Indonesian Development of Economics and Administration Journal

ISSN (*online*) : 2963-5896 & ISSN (*print*) : 2964-0482

Vol. 1 • No. 2 • December 2022
Pege (*Hal.*) : **92 – 102**

ISSN (*online*) : 2963-5896
ISSN (*print*) : 2964-0482

DOI No : -
Website : https://ojs.ideanusa.com/index.php/idea

Darmaguna IDEA Nusantara Foundation
Jl. Pendowo, Limo No. 69, Depok, Indonesia
Telp. 0875 8655 3215
Email : ideajournal@ideanusa.com

Article info : *Received:* Oktober 2022 ; *Revised* : Oktober 2022 ; *Accepted*: Nov. 2022

Factors Affecting Earnings Persistence in Pharmaceutical Companies on the Indonesia Stock Exchange

Jihan Nur Aprian[1]; Natali Yustisia[2]

Perbanas Institute Jakarta, Email: jihannuraprian@gmail.com; hamstermocca@gmail.com

Abstract. This study aims to analyze the effect of debt levels, sales volatility and company size on profit persistence in pharmaceutical companies listed on the Indonesia Stock Exchange for the 2016-2021 period. The sampling technique used was purposive sampling and obtained 60 samples from 10 companies. The analytical method used was panel data regression analysis with Eviews 12. The results showed that the level of debt and sales volatility partially had a negative effect on earnings persistence while firm size had no effect on earnings persistence. Meanwhile, the Adjusted R-Square is 42.57%. This explains that there are other factors outside the variables that have been studied at 57.43% which affect earnings persistence.

Keywords: company size; debt level; earnings persistence; sales volatility

A. INTRODUCTION

Part of the components of the financial statements is the profit of the company. Profit becomes part of the company's overall performance measurement tool for investors. Some of the users of financial statements only focus on profits for the current period but do not pay attention to profits for the next period. Therefore, profit persistence is needed (Mariski & Susanto, 2020). Profit persistence is the desired accounting profit in the future, and is determined from the current year's profit. Earnings persistence includes important information for shareholders because it can determine management performance. This is because the amount of profit is part of the very first information that is used by shareholders for making investment decisions, monitoring, and entering into contracts. Investors can experience difficulties when choosing investment decisions if the company's profits are not persistent (Rahmadhani et al., 2016: 2164).

According to Andi & Setiawan (2019: 2130), one of the characteristics of quality earnings is profit that is able to cast a shadow over the sustainability of future profits. The meaning of the sustainability of these profits is the ability that profits have so that they can survive for the future with good conditions. Thus, investors should pay attention to sustainable profits for the future, not just paying attention to high profits. By knowing the persistence of earnings, you are able to evaluate things that happened in the past, present and future. A large level of profit persistence is useful for predicting future profits.

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The efforts of a company to make a profit are always related to the source of the company's capital in increasing business in order to obtain maximum profit. One of the sources of company's capital is in the form of debt. Based on the pecking order theory, choosing to issue bonds or debt is better than choosing capital from issuing new shares because the expenses to be paid for issuing shares are greater than the costs of issuing bonds. In addition, debt can be used so that the income tax that must be met by a company is less. Therefore, the profit the company gets will be bigger (Arisandi & Astika, 2019: 1858).

The level of debt is an obligation owned by a company and must be paid when it is due without thinking about its financial condition, whether it is an obligation that must be met in the short term or long term. The debt level shows the amount of external liabilities issued by the company for operational activities (Subramanyam, 2017: 146). If the level of debt owned is large, it tends to make the company increase earnings persistence so that it can maintain the company's performance and look good to creditors or investors, so it is not difficult to provide funds. Therefore, the company will obtain more capital, either for operational activities or to expand its business. Research on the effect of debt levels on earnings persistence researched by Hidayat & Fauziyah (2019) concluded that debt levels have no effect on earnings persistence. This is different from the conclusions of Tuffahati et al (2020), that there is an effect of the level of debt on earnings persistence.

Another variable that is thought to have an influence on earnings persistence is sales volatility. According to Amaliyah & Suwarti (2017: 178), sales is a process in which the seller's needs are met, by exchanging information and interests. Sales, namely the activities of traders by relying on prices in selling goods and services to make a profit. The high income derived from sales shows the entity's performance when marketing and selling products and services well. Sales volatility, namely the change in sales that the company gets over time when it generates profits. The ability of earnings to forecast future cash flows is seen from the low volatility of sales. If sales volatility is high, it indicates high fluctuations in the operating environment, resulting in estimation errors and resulting in low profit persistence (Rahmadhani, 2016: 2168).

