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DETERMINANTS OF EARNINGS QUALITY IN THE FOOD AND BEVERAGE INDUSTRY: THE ROLES OF CONSERVATISM, INVESTMENT OPPORTUNITY SET, AND SALES VOLATILITY

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Abstract

This study aims to examine the effects of accounting conservatism, Investment Opportunity Set (IOS), and sales volatility on earnings quality in food and beverage manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2020–2024. The research method used is a quantitative approach with secondary data obtained from audited annual financial statements. The sample was selected using purposive sampling, resulting in 25 companies and 125 firm-year observations. Panel data regression was conducted using EViews 12, with the Fixed Effects Model (FEM) selected based on the Chow and Hausman tests. The results show that accounting conservatism has a positive and significant effect on earnings quality, while sales volatility has a negative and significant effect on earnings quality. In contrast, the Investment Opportunity Set has a negative but statistically insignificant effect on earnings quality. Simultaneously, accounting conservatism, Investment Opportunity Set, and sales volatility have a significant effect on earnings quality, with an adjusted R-squared of 54.84%. The study concludes that accounting conservatism and sales volatility are significant determinants of earnings quality, whereas the Investment Opportunity Set does not significantly affect earnings quality in food and beverage manufacturing companies listed on the IDX during 2020–2024.

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INTRODUCTION

The food and beverage industry is an important component of Indonesia's manufacturing sector and faces increasingly complex competitive and operational conditions. Companies in this subsector must maintain sustainable financial performance while responding to changes in consumer demand, input prices, and market competition (Syahrial et al., 2023). Financial statements therefore remain an important source of information for investors because they provide information about financial position, performance, and cash flows that supports economic decision-making (Handa et al., 2024). Earnings quality is important because reported profit is useful to investors only when it reasonably reflects underlying economic performance and provides information about future cash flows. High-quality earnings are associated with greater reliability and usefulness in assessing a company's performance and prospects (Bimo et al., 2024 ; Baihaqi & Murtanto, 2023). Conversely, earnings that do not adequately reflect operating performance may reduce stakeholder confidence and increase the risk of inappropriate investment decisions (Baihaqi & Murtanto, 2023)

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(Lutfhy & Yanti, 2025).

This issue becomes particularly relevant in the post-COVID-19 business environment. Food and beverage companies have faced changes in consumer demand, increases in raw-material and production costs, and pressure on profitability (Maskanah & Arif, 2024). PT Sekar Bumi Tbk (SKBM), for example, experienced fluctuations in net income during the post-pandemic period amid changes in production costs and market conditions. Such conditions illustrate that changes in accounting profit do not necessarily move proportionally with operating cash flows, making earnings quality an important consideration for users of financial statements (Butarbutar et al., 2025). The reliability of reported earnings is also related to agency conflict. Agency Theory explains the contractual relationship between principals and agents and the potential divergence of interests between owners and managers(Jensen & Meckling, 1976; Eisenhardt, 1989; F. Y. Putri & Suwarno, 2025). Because managers generally possess more information about the company than external owners, information asymmetry may create opportunities for opportunistic reporting. Earnings quality is consequently relevant as an outcome of the reliability of managerial financial reporting and as a basis for reducing information asymmetry between management and investors.

Accounting conservatism represents a prudent response to uncertainty by recognizing potential losses more promptly and avoiding premature recognition of gains. From an agency perspective, conservatism can constrain managerial discretion and reduce opportunities for earnings manipulation, thereby improving the credibility of reported earnings (Hurriyaturrohman et al, 2022; Kristiadi et al, 2023). Empirical evidence also indicates that conservatism can improve earnings quality (Ika et al., 2022; Puspitasari et al., 2024). Therefore, H1 is proposed: Accounting conservatism affects earnings quality. Investment Opportunity Set (IOS) reflects the firm's available opportunities to undertake investments that may generate future growth. A high IOS can indicate greater growth prospects, but the existence of investment opportunities does not necessarily determine the reliability of current reported earnings because investment benefits may be realized over a longer horizon (Dewi & Purnamawati, 2024; Tinenti & Nugrahanti, 2023). Prior studies provide inconsistent evidence regarding the relationship between IOS and earnings quality (Maulia & Handojo, 2022; Wulandari et al., 2021; Yusmaniarti et al., 2023). This inconsistency represents a principal research gap. Therefore, H2 is proposed: Investment Opportunity Set affects earnings quality. Sales volatility reflects fluctuations in a company's revenue and captures uncertainty in the operating environment. Greater volatility may increase estimation uncertainty, weaken earnings persistence, and create pressure on managers to stabilize reported performance (Arif & Ananda, 2023; Lubrina et al., 2024). Previous findings concerning sales volatility and earnings-related outcomes are also not fully consistent across settings, indicating a need for further evidence in the food and beverage industry. Therefore, H3 is proposed: Sales volatility affects earnings quality.

