The Influence of Cash Flow Changing and Profit Accounting to Stock Return in Manufacturing Companies listed on the Indonesia Stock Exchange

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ABSTRACT

Financial statement, especially which relate to cash flow and accounting profit, was one of the most important information that used by investor to make a valuation on company performance. The aim of the research is to examine the impact of cash flow components change and accounting profit toward manufacturing companies stock return at Indonesian Stock Exchange.

Population in this research is all manufacturing companies which listed at Indonesian Stock Exchange. Sample research taken by purposive sampling so that yield 64 manufacturing companies. Analysis method used by multiple linear regression analysis.

The result of this research show that not all independent variable in this research have a significant impact on stock return. Variable such as change in cash flow from investing activities and accounting profit have positive and significant impact toward stock return, meanwhile cash flow from operation activities and financial activities didn’t have a significant impact toward stock return. Simultaneously, all independent variable have a significant impact toward stock return.

Keyword: stock return, operation activities, investment activities, financial activities and accounting profit

INTRODUCTION

The business world today continues to experience growth which can be seen that the current investment activities in various fields has been done. This development can be seen also from capital market activities in the growing and
efficient. Basically a placement investment funds owned by the investor at the present with the hope of profit (return) in the future. The capital market is a vehicle that was one alternative for investors to invest in their funds so that by channeling their funds in the stock market then they will feel safe to their funds and will expect the return on investment.

To invest in the stock market takes considerable knowledge, experience and business sense to analyze the stocks that will be purchased, sold or possessed for his own. An investor must be rational in the face of stock market trading. In addition, the investor must have the sharpness of the estimate of the future of the company whose shares will be bought or sold. Investors should consider the amount of benefits to be achieved and will analyze the possible risks in the face of investing. Therefore investors should analyze information from the company and pay attention to the state of the economy is going. On the basis of analysis of this information investors decide to buy, hold, or sell shares that affect stock price movements in the stock market.

The stock price is the market value of a share of the issuer company at any given time. A company's stock price has always experienced movement up or down in line with the demand and supply of existing shares on the stock. Fluctuations in stock prices are determined by the ability of the company in generating profits. With the increasing demand for the shares of the stock price will also increase, giving rise to capital gains for shareholders. A variety of information outside the company such as macro-economic information, domestic politics, security, the rupiah against the dollar, industry and market conditions often affect stock prices and stock returns (Rosdiana, 2008).
Financial information that is required of investors in assessing corporate performance can be obtained through the information in the financial statements. Financial report is a report that contains financial information of a company in which the financial statements issued by the company is the result of the accounting process that is intended as a means of communicating financial information to external parties in particular.

Corporate performance parameters that have a major concern of investors and creditors of financial statements in this study are earnings and cash flow. Through the statement of cash flows and earnings so investors can know the description of the financial condition and performance of a company, and changes in cash flow and accounting profit earned will be followed by changes in stock prices traded on the stock. There are some issuers that during the years of observations where cash flow and accounting profit is directly proportional to changes in stock prices in the stock. Based on the theory if the accounting profits of a company shows an increase from time to time, then the investor will be interested to pass up the investment so that it caused the stock price also increased so that the return obtained is also high.

Cash flow statement is one part of the company's financial statements that explains the change in cash or cash equivalents in a given period and have the most important part that can provide information to users. The information provided in the cash flow statement describing the company's performance so that performance is a good company will be responded by investors as a signal to invest. In the statement of cash flows, there are three components, namely operating activities, investing activities and financing activities.
Accounting profit in the financial statements is also one of the important financial parameters. In addition to assessing the performance management can also be used to predict the ability of earnings and assessing risk in investment and credit. The existence of earnings and cash flow information is seen by users as a matter of information complementary to evaluating the overall company performance. Information concerning earnings can be used as a tool to measure the performance of the company as well as provide information relating to the management duties of his responsibility in the management of the resources entrusted to him. Information about the company's performance, especially on the profitability needed to make decisions about the economic resources to be managed company in the future.

Studies related to the effect of cash flow information and accounting income have been carried out by researchers. From the results of research that links cash flow and accounting profit on stock returns showed different results between one researcher with other researchers of this study refers to research conducted Rosdiana (2008). Differences in this study with previous studies is the variable used is accounting profit and which is the object of research is a manufacturing company listed on the Stock Exchange and in different observations.

