

## Earnings Persistence of Basic Material Companies in Terms of Book-Tax Difference, Operating Cash Flow, Accrual Component with Company Size as A Moderating Variable

Akhya Rizki Muhammad<sup>1\*</sup>, Nurika Restuningdiah<sup>2</sup>, Sri Pujiningsih<sup>3</sup>

<sup>1\*,2,3</sup> Universitas Negeri Malang, Indonesia

Corresponding Author: rizkiakhya@gmail.com<sup>1\*</sup>

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*Abstract: This study aims to see the effect of book-tax difference, operating cash flow, and accrual components, on the persistence of corporate earnings in the Basic Material sector. The method used is explanatory quantitative. The analysis results show that the three independent variables have a positive influence on the level of corporate earnings persistence. In addition, the company size variable acts as a moderating variable that strengthens the relationship between operating cash flow and accrual components with earnings persistence. Furthermore, this finding indicates that companies with a larger size tend to have a higher level of earnings persistence in the face of differences between book income and tax income, operating cash flow, and accrual components. Confirmation of agency theory is also found in this study. The practical implications of this study provide insight for companies in the Basic Material sector regarding the factors that affect earnings persistence. In addition, the emphasis on the role of company size as a moderating factor can help financial managers and practitioners in managing corporate earnings by considering aspects such as the difference between book profit and tax profit, operating cash flow, and accrual components. This is especially important in the context of corporate taxation.*

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## Introduction

The persistence of profit in the international business landscape has been a subject of enduring interest and concern. This phenomenon becomes complex when we zoom in on the Indonesian manufactured industry, manufacturing industry is one of the industries that experiences growth every year. Official data from the Ministry of Industry in 2021 recorded that the manufacturing industry grew by 7.07% in the second quarter of 2021 (Kemenprin, 2021) . In addition, the manufacturing industry also accelerated economic growth in Indonesia with a contribution of 17.34% in the second quarter of 2021 (BKPM, 2021). This is certainly a manufacturing industry to continue to be developed in accordance with the government's plan to make this industry contribute 20% to Indonesia's GDP in 2024. Based on the sector and industry classification of companies listed on the IDX, there is a Basic Material sector which is a new sector classification on the IDX in the Indonesia Stock Exchange Industrial Classification (IDX-IC) (Idx, 2021). This industrial sector continues to experience quantity growth every year, there are 95 companies that have become listed companies in this sector.

This sector has performed well every year, where in 2021 the return that this sector can provide reached 26.02% which is higher than the IHSG and LQ45 in the same period (Idx, 2021). The growth of companies in this sector cannot be separated from the persistence of earnings from the company. Earnings persistence can describe the company's ability to survive in the future (Abousamak, 2018; Widiatmoko & Indarti, 2019). This is the reason for earnings persistence, commonly used to see the quality of earnings in a company. Quality earnings have earnings persistence that tends not to fluctuate and is sustainable to provide profits to a company. In addition, the condition of earnings persistence is also a consideration for investors to invest their funds in the company (GONG et al., 2021).

The company's profit is inseparable from the amount of tax liabilities that the company must also pay, which is commonly referred to as fiscal profit. Corporate earnings persistence is closely related to the book-tax difference which is the difference in calculations between accounting profit and fiscal profit. This book-tax difference value is also a consideration in calculating a company's forecasting (Choi et al., 2020). There is an inequality between tax regulations and corporate accounting which causes inequality in the calculation of these two types of profit. The calculation of accounting profit refers to the Financial Accounting Standard (SAK) while the calculation of fiscal profit refers to the applicable Tax Law (Putri, 2019b). This condition ultimately leads to opportunistic behavior, one of which is earnings management which can reduce company value. In describing the book-tax difference, it is grouped into two differences, namely temporary differences and permanent differences, which are seen from differences in recognition time and differences in regulatory provisions (Dewi & Putri, 2015).

Agency theory connects aspects of human behavior which explains that both the owner of capital (principal) and the manager / manager (agent) are parties who have their respective interests (Kholmi, 2020; Pepper, 2018; Wibowo, 2019). The difference in interests results in the emergence of other costs due to differences in interests between capital owners

and managers. One example of the emergence of agency costs in modern economic theory is when one or more principals, engage another person or several agents to carry out some activities on their behalf. Book-tax difference is an application of agency theory that is developing in companies today.