The research gap is primarily centered on the inconsistent empirical findings concerning IOS and sales volatility, while the role of conservatism also warrants further examination in a post-COVID-19 setting. These gaps are particularly relevant for food and beverage manufacturing companies because their operations involve production capacity, inventory, distribution, and exposure to changing consumer demand. The industry context may therefore shape how investment opportunities and sales instability relate to the reliability of reported earnings. The novelty of this study lies in examining accounting conservatism, IOS, and sales volatility simultaneously as

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determinants of earnings quality in food and beverage manufacturing companies listed on the IDX during 2020–2024. By focusing on the post-COVID-19 period, the study provides updated evidence on earnings quality under changing operating conditions and contributes to the literature on financial reporting in an emerging-market setting.

Based on the agency perspective, this study expects accounting conservatism to improve earnings quality because prudent reporting can restrict opportunistic managerial behavior. IOS is examined because future investment opportunities may not translate immediately into reliable current earnings, whereas sales volatility is expected to weaken earnings quality because operational uncertainty may increase information asymmetry and managerial reporting pressure. The objective of this study is to empirically examine the effects of accounting conservatism, IOS, and sales volatility on earnings quality in food and beverage manufacturing companies listed on the IDX during 2020–2024. The findings are expected to provide evidence for investors and corporate decision-makers in evaluating the reliability of reported earnings.

RESEARCH METHOD

This study uses a quantitative approach with secondary data obtained from audited annual financial statements of food and beverage manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2020–2024. Purposive sampling was used to select firms that were listed during the observation period and provided complete annual-report information required to calculate all research variables. The population consisted of 29 food and beverage manufacturing companies, of which 25 met the data-completeness criteria, resulting in 125 firm-year observations (25 companies × 5 years).

Table 1.
Sampling Criteria

No	Criteria	Total
1	Production firms within the food and drink category that are registered on the Indonesia Stock Exchange.	29
2	Businesses that possess all their data and have released yearly reports from 2020 through 2024.	25
3	An annual report containing comprehensive information on all the required data variables	25
	The number of companies in the sample	25
	Number of years of research	5
	The final amount of data used (x5)	125

The annual financial statements used in this study are publicly available through the IDX and company disclosures. All variables were calculated consistently from annual observations for 2020–2024. For sales volatility, the standard deviation was calculated from five annual sales observations for each sampled company, namely 2020, 2021, 2022, 2023, and 2024, and then scaled by total assets. The panel regression was estimated using EViews 12 with a 5% significance level.

$$EQ_it = \alpha + \beta 1CON_it + \beta 2IOS_it + \beta 3SV_it + \mu_i + \lambda_t + \varepsilon_it$$

Before hypothesis testing, diagnostic procedures were conducted to assess multicollinearity, heteroskedasticity, and autocorrelation. Multicollinearity was assessed using the Variance Inflation Factor (VIF), with values below 10 indicating no serious multicollinearity. Heteroskedasticity should be assessed using a formal Glejser

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Volume / Issue / Year/ Page : 4/ 1 /2026 : September / Pg .200-212

test or Breusch–Pagan test in addition to the residual scatter plot. Autocorrelation was assessed using the Durbin–Watson statistic.

Operational Definition of Variables

Dependent variable: Earnings Quality

Earnings quality refers to the extent to which reported earnings are supported by operating cash flows and provide useful information about underlying performance. In this study, earnings quality is measured as the ratio of operating cash flow to current net income:

$$\text{Earnings quality} = \frac{Operating\ cas\ flow}{Net\ income}$$

EQ_it = Operating Cash Flow_it / Net Income_it. A higher ratio indicates that reported earnings are more strongly supported by cash generated from operating activities, indicating higher earnings quality.

