The Influence of Income and Total Cash Flow to Stock Price

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ABSTRACT

The study aims to determine the influence of accounting profit and total cash flow to stock price on miscellaneous industry company listed on the Indonesia Stock Exchange period 2016-2018. Seen from the factors tested in the study are the relationship between accounting profit and total cash flow in affecting stock price. The research uses non probability sampling technique, which is purposive sampling to get 22 samples from 51 on miscellaneous industry. While the method of analysis used were thr estimation model, classical assumption, regression analysis of panel data, and hypothesis test using t-statistic hypothesis test to test partial regression coefficient and F-statistic to test the simultaneous regression coefficient with 5% significance level. The results of this research partially showed that accounting profit significantly affect on stock price, while the total cash flow does not significantly affect on stock price. Simultaneously accounting profit and cash flow significantly affect on stock price.

Keyword *: Accounting Profits, Total Cash Flows, Stock Prices*

INTRODUCTION

Companies are issuing stocks to strengthen the company's capital [1]. It allows companies that need funding by selling shares to raise cash. The capital market provides its services by bridging the relationship between investors who are referred to as issuers [2].

The main purpose of investors to invest in stocks is dividends in the future, in return for the timing of the risks associated with these investments [3]. The stock price is the value issued by investors to acquire a stock. Companies that achieve good performance can be seen in their financial statements, this will have an impact on increasing demand for shares. The net profit of a company is often used measuring company's performance. It will be important information for investors because this profit information will provide an estimate of the return to be obtained so that it will have an impact on stock price movements due to demand and supply of shares.

The miscellaneous industry sector is one part of the manufacturing sector in Indonesia. All sub-sectors in the various industries are producers of basic consumer products. The products produced are consumptive and people like it so that the producers in this industry have a high level of sales which has an impact on the

growth of this industrial sector. But in 2019 there was a weakening of the various industrial sectors which dragged the Composite Stock Price Index (IHSG) into the red zone.

Based on Bloomberg data, the IHSG weakened 0.25 percent or 15.92 points to 6,299.51 after opening with a decrease of 0.12 percent or 7.51 points to 6,307.93. Seven of the nine sectors moved in the red this morning, driven by the miscellaneous industry sector which weakened 1.07 percent and property, which fell 0.5 percent. The IHSG weakened to 0.1 percent or 6.08 points to 6,409.36 from the previous closing level. IHSG closed down 0.32 percent or 20.26 points at 6,315.44. The IHSG recorded a gain of 1.04 percent. Five of the nine sectors were in negative territory, led by miscellaneous industries (-0.68 percent) and property (-0.37 percent). The other four sectors moved positively, led by the agricultural sector which rose 2.25 percent. Meanwhile, as many as 149 stocks strengthened, 113 stocks weakened, and 374 stocks remained stagnant from the 636 listed stocks on the Indonesia Stock Exchange[4]

Investors need financial statement information to assess performance and minimize investment risk. Financial report is accounting information that describes the company's financial position and the operations performance for the period ending on a certain date, which consists of a statement of financial position, comprehensive income statement, statement of equitiy changes, statement of cash flows, and other information [5]. The income statement and cash flow statement are two important reports for users of financial statements, especially investors [6].

Profit is believed to be a reliable tool for decision making and reduce the risk of uncertainty in investment [7]. Accounting profit is income earned if the financial amount of net assets at the end of the period (excluding distributions and contributions from company owners) exceeds net assets at the beginning of the period. Profit is important information for investors, because it provide an estimate of the return that will be obtained. That will have an impact on demand and supply of shares [8].

In addition to earnings information, investors also use cash flow statement information. The statement of cash flows represents the inflows and outflows of cash and cash equivalents. Operating activities are the entity's primary income-generating activities that are not from investing or financing activities. Investing activities are the acquisition and disposal of long-term assets and other investments that do not include cash equivalents. Financing activities are those that result in changes in the amount and composition of the entity's equity and borrowing contributions.

