

# The Effect of Fraud Indicators and Financial Reporting Compliance on Earnings Quality and Stock Returns in ISSI Companies

*The Effect of Fraud Indicators and Financial Reporting*

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767

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## ABSTRACT

*This study is motivated by the importance of earnings quality as an indicator of financial reporting credibility in primary consumer goods companies listed on the Indonesian Sharia Stock Index (ISSI), amid concerns over financial statement manipulation and information inconsistencies that may affect market responses. The study aims to examine the effect of fraud indicators and financial reporting compliance on earnings quality and their impact on stock returns. A quantitative approach was employed using SPSS version 30 with secondary data from 34 companies during the 2020–2024 period. The findings reveal that fraud indicators, including the depreciation index, Sales General and Administrative Expenses Index (SGAI), Total Accruals to Total Assets (TATA), and leverage, have no significant effect on either earnings quality. In contrast, financial reporting compliance has a positive and significant effect on earnings quality, while TATA also positively influences stock returns. These results suggest that improvements in financial information quality are primarily driven by reporting compliance and earnings quality rather than accrual-based manipulation indicators, highlighting the importance of corporate governance and transparency in Islamic capital markets. The study implies that investors and regulators should place greater emphasis on compliance and earnings quality in decision-making and market supervision.*

**Keywords:** Earnings Quality, Financial Reporting Compliance, Islamic Capital Market, Stock Returns.

## INTRODUCTION

Earnings quality is a key indicator of financial reporting credibility because it reflects the extent to which reported earnings represent a company's actual economic condition. High-quality earnings are generally more persistent, supported by operating cash flows, and better able to predict future performance (Kimouche, 2021). In Indonesia's Islamic capital market, earnings quality is increasingly important as investors consider both profitability and compliance with Islamic principles. The growth of the Islamic capital market has heightened the demand for transparent and reliable financial reporting, further reinforced by POJK Number 8 of 2025, which strengthens requirements regarding Sharia compliance, interest-based debt limits, and non-halal income control for Sharia-listed companies (Islamic IDX, 2025).

Nevertheless, various phenomena indicate that the earnings quality of companies in Indonesia continues to face significant challenges. The case of PT Panca Wira Usaha, for instance, revealed alleged corruption in the sale of company assets that resulted in state losses exceeding IDR 11 billion (Kompas.com, 2024). This phenomenon demonstrates that manipulation related to fixed assets and depreciation may affect the quality of corporate financial statements. Another case occurred at PT Garuda Indonesia, which reported profits in 2018 after previously experiencing substantial losses. However, regulatory findings identified unrealized revenue recognition, indicating that the financial

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statements did not comply with applicable accounting standards (Fauziyah, 2025). In addition, PT Indofarma Tbk. experienced serious financial difficulties, including delays in employee salary payments due to the Debt Payment Suspension (*Penundaan Kewajiban Pembayaran Utang/PKPU*) process and prolonged allegations of internal fraud (Cnbcindonesia.com, 2024). These phenomena indicate that fraudulent practices and weak financial reporting controls may reduce corporate earnings quality.

Issues related to earnings quality are also evident among Sharia-based companies. PT Paytren Aset Manajemen had its business license revoked by the Financial Services Authority (*Otoritas Jasa Keuangan/OJK*) due to non-compliance in financial reporting and delays in report submission (Financial Services Authority, 2022; Kompas.com, 2024). Similarly, the PT Jiwasraya scandal highlighted severe leverage problems that led to claim defaults in 2018 (Indonesiawatch.id, 2025). In addition, the Islamic life insurance industry experienced declining earnings quality due to lower-than-expected investment returns, resulting in losses during April–May 2024 (FinancialBisnis.com, 2024). The decline in the Islamic stock index in early 2023 further indicates that earnings quality is closely linked to investor confidence and stock performance (Antaraneews.com, 2023). Therefore, earnings quality remains a critical factor in investment decision-making for companies listed on the Indonesian Sharia Stock Index (ISSI).

