THE EFFECT OF CONSERVATISM AND INVESTMENT OPPORTUNITY SET (IOS) ON THE QUALITY OF INCOME
(Empirical Study of Manufacturing Companies in the Cosmetics and Household Utilities Sub Sector listed on the IDX in 2018-2019)

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Abstract – *The objective of this study is to analyze the impact of conservatism on the quality of earnings, the effect of investment opportunities on the quality of earnings in companies producing cosmetics and household goods listed on the Indonesian Stock Exchange (IDX). This analysis uses a quantitative approach to descriptive science, calculated using a method based on multiple linear regression with SPSS 20. From 2018 to 2019, the population of this study was manufacturing firms listed on the Indonesia Stock Exchange (IDX). The sample was determined on the basis of the intended method of sampling, with a total sample of 7 manufacturing companies, for a total of 10 observations in this study. The information used in this research is secondary data. The methodology for data collection uses the method of reporting through the official IDX website: www.idx.co.id . Checking of hypotheses using the t test.*

The research results show that (1) conservatism has no impact on the quality of earnings in manufacturing companies listed on the IDX for the period 2018-2019, (2) the investment opportunity set has no impact on the quality of earnings in manufacturing companies listed on the IDX for the period 2018-2019.

Keywords: *conservatism, IOS, earnings quality*

I. INTRODUCTION

The financial report is an output published by the company with the aim of providing information to parties related to the company's financial condition in that period. The information presented in these financial statements is used both internally and externally. According to the conceptual framework, financial statements have the objective of providing financial information in the form of a company's financial position, performance and cash flow that is useful for stakeholders in making decisions (IAS 1.9).

One of the most important information in financial reports is information about company profits. Earnings information is one of the most important parts of financial reports that comes to

the attention of external parties, especially stakeholders, namely investors and creditors. External parties will look at a company that has a high profit value. Profits that are high or increase significantly from year to year are important information for potential investors and creditors to choose to invest.

Profit is a measure of the success of company management in running its business which is used by investors and creditors in making decisions. The profit presented by the company must be in accordance with the actual facts so that it is not misleading the use of information called earnings quality. High quality earnings will be taken into account in decision making by investors and creditors. Whereas low quality earnings are used by investors to form the company's market value, these profits cannot present the company's true market value.

One of the factors that are considered to influence earnings quality is conservatism. In (Watts, 2003) conservatism is the concept of delaying the recognition of future cash inflows. The implication of this conservatism concept is that it recognizes costs or losses that are likely to occur, but does not immediately recognize future income or profits even though the possibility is high. As such, the financial statements tend to produce a lower amount of profit and asset value just in case.

However, there are still pros and cons in previous research regarding the application of conservatism methods, such as research conducted by (Hendriksen, 1982) in (Handojo, 2012) stated several arguments for and against conservatism. The arguments that support the concept of conservatism include: 1) a tendency to be pessimistic is deemed necessary to offset the possibly excessive optimism of managers and owners so that the tendency to exaggerate in relative reporting can be reduced; 2) earnings and valuations that are stated to be too high (overstatement) are more dangerous for the company and its owners than underrepresentations (understatement) because the risk of facing lawsuits due to reporting incorrect things is greater; 3) In fact, accountants are better able to obtain more information than they are able to communicate the information as completely as possible which can be communicated to creditors and investors.

Meanwhile, on the other hand, Godfrey et al (2010) in Handojo (2012) states that conservatism is not focused on evidence, but fear of overstatement of net assets and profits, which can lead to misleading information. Conservatism causes the information contained in the financial statements to be biased because it is not in accordance with the matching concept principle where the recognition of revenue must be in line with and match the recognition of the expenses that cause the income to occur.

Another factor that is considered to affect earnings quality is the Investment Opportunity Set (IOS). In (Yunita & Suprasto, 2018) Investment is a commitment to other resources that is carried out at this time, with the aim of obtaining a number of benefits in the future. In general, IOS is the extent of opportunities for companies to invest depending on the choice of company expenditure for future interests.

Many studies use IOS as an independent variable with earnings quality as the focus of research, but they do not show consistent results. In research conducted by (Novianti, 2012) states that the quality of earnings can be influenced by the investment opportunity set because IOS is a company's opportunity to grow and is also used as the basis for determining the classification of future company growth. The results of this study are in line with the research conducted by (Mohammad Zulman dan Dirvi Surya Abbas, 2017), (Widmasari et al., 2019), and (Darmayanti & Fauziati, 2019) It is concluded that the investment opportunity set (IOS) has a positive effect on earnings quality. However, the results of these studies are not in line with research conducted by (Jaya & Wirama, 2017) revealed that the Investment Opportunity Set (IOS) has a negative effect on earnings quality.