The company's performance when promoting and selling products such as goods or services is stated to be good if the sales obtained by a company are many. Unstable sales levels and high volatility tend to be unattractive to shareholders. If the volatility of sales is low, you can predict the cash flow well obtained from future sales. Thus the profit earned is more persistent, which can be proven by low sales volatility (Andi & Setiawan, 2019: 2131). The results of Rahmadhani's research (2016) reveal that sales volatility has a significant negative effect on earnings persistence. But this is different from the results of Tuffahati et al. (2020) that sales volatility has no significant effect on profit persistence.

Then, another variable that is also expected to influence earnings persistence apart from debt levels and sales volatility is company size. Companies that have a large number of assets explain that the company has reached the maturity stage, at which stage the company's cash flow is positive. Company size is a measurement of the size of a company with the number of assets owned and can be useful as a prediction of the condition of a company in the future. Large companies that have a large number of assets tend to get stability and are able to earn more profits than small companies. If the size of a company is high, the persistence of the company's profits is large (Mariski & Susanto, 2020). In addition, according to Hidayat & Fauziah (2019), company size, namely the high and low scale of the company, can be classified in various ways, such as total profit, total assets and total equity. Research on the effect of company size on earnings persistence has been studied by Mariski & Susanto (2020) who concluded that company size has an influence on earnings persistence. This is different from the conclusions of Tuffahati et al (2020) research that company size does not have a significant effect on the level of earnings persistence.

The object chosen for this study is a pharmaceutical sector company listed on the Indonesia Stock Exchange (IDX). Pharmaceutical companies are a sector that provides a good economic boost in Indonesia. Indonesia, like other countries in the world, has been

ISSN (online) : 2963-5896 & ISSN (print) : 2964-0482

affected by the Covid-19 pandemic since early 2020. The Covid-19 pandemic has not only had an impact on public health, but has also paralyzed the business sector. Many sectors have suffered losses due to this pandemic, but one sector that is considered to be able to survive is the pharmaceutical sector. The Ministry of Health stated that the pharmaceutical industry was one of the industrial sectors that continued to grow during the pandemic, both in terms of market value and investment value (Rahma, 2021).

However, in reality, the pharmaceutical sector companies were previously and not all of them were always stable. This can be seen from the profits of one of the pharmaceutical sector companies, PT.Indofarma Tbk. In 2018 the company suffered a loss of IDR (25,298,215,466), in 2019 it again earned a profit of IDR 9,745,969,307 and in 2020 profits increased to IDR 18,081,602,176 (*www.idx.co.id*). This shows the instability of profits at PT.Indofarma Tbk from 2018 to 2020. In 2018 the company has experienced losses, but in 2019 and 2020 it has experienced profits. This high change in profit has resulted in a question of sustainable profit, what is the cause of the increase in profit and how is the persistence of earnings measured in the company.

Various previous studies have produced different conclusions between the results of one study and another. The existence of this research gap makes the authors interested in conducting further research on the factors that influence earnings persistence.

B. LITERATURE REVIEW

Signalling Theory

Signalling Theory is a theory that explains the need for notification of financial information obtained from financial reports for users of financial reports to serve as a reference in determining behavior or decision-making (Tuffahati et al, 2020: 148). Brigham & Houston (2013: 184) explains that signaling theory is an investor's perspective on the company's opportunities to increase the company's value in the future, where information is obtained from company management to investors. It is intended that users of financial statements know about company management in seeing the company's prospects in the future so that they can distinguish between good quality companies and non-quality companies.

Earnings Persistence

Earnings Persistence shows the sustainability of profits, that is, the desired profit can be generated during the operational activities of a company (Subramanyam, 2017: 100). Earnings persistence is the desired change in accounting profit in the future and is determined from the current year's profit (Tuffahati et al., 2020: 148). According to Mariski & Susianto (2020), earning persistence is useful in order to be able to find out which profits the company has are persistent earnings. Persistent earning is profit in which there is no significant change in each period or stable profit. Stable profits can be useful for telling good information.

Debt Level

The level of debt is an obligation owned by a company and must be paid when it is due without thinking about its financial condition, whether it is an obligation that must be met in the short term or long term. The debt level also shows the amount of external funding issued by the company for operational activities (Subramanyam, 2017: 146).