Previous studies by Saadah and Mustofa (2024) have demonstrated that internal fraudulent practices negatively affect corporate earnings quality. Opportunities for fraud may weaken earnings reliability and increase manipulation in financial reporting practices (Abdurrachman & Suhartono, 2020; Arrahman & Machdar, 2024; Uwakwe & Chukwu, 2024). In addition, compliance with financial reporting standards has been found to improve earnings reliability by minimizing earnings management practices (Queku, 2017; Dal Maso et al., 2018). However, previous findings regarding the influence of accounting compliance and reporting timeliness on earnings quality remain inconsistent (Suhartono, 2015; Rahmah & Mawardi, 2021). Other studies have also found that earnings quality significantly affects stock returns because investors tend to respond positively to more reliable earnings information (ElBannan & Farooq, 2019; Sari & Setiyawati, 2021; Tresnawaty, 2021; Sari & Widodo, 2022; Graham, 2022).

Based on these conditions, a research gap remains in examining the relationship between fraud indicators, financial reporting compliance, earnings quality, and stock returns, particularly in Islamic companies in Indonesia. Previous studies generally focus on a single aspect, such as fraud detection or accounting compliance, without integrating these factors to explain earnings quality comprehensively. In addition, research on earnings quality in ISSI-listed firms, especially in the primary consumer goods sector during the post-pandemic period (2020–2024), remains limited. This study aims to analyze the influence of fraud indicators, Depreciation Index (DEPI), Sales, General and Administrative Expenses Index (SGAI), Total Accruals to Total Assets (TATA), and Leverage Index (LEVI), along with financial reporting compliance, on earnings quality and their impact on stock returns. The study is expected to contribute theoretically to earnings quality literature in Islamic capital markets and provide practical implications for investors, companies, creditors, and regulators in enhancing transparency and reporting quality.

## LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

### The Influence on Earnings Quality

Agency theory explains the relationship between principals and agents, in which information asymmetry may create opportunities for management to manipulate financial reporting (Dwiyoso, 2022). Complementing this perspective, signaling theory suggests that companies use financial reporting to reduce information asymmetry and convey positive signals to investors regarding their performance and prospects (Syahrudin et al., 2025). Earnings quality refers to the ability of reported earnings to reflect the company's actual and sustainable economic condition. According to Handayani and Syaiful (2025), earnings quality can be viewed from two perspectives, namely decision-

making usefulness and economic perspectives. High-quality earnings provide relevant information for investors and analysts in assessing corporate performance (Menicucci, 2019; Syahrial & Ibrahim, 2025; Wijaya et al., 2025). Conversely, earnings manipulation reduces the credibility of financial information and may mislead investors in making investment decisions. In this study, earnings quality is measured using the ratio of operating cash flow to Earnings Before Interest and Taxes (EBIT), because high-quality earnings should be supported by adequate operating cash flows.

The depreciation index is used to identify changes in depreciation rates that may indicate earnings manipulation through reduced depreciation expenses (Lubis, 2024). Similarly, the sales general and administrative expenses index reflects changes in the efficiency of administrative and marketing expenses that may potentially be associated with earnings manipulation practices (Tarjo & Herawati, 2021). Meanwhile, the total accruals to total assets measure the proportion of accruals relative to total assets, which may indicate that reported accounting earnings are not adequately supported by operating cash flows. The leverage index reflects corporate debt pressure that may encourage managers to engage in earnings management in order to maintain a favorable corporate image among investors and creditors. Previous studies have demonstrated that fraud indicators and leverage pressure significantly influence corporate earnings quality (As'ad et al., 2021; Sari & Widodo, 2022). Furthermore, financial reporting compliance improves transparency, accountability, and the reliability of accounting information, thereby enhancing earnings quality and providing positive signals regarding corporate governance and financial integrity to investors (Davis, 2021; Videsia et al., 2022).

H1: Depreciation index has a significant influence on earnings quality.

H2: The sales general and administrative expenses index has a significant influence on earnings quality.

H3: The total accruals to total assets index has a significant influence on earnings quality.