Independent variables

Conservatism

Conservatism is the principle of recognizing expenses and liabilities as soon as possible, even in the face of uncertainty regarding the outcome, and recognizing revenue and assets only when it is certain that such revenue and assets will be received (Surjadi et al., 2024).

$$\text{CON_it} = \text{Net Cash Flow_it / Net Income_it} = \frac{Net\ cas\ flow}{Net\ income}$$

Accounting conservatism is proxied by the ratio of net cash flow to current net income. Net cash flow captures the net cash movement of the firm across operating, investing, and financing activities, whereas the dependent variable uses operating cash flow specifically. This distinction reduces direct mechanical overlap between the independent-variable proxy and the earnings-quality proxy, although the conceptual limitation of this proxy should be acknowledged. A higher ratio indicates stronger cash support for reported accounting earnings.

IOS (Investment Opportunity Set)

IOS represents a collection of prospective future investments that aid in increasing the assets of a company or project, yielding significant returns in the future (Yuniar & Andayani, 2024).

$$\text{IOS_it} = (\text{Closing Stock Price_it} \times \text{Shares Outstanding_it}) / \text{Total Equity_it} \frac{Number\ of\ c\ ares\ outstanding - Closing\ price}{Total\ equity}$$

The Investment Opportunity Set is measured using the market-to-book value of equity (MVE/BVE), a market-based proxy that compares the market value of shareholders' equity with its book value. The numerator is calculated as closing stock price multiplied by the number of shares outstanding, while total equity represents the book value of shareholders' equity. A higher value indicates greater market-based growth opportunities relative to the firm's book equity.

Sales Volatility

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ISSN : e-ISSN 3026-6505
Volume / Issue / Year/ Page : 4/ 1 /2026 : September / Pg .200-212

Sales volatility reflects the extent to which a company's sales fluctuate over time(Arif & Ananda, 2023).

SV_i = SD(Sales_i,2020, Sales_i,2021, Sales_i,2022, Sales_i,2023, Sales_i,2024) / Total Assets_i = $\frac{\sigma\,(Sales\ jt)}{Total\ assets\ jt}$

Sales volatility is measured as the standard deviation of annual sales over five observations (2020–2024) divided by total assets. The standard deviation captures the dispersion of sales across the five-year observation period, while total assets scales the measure according to firm size. A higher value indicates greater instability in sales relative to the company's asset base.

Panel Model Selection

Panel-data estimation considers the Common Effects Model (CEM), Fixed Effects Model (FEM), and Random Effects Model (REM). The Chow test is used to compare CEM and FEM, while the Hausman test is used to determine whether FEM or REM is more appropriate. The final model is selected based on the statistical decision rules of these tests.

Model Selection Techniques

When selecting a regression estimation model, three panel data regression estimation models will be considered to determine which one is most suitable for the research objectives. There are three types of tests: the Chow test (likelihood test), the Hausman test, and the Lagrange multiplier test.

RESULTS AND DISCUSSION

Table 2.
Outcomes of Descriptive Statistical Evaluations

Description	Sample Size	Minimum	Maximum	*Mean*	Standard Deviation
Earnings quality (Y)	125	-11.94966	53.823025	2.102741	7.937064
Conservatism (X1)	125	-11.15408	50.96920	0.842749	6.622117
IOS (X2)	125	-0.303292	0,036809	0.003395	0.028612
Sales Volatility (X3)	125	0.304691	3.575513	1.0099189	0.603259

Table 2 presents descriptive statistics for 125 firm-year observations. Earnings quality ranges from -11.94966 to 53.823025, with a mean of 2.102741 and a standard deviation of 7.937064. The dispersion indicates substantial variation in the degree to which reported earnings are supported by operating cash flows. To reduce the influence of the extreme observation identified in the initial dataset, earnings quality was winsorized at the 1st and 99th percentiles. After winsorization, the maximum value declined from 2.302.035 to 53.823025 and the standard deviation declined from 205.8670 to 7.937064, indicating that the extreme observation materially affected the original distribution. Accounting conservatism ranges from -11.15408 to 50.96920, with a mean of 0.842749 and a standard deviation of 6.622117. The relatively large dispersion indicates substantial differences in the cash-flow-based conservatism proxy across sampled firms. IOS ranges from -0.303292 to 0.036809, with a mean of 0.003395 and a standard deviation of 0.028612. The variation indicates differences in market-