Sales Volatility

Sales volatility is a ratio that shows changes in sales over a period of time. If sales volatility is high, there may be a greater error in estimating sales information in a company. Sales volatility that has sharp fluctuations results in an estimate of the cash flow derived from the sale to be uncertain or higher. The cash flow obtained from sales activities will end up in

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the company's profits, so that sales volatility will also affect the profit volatility itself. If the company's sales volatility is high, profit volatility will also be high so that profit persistence or profit stability is low (Rahmadhani et al., 2016).

Company Size

Company size is a small measurement of the size of a company from the total assets owned by a company to the total sales obtained by the company in a period (Mariski & Susanto, 2020). According to Amaliyah & Suwarti (2017), company size is one of the factors that is useful for knowing the condition of the company, where in the company there are parameters that are useful in order to know the size of the company, for example total employees to carry out company operational activities, total income from sales obtained in a period, and the amount of assets owned by the company.

Hypothesis Development

Persistent profits are profits that do not experience significant changes in each period or stable profits. Stable profits can be useful for conveying good information, while unstable profits can provide bad information. Analyzing indicators that influence earnings persistence is important for those who use financial reports to be able to predict earnings sustainability in a company. Signaling theory explains that information provided by company management to outsiders is a sign or signal about a company's opportunities to increase firm value in the future. Information regarding debt levels, sales volatility and company size, including management signals about the company's ability to earn persistent profits.

According to research conducted by Rahmadhani et al (2016), Susilo & Anggraeni (2016), Tuffahati et al (2020), Saptiani & Fakhroni (2020) and Amaliyah & Suwarti (2017), the level of debt has a positive effect on earnings persistence. If the level of debt owned by large companies will cause the company to increase earnings persistence with the aim of maintaining good performance in the eyes of investors and creditors.

Furthermore, research by Rahmadhani (2016), Saptiani & Fakhroni (2020) and Amaliyah & Suwarti (2017) concluded that sales volatility has a negative effect on profit persistence. High sales volatility indicates that there is an error in estimating the sales value so that the profit persistence will be low.

Then, Mariski & Susanto (2020), Susilo & Anggraeni (2016) and Arisandi & Astika (2019) obtained research results, namely company size has a positive influence on earnings persistence. If the size of the company is large, it can have better stability and operations because large companies have large resources in their business activities. Large companies are considered to have good prospects for a relatively long period of time and are more stable so that they can generate more profits.

Referring to the results of this study, the research hypotheses were formed: (1) the level of debt has a positive effect on earnings persistence (H_1); (2) sales volatility has a negative effect on earnings persistence (H_2); (3) firm size has a positive effect on earnings persistence (H_3). In addition, according to the research results of Tuffahati et al (2020), debt levels, company size, and sales volatility can simultaneously affect profit persistence. Therefore, the fourth hypothesis is made, namely: the level of debt, sales volatility and company size simultaneously affect earnings persistence (H_4). Here's the frame of mind:

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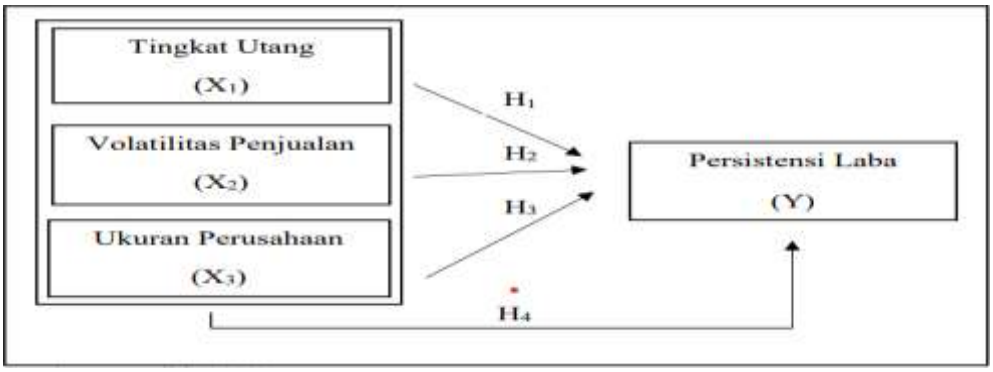

Source: Researcher (2022)

Figure 1. Framework of Thinking

C. RESEARCH METHODOLOGY

This study analyzes the influence of debt levels, sales volatility and company size on earnings persistence. The following is an explanation of the operational research variables