Based on the statistical data obtained, there is a phenomenon related to stock prices as happened to the company PT Astra Internasional Tbk (ASII). The proof is that 2017 was a profitable year for PT Astra Internasional Tbk (ASII), following a 24.57% increase in net profit to Rp18.88 trillion. The shares of this ASII-coded issuer during the year (YTD) weakened 1.81% to Rp 8,150 per unit. The conglomerate's shares even touched their lowest point this year, Rp8,000 on February 22, a few days before financial statement was released. In fact, the company's expansion by injecting Go-Jek worth US$150 million (around Rp2 trillion) on February 11 did not encourage stock investors to hunt for ASII. The increase in the company's shares was seen in two trading days after the corporate action was announced, by 2.13%, and then weakened again. On a year to date basis, up to last weekend's trading, ASII's stock price corrected 1.81%. In terms of valuation, ASII shares should still be able to strengthen with a price-to-earnings-per-share ratio (PE ratio) of 15.7 times (for the next 12 months), or lower than the industrial PE ratio of 19.39 times. This means that investors pay 15.7 times to be able to harvest the net profit generated by each share of the company, generally cheaper than when they want to harvest profits from other shares in the same industry. In terms of book value per share (PBV), ASII shares are also still cheap at 2.38 times, lower than the industry's PBV which effect of accounting profit, cash flow components, and firm size on stock

prices, it states that accounting profit, total cash flow, operating cash flow, investment cash flow, financing cash flow, and firm size has no effect on stock prices.

[9] in a study entitled the effect of accounting profit and total cash flow on stock prices stated that accounting profit and total cash flow had an effect on stock prices. The gap phenomenon was found that various studies have been conducted to examine the effect of earnings and cash flow on stock prices, but the results are always inconsistent. According to [9] in a study entitled the ccounting profit significantly affects stock prices, while total cash flow has no effect on stock prices. In contrast to the research of [5]total cash flow has an effect on stock prices.

LITERATURE REVIEW

Accounting Profit

Accounting profit is usually expressed in units of money. The company's success can be seen in the level of profit earned by the company [10]. According to [11], accounting profit is the company's net profit as reported in the income statement. [11]said that accounting profit is the difference in realized income and transactions that occur during a period with expense associated with that income.

Comprehensive income (loss) is profit that contains the retained earnings (loss) figures calculated from net income and followed by other components of comprehensive income that are not recognized in net income.

[12], the purpose of a comprehensive income report is to provide information about the financial performance of the entity during a certain business period consists of composition and details of revenues, expenses and other comprehensive income. Income information is useful for calculating or analyzing profitability, efficiency, return on investment, earnings per share, as well as forecasts about the ability of these cash flows.

Stock price is the market value which is the price of shares in the stock market at a certain time determined by market participants and determined by the demand and supply of the shares concerned in the capital market [13]

Based on perevious research,, it can be concluded that the notion of share price is the unit value of proof of capital ownership in a company whose size is determined based on supply and demand in the capital market.

Effect of Accounting Profit on Stock Price

Accounting profit in financial statements is one of the company's performance parameters that gets the main attention of investors. If the higher the profit value, it will cause a positive reaction from the market. This positive relationship can be interpreted that investors respond positively to the development of earnings values because companies that have the ability to increase profits tend to increase their share prices [14]. This means that if the company earns greater profits, the company will be able to distribute greater dividends and generate stock returns which are reflected in the value of the company's shares. This is described in the research conducted [14] and is in accordance with the research conducted by [15], [16]

Meanwhile, according to research [17] accounting profit have no effect on stock prices. [17] due to the possibility of income smoothing and also the interest of investors who only seek profit from the difference between selling and purchase price of shares (capital gain), naive investors do not consider income to be a material information for making investment decisions.

The results of the study [17]explain that accounting profit information in this study used is gross profit published in financial statements, showing that investors consider gross profit information not informative enough as a measuring tool for company performance. This may be due to the use of historical costs in the calculation of the cost of goods sold in a state of price fluctuations or a significant level of inflation

which may result in the calculation of profit and loss not reflecting the actual reality. It can be seen from the existing data, the gross profit figure is generally high so that a figure that is too high is also not trusted by investors to invest. High gross profit causes investors to not believe the profit figures reported by issuers.