As for other studies that support such research by Kumalahadi (2003) found evidence that the components of cash flows from operating activities and financing activities have a significant relationship with stock returns. In contrast, the components of cash flows from investing activities had no significant relationship with stock returns.
Kusno (2004) concluded that the variable changes in cash flow from operating activities, changes in cash flows from investing activities, changes in cash flows from financing activities was partially have a significant positive effect on stock returns, whereas variable changes in accounting profit no significant effect on stock returns. Rosdiana (2008) concluded that the operating cash flow and Earning per share has an influence on stock returns, while cash flow investing and financing cash flow has no influence on stock returns.

LITERATURE REVIEW

Signaling Theory

Signaling theory emphasizes the importance of information issued by the company's investment decisions outside the company. According Jamaan (2008) Signaling Theory suggests how a company should give a signal to users of financial statements. This signal contains information about what has been done by management to realize one's own. Signals can be either promotional or other information that states that the company is better than any other company. Signaling theory explains that the provision of signals carried by the manager to reduce information asymmetry. Managers provide information through financial statements that they apply accounting policies that generate earnings conservatism is more qualified because of this principle prevents the company taking action to exaggerate profits and helps users of financial statements by providing income and assets not overstate.

According Jogiyanto (2000), the information published as an announcement will give a signal to investors in making investment decisions. If
the notice contains a positive value, it is expected that the market will react to the announcement was welcomed by the market. At the time the information was announced and all market participants have already received such information, market participants in advance to interpret and analyze information such as a good signal (good news) or a bad signal (bad news). If the announcement of such information as a good signal for investors, then there is a change in the volume of stock trading. Announcement of accounting information signals that the company has good prospects in the future (good news) so that the interested investors to trade stocks, so the market will react, as reflected by changes in stock trading volume. Thus the relationship between the publication of information, both financial statements, financial condition or socio-political to fluctuations in the stock trading volume can be seen in market efficiency.

Statement of Cash Flows

Cash flow statement is a report that provides information about cash receipts and disbursements of a firm in a given period. Cash flow statement can provide information that allows the users to evaluate the changes in net assets of the company, its financial structure (including liquidity and solvency) and the ability to influence the amount and timing of cash flows in order to adapt to changing circumstances and opportunities (PSAK No. 2, 2009). Cash flow information is useful to assess the company's ability to generate cash and cash equivalents and enables users to develop models to assess and compare the present value of future cash flows (future cash flow) from various companies. Cash flow is the soul of every company and fundamental to the existence of an
enterprise and shows whether or not the company pay all its obligations. Cash flow statements are intended to provide historical information about the changes in cash and cash equivalents of an enterprise in a period, to classify the cash flows by operating, investing and financing activities.

Statement of cash flows is also one indicator of the company's market value. This means that companies with high cash flow which means it has a high market value. High market value will encourage investors to be attracted to invest in the shares of the company. Of course this will increase the company's stock price and ultimately impact on increasing the return companies. Thus it can be said that the increase in cash flow leads to an increase in stock returns.

Cash Flows from Operating Activities

Amount of cash flow from operating activities is an indicator that determines whether the operations of the company can generate enough cash flow to repay loans, maintain the ability of the company's operations, pay dividends and make new investments without relying on external funding sources (PSAK 2009 No. 2.  , paragraph 12). Cash flows from operating activities primarily dividend income from the activity of the major producing companies. Therefore, cash flows are generally derived from transactions and other events that affect net income or loss. Some examples of cash flow from operations are Cash receipts from sales of goods or services, Cash receipts from royalties, fees and other revenues, Cash paid to suppliers of goods or services, Cash paid to employees.

Cash Flows from Investing Activities
Cash flows from investing activities is the cash flow reflects cash receipts and disbursements in connection with resources that aim to generate income and future cash flows. Some examples of cash flows from investing activities are Payment of money to buy fixed assets, intangible assets and other long term assets, including capitalized development and self-constructed fixed assets, Cash receipts from the sale of land, buildings and equipment, intangible assets and other long-term assets, Acquisition of shares or financial instruments other companies.