There are several studies that examine the book-tax difference in describing the persistence of a company's earnings including Abousamak, (2018); Asma, (2012); Suwandika & Astika, (2013); Wijayanti, (2006), but there are still differences in the results of some of these studies that have led to a debate between the influence of book-tax difference in explaining the persistence of a company's earnings, especially in manufacturing companies. Research from Blaylock et al., (2012) mentioned that it concluded that book-tax persistence can be a picture of more persistent earnings if the book-tax difference arises from tax planning activities by the company. However, these results contradict the results of research from Suwandika & Astika, (2013); Wijayanti, (2006) concluded that high earnings persistence is not proven to occur in companies with small book-tax differences when compared to large tax-book differences. In addition, research from Asma, (2012) shows a positive influence of temporary differences on corporate earnings persistence, but this research contradicts the results of research from Hanlon, (2006); Jackson, (2009) which shows a negative influence between temporary differences and persistent earnings of a company. The existence of debate in the results of this study is the basis for the need for further research to better describe earnings persistence seen from the book-tax difference.

Earnings persistence that has transitory and permanent properties is generally determined by the accrual component. The accrual component can predict future company profits where if accruals are high, the accuracy of future profit predictions will be low (Christofzik, 2019). In addition to the accrual component, earnings persistence can also be explained by the presence of operating cash flow which is a component of the company's permanent profit. The more operating cash flow indicates the more persistent the profit earned by the company (Putri, 2019a). There have been many studies that explain the ability of the accrual component and operating cash flow in explaining earnings persistence Hui et al., (2016); Oosterom & Hall, (2022); Richardson et al., (2005); Saptiani & Fakhroni, (2014); Sarah et al., (2019) where these studies only explain the effect of accrual components and operating cash flow on earnings persistence without considering company size as another influencing variable. In this study, the company size variable is included as a moderating variable to see whether company size can strengthen or weaken the influence between operating cash flow and accrual components on corporate earnings persistence.

Company size is one of the indicators that explain company performance. Company size can be measured by total sales, average sales level and total assets of the company (Dewi & Putri, 2015; Sarah et al., 2019). Investors will have more confidence in investing their funds in large companies because they are considered capable of continuing to increase their company's profits. For this reason, the size of this company is also a variable that can strengthen operating cash flow, and accrual components on corporate earnings persistence. Several studies have proven that even this company size is a moderating variable in seeing

company performance (Corvino et al., 2019; Hidayat & Fauziyah, 2020; Simandjuntak & Murwaningsari, 2022; Uswatul Khasanah & Jasman, 2019). Previous studies generally focused on the book tax difference, operating cash flow, and accrual components to see the company's ability to maintain or increase earnings, however, this study seeks to investigate the problem of earnings persistence which is still limited, especially in the context of basic material companies already on the Indonesia Stock Exchange by adding the moderating variable of company size. therefore, the purpose of this study is to look at the company size variable in strengthening the company to be persistent in earning profits.

## Research Method

The population in this study are companies in the basic material sector listed on the Indonesia Stock Exchange in 2019-2022 basic material sector companies with a total of 95 companies. This population selection is based on the performance of companies in this sector which continues to increase every year, even in 2021 it exceeds IHSG and LQ45. From this population, samples are taken using purposive probability sampling techniques that consider sub-classes in the population. In calculating the number of samples, the researcher determines the company criteria as follows:

- a) Basic material sector companies listed on the IDX in 2019-2022.
- b) Basic material sector companies that did not experience losses during the observation period of the financial statements presented.
- c) Basic material sector companies that have the information needed in their financial statements during the observation period, namely total assets, profit before tax, net profit, cash flow, temporary differences, and permanent differences.

This study uses the earning persistence as dependent variable and book-tax difference, operating cash flow, accrual components as independent variables, with company size for moderating the variables. This research is based on the explanatory research method with regression analysis techniques and Moderated Regression Analysis (MRA).