H4: The leverage index has a significant influence on earnings quality.

H5: Financial reporting compliance has a significant influence on earnings quality.

### **The Influence on Stock Returns**

Stock return is the profit earned by investors from investment activities as compensation for risk, including capital gains, capital losses, and dividends (Amtiran, 2022; Multazam et al., 2023). Based on signaling theory, financial information serves as a signal for investors in assessing corporate performance and future prospects. High-quality information can increase investor confidence and stock returns, whereas indications of fraud or manipulation may reduce market confidence.

Fraud indicators such as the depreciation index, sales general and administrative expenses index, total accruals to total assets, and leverage index are considered capable of influencing stock returns because they reflect the risk of financial statement manipulation and corporate instability (Pebruary et al., 2020). An abnormal decline in depreciation rates may indicate earnings manipulation that negatively affects corporate credibility in the eyes of investors (As'ad et al., 2021). SGAI, which reflects inefficiency in administrative and marketing expenses, may also influence investor perceptions regarding corporate operational effectiveness (Sari & Widodo, 2022). Furthermore, a high TATA value indicates that corporate earnings are not supported by operating cash flows, thereby increasing the risk of earnings manipulation and reducing investor confidence (As'ad et al., 2021). High leverage also increases corporate contractual pressure, which may trigger earnings manipulation and consequently reduce stock returns.

In addition to fraud-related factors, financial reporting compliance and earnings quality are also expected to influence stock returns. Financial reporting compliance provides positive signals regarding transparency and the quality of corporate governance, thereby increasing investor confidence and market responses to corporate stocks (Siladjaja et al., 2023). On the other hand, high earnings quality reflects stable financial performance and reduces information asymmetry between management and investors. Investors tend

to respond positively to persistent earnings supported by strong operating cash flows. Previous studies have shown that earnings quality significantly influences stock returns through signaling mechanisms that shape market perceptions regarding corporate prospects and stability (Sari & Widodo, 2022; Marbun & Suhartini, 2024).

H6: Depreciation index has a significant influence on stock returns.

H7: The sales general and administrative expenses index has a significant influence on stock returns.

H8: The total accruals to total assets index has a significant influence on stock returns.

H9: The leverage index has a significant influence on stock returns.

H10: Financial reporting compliance has a significant influence on stock returns.

H11: Earning quality has a significant influence on stock returns.

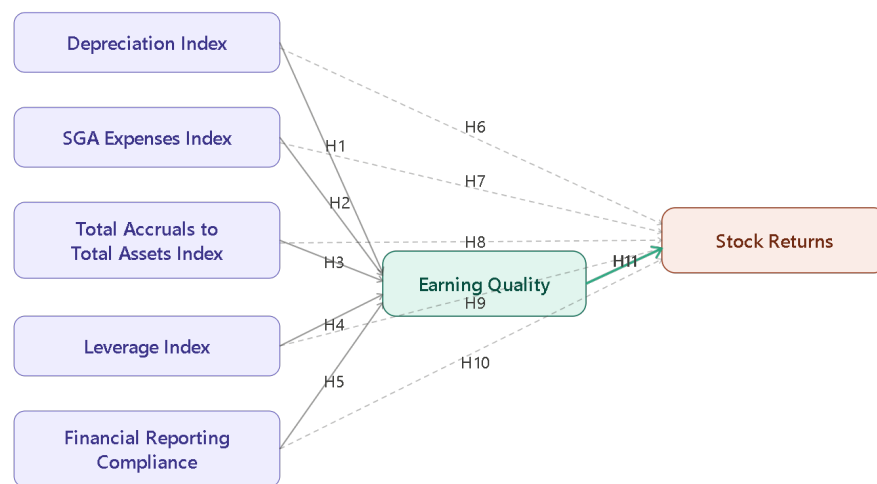


Figure 1. Conceptual Framework

Figure 1 illustrates the research framework, which examines the relationships among fraud-related indicators, financial reporting compliance, earnings quality, and stock returns. The model proposes direct effects of fraud indicators and financial reporting compliance on both earnings quality and stock returns, as well as the effect of earnings quality on stock returns.