Cash Flows from Financing Activities

Cash flows arising from financing activities illustrate the change in the number and composition of capital and long-term loan companies, be a matter of getting funding from the owner, borrow and pay back debt or to borrow long term. Some examples of cash flow from financing activities are Cash received from stock issuance or other capital instruments. Cash paid to shareholders to redeem shares company, Cash receipts from bond issues, loans, notes, mortgages and other loans, Repayment of loans. Cash payment by the lessee to reduce the balance of the liability relating to finance leases.

Profit

Actually implies a net profit or net is a net income for the period. Earnings showed a profit earned by the company and included in the income statement. Profit reflects the profits for the owners of capital in a given period, while items in the income statement set out how profits are determined. The income statement is a report showing revenues and expenses of a business unit for a certain period.
The difference between revenues and expenses is the profit earned or loss suffered by the company.

Earnings information has benefits in assessing the performance of management, to help estimate the ability of a representative profit in the long run, predicting earnings and assess risks in the investment return information may be used by the company’s internal and external parties to gauge the effectiveness of the company in exploiting the resources of existing funds. Measure often used to assess the success or failure of management of a company is company profits.

Profit Accounting

Belkaoui (2000) states that "accounting profit is operationally defined as the difference between the income realized from transactions of a period and is associated with the historical cost". Inside there are various components of accounting income is a combination of several basic components such as gross profit, operating profit, profit before tax and profit after tax. So that in determining accounting profit investors can see from the profit after tax. Accounting profit is a good measure of the performance of a company and that the accounting earnings can be used to forecast future cash flows. Accounting profit is measured based on the concept of accrual accounting. The main purpose of the accrual accounting for income measurement. Two main processes in the recognition of income measurement of income and expense attribution. Revenue recognition (revenue recognition) is the starting point of profit measurement.

Return
Stock returns is also called a revenue stock and a change in the value of the stock price, which means that the higher the stock price changes, the higher the return generated. Return is the profit enjoyed by investors on their investment. With the advantages that it can be enjoyed so an investor will be interested to invest in short and long term.

According Jogiyantö (2003), the return can be divided into two:
1. Return realization is a return that has occurred in the form of capital gains.
2. Return expectations is a return that is expected to be acquired by investors in the days to come in the form of dividends.

Return has two components there are current income and capital gains. Form of current income in the form of profits earned through periodic payments of dividends as a result of the performance of the company's fundamentals. While the capital gains earned in the form of profits due to the difference between the sale price and purchase price of the stock.

Definition of return in the research is the return realization or capital gains. that is gains from rising stock prices. Stock return is used as the dependent variable in this study, which is computed by calculating the difference in the current period's stock price the previous period by ignoring dividends. Price of shares used in this study is the closing price.

Stock returns (Jogiyanto, 2003) can be calculated by the formula

\[
Rt = \frac{Pt - (Pt-1)}{Pt - 1}
\]

where:

\(Rt\) = Return stock
Pt = stock prices of period t
Pt-1 = stock prices of period t-1

Previous Research

Livnat and Zarowin in Kumalahadi (2003) found evidence that the components of cash flow from operating activities and financing activities have a significant relationship with stock returns. In contrast, the components of cash flows from investing activities had no significant relationship with stock returns. Based on the factors that affect stock returns, namely the size of the accounting profit, cash flow financing, and operating cash flow.


Kusno (2004) concluded that the variable changes in cash flow from operating activities, changes in cash flows from investing activities, changes in cash flows from financing activities was partially have a significant positive effect on stock returns, whereas variable changes in accounting profit no significant effect on stock returns.

Triyono and Jogiyanto (2000) examined the relationship of cash flow information content, a component of cash flow and accounting profit in the stock
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Daniati and Suheirin (2006) study entitled Effect of Component Information Content of Cash Flow, Gross Profit and Company Size Of Stock Expected Return On Textile and Automotive Industries Listed on the JSE. The study found that operating cash flow does not affect the Expected Return Stock; cash flow negative effect on investment Expected Return Stock; positive effect on gross profit Expected Stock Return, and negatively affect Size Expected Return Stock.

Kusno (2004) concluded that the variable changes in cash flow from operating activities, changes in cash flows from investing activities, changes in cash flows from financing activities was partially have a significant positive effect on stock returns, whereas variable changes in accounting profit no significant effect on stock returns.