Statement of Cash Flow

A cas fhlow statement shows the cash receipts and disbursements of a company over a period of time. Information about an entity's cash flows is useful for investors and creditors as a basis for assessing the entity's ability to generate cash and cash equivalents [18]. This indicates that the statement of total cash flows is also an integrated part of the financial statements for each period of presentation of financial reporting. The information content of the total cash flow report can be measured by using the strength of the relationship between cash flows and stock prices or stock returns. If the publication of the cash flow report makes capital market investors to buying or selling shares which are then reflected in the stock price, it means that the cash flow report contains information. This is in accordance with the research conducted [19].

Meanwhile, according to research [17], ([12, 19]explain that the total cash flow has no effect on stock prices. This is because investors tend to be more interested in making a profit from the difference between the selling and the buying shares price. This insignificant effect indicates that the market does not react to the announcement of total cash flow information, which causes users of financial statements to rarely use information on cash flows as consideration in making decisions.

METHODS

This research uses a quantitative method with a descriptive and verification approach because of the variables that will be examined in the relationship and the purpose is to present a picture of the relationship between the variables studied. The population in this study were companies that were listed on the Indonesia Stock Exchange (BEI) during the 2016-2018 period. The population in this study was 51 companies.

The object of research taken in this study is accounting profit and total cash flow and its relation to stock prices. Accounting profit as independent variable (X1), total cash flow as independent variable (X2) and stock price as dependent variable (Y). The determination of variables is used as a limitation in the study so that the discussion does not expand. Data analysis method in this research using data panel regression.

RESULT AND DISCUSSION

Result

Descriptive analysis aims to find out the description of each research variable in various industrial sector companies listed on the Indonesia Stock Exchange, period 2016-2018.   *Table 4.1:*

Descriptive Statistics Analysis Results

	Stock Price	Accounting Profit	Total Cash Flow
Mean	1801.273	1229435.	1535480.
Maximum	9000.000	27372000	31574000
Minimum	56.00000	174.0000	487.0000
Std. Dev.	2714.038	4845095.	5996584.
Skewness	1.635989	4.532394	4.406855
Kurtosis	4.062298	22.16180	20.70140

Source: Output Eviews 10

Chow Test

Chow test is conducted to determine which model is the best between the common effects and fixed effects models. If the calculated F value is greater than the critical F, then Hypothesis no is rejected, which means that the correct model for panel data regression is fixed effect. Based on the results of the Chow test test, the results are as follow

Table 4.2:

Redundant Fixed Effects Tests, Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	23.229496	(21,42)	0.0000
Cross-section Chi-square	167.301196	21	0.0000

Based on table 4.2, it is known that the probability value (Prob.) for the Chi-square cross-section is 0.0000. This means that the model rejects the common effect model and follows the fixed effect model.

Hausman Test

Hausman test is used to choose which model is the best between the fixed effect model and the random effect model. The hypothesis in this test is that the Hausman statistical value is greater than the Chi-Squares value, so the correct model for panel data regression is the fixed effect model. Based on the results of the Hausman test, the results are as follows:

Table 1

Correlated Random Effects - Hausman Test, Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.432875	2	0.8054

Based on table 4.3, it is known that the probability value (Prob.) for the Chi-square cross-section is 0.8054. The Hausman test results accept H0. This means that the model accepts the random effect model and rejects the fixed effect model.

Lagrange Multiplier Test

Done to choose which model is the best between the Random Effect model and the Common Effect model. The hypothesis in this test is that if the Breusch-Pagan probability value is <0.05, then H0 is rejected. Meanwhile, if the Breusch-Pagan probability value > 0.05; then H0 is accepted.