## RESEARCH METHODS

This study employed a quantitative approach with a causal research design to examine the influence of the depreciation index, sales general and administrative expenses index, total accruals to total assets index, leverage index, and financial reporting compliance on earnings quality and their impact on stock returns. In this study, earnings quality was positioned as an intervening variable linking the independent variables to stock returns. A quantitative approach was selected because the study aimed to objectively analyze the relationships among variables through numerical measurement and statistical testing. Furthermore, the causal design was applied to explain the cause-and-effect relationships among the research variables based on theoretical perspectives and empirical phenomena observed in primary consumer goods companies listed on the Indonesian Sharia Stock Index (ISSI).

The population of this study consisted of 46 primary consumer goods sector companies listed on the ISSI during the 2020–2024 period. The sample was determined using purposive sampling based on several criteria, including companies consistently listed during the observation period, publishing complete financial statements, and providing data relevant to the research variables. Based on these criteria, 34 companies were selected as the research sample. With a five-year observation period, the total number of observations analyzed in this study amounted to 170 data points. The study utilized

secondary data obtained from annual financial reports, stock price data, and corporate publications accessed through the official website of the IDX and the respective company websites during the 2020–2024 period. Data collection was conducted using a documentation method by gathering financial statements, annual reports, and stock-related information published by both the companies and the IDX.

The study involved independent and dependent variables. Earnings quality was measured using the ratio of operating cash flow to earnings before interest and taxes (Yuliana & Fauziah, 2022). The Depreciation Index (DEPI) variable was measured by comparing depreciation rates across periods to identify potential earnings manipulation through depreciation policies. Sales, General, and Administrative Expenses Index (SGAI) was used to assess changes in the proportion of administrative and selling expenses relative to sales, whereas Total Accruals to Total Assets (TATA) measured the proportion of accruals relative to total assets (Nurcholisah et al., 2023). Leverage Index (LEVI) was utilized to evaluate changes in the company’s leverage level based on total liabilities relative to total assets. Meanwhile, financial reporting compliance was measured using a nominal scale based on the timeliness of financial report publication on the Indonesia Stock Exchange website (Rahmah & Mawardi, 2021). Stock returns were calculated based on the difference between the final and initial stock prices divided by the initial stock price (Sari & Setiyawati, 2021).

Data analysis was conducted using SPSS version 30. The analysis included classical assumption testing, the coefficient of determination ( $R^2$ ), F-test, t-test, and multiple linear regression analysis. Multiple linear regression was employed to examine the simultaneous effects of several independent variables on the dependent variable, as well as to determine the strength and direction of the relationships among the variables.

## RESULTS

Descriptive statistics were utilized to provide a general overview of the characteristics of the research data, including the mean, maximum value, minimum value, and standard deviation of each variable examined in this study. The results of the descriptive statistical analysis presented in Table 1 describe the distribution of data for earnings quality, depreciation index, sales general and administrative expenses index, total accruals to total assets index, leverage index, financial reporting compliance, and stock returns throughout the observation period.

Table 1. Description of Statistics Results

Variable	Mean	Max	Min	Std. Dev
Earnings Quality	0.741	9.900	-7.381	1.698
Depreciation Index	1.456	42.331	0.015	4.239
Sales General and Administrative Expenses Index	1.018	2.568	0.179	0.279
Total Accruals to Total Assets Index	-0.014	5.154	-5.271	0.608
Leverage Index	1.009	3.146	0.163	2.688
Financial Reporting Compliance	0.98	1	0	0.132
Stock Returns	0.027	4.158	-0.996	0.511