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Volume / Issue / Year/ Page : 4/ 1 /2026 : September / Pg .200-212

based investment opportunities across firms. Because the IOS proxy has been revised to the market-to-book value of equity, the descriptive statistics and regression results must be regenerated from the revised IOS data before the final submission. Sales volatility ranges from 0.304691 to 3.575513, with a mean of 1.009919 and a standard deviation of 0.603259. The standard deviation is lower than the mean, indicating moderate dispersion in sales volatility across the sampled firms

Table 3.
Results of the Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	0.942921	(24.95)	0.5460
Cross-section Chi-square	26.708503	24	0.3182

According to the findings from the Chow test, a p-value of 0.3182 was calculated. Given that this p-value of 0.3182 is equal to or exceeds 0.05, the model applied is the Common Effects Model (CEM), and it is necessary to perform the subsequent test, which is the Hausman test.

Table 4.
Results of the Hausman Test

Correlated Random Effects-Hausman Test
Pool: DPANEL
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
cross-section random	13.055075	3	0.0229

The findings from the Hausman test indicate a p-value of 0. 0229. Because this p-value of 0.0229 is below 0. 05, the Fixed Effects Model (FEM) is selected; hence, there is no requirement to move on to the subsequent test, known as the Lagrange multiplier test. Based on the results of the Chow and Hausman tests, the Fixed Effect Model (FEM) was selected as the final estimation model because the Hausman test yielded a probability value below 0.05, indicating that FEM provides more consistent and efficient estimates than the alternative panel data models. Therefore, all subsequent hypothesis testing and regression analyses were conducted using the Fixed Effect Model.

Table 5.
Outcomes of the Multicollinearity Examination

Variable	VIF
X1	1.034784
X2	1.005931
X3	2.913628

According to Table 5, which shows the findings of the multicollinearity assessment, it can be determined that no multicollinearity exists among the independent variables. This conclusion is drawn from the VIF values being below 10.

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ISSN : e-ISSN 3026-6505
Volume / Issue / Year/ Page : 4/ 1 /2026 : September / Pg .200-212

Heteroscedasticity Test

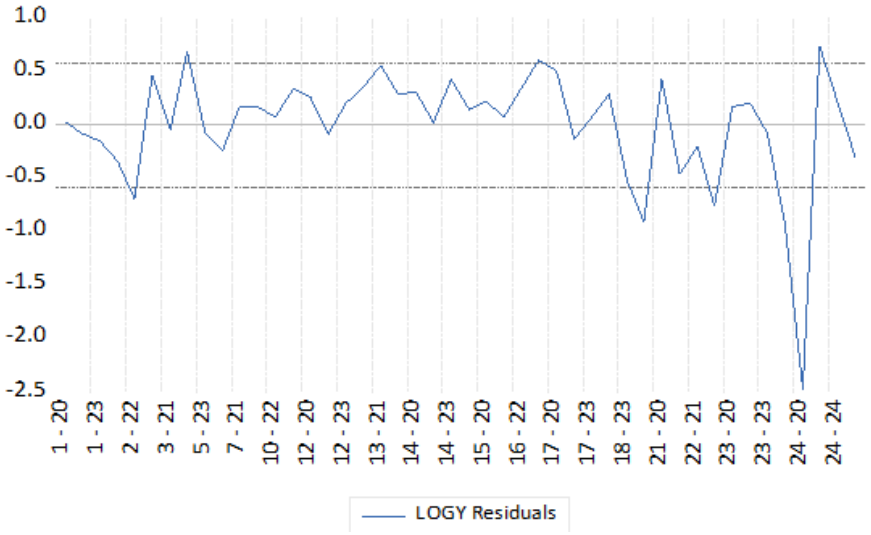


Figure 1. Results of the Heteroscedasticity Test

Figure 1 illustrates that the residuals are randomly dispersed around the zero line without forming any discernible pattern or systematic distribution. This indicates that the regression model does not exhibit heteroscedasticity, implying that the variance of the residuals remains relatively constant across observations. Therefore, the assumption of homoscedasticity is satisfied, indicating that the regression estimates are reliable for hypothesis testing.