Triyono and Jogiyanto (2000) examined the relationship of cash flow information content, a component of cash flow and accounting profit in the stock
prices and returns. The study is the conclusion that operating cash flow and financing cash flows have a significant relationship with stock prices but not on stock returns. While the investment cash flows affect stock prices and stock returns.

Rosdiana (2008) with the title of the study the influence of the components of cash flows and earnings per share of company stock returns of consumer goods in Indonesia Stock Exchange. Results obtained from research that states that the operating cash flow positive influence on stock returns. Earning Per Share also affect stock returns. Investment cash flow and financing cash flow does not give effect to the stock return.

Hypothesis

H1: Changes in cash flow from operating activities influence on stock returns
H2: Changes in cash flows from investing activities affect stock returns
H3: Changes in cash flow from financing activities affect stock returns
H4: Changes in accounting earnings affect stock return

RESEARCH METHODOLOGY

Types and Sources of Data

Type of data used in this study is secondary data. Secondary data is data obtained indirectly through its medium (obtained and recorded by others). Data obtained through the website IDX http://www.idx.co.id that is sample company's financial statements and reports the closing share price for the period 2008-2009.
minus accounting profit the previous period (t-1), divided by the accounting profit obtained before (t-1).

DATA ANALYSIS TECHNIQUE

Multiple Linear Regression

Methods of analysis used to test the hypothesis is a statistical method of multiple linear regression. Variables used in this study consists of one dependent variable and four independent variables. Regression equation in this study are as follows:

\[ Y = \alpha + \beta_1 OCF + \beta_2 ICF + \beta_3 FCF + \beta_4 AP + e \]

ANALYSIS AND DISCUSSION

Results Descriptive Statistics

Descriptive statistics are used to provide an overview of the research variables, so it can be the benchmark further analysis of the minimum value, maximum value, mean, variance and standard deviation.

Table 1

The results of descriptive statistics

<table>
<thead>
<tr>
<th>Descriptive Statistics</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating cash flow</td>
<td>103</td>
<td>-317.27</td>
<td>249.81</td>
<td>-30.7882</td>
<td>107.82807</td>
</tr>
<tr>
<td>Investment cash flow</td>
<td>103</td>
<td>-277.02</td>
<td>246.59</td>
<td>-10.6351</td>
<td>97.62706</td>
</tr>
<tr>
<td>Financing cash flow</td>
<td>103</td>
<td>-281.58</td>
<td>230.46</td>
<td>-47.8031</td>
<td>105.60657</td>
</tr>
</tbody>
</table>
Based on the results obtained in Table 5.4, where the table was obtained value of 1.750 DW. While the upper limit value (DU) of 1.7603 and lower limit (dL) of 1.5993. So the DW value is less than the upper limit of 1.750 (DU) is greater than 1.7617 and 1.5993 dL, then it can be said that there is no autocorrelation.

**Heteroscedasticity Test**

Heteroscedasticity test aims to test whether the regression model of the residual variance inequality occurred one observation to another observation. Heteroscedasticity test results can be seen in the scatterplot in the figure.

**Picture 1**

**Heteroscedasticity Test**

Based on Figure 2 can be seen dots randomly spread both above and below the 0 on the Y axis, and also seen the dots form a pattern. It can be concluded that the study is free from heteroscedasticity.

**Regression Analysis and Hypothesis**

Linear regression analysis used in this study with the aim to determine whether there is influence of the independent variable on the dependent variable.
In this study testing the effect of changing the components of cash flow and accounting profit on the stock returns of manufacturing firms listed on the Indonesia Stock Exchange (BEI). Based on the results of research conducted, found that:

**Table 5**
Regression Analysis Results Discussion

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>T</th>
<th>P (sig)</th>
<th>sig. Confirmation</th>
</tr>
</thead>
<tbody>
<tr>
<td>OCF (X1)</td>
<td>0.089</td>
<td>1.281</td>
<td>0.203</td>
<td>No Significant</td>
</tr>
<tr>
<td>ICF (X2)</td>
<td>-0.146</td>
<td>-2.011</td>
<td>0.047</td>
<td>Significant</td>
</tr>
<tr>
<td>FCF (X3)</td>
<td>-0.030</td>
<td>-0.453</td>
<td>0.651</td>
<td>No Significant</td>
</tr>
<tr>
<td>AP (X4)</td>
<td>0.167</td>
<td>2.032</td>
<td>0.045</td>
<td>Significant</td>
</tr>
</tbody>
</table>