Table 1 presents the descriptive statistics of the research variables. The mean value of earnings quality was 0.741 (74.1%), indicating that corporate earnings were generally supported by real operating cash flows. The minimum value of -7.381 (-738.1%) occurred at PT Buyung Poetra Sembada Tbk in 2020, reflecting severe financial pressure caused by insufficient operating cash flow to support company earnings. Meanwhile, the maximum value of 9.900 (990%) was achieved by PT Buyung Poetra Sembada Tbk in 2022, indicating excellent corporate performance characterized by high operational efficiency and strong cash-generating capability. The mean value of the depreciation index was 1.456 (145.6%), indicating a tendency toward declining depreciation expenses relative to fixed assets. The minimum value of 0.015 (1.5%) occurred at PT Kino Indonesia Tbk in 2021, reflecting an increase in depreciation expenses that reduced corporate profitability. In contrast, the maximum value of 42.331 (4233.1%) was recorded by PT Indofood

Sukses Makmur Tbk in 2021, indicating an extreme decline in depreciation expenses, possibly resulting from changes in accounting policies or earnings enhancement strategies.

The mean value of the sales general and administrative expenses index was 1.018 (101.8%). The minimum value of 0.179 (17.9%) occurred at PT Diamond Food Indonesia Tbk in 2020, indicating a highly efficient corporate performance in controlling operational expenses or achieving significant sales growth. Meanwhile, the maximum value of 2.568 (256.8%) was achieved by PT Sariguna Primatirta Tbk in 2023, reflecting a substantially faster increase in operational expenses compared to revenue, suggesting efficiency pressure or major business expansion. The mean value of total accruals to total assets was -0.014 (-1.4%), indicating a tendency toward conservative earnings reporting dominated by operating cash flows. The minimum value of -5.271 (-527.1%) occurred at PT Langgeng Makmur Industri Tbk in 2020, reflecting liquidity pressure and imbalances in working capital management. Conversely, the maximum value of 5.154 (515.4%) was achieved by PT Langgeng Makmur Industri Tbk in 2021, indicating a significant increase in working capital, although potentially signaling irregularities or major changes in operational activities.

The mean value of the leverage index was 1.009 (100.9%), indicating that the companies generally maintained relatively stable and controlled financing structures. The minimum value of 0.163 (16.3%) occurred at PT Unilever Indonesia Tbk in 2024, reflecting a very strong financial condition with low dependence on debt financing. In contrast, the maximum value of 3.146 (314.6%) was achieved by PT Ultra Jaya Milk Industry & Trading Company Tbk in 2020, indicating a high dependence on debt that increased the company's financial risk. The mean value of financial reporting compliance was 0.98 (98%), indicating a very high level of compliance in financial reporting practices. The minimum value of 0 occurred at PT Campina Ice Cream Industry Tbk, PT Garudafood Putra Putri Jaya Tbk, and PT Sekar Laut Tbk in several observation periods, reflecting delays in financial report submission. Meanwhile, the maximum value of 1 was achieved by nearly all companies during the 2020–2024 period, indicating high compliance, sound corporate governance, and effective financial reporting systems.

The mean value of stock returns was 0.027 (2.7%), indicating relatively small but positive stock growth. The minimum value of -0.996 (-99.6%) occurred at PT Phapros Tbk in 2023, reflecting a substantial decline in stock prices due to market pressure and decreasing investor confidence. On the other hand, the maximum value of 4.158 (415.8%) was achieved by PT Mayora Indah Tbk in 2023, indicating a significant increase in stock prices driven by excellent corporate performance and positive market sentiment.

Table 2. Normality Test

Outliner Data	Model	Statistic	Sig.	Information
Before Removing Outliner Data	First Model	0.174	0.000	Abnormal Data
	Second Model	0.193	0.000	Abnormal Data
After Removing Outliner Data	First Model	0.060	0.200	Data Normal
	Second Model	0.085	0.120	Data Normal

Table 2 presents the results of the normality test conducted using the One-Sample Kolmogorov–Smirnov test. Prior to the removal of outliers, both regression models failed to satisfy the normality assumption, as indicated by significance values of 0.000 in the first and second models, which were below the 0.05 threshold. This finding suggests that the residuals were not normally distributed. To address this issue, observations identified as outliers were excluded from the dataset. Following the outlier treatment, the normality test results improved substantially. The first model produced a significance value of 0.200 with a test statistic of 0.060, while the second model obtained a significance value of 0.120 with a test statistic of 0.085. Since both significance values exceed 0.05, the residuals can be considered normally distributed. These results indicate that the normality assumption

was successfully met after the removal of outliers, allowing the data to be used for subsequent regression analyses.