Table 1. Variable Operationalization

No	Variable	Variable Definition	Measurement	Skala
1	Debt Level	The ratio used to show the company's ability to meet its obligations	$DAR = \frac{\text{Total Debt}}{\text{Total Asset}}$	Ratio
2	Sales Volatility	A ratio that shows changes in the level of sales that occur in several periods	$VP = \frac{\sigma\text{Sales}}{\text{Total Asset}}$	Ratio
3	Company Size	Ratio that shows the size of the company seen from the total assets owned	Size = Ln Total Asset	Ratio
4	Earnings Persistence	Expected profit in the future which is influenced by profit innovation in the current year	$Xit = \alpha + \beta Xit\text{-}1 + e$	Ratio

Source: Researcher (2022)

The data analysis method in this study was panel data regression which was processed using Eviews 12. The study population was pharmaceutical companies listed on the Indonesia Stock Exchange. The research sample was taken using a purposive sampling technique. The following are the criteria for selecting a sample of companies.

Table 2. Research Sample Criteria

Sample Criteria	Total
Pharmaceutical company listed on the Indonesia Stock Exchange	12
Pharmaceutical companies that do not have financial reports consecutively from the 2016-2021 period	(1)
Pharmaceutical companies delisted from the Indonesia Stock	(1)

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Exchange during the year of observation	
Pharmaceutical companies that issue financial reports in currencies other than rupiah	0
Number of Samples	10

Source: Researcher (2022)

Based on the sampling criteria, the number of samples selected in this study were 10 pharmaceutical companies from 2016 to 2021. The following is sample data from pharmaceutical companies used in the study:

Table 3. Sample Company List

No	Code	Company Name
1	DVLA	PT Darya-Varia Laboratoria Tbk
2	INAF	PT Indofarma Tbk
3	KAEF	PT Kimia Farma Tbk
4	KLBF	PT Kalbe Farma Tbk
5	MERK	PT Merck Tbk
6	PEHA	PT Phapros Tbk
7	PYFA	PT Pyridam Farma Tbk
8	SDPC	PT Millennium Pharmacon International Tbk
9	SIDO	PT Industri Jamu dan Farmasi Sido Muncul Tbk
10	TSPC	PT Tempo Scan Pacific Tbk

Source: www.idx.co.id

D. RESULTS AND DISCUSSION

Descriptive Statistics

The results of the descriptive statistical analysis of this study are shown in the following table:

Tabel 4. Descriptive Statistics

Date: 04/18/22 Time: 10:03
Sample: 2016 2021

	Y	TU	VP	UP
Mean	0.563333	0.375033	0.183667	21.55960
Median	0.600000	0.319000	0.141500	21.37150
Maximum	1.500000	0.815000	0.600000	23.91200
Minimum	-0.200000	0.071000	0.070000	18.88800
Std. Dev.	0.481159	0.193814	0.111357	1.335969
Skewness	0.397938	0.428896	1.601357	-0.088839
Kurtosis	2.717720	2.053453	5.340084	2.559420
Jarque-Bera	1.782749	4.079401	39.33342	0.564201
Probability	0.410092	0.130068	0.000000	0.754198
Sum	33.80000	22.50200	11.02000	1293.576
Sum Sq. Dev.	13.65933	2.216268	0.731627	105.3041
Observations	60	60	60	60

Source: Processed Data (2022)

In table 4 it can be seen that the maximum profit persistence value is 1.5 owned by PT. Herbal Medicine and Pharmaceutical Industry Sido Muncul Tbk from 2016 to 2021, and a minimum value of -0.2 is owned by PT. Merck Tbk from 2016 to 2021. With a standard deviation value of 0.481159. The maximum debt level value of 0.815 is owned by PT. Indofarma Tbk in 2021, and a minimum value of 0.071 belongs to PT. Herbal Medicine and

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Pharmaceutical Industry Sido Muncul Tbk in 2016. With a standard deviation value of 0.193814. The maximum value of sales volatility of 0.600 is owned by PT. Millennium Pharmacon International Tbk in 2016 and a minimum value of 0.070 owned by PT. Indofarma Tbk in 2021. With a standard deviation value of 0.111357. The maximum value of company size is 23.912 owned by PT. Kalbe Farma Tbk in 2021 and a minimum value of 18,888 is obtained by PT. Pyridam Farma Tbk in 2017. With a standard deviation of 1.35969.

Estimation Model Selection

Based on the model selection tests, namely the Chow test, Hausman test and Lagrange Multiplier test, it was found that the model chosen for this study was the Random Effect Model. The following is the model applied in this study.