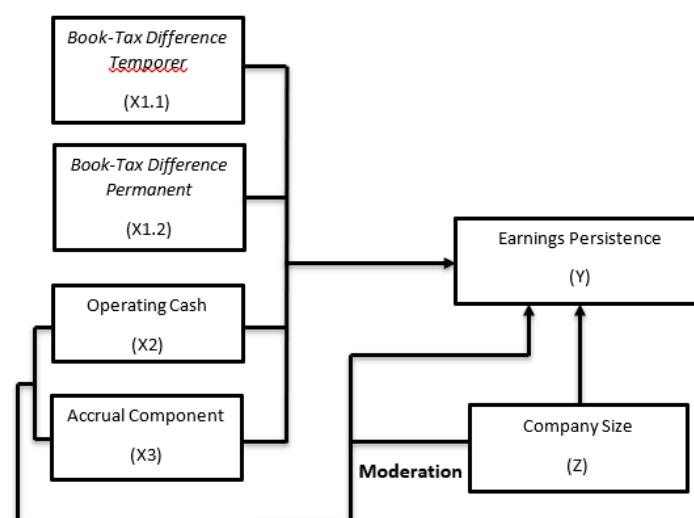


Figure 1. Conceptual Framework

## Result and Discussion

### Partial Test (t test)

In this partial test, it aims to determine the effect between the independent variables on the dependent variable partially or alone, which is shown in the table below:

Table 1. Partial Test Results

Model	B	Std. Error	Std. Coefficients Beta	t	Sig.
	1.292	4.344		.297	.767
Book Tax Difference Temporer	.289	.075	.234	3.840.000	
Book tax Diference Permanent	.434	.099	.313	4.373.000	
Operating Cash	.270	.071	.259	3.808.000	
Accrual Component	.382	.113	.256	3.391.001	

Source : data analysis 2023

Based on the results of the hypothesis testing above, it can be formulated that the regression models for H1 to H4 point in a positive and significant direction with a significance level of <0.05. The equation formula is described as follows:

$$Y = 1.292 + 0.289X_{1.1} + 0.434X_{1.2} + 0.270X_2 + 0.382X_3 + e$$

Table 2. Simultaneous Test Results (F Test) Moderation Variables

Model	Sum of Squares	ANOVA <sup>a</sup> df	Mean Squares	F	Sig.
Regresion	1733.415	5	346.683	41.447.000 <sup>b</sup>	
Residual	1120.835	134	8.364		
Total	2854.250	139			

Source : data analysis 2023

From the results of the F test above, it can be seen that the sig. value is (0.000 <0.05) which means that simultaneously the independent variables, namely operating cash flow, and the accrual component moderated by the company size variable, have a positive effect on the company's earnings persistence.

### *The Effect of Temporary Book-Tax Difference on Corporate Earnings Persistence*

The results showed that Book-Tax Difference has a positive effect on corporate earnings persistence, which means that the higher the temporary book-tax difference number, the higher the corporate earnings persistence. This is in line with agency theory which connects various aspects of human behavior in the context of the relationship between the owner of capital (principal) and the manager or manager of the company (agent). In this dynamic, both capital owners and managers have different and sometimes conflicting interests, differences in these interests are the source of the emergence of complex dynamics in the business environment (Kholmi, 2020; Pepper, 2018; Wibowo, 2019). The Effect of Permanent Book Tax

Difference on Corporate Earnings Persistence The results showed that permanent Book-Tax Difference has a positive effect on corporate earnings persistence, which means that the higher the permanent book-tax difference number, the higher the corporate earnings persistence. This can happen because the revenue derived from deposit interest, from a commercial accounting point of view, will be recorded as income. However, within the framework of tax regulations, this revenue is not considered as income subject to tax in accordance with the tax rate regulated by Article 17 of the Income Tax Law (OJK, 2021). This is due to the finality of the tax imposed on deposit interest, the same applies to expenditure in non-monetary form or satisfaction (Waluyo, 2009).