**Table 3.** Multicollinearity Test

Variable	First Model	Second Model
Depreciation Index (DEPI)	1.020	1.020
Sales General and Administrative Expenses Index (SGAI)	1.010	1.045
Total Accruals to Total Assets Index (TATA)	1.002	1.026
Leverage Index (LEVI)	1.023	1.029
Financial Reporting Compliance	1.008	1.013
Earnings Quality		1.058

Based on the multicollinearity test results presented in Table 3, all independent variables across both models exhibit Variance Inflation Factor (VIF) values well below the conservative threshold of 5 (and the standard threshold of 10), with the highest value observed for earnings quality at 1.058 in the second model. These consistently low VIF values, which hover just above 1.0, indicate an almost complete absence of linear correlation among the predictors. The data confirms that multicollinearity does not pose a threat to the stability or reliability of the regression estimates, ensuring that the distinct effects of variables such as the depreciation index, leverage index, and financial reporting compliance can be accurately interpreted within both model specifications.

**Table 4.** Heteroscedasticity Test

Variable	First Model	Second Model
Depreciation Index (DEPI)	0.126	0.132
Sales General and Administrative Expenses Index (SGAI)	0.646	0.454
Total Accruals to Total Assets Index (TATA)	0.177	0.414
Leverage Index (LEVI)	0.976	0.729
Financial Reporting Compliance	0.724	0.798
Earnings Quality		0.310

Heteroscedasticity was evaluated using the Glejser test. As detailed in Table 4, the significance values for all independent variables across both the first and second models consistently exceed the 0.05 threshold. These findings confirm the absence of heteroscedasticity, indicating that the variance of the residuals remains homoscedastic across the dataset.

**Table 5.** Autocorrelation Test and Determination Coefficient Test

Model	Durbin-Watson	R	R-square	Adjusted R-square
First Model	1.820	0.359	0.129	0.086
Second Model	1.864	0.231	0.054	0.014

To identify potential serial correlation among the residuals, the Durbin-Watson test was conducted, with the results detailed in Table 5. The first model yielded a Durbin-Watson statistic of 1.820, while the second model produced a value of 1.864. Because both figures hover near the optimal value of 2.0 and fall safely within the generally accepted range of 1.5 to 2.5, the regression models show no evidence of autocorrelation. This independence of the error terms ensures that the subsequent statistical inferences remain valid and are not artificially inflated.

Turning to the models' explanatory capacity, the determination coefficients test reveals distinct differences in predictive power between the two frameworks. The first model achieves an R-squared of 0.129 and an Adjusted R-squared of 0.086, implying that the combined independent variables explain roughly 8.6% of the variation in the dependent variable once degrees of freedom are controlled. In contrast, the second model exhibits a weaker fit, with its R-square dropping to 0.054 and its Adjusted R-square falling to a marginal 0.014. This noticeable decrease suggests that the configuration of the first model

offers a more robust, though still modest, account of the data compared to the second specification.

Table 6. F-Test Results

Model	Test	Sum of Square	df	Mean Square	F	Sig.
First Model	Regression	21.213	6	3.535	3.001	0.009
	Residual	143.714	122	1.178		
	Total	164.926	128			
Second Model	Regression	1769635.089	6	294939.181	3.671	0.002
	Residual	11088330.263	138	80350.219		
	Total	12857965.352	144			

Table 6 presents the results of the F-test used to evaluate whether the independent variables jointly explain variations in the dependent variables. In the first model, the regression produced an F-test of 3.001 with a significance level of 0.009, indicating that the model is statistically significant at the 5% level. Similarly, the second model generated an F-test of 3.671 with a significance value of 0.002, which also confirms the overall significance of the model. These findings indicate that both regression models are appropriate for further analysis and provide sufficient explanatory power to examine the relationships among the variables included in the study.