Table 5. Random Effect Model

Dependent Variable: PL
Method: Panel EGLS (Cross-section random effects)
Date: 04/18/22 Time: 09:32
Sample: 2016 2021
Periods included: 6
Cross-sections included: 10
Total panel (balanced) observations: 60
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.445669	0.908751	0.490419	0.6258
TU	-1.021460	0.189194	-5.399004	0.0000
VP	-1.380324	0.355811	-3.879371	0.0003
UP	0.034985	0.038703	0.903927	0.3699

Effects Specification	S.D.	Rho
Cross-section random	0.496188	0.9002
Idiosyncratic random	0.165232	0.0998

Weighted Statistics			
R-squared	0.454873	Mean dependent var	0.075886
Adjusted R-squared	0.425670	S.D. dependent var	0.213632
S.E. of regression	0.161900	Sum squared resid	1.467854
F-statistic	15.57612	Durbin-Watson stat	1.233698
Prob(F-statistic)	0.000000		

Unweighted Statistics			
R-squared	0.166546	Mean dependent var	0.563333
Sum squared resid	11.38443	Durbin-Watson stat	0.159067

Source: Processed Data (2022)

Classic Assumption Test

The classical assumptions used to test the data that the researchers have collected are of good quality, namely BLUE (Best Linear Unbiased Estimator). The classical assumption test consists of the normality test, multicollinearity and heteroscedasticity test. The following are the results of each test:

1. The normality test shows that the data is normally distributed or free from normality problems.
2. The multicollinearity test shows that there is no high or perfect correlation between the independent variables or that there is no multicollinearity.
3. The heteroscedasticity test shows that the data is free from heteroscedasticity problems.

Hypothesis Testing

Hypothesis testing aims as a basis for decision making. In this study, the hypothesis test used was the t test, F test, and the coefficient of determination (adjusted R^2) using a significant level of $\alpha = 5\%$.

The t test aims to be able to determine the effect of the independent variables on the dependent variable partially. If the probability value is < 0.05, then partially the independent variables affect the dependent variable. Referring to table 5, it is found that the debt level

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and sales volatility variables have a significant effect on earnings persistence while the firm size variable has no significant effect on earnings persistence.

The F test aims to find out whether all the independent variables jointly or simultaneously affect the dependent variable. The criteria for testing the F test are if the Prob value (F-statistic) < 0.05 means that the independent variables simultaneously or simultaneously affect the dependent variable. Table 5 shows that the statistical probability value of F is 0.000000 < 0.05. Thus simultaneously the level of debt, sales volatility and firm size affect earnings persistence.

The coefficient of determination test (adjusted R^2) is to see how far the ability of the model is to explain variations in the dependent variable. If the adjusted R^2 value is greater or close to one, the model's ability to explain the dependent variable is getting better. Based on table 5, the adjusted R-Square value is 0.425670. This means that the percentage of influence of the independent variable on the dependent variable is 42.57%. While the other 57.43% is influenced by other factors that are not present in this study.

Interpretation of Results

Referring to table 5, the panel data regression equation with the Random Effect Model is as follows:

PL = 0,445669 - 1,021460 TU - 1,380324 VP + 0,034985 UP

Effect of Debt Level on Earnings Persistence

Based on the research results, it can be concluded that the level of debt has a negative effect on earnings persistence. From the results of the t test, the variable level of debt obtains a calculated t value of 0.0000 < 0.05. This shows that the debt level variable has a significant effect on earnings persistence. The debt level variable coefficient is -1.021460 meaning that the debt level variable has a negative effect on earnings persistence. These results are not in accordance with the hypothesis that has been determined, so H_1 is rejected. If the level of debt owned by large companies will make the company increase earnings persistence with the intention of maintaining good performance for investors and creditors. However, these results show that the level of debt has a negative effect on earnings persistence. The higher the level of debt owned by a company, the higher the interest expense which can reduce the company's income. If the company is unable to pay, it can result in a risk of failure so that profits derived from company activities will be prioritized to pay debts and interest rather than to finance the company's operational activities. Therefore, the level of debt has a negative effect on earnings persistence.

This conclusion is in line with the research results of Achyarsyah & Purwanti (2018) and Kasiono & Fachrurrozie (2016) that the level of debt has a negative effect on earnings persistence. However, this result is not in line with the research results of Arisandi and Astika (2019), Abbas and Hidayat (2020), and Ariyanti, Ermaya & Nugraheni (2021) which state that the level of debt has no effect on earnings persistence.