From several previous studies, the author is interested in conducting research on the effect of conservatism and the Investment Opportunity Set (IOS) treatment on earnings quality to prove whether conservatism is still feasible even though Indonesia has started to adopt IFRS. This study is a combination of several previous studies on the relationship between conservatism and the

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Investment Opportunity Set (IOS) with earnings quality. The object of this research is the cosmetics and household goods sub-sector manufacturing companies listed on the IDX in 2018-2019. The cosmetics and household goods subsector are part of one of the consumer goods industry sectors listed on the IDX. Its products include the production of cosmetics, fragrances, hair care, food and beverage products, home care products, and body care products. In (Halimah et al., 2019) the cosmetic industry market growth has reached an average of 9.67% per year in the last six years (2009-2015) and in 2017 it has grown by 6.35% and in the first quarter of 2018 it has increased to 7.36%. This is the reason why the researcher examines whether the cosmetics and household goods sub-sector manufacturing companies with a significant increase in market growth will generate quality profits which are influenced by the conservatism and investment opportunity set variables. This research uses descriptive research with a quantitative approach, which is measured using a method based on multiple linear regression with SPSS 20.00 and hypothesis testing using the t tes.

II. BASIS OF THEORY AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory is influenced by two parties, namely agents and principals. An agent is a party that manages a company or management. Meanwhile, the principal is the owner of the company or the depositor of funds in the company. In agency theory by (Raharjo, 2007), principal and agent have different interests. However, in practice in the field, both the principal and the agent are involved in several agency conflicts. Suppose that shareholders and managers have the same information about financial statements. However, management has more complete and detailed information than shareholders. Information asymmetry can occur when shareholders do not know the real information, so this condition can be used by managers for manipulation of financial statements in order to gain personal benefits.

Earning Quality

Earnings quality is an important aspect in assessing the health of a company's financial statements. In (Yunita & Suprasto, 2018) quality earnings are earnings that are reported in accordance with actual facts and can assist management in predicting future earnings. Another opinion, in (Schipper & Vincent, 2003) states that earnings quality is the amount of profit that can be consumed in a period by maintaining the company's ability at the beginning and end of the period.

Conservatism

According to (Savitri, 2016) in his book explaining the definition of conservatism contained in the FASB (Financial Accounting Statement Board) Concept Statement No.2, which defines conservatism as a prudent reaction in facing uncertainty and risk in an existing business environment. quite considered. It can be concluded that conservatism is a response made by careful accountants in recognizing future income or profits and immediately recognizing future expenses or losses.

Investment Opportunity Set (IOS)

Understanding IOS according to (Yunita & Suprasto, 2018) investment opportunity or IOS is a commitment to other resources carried out at this time, with the aim of obtaining a number of benefits in the future. In general, IOS is the extent of opportunities for companies to invest depending on the company's expenditure choices for the future. Another meaning, according to (Darabali & Saitri, 2016) IOS is a choice of future investment opportunities that affect asset growth

or have a positive net present value. So it can be concluded, IOS is an investment decision made by companies to generate value.

HYPOTHESIS DEVELOPMENT

Conservatism affects earnings quality

The concept of conservatism is designed to improve financial reports and to be accountable by management. The recognition of conservatism is based on the assumption that the company is faced with uncertain economic conditions in the future, so companies need to use measurement and recognition of the results of the company's financial statements with caution. According to (Yunita & Suprasto, 2018) revealed that conservatism has an effect on earnings quality, where the study revealed that increasing conservatism can improve earnings quality. This means that using the principle of conservatism can produce quality profits because the profit presented in the financial statements is an unbiased profit so that it can be said to be a quality profit.

H_1 = Conservatism affects earnings quality

Investment Opportunity Set (IOS) affects earnings quality

In (Jaya & Wirama, 2017) is something positive because it describes the potential growth of the company in the future. According to research results (Jaya & Wirama, 2017), IOS has a negative effect on earnings quality, which indicates a non-unidirectional relationship between IOS and earnings quality. Which means that if the company's IOS increases, it is likely that management will be motivated by manipulating earnings to improve earnings information, so that the quality of earnings is low.

H_2= IOS affects earnings quality

III. RESEARCH METHOD

Research Strategy

The research strategy used a quantitative approach in the form of associative / causality. This study analyzes the cause and effect relationship between conservatism and investment opportunity set on earnings quality.