Table 7. T-Test Results

Model	Variable	B	Std. Error	Beta	t-statistic	Sig.	Information
First Model	Constant	1.837	1.383		1.328	0.186	
	Depreciation Index (DEPI) → Earnings Quality	9.819E-7	0.000	0.004	0.049	0.961	No effect
	Sales, General, and Administrative Expense Index (SGAI) → Earnings Quality	0.000	0.000	0.038	0.443	0.658	No effect
	Total Accrual to Total Assets (TATA) → Earnings Quality	0.000	0.000	-0.049	-0.566	0.573	No effect
	Leverage Index (LEVI) → Earnings Quality	-8.880E-5	0.000	-0.029	-0.337	0.736	No effect
	Financial Reporting Compliance → Earnings Quality	2.653	0.812	0.290	3.266	0.001	Significant Influence
Second Model	Constant	-350.656	213.211		-1.645	0.102	
	Depreciation Index (DEPI) → Stock Returns	-0.001	0.005	-0.022	-0.275	0.784	No effect
	Sales, General, and Administrative Expense Index (SGAI) → Stock Returns	-0.056	0.059	-0.076	-0.946	0.346	No effect
	Total Accrual to Total Assets (TATA) → Stock Returns	0.188	0.050	0.304	3.795	0.001	Significant Influence
	Leverage Index (LEVI) → Stock Returns	0.020	0.064	0.025	0.310	0.757	No effect
	Financial Reporting Compliance → Stock Returns	391.477	203.110	0.153	1.927	0.056	No effect
Earning Quality → Stock Returns	-0.041	0.036	-0.094	-1.160	0.248	No effect	

Table 7 presents the results of the t-test for the first regression model, which examines the determinants of earnings quality. The findings indicate that the depreciation index, sales, general, and administrative expense index, total accruals to total assets, and leverage index do not have a statistically significant effect on earnings quality, as all of

their significance values exceed the 0.05 threshold. These results suggest that variations in depreciation practices, operating expenses, accruals, and leverage are not sufficient to explain changes in earnings quality among the sampled firms. In contrast, financial reporting compliance demonstrates a positive and significant relationship with earnings quality, with a coefficient of 2.653 and a significance value of 0.001. This finding implies that companies that comply more closely with financial reporting requirements tend to produce higher-quality earnings, reflecting greater transparency and reliability in their financial information.

The second model evaluates the factors affecting stock returns. Among the variables examined, only Total Accrual to Total Assets (TATA) is found to have a significant positive effect on stock returns, with a coefficient of 0.188 and a significance value of 0.001. This result indicates that changes in accrual levels are associated with variations in stock performance during the study period. On the other hand, DEPI, SGAI, LEVI, financial reporting compliance, and earnings quality do not show statistically significant relationships with stock returns, as their significance values remain above the 0.05 level. Although financial reporting compliance records a significance value of 0.056, which is relatively close to the conventional threshold, its effect cannot be considered statistically significant. The results suggest that most of the explanatory variables do not directly influence stock returns, while TATA emerges as the only factor with a measurable contribution to stock return performance in the sample.

## **DISCUSSION**

The results of this study indicate that the fraud-related indicators, namely the depreciation index, sales general and administrative expenses index, total accruals to total assets index, and leverage index, do not have a significant effect on either earnings quality or stock returns. This suggests that variations in accrual-based accounting components are not sufficiently powerful to explain changes in earnings quality or market reactions in primary consumer goods companies listed on the ISSI. From the perspective of agency theory, this finding implies that monitoring mechanisms and regulatory oversight effectively constrain managerial opportunistic behavior in financial reporting. This interpretation is consistent with the findings of Kusuma et al. (2022), who argue that stronger governance mechanisms reduce managers' incentives to engage in earnings manipulation. Similarly, Wulan and Syahzuni (2023) emphasize that the implementation of sharia-based governance principles enhances transparency and accountability, thereby limiting the relevance of fraud-related indicators in explaining earnings quality and stock returns.