Table 6.
Autocorrelation Test Results

Log likelihood	-789.7833	Hannan-Quinn criter	12.78768
F-statistic	31.75968	Durbin-Waston atat	1.983815

Based on Table 6, the Durbin–Watson statistic is 1.983815. Since the statistic is close to 2, the residuals do not indicate a substantial autocorrelation problem. Therefore, the model satisfies the non-autocorrelation assumption.

Table 7.
F-Test Statistical Results

Description	Value	Description	Value
R-squared	0.654043	Mean dependent var	2.102741
Adjusted R-squared	0.548435	S.D. dependent var	7.937064
S.E. of regression	138.3397	Akaike info criterion	12.90287
Sum squared resid	1818099	Schwarz criterion	13.58166
Log likelihood	-776.4291	Hannan-Quinn criter.	13.17862
F-statistic	6.193118	Durbin-Watson stat	2.353529
Prob(F-statistic)	0.000000		

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Volume / Issue / Year/ Page : 4/ 1 /2026 : September / Pg .200-212

Based on Table 7, the *Prob. (F-statistic)* value is 0.000000, which is lower than 0.05. Therefore, it can be concluded that all independent variables, namely Conservatism (X1), *Investment Opportunity Set* (IOS) (X2), Sales Volatility (X3), simultaneously have a significant effect on Earnings Quality (Y).

Coefficient of Determination Analysis (Adjusted R^2)

The coefficient of determination measures the extent to which variations in the dependent variable can be explained by the independent variables. It indicates the proportion of variability in the dependent variable that can be accounted for by the independent variables. Based on Table 7, the model has an R-squared of 0.654043 and an Adjusted R-squared of 0.548435. Thus, after accounting for the number of explanatory variables, approximately 54.84% of the variation in earnings quality is explained by accounting conservatism, IOS, and sales volatility, while the remaining 45.16% is attributable to other factors outside the model. The Adjusted R^2 indicates a meaningful explanatory contribution of the variables included in the model.

Hypothesis Testing (t-Test)

The t-test, referred to as the partial test, helps assess how much each independent variable impacts the dependent variable on its own. This test evaluates the individual effect of each independent variable on the dependent variable, utilizing a significance level (α) of 5% (0. 05).

Table 9.
Hypothesis Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
X1	24.84349	2.267658	10.95557	0.0000
X2	-213.8507	493.1148	-0.433673	0.6655
X3	-126.0612	51.07201	-2.468303	0.0154
C	140.9465	58.40125	2.413416	0.0177

The Impact of Conservatism on Earnings Quality

The findings from this research indicate that conservatism positively influences the quality of earnings, reflected in a regression coefficient of 24.84349 and a p-value of 0.0000 < 0.05. These results indicate that the first hypothesis **(H1) is accepted**. A positive regression coefficient indicates that every increase in accounting conservatism contributes to an improvement in earnings quality. This means that if the principle of prudence is applied more strictly in financial statements, the reported earnings will better reflect the company's actual economic condition and be supported by cash flows from operations. The findings of this study are consistent with those of a previous study (Rosmawati & Indriasih, 2021) which showed that through conservatism, investors can avoid misjudging profit figures that appear high but are intentionally not presented in a manner consistent with actual profit conditions (Ika et al., 2022; Maulia & Handojo, 2022; Putri & Suwarno, 2025; Ridwan & Latif, 2024; Triastuti & Purnomo, 2023).

From the perspective of Agency Theory (Eisenhardt, 1989), accounting conservatism functions as a governance mechanism that mitigates information asymmetry between managers and shareholders. Conservative accounting practices limit managerial discretion in recognizing revenues and require earlier recognition of

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Volume / Issue / Year/ Page : 4/ 1 /2026 : September / Pg .200-212

potential losses, thereby reducing opportunistic earnings management. Consequently, higher accounting conservatism enhances the credibility and reliability of reported earnings, leading to improved earnings quality.

The Effect of the Investment Opportunity Set (IOS) on Earnings Quality

The results of the study indicate that the Investment Opportunity Set (IOS) has a negative regression coefficient of-.213.8507, but this is not statistically significant, with a p-value of 0.6655 > 0.05. Thus, the second hypothesis **(H2) is rejected**. A negative coefficient indicates that, in terms of direction, an increase in the IOS tends to be associated with a decline in earnings quality; however, this effect is not statistically significant. This suggests that a company's level of investment opportunities, whether high or low, does not directly affect the quality of the earnings generated. The findings of this study are consistent with those of a study conducted by Wulandari et al., (2021) the study provides evidence that the Investment Opportunity Set (IOS) is not a significant predictor of earnings quality, indicating that an increase in IOS does not inherently ensure higher earnings quality (Karmila & Nofryanti, 2025; Napitu et al., 2024; Santoso & Handoko, 2022; Yusmaniarti et al., 2023).