Population and Sample

The population in this study are public companies listed on the Indonesia Stock Exchange (IDX) during the period 2018 to 2019. The sample used in this study was obtained from the published Indonesia Stock Exchange. The sampling method used was purposive sampling, namely sampling that met the following criteria:
  a. Cosmetics and household goods manufacturing companies listed on the Indonesia Stock Exchange from 2018 to 2019.
  b. Publish financial statement data for the closing date of December 31 2018-2019.
  c. The sample company has all the required data in full.
  d. Did not experience a loss in the current year.
  e. Served in rupiah.

Operational Variables

Earning Quality

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In this study, the measurement of earnings quality uses a model (Penman & Zhang, 2002) who have been used in research (Abdelghany, 2005) to measure earnings quality:

Earning Quality = Operating Cash Flow / Net Income

Conservatism

Conservatism is measured by model (Givoly & Hayn, 2000) used also by (Tuwentina & Wirama, 2014) , (Manik, 2017) dan (P Putra et al., 2019). The following is the formula for calculating the conservatism index:

$$KON\_ACC = \frac{NI - CF}{TA} \; X - 1$$

Wherein :

KON_ACC : Level of accounting conservatism
NI : Earnings before extraordinary items
CF : Operating Cash Flow
TA : Total asset

Investment Opportunity Set

In this study using a proxy *Market Value To Book Value Of Assets Ratio. Market Value To Book Value Of Assets Ratio* is a price-based IOS proxy. Here's the formula :

$$MVABVA = \frac{(Total\ Asset - Total\ Equity) + (Number\ of\ Shares\ outstanding\ x\ closing\ price)}{Total\ Asset}$$

Data Collection Methods

The data collection method used in this research is literature study, where data is obtained from several literature related to the problem being researched, this data tracing is done by:

1. Manual search for data in printed paper format. Data presented in printed paper formats include journals and books.
2. Search by using a computer for data using electronically. The data includes, among other things, financial reports on the Indonesia Stock Exchange website in the form of computer files.

Data Analysis Methods

In accordance with the data that has been obtained, the appropriate approach in this study is a quantitative approach, namely an approach that emphasizes the numbers in the research. From the data that has been obtained, it can provide the right conclusions. Data processing in this study using SPSS v20.

Multiple Linear Regression Analysis

The analytical method used to examine the effect of conservatism and the Investments Opportunity Set (IOS) on earnings quality in this study is multiple linear regression analysis. To test the hypotheses formulated in this study, multiple regression equations will be used, namely:

$$KL = \alpha + \beta_1 \, KONVS + \beta_2 IOS + e \, ...(1)$$

Information :

KL = Dependent Variable (Profit Quality)

α = constant

$\beta_1 \, \beta_2$ = Regression Coefficient

KONVS = Independent Variable (Conservatism)

IOS   = Independent variable (Investmen Opportunity Set)

e   = Other variables that may affect (error)

IV. RESULTS AND DISCUSSION

Research Sample Details

This study took a sample of manufacturing companies in the cosmetics and household subsector listed on the Indonesia Stock Exchange (IDX) for the period 2018 to 2019. The criteria for the companies sampled in this study can be seen in table 1. as follows:

No.	Criteria	Total
1	Cosmetics and household goods sub-sector manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2018 to 2019.	7
2	Publish financial statement data for the closing date of December 31 2018-2019	-
3	The sample company has all the required data in full	-
4	Did not experience a loss in the current year	(2)
5	Served in rupiah.	-
6	Companies that meet the criteria	5
7	The total sample of the study for 2 periods	10

Table 1. Research Sample Details

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From the criteria of these companies, the sample used in the study were 5 manufacturing companies in the cosmetics and household subsectors listed on the Indonesia Stock Exchange (IDX) with an observation period of 2 years, so that 10 research sample data were obtained.

Descriptive statistics

Descriptive Statistics

	N	Minimum	Maximum	Sum	Mean	Std. Deviation
KONSV	10	-,1061	,1220	,1685	,016850	,0705862
IOS	10	,6324	3,4844	15,1690	1,516900	1,0839352
KL	10	,0337	14,9131	29,7960	2,979600	4,4387730
Valid N (listwise)	10					

Data source: SPSS V20

Table 2. Statistical Test Results of All Samples

From table 2. it can be seen that the independent variable of conservatism has a minimum value of -0.1061 which was obtained from PT. KINO Tbk in 2019, while the maximum value of 0.1220 was obtained from PT with the ADES code in 2019. In table 2. also there is an average conservatism value of 0.016850, this shows that the use of conservatism in the cosmetics and household goods sub-sector manufacturing company reaches 1.68% with a standard deviation of 0.0705862.

