companies. Tenripada (2022) revealed no significant difference in earnings quality between before and during the COVID-19 pandemic. However, the mean earnings quality before the Covid-19 pandemic was higher than during the Covid-19 pandemic. This research contributed to providing empirical evidence on earnings quality during crises such as the COVID-19 pandemic. The results of this research also contributed practically to regulators in formulating policies related to financial statements during situations.

The results of this research on earnings quality were consistent with those of Mandiri & Sebrina (2023), which found that there were variations in earnings quality before and during COVID-19 outbreaks. However, the company listed in LQ-45 for COVID-19 Outbreaks produces high earning quality, whereas Mandiri & Sebrina (2023) claimed that earning quality during the pandemic produced low earnings. The results of our research revealed that companies that were consistently in the LQ-45 category during the 2010-2022 period had high earnings quality. The results of this research also proved that companies that were consistently in the LQ-45 category during the 2010-2022 period have brilliant fundamentals, large market capitalization, able to pay dividends consistently, had liquid shares, and were leaders in their business sector. According to Hidayah et al. (2023) there was no discernible difference in the quality of earnings before and after the COVID-19 outbreaks in Indonesia were announced. Thus, it could be said that businesses registered between 2010 and 2022 in the COVID-19 Outbreak and included in the LQ-45 category had high earnings quality.

CONCLUSIONS

Using observation 584 and final sample observation 166 over twelve-year periods (2010-2022) listed on the LQ-45 category, Indonesia Stock Exchange, the writers investigated earnings quality and the COVID-19 outbreak in Indonesia in this research. This assessed the quality of earnings both before and during the global COVID-19 pandemic. The results of this research showed that the quality of earnings varied before and during the COVID-19 pandemic. Stronger than the findings of this research during the COVID-19 outbreak, the company listed on LQ-45 for the years 2010–2022, the companies had high earnings quality. Investors should consider an investment in a company or business sector only after evaluating the quality of earnings. Therefore, reliable information about the quality of earnings was required to motivate investors to make investments.

Signalling was one of the strategies commonly applied to address the issue of asymmetric information. It stated that poor earnings quality was a source of increased shareholder worry about increased asymmetric information. Which could negatively impact the firm's financial report. Therefore, earnings quality was an important element. This paper had implications for management to continue improving its performance in every company activity. Investors could use this research to help them make investment decisions. This research revealed that investors must pay attention to the earnings quality of a firm. This research could not only be carried out on companies listed on The Indonesia Stock Exchange, the LQ-45 category. Further research should be able to use several variables that were not financial variables (i.e., good corporate governance, corporate social responsibility, audit committee, managerial ownership, independent board of commissioner, economic condition, etc.) that affected to quality of earnings.

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