The insignificant effect of IOS may be attributed to the capital-intensive and long-term investment characteristics of the food and beverage industry. The insignificant effect of the Investment Opportunity Set (IOS) may be explained by the capital-intensive characteristics of the food and beverage industry, which requires investment in production facilities, machinery, and distribution networks. Such investments are generally long-term in nature and may not immediately translate into higher operating cash flows or improved earnings quality. Therefore, a high IOS may reflect the availability of future growth opportunities rather than the reliability of current reported earnings. From the perspective of Agency Theory, managers may prioritize long-term investment expansion, while investors may place greater emphasis on the reliability of current earnings. This condition may weaken the direct relationship between IOS and earnings quality.

The Effect of Sales Volatility on Earnings Quality

The results indicate that sales volatility has a negative and significant effect on earnings quality, with a coefficient of -126.0612 and a p-value of 0.0154 < 0.05. H3 is therefore accepted. The negative coefficient indicates that greater fluctuations in sales are associated with lower earnings quality. Unstable sales conditions increase uncertainty in estimating revenues and related expenses and can weaken the persistence of reported earnings. This finding is consistent with evidence reported by (Gunawan & Gurusinga, 2022; Oktapriana & Reyes, 2024; Saputra & Margaretha, 2023). Agency Theory further explains this result through information asymmetry and managerial incentives. When sales are unstable, managers face greater uncertainty in meeting performance expectations and may have stronger incentives to smooth or manage reported earnings. Higher sales volatility can therefore weaken the credibility and persistence of earnings, resulting in lower earnings quality.

CONCLUSION

This study provides empirical evidence that accounting conservatism and sales volatility are significant determinants of earnings quality, whereas IOS does not have a significant effect in food and beverage manufacturing companies listed on the IDX

during 2020–2024. Accounting conservatism has a positive relationship with earnings quality, indicating that prudent reporting is associated with stronger reliability of reported earnings. In contrast, higher sales volatility is associated with lower earnings quality, while the insignificant IOS result suggests that future investment opportunities do not necessarily determine the reliability of current earnings.

1. The findings contribute to Agency Theory by indicating that reporting prudence can limit managerial discretion and that operating uncertainty can affect the reliability of financial reporting. Practically, investors should assess operating cash-flow support, conservative reporting practices, and sales stability rather than relying solely on accounting profit. For management, strengthening prudent reporting and maintaining stable operating performance may support more credible financial information.
2. This study is limited to food and beverage manufacturing companies and the 2020–2024 observation period, so the findings may not be fully generalizable to other industries or longer periods. Future research should extend the observation period, compare other manufacturing subsectors, consider alternative earnings-quality proxies, and test relevant mediating or moderating variables such as earnings management, audit quality, corporate governance, or firm characteristics.

Recommendations

For future researchers, it is recommended to develop the research model by incorporating mediating or moderating variables. Mediating variables can be used to explain the mechanisms underlying the relationship between independent variables and earnings quality, such as earnings management, operating cash flow, or audit quality, which may mediate the effects of conservatism, leverage, and sales volatility on earnings quality. Moderating variables can be employed to examine whether the strength or direction of the relationships among variables is influenced by certain conditions, such as corporate governance, firm size, profitability, or business risk

Statement on the Use of Artificial Intelligence (AI)

AI was used in the preparation of this manuscript. The author used artificial intelligence tools solely to assist with language refinement, grammar checking, and editing to ensure clarity and readability. The author remains fully responsible for the accuracy, originality, integrity, and academic content of the manuscript. All AI-assisted content was reviewed and verified by the author before the manuscript was submitted.

Conflict of interest

The author declares that there are no conflicts of interest.

Author contributions

Virni Sagita as a conceptualization, data collection, data processing, data analysis, writing - preparation of the initial draft. Yusmaniarti as a research validator. All authors have read and approved the final version of this manuscript.

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