The independent variable Investment Opportunity Set (IOS) has a minimum value of 0.6324 obtained from PT with the KPAS code in 2019, while the maximum value of 3.4844 is obtained from PT with the UNVR code in 2018. In table 1. The average of the Investment Opportunity Set is 1.516900, this shows that the IOS in the company reaches 151.69% with a standard deviation of 0.11499499.

The dependent variable for earnings quality has a minimum value of 0.0337 obtained from PT with the KINO code in 2019, while the maximum value of 14.9131 is obtained from PT with the KPAS code in 2018.The average value of earnings quality is 2, 979600, this shows that the quality of earnings in the cosmetic and household goods manufacturing companies is 297.96% with a standard deviation of 4.4387730.

Classic assumption test

Normality test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		10
Normal Parameters[a,b]	Mean	0E-7
	Std. Deviation	3,94988726
Most Extreme Differences	Absolute	,236
	Positive	,222

		Negative	-,236
Kolmogorov-Smirnov Z			,746
Asymp. Sig. (2-tailed)			,634

a. Test distribution is Normal.

b. Calculated from data.

Table 3. *One Sample Kolmogorv-Smirnov Test*

This study used the Kolmogorv-Smirnov statistical test to test the normality of the data. The table above shows the results of SPSS v20 processing for testing the normality of research data. The results of the table above show that the significance value for normality is 0.634. The significance value is above the minimum significant value of 0.05, thus indicating that the data in this study were normally distributed.

Multicollinearity Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	4,851	2,576		1,883	,102		
	KONSV	17,020	21,210	,271	,802	,449	,994	1,006
	IOS	-1,423	1,381	-,348	-1,030	,337	,994	1,006

a. Dependent Variable: KL

Table 4. Multicollinearity Test

The multicollinearity test is carried out by looking at the tolerance value and variance inflation factor (VIF). A model that is free from multicollinearity disorders if it has a tolerance value> 0.10 and variance inflation factor (VIF) <10. The results of the tolerance value calculation show that there are no independent variables that have a Tolerance value of less than 0.10. The results of the calculation of the value of variance inflation factor (VIF) also show the same thing, namely with results not more than 10. So it can be concluded that there is no multicollinearity between the independent variables in the regression.

Autocorrelation Test

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,456[a]	,208	-,018	4,4787512	1,825

a. Predictors: (Constant), IOS, KONSV

b. Dependent Variable: KL

Table 5. Autocorrelation Test

This test aims to test whether there is a correlation between the variables in a certain period and the variables of the previous period. A good regression model should not have autocorrelation. Measurement of data that is autocorrelated or not can be seen from the Durbin-Watson (DW-test)

value, provided that if du <DW <(4 - du) then there is no autocorrelation (Yunita & Suprasto, 2018). Based on table 4, it is obtained the DW value of 1.825. The dU value for a sample size of 10 with 2 independent variables (k) and α = 5% is 1.6413. Then the value of 4 - dU is 2.3587, so the autocorrelation test result is dU <DW <4 - dU which is 1.6413 <1,825 <2.3587, then the data is autocorrelation free.

Heteroscedasticity Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4,119	1,617		2,547	,038
	KONSV	6,059	13,317	,155	,455	,663
	IOS	-1,015	,867	-,399	-1,171	,280

a. Dependent Variable: Abs_RES

Table 6. Heteroscedasticity Test

Testing to detect the presence or absence of heteroscedasticity symptoms can be done using the Scatterplot and the Glejser test through the processed data from SPSS v20. The results of heteroscedasticity test showed that the conservatism variable did not significantly affect the dependent variable and IOS significantly affected the dependent variable significantly affected the dependent variable significantly affected the dependent variable. This is indicated by the probability of significance above the 5% confidence level. So it can be concluded that the regression model does not contain heteroscedasticity.

Hypothesis testing

F test

Model feasibility test (F test) is the initial stage of identifying regression models that are estimated to be feasible or not. Meanwhile, the coefficient of determination measures how far the model's ability to explain the variance of the dependent variable (Yunita & Suprasto, 2018).