Effect of Sales Volatility on Earnings Persistence

The results of this study show that sales volatility has a negative effect on earnings persistence. Referring to the results of the t test, the variable sales volatility obtains a t value of 0.0003 < 0.05, which means that H_0 is rejected and H_2 is accepted or sales volatility has a significant effect on earnings persistence. The coefficient of the sales volatility variable is -1.380324 meaning that the sales volatility variable has a negative effect on profit persistence. This result is in accordance with the hypothesis that has been determined so that H_2 is accepted. The negative effect shows that if the sales volatility is greater, the profit persistence will decrease. High sales volatility indicates that there is an error in estimating the sales value so that the profit persistence is low. Profits are earned from sales so that sales are the main operating cycle for the company. If the change in sales value in a period is low, it is easier to interpret future cash flows (Saptiani & Fakhroni, 2020: 207).

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The results of this study are in accordance with the results of research by Rahmadhani (2016), Amaliyah & Suwarti (2017) and Saptiani & Fakhroni (2020) which state that sales volatility has a negative effect on profit persistence. However, these results contradict the findings of Andi and Setiawan (2019), Tuffahati et al (2020) and Ariyanti, Ermaya and Nugraheni (2021) who conclude that sales volatility has no effect on earnings persistence.

Effect of Firm Size on Earnings Persistence

According to the results of data processing, it can be concluded that company size has no effect on earnings persistence. From the results of the t test, the company size variable gets a calculated t value of 0.3699 > 0.05, which means that H_0 is accepted and H_3 is rejected. If the size of the company is large, it can have better stability and operations because large companies have a lot of resources in their business activities. Large companies are considered to have good prospects for a long time and are more stable so they can generate more profits. However, in this study it was found that firm size has no significant effect on earnings persistence. The size of a company's assets does not affect the increase or decrease in company profits because management will perform according to the assets owned by the company (Abbas and Hidayat 2020: 201).

The results of this study are supported by Sarah et al (2019) which revealed that investors consider large companies not necessarily to be able to provide large profits. In effect, company size does not always reflect the proper state of a company's earnings persistence. Therefore, investors prefer to look at the company's market conditions in general rather than looking at its total assets. The larger the size of a company does not guarantee that it will get large profits because profits are not only determined by the assets owned but how the company performs and investors pay more attention to the company's market conditions in general than its total assets. Thus the size of the company has no effect on earnings persistence.

This finding reinforces the results of research by Hidayat & Fauzyah (2018), Sarah et al (2019), Abbas and Hidayat (2020) and Tuffahati et al (2020) who found that company size does not affect earnings persistence. However, these results contradict the conclusions of research by Mariski & Susanto (2020), Susilo & Anggraeni (2016) and Arisandi & Astika (2019) who conclude that company size has a positive effect on earnings persistence.

Effect of Debt Level, Sales Volatility and Company Size Simultaneously on Earnings Persistence

Based on the F test, it can be seen that the level of debt, sales volatility and company size simultaneously affect earnings persistence. The statistical probability value of F is 0.000000 < 0.05, then H_0 is rejected and H_4 is accepted. This ensures that debt levels, sales volatility and company size simultaneously affect earnings persistence. The results of this study are in line with the results of research by Tuffahati et al (2020) which state that debt levels, sales volatility and company size simultaneously affect earnings persistence.

E. CONCLUSIONS AND SUGGESTIONS

This study aims to analyze the effect of debt levels, sales volatility and company size on earnings persistence in pharmaceutical companies listed on the Indonesia Stock Exchange for the 2016-2021 period. Based on the results of the analysis and discussion of 60 samples using the panel data regression model, it can be concluded that the variables of debt level and company size have a negative effect on earnings persistence in pharmaceutical companies listed on the Indonesia Stock Exchange, while company size has no effect on earnings persistence in pharmaceutical companies that listed on the Indonesia Stock Exchange. Then the variables of debt level, sales volatility and company size

ISSN (*online*) : 2963-5896 & ISSN (*print*) : 2964-0482

simultaneously influence the persistence of earnings in pharmaceutical companies listed on the Indonesia Stock Exchange.

Furthermore, recommendations that can be used as input and material for consideration for further similar research should increase the number of company samples so that the research results obtained can be generalized and applied to other industries, for example the agricultural, mining, financial and other industries. In addition, future researchers are expected to add other independent variables that are expected to affect earnings persistence outside of this study in order to obtain more complete information such as accrual amounts, cash flow volatility, tax box differences, and others. Finally, investors and potential investors should pay attention to debt levels and sales volatility before investing because these two variables affect earnings persistence.

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