#### *The Effect of Operating Cash Flow on Corporate Earnings Persistence*

The results showed that operating cash flow has a positive effect on corporate earnings persistence, which means that the higher the value of operating cash flow, the higher the corporate earnings persistence. Basically, operating cash flow is considered a very important guideline in making business decisions, which goes beyond just paying attention to profit figures alone. When the value of operating cash flow in a company is higher, this tends to contribute to an increase in earnings quality or a better level of earnings persistence. In other words, when a company is able to generate greater operating cash flow, it indicates that the earnings generated are more sustainable and more reliable over time. On the other hand, if the value of operating cash flow decreases, this may result in a decrease in earnings quality. This is reinforced by the results of research which states that the higher the value of operating cash flow created in the corporate environment, the better the quality of the resulting earnings or the more stable the persistence of the earnings (Hartanto & Hastuti, 2021).

#### *The Effect of Accrual Components on Corporate Earnings Persistence*

The results showed that the accrual component has a positive effect on the company's earnings persistence, which means that the higher the operating cash flow value, the higher the company's earnings persistence. The accrual component in the financial statements not only acts as a historical reflection, but also has the potential as an indicator in forecasting future earnings performance. A high level of accruals in the financial statements can cause uncertainty in forecasting future earnings, given that revenue or cost recognition is more subjective and depends on accounting policies. Conversely, earnings with low accruals may be closer to the current economic reality and more suitable as a basis in forecasting future earnings performance, as it has a stronger correlation with the actual condition of the company (Veronika & Setijaningsih, 2022). Therefore, understanding the accrual component provides important implications in our ability to anticipate and plan future financial performance, which has an impact on the company's strategic decision making.

#### *Company Size In Moderating The Effect Of Operating Cash Flow There Is Corporate Earnings Persistence*

The results showed that company size can moderate the influence between operating cash flow on corporate earnings persistence. Company size has an important role in moderating the effect of operating cash flow and accrual components on corporate earnings persistence. Company size is often measured by variables such as total assets or market

capitalization, and this reflects the scale and complexity of company operations (Corvino et al., 2019)c. When the size of the company gets bigger, the complexity of its operational activities increases, which can have an impact on the diversification of the business portfolio, the level of risk, and the resources available. The results of this study are also in line with the findings of several previous studies, it has been found that company size can moderate the effect of operating cash flow and accrual components on earnings persistence (Corvino et al., 2019; Hidayat & Fauziah, 2020; Simandjuntak & Murwaningsari, 2022).

#### *Company Size in Moderating the Effect of Accrual Components on Corporate Earnings Persistence*

The results showed that company size can moderate the influence between the accrual component on corporate earnings persistence. Large companies tend to have more resources and complex businesses, which can result in more transactions and the need to use accruals in their accounting. Therefore, company size can affect the extent to which discretionary accruals are used (Utami, 2020). In large companies, management may have more opportunities to manage accruals in ways that affect earnings persistence.

#### *The Effect of Company Size on Company Earnings Persistence*

From the results of hypothesis testing H6 shows that Ha6 is accepted, where company size has a positive effect on corporate earnings persistence. This can happen because the larger the size of the company, the more effective the company is in planning tax strategies and managing its corporate finances (Dewi & Putri, 2015). Company size, as an important dimension in analyzing the performance of a business entity, plays a significant role in providing insight into the stability, scale, and growth potential of the company. This assessment of company size can be measured by various metrics including total sales revenue, average sales rate, and total asset value recorded in the company's financial statements (Sarah et al., 2019).

#### **Conclusion**

The results showed that all independent variables (book-tax difference, operating cash flow, accrual component) have a positive effect on corporate earnings persistence. So it can be concluded that the difference between profit reported in the financial statements and profit subject to tax, operating cash flow, and accrual components have a positive relationship with the level of persistence of corporate earnings in the Basic Material sector. In addition, the company size variable which acts as a moderating variable has proven successful in strengthening the influence between operating cash flow and accrual components on earnings persistence. These findings also have practical implications for companies that these variables can affect the persistence of corporate profits in the Basic Material sector, as well as highlighting the role of company size as a moderating factor that strengthens the influence of the independent variable on the dependent variable. Therefore, it can be concluded that companies with larger sizes influenced by the variables of this study tend to have a higher level of earnings persistence in the future.

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