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	36,910	2	18,455	,920	,442[b]
	Residual	140,414	7	20,059		
	Total	177,324	9			

a. Dependent Variable: KL

b. Predictors: (Constant), IOS, KONSV

Table 7. Model feasibility test (F test)

Based on the SPSS v20 output table above, it is known that the Sig. is 0.442> 0.05, so according to the basis of decision making in uii F, it can be concluded that the hypothesis is

accepted or in other words, conservatism (X1) and IOS (X2) simultaneously have no effect on earnings quality (Y).

Based on the SPSS v20 output table above, it is known that the calculated F value is 0.920. Because the value of F count 0.920> F table 2.8. Where F table = (k; n-k), "k" is the number of independent research variables and "n" is the number of samples. Then the result of the calculated F value is 0.920 <4.46, which has the same meaning as based on the significance value (Sig.) Of the ANOVA output, namely conservatism (X1) and IOS (X2) simultaneously have no effect on earnings quality (Y).

T test

Hypothesis test (t test) is used to partially test the significance of each variable.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4,851	2,576		1,883	,102
	KONSV	17,020	21,210	,271	,802	,449
	IOS	-1,423	1,381	-,348	-1,030	,337

a. Dependent Variable: KL

Table 8. T test results

Based on the first hypothesis (H1), this study states that conservatism has an effect on earnings quality. Meanwhile, based on table 8. t test results have the following meaning: based on the results of the significance value (Sig.), It is known that the significance value (Sig.) Of the conservatism variable (X1) is 0.449, because the Sig. 0.449> 0.05 probability that it can be concluded that H1 or the first hypothesis is rejected. This means that conservatism (X1) has no effect on earnings quality (Y).

Conservatism is an accounting principle of prudence carried out by companies in reporting their financial position. This means that the company does not recognize profits too quickly and immediately recognizes losses in that period. Therefore, conservatism has an effect on the financial position of the profit which seems low in that period. However, if you look at it from the long term, the conservatism variable actually makes profits look high. When the company receives revenue from revenues that have not been received in the past period.

However, the results of this study indicate that conservatism has no effect on earnings quality because this research has a short period of time, namely only 2 periods, so it cannot prove empirically the effect of conservatism on earnings quality. Therefore, the results of this study lead to the conclusion that conservatism does not affect earnings quality. This is the same as research conducted by (Padmi, 2012) which indicates that conservatism has no effect on earnings quality. Research conducted by Padmi on manufacturing companies listed on the IDX for the 2011-2013 period.

The results of this study are different from the research that has been conducted by (Yunita & Suprasto, 2018) revealed that conservatism has an effect on earnings quality. The principle of conservatism can produce quality profits because the profit presented in the financial statements is an unbiased profit so that it can be said to be quality profit.

Based on the second hypothesis (H2), this study states that IOS affects earnings quality. Meanwhile, based on table 8. t test results have the following meaning: based on the results of the

significance value (Sig.), It is known that the significance value (Sig.) Of the IOS variable (X2) is 0.337, because the Sig. 0.337> 0.05 probability that it can be concluded that H2 or the second hypothesis is rejected. This means that IOS (X2) has no effect on earnings quality (Y).

Investments are included in the current asset category in the balance sheet. Investments are categorized into 2, namely short-term investments and long-term investments. Short-term investments are easily converted into cash in less than 12 months or 1 year or are used to pay current liabilities, while long-term investments to obtain optimal returns take more than 12 months or 1 year. Companies that have high investment opportunities will also produce high quality profits. Because the value of IOS depends on future discretionary expenditure which is currently an investment choice which is expected to produce a return that is greater than the cost of capital (cost of equity) and can generate profits. It can be concluded that IOS affects earnings quality. However, the results of this study indicate that IOS has no effect on earnings quality because this research has a short period of time, namely only 2 periods, so it cannot prove empirically the effect of conservatism on earnings quality. The results of this study support the research conducted by (Yunita & Suprasto, 2018), (Helina & Permanasari, 2018) which reveals that the investment opportunity set has no effect on earnings quality.

The results of this study are different from the research that has been conducted by Novianti (2010), Warianto (2013) and which reveals that the investment opportunity set affects the quality of earnings.

Meanwhile, based on the comparison of the t value with the t table as follows: based on the table above the t value of the conservatism variable is 0.179. Because the t value is 0.802 <t table 2.365, it can be concluded that H1 or the first hypothesis is rejected. This means that conservatism (X1) has no effect on earnings quality (Y). Furthermore, the t value of the IOS variable (X2) is -1.030. Because the t value is -3.410> t table 2.365, it can be concluded that H2 or the second hypothesis is rejected. Which means IOS (X2) has no effect on earnings quality (Y).