From a signaling theory perspective, these variables may not serve as strong signals for investors in evaluating firm performance or making investment decisions. Accounting-based indicators such as depreciation index, sales, general and administrative expenses index, total accruals to total assets index, and leverage index are largely technical and do not directly reflect firms' real economic conditions. Investors tend to prioritize information on actual cash flows, sustainable profitability, and long-term growth prospects rather than accrual-based measures. As noted by Folajimi et al. (2023), accounting-based signals often have limited informational content in capital market decisions, while Lutfi and Endri (2024) emphasize that such indicators are less effective in shaping investor perceptions of earnings quality and stock returns.

Nevertheless, the insignificance of fraud indicators may also reflect improved reporting discipline and stronger oversight within firms included in the Islamic stock index. The principles of Islamic finance, which emphasize transparency, fairness, and accountability, may further restrict opportunities for accrual-based earnings manipulation. In addition, the relatively stable nature of the primary consumer goods sector means that firm performance is more strongly driven by real operational activities rather than accounting discretion, thereby weakening the role of these fraud-related indicators (Kalbuana et al., 2022; Prasetyo et al., 2025). In contrast, financial reporting compliance has a positive and significant effect on earnings quality, indicating that adherence to accounting standards

and regulations improves the reliability of reported earnings. Consistent with agency theory, Videsia et al. (2022) argue that compliance reduces information asymmetry and managerial opportunism, while Ramadina and Hidayah (2025) highlight its role in enhancing transparency and earnings quality.

Regarding stock returns, only Total Accruals to Total Assets (TATA) has a positive and significant effect, indicating that accrual-based information remains relevant to investors in assessing firm performance and future prospects. Consistent with signaling theory, Azis and Susilowati (2021) and Siladjaja and Siladjaja (2025) argue that relevant financial information can influence investor perceptions and market valuations. In contrast, DEPI, SGAI, LEVI, and financial reporting compliance do not significantly affect stock returns, suggesting that investors place limited emphasis on these indicators. Similarly, earnings quality has no significant effect on stock returns. Although earnings quality is expected to reduce information asymmetry and signal firm performance, Sari and Widodo (2022) and Marbun and Suhartini (2024) note that such signals do not always translate into stronger investor reactions or higher stock returns.

## **CONCLUSION**

The empirical findings demonstrate that key fraud indicators, namely the depreciation index, sales, general, and administrative expenses index, total accruals to total assets, and leverage index, exhibit no significant effect on earnings quality among primary consumer goods companies listed on the Indonesian Sharia Stock Index (ISSI). Financial reporting compliance exerts a positive and statistically significant impact on earnings quality, suggesting that rigorous adherence to disclosure regulations directly enhances the integrity and reliability of a firm's reported earnings. Regarding market performance, total accruals to total assets emerges as the sole predictor with a positive and significant influence on stock returns, whereas depreciation index, sales, general, and administrative expenses index, leverage index, financial reporting compliance, and earnings quality fail to show any meaningful association with returns. These results indicate that within this specific sector, earnings quality is primarily driven by regulatory compliance rather than variations in fraud metrics, while stock returns are more sensitive to the accrual dynamics captured by the total accruals to total assets index.

However, this study has several limitations. First, the research sample is limited to primary consumer goods sector companies in the ISSI, which restricts the generalizability of the findings to other sectors. Second, the variables used mainly focus on accrual-based fraud indicators and reporting compliance, while other potentially relevant factors, such as corporate governance mechanisms, audit quality, and macroeconomic conditions, are not included. Third, the relatively limited observation period may affect the robustness and long-term consistency of the results. Therefore, future research is recommended to expand the industry scope, incorporate additional explanatory variables, and use a longer observation period in order to provide a more comprehensive and robust understanding of the determinants of earnings quality and stock returns in the Islamic capital market.

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