R Square = 0.096  F = 2.606  p (sig) = 0.000  constant = 26.974

Based on the above table obtained regression equation is:

\[
\text{Return} = 26.974 + 0.089 \text{ (OCF)} - 0.146 \text{ (ICF)} - 0.030 \text{ (FCF)} + 0.167 \text{ (AP)} + e
\]

Based on the results of the test statistic F above the regression output shows the significance of 0.04 or below the 0.05 level, so it can be concluded that the variables change in operating cash flow, investment cash flow changes, changes in financing cash flows, and changes in accounting earnings simultaneously have an influence on variable stock returns. This indicates that the information produced can be used by investors in making investment decisions to predict the magnitude of stock returns are generated.
Testing Hypothesis 1

Based on the results of regression analysis, it is known that the cash flows from operating activities has a regression coefficient value of 0.089, $t_{count}$ for 1.281 is smaller than $t_{table}$ is 1.98326 and the significance of 0.203 ($p > 0.05$). This suggests that changes in operating cash flow has no significant influence on stock returns. Based on this, we can conclude that the first hypothesis is rejected. This indicates that investors do not take advantage of operating cash flow information in predicting the amount of stock returns to be obtained. Cash flows from operating activities that do not give effect to give an indication that the stock return at that time the company has a serious problem or as a result the amount of cash out for the launch of the product so it can increase the potential of cash from sources other unlimited time period. The findings in this study correspond with findings Kurniawan (2000) and is consistent with research Kusno (2004).

Testing Hypothesis 2

Based on the results of the regression can be seen in the variable cash flows of investment to the value of the regression coefficient of -0.146. $t_{count}$ -2.011 which smaller than $t_{table}$ 1.98326. and the significance of 0.047 ($p < 0.05$). This indicates that changes in cash flows from investing activities influence on stock returns, so testing for the second hypothesis received. This is because changes in cash flow investments will be able to provide additional cash flow for the company so that the greater the change in cash flows from investing activities will further increase the stock return. Most companies use the cash to expand or increase long-term assets, so the cash from investing activities is usually negative.
Based on the results obtained by the above table that the variable changes in accounting earnings provide a significant influence on stock returns. It can be seen the change of variables accounting earnings regression coefficient value of 0.167, \( t_{\text{count}} = 2.032 \) is bigger than the \( t_{\text{table}} \) is 1.98326 and the significance of 0.045 (p <0.05). Thus it is said that this hypothesis is accepted. Changes in accounting earnings affect stock returns it indicates the presence of changes in accounting earnings show a change in the performance of a company that will be responded to by investors as a signal of information in investment decision making huge profits by changing the return of the stock will anyway. These results are consistent with research conducted by Kusno, (2004) and is consistent with research conducted Sjuchur (2001).

**CONCLUSIONS AND RECOMMENDATIONS**

**Conclusion**

Based on the analysis and discussion that has been described in the previous chapter, the conclusions of the study are:

1. Simultaneously with the F test of all study variables are changes in the components of cash flows (operating, investing and financing activities) as well as changes in accounting income significantly influence stock returns.

2. Instead a partial, changes in cash flows from investing activities and accounting income significantly influence stock returns. This indicates that the information generated by the investment cash flow and accounting profit may provide benefits to investors in generating investment decisions, so that information investing and
financing cash flows can be used as an indicator to predict the magnitude of stock returns will be accepted.

3. Partially, changes in cash flow from operating activities and financing activities do not significantly affect stock returns. This indicates that the information on the operating cash flow and funding can not be used as indicators to predict stock returns and the possibility of the information contained in the operating cash flow and funding has not been fully used as a basis for investment decisions.

RECOMMENDATIONS

1. For the future research is expected to use a longer study period and the number of samples more, so expect to obtain more comprehensive results of the research conducted.

2. Future studies with a similar theme is expected to add another variable, such as Residual Income, Beta, Economic Value Added, ROA, ROE, DER, EPS and others.

3. The predicted return, the investors are expected to also consider other factors that could affect the stock returns such as Economic Value Added, Beta, Residual Income, ROE, ROI, EPS, DER and economic conditions, social and political.

REFERENCES