DISCUSSION

The Effect of Conservatism on Earnings Quality

Conservatism has no effect on earnings quality. The t table test results show the Sig. 0.449> 0.05 probability that it can be concluded that H1 or the first hypothesis is rejected. This means that conservatism (X1) has no effect on earnings quality (Y). This is because this research has a short period of time, which is only 2 periods, so it cannot prove empirically the effect of conservatism on earnings quality. Therefore, the results of this study lead to the conclusion that conservatism does not affect earnings quality. This is the same as research conducted by (Padmi, 2012) which shows that conservatism has no effect on earnings quality. Research conducted by Padmi on manufacturing companies listed on the IDX for the 2011-2013 period.

The results of this study are different from the research that has been conducted by (Yunita & Suprasto, 2018) revealed that conservatism has an effect on earnings quality. The principle of conservatism can produce quality profits because the profit presented in the financial statements is an unbiased profit so that it can be said to be quality profit.

Effect of Investment Opportunity Set (IOS) on Earning Quality

IOS has no effect on earnings quality. Based on table 7. t test results have the following meaning: based on the results of the significance value (Sig.), It is known that the significance value (Sig.) Of the IOS variable (X2) is 0.337, because the Sig. 0.337> 0.05 probability that it can be concluded that H2 or the second hypothesis is rejected. This means that IOS (X2) has no effect on earnings quality (Y).

Investments are categorized into 2, namely short-term investments and long-term investments. Short-term investments are easily converted into cash in less than 12 months or 1 year or are used to pay current liabilities, while long-term investments to obtain optimal returns take more than 12 months or 1 year. Companies that have high investment opportunities will also produce high quality profits. Because the value of IOS depends on future discretionary expenditure which is currently an investment choice which is expected to produce a return that is greater than the cost of capital (cost of equity) and can generate profits. Therefore, companies in the choice of investment must be right.

However, the results of this study indicate that IOS has no effect on earnings quality because this research has a short period of time, namely only 2 periods, so it cannot prove empirically the effect of conservatism on earnings quality. The results of this study support the research conducted by (Yunita & Suprasto, 2018), (Helina & Permanasari, 2018) and (Darmayanti & Fauziati, 2019) which reveals that the investment opportunity set has no effect on earnings quality.

The results of this study are different from the research conducted by Novianti (2010), Warianto (2013) and which reveals that the investment opportunity set affects the quality of earnings.

CONCLUSION

This study aims to determine the effect of conservatism and investment opportunity set on earnings quality. Based on the test results, it was found that conservatism had no effect on earnings quality and IOS had no effect on earnings quality in the cosmetics and household goods sub-sector manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2019 period.

Conservatism is an accounting principle of prudence carried out by companies in reporting their financial position. This means that the company does not recognize profits too quickly and immediately recognizes losses in that period. Therefore, conservatism has an effect on the financial position of the profit which seems low in that period. However, if you look at it from the long term, the conservatism variable actually makes profits look high. When the company receives revenue from revenues that have not been received in the past period.

However, the results of this study indicate that conservatism has no effect on earnings quality because this research has a short period of time, namely only 2 periods, so it cannot prove empirically the effect of conservatism on earnings quality. Therefore, the results of this study lead to the conclusion that conservatism does not affect earnings quality.

Investments are included in the current asset category in the balance sheet. Investments are categorized into 2, namely short-term investments and long-term investments. Short-term investments are easily converted into cash in less than 12 months or 1 year or are used to pay current liabilities, while long-term investments to obtain optimal returns take more than 12 months or 1 year. Companies that have high investment opportunities will also produce high quality profits. Because the value of IOS depends on future discretionary expenditure which is currently an investment choice which is expected to produce a return that is greater than the cost of capital (cost of equity) and can generate profits. Therefore, companies in the choice of investment must be right.

SUGGESTION

a. The next researchers who will examine this variable are expected to have a long-term research period in order to empirically prove the effect of conservatism and IOS on earnings quality.
b. For future researchers to use more samples
c. Include several other variables relevant to earnings quality.

LIMITATIONS

a. In this study, using a sample only in the sector of cosmetic companies and household needs
b. In calculating earnings quality, the researcher only uses a 2-year period to see the effect of conservatism and IOS on earnings quality. It would be better if the time was extended.
c. In this study, earnings quality is only measured by one proxy. It would be better if several proxies to see which one is better to use.

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