Table 4.4:
Lagrange multiplier (LM) test for panel data, Total panel observations:

Null (no rand. effect)	Cross-section	Period	Both
Alternative	One-sided	One-sided	
Breusch-Pagan	50.93301	1.216566	52.14958
	(0.0000)	(0.2700)	(0.0000)
Honda	7.136737	-1.102980	4.266510
	(0.0000)	(0.8650)	(0.0000)
King-Wu	7.136737	-1.102980	1.050575
	(0.0000)	(0.8650)	(0.1467)
GHM	--	--	50.93301
	--	--	(0.0000)

Source: Output Eviews 10

Based on table 4.4 above, it is known that the value for the Breusch-Pagan Cross-section is 0.0000, so the results of the lagrange multiplier test do not reject H0. This means that the model accepts the random effect model compared to the common effect model.

After testing the three panel data model selection tests, the best choice to use is the Random Effect Model.

Panel Data Regression Test Results

The results of panel data regression analysis can be seen in table 4.5 below

Table 4.5:
Swamy and Arora estimator of component variances

Dependent Variable: Stock Price Method: Panel EGLS (Cross-section random effects)				
Date: 07/07/20 Time: 22:32				
Sample: 2016 2018				
Periods included: 3				
Cross-sections included: 22				
Total panel (balanced) observations: 66				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.584140	0.355024	1.645356	0.1049
Accounting Profit	0.452327	0.076762	5.892583	0.0000
Total Cash Flow	0.004909	0.078342	0.062665	0.9502

The results above, will be entered into the regression equation as follows:
$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$$
Dimana: Y : Stock price
α : Constant
$\beta_1 \beta_2$: Independent variable regression coefficient
X_1 : Accounting profit
X_2 : Total cash flow

e : e*rorr*

After processing the data, the following regression model is obtained:

$$Y = 0.584140 + 0.452327X\_1 + 0.004909X\_2 + e$$

α: 0.584140 means that, if the accounting profit variable (X1) and total cash flow (X2) are equal to zero or constant, the stock price has a value of = 0.584140.

β_1: If the regression coefficient value of the accounting profit variable (X1) is 0.452327, it means that if the accounting profit (X1) and other independent variables are constant or equal to zero, the value of the stock price variable will be predicted to increase by 0.452327.

β_2 : If the regression coefficient value of the total cash flow variable (X2) is 0.004909, it means that if the total cash flow (X2) and other variables are constant or equal to zero, the value of the stock price variable will be predicted to increase by 0.004909.

Coefficient of Determination Test

The coefficient of determination test is used to determine how big the contribution of the independent variables, namely accounting profit and total cash flow to stock prices. The value of the coefficient of determination shown by the value of R^2 as follows:

Table 4

Coefficient of Determination Test

R-squared	0.344762	Mean dependent var	0.046739
Adjusted R-squared	0.312799	S.D. dependent var	0.200265
S.E. of regression	0.166015	Sum squared resid	1.130001
F-statistic	10.78635	Durbin-Watson stat	1.740894
Prob(F-statistic)	0.000172		

Table 4.6 shows that the R-Squared is 0.3448. This shows that accounting profit and total flows contributed 34.48% to the stock price.

Discussion
Effect of Accounting Profit on Stock Price

The result shows that accounting profit in various industrial sector companies listed on the Indonesia Stock Exchange for the 2016-2018 period has an effect on stock prices. That is, every increase and decrease in profit in the company, will affect changes in stock prices.

Accounting profit has the potential as a predictor because accounting profit has information content on stock prices. In addition, accounting profit also contains information that is relevant for investors in decision making.

These results indicate that earnings information is useful for assisting users of financial statements in predicting future cash flows in order to determine investment value, therefore earnings information can be used as a basis for predicting stock prices and dividends in the future.

The results of this study support, [2, 18]. However, this study are not in accordance with research conducted by [10, 12, 17] which state that accounting earnings have no effect on stock prices.

Effect of Total Cash Flow on Stock Price

Based on the results of panel data analysis obtained partially, the tcount value is 0.0627 with a significance level of 0.9502 which is greater than 0.05. Based on these results, it can be said that the total cash flow of various industrial sector companies listed on the Indonesia Stock Exchange for the 2016-2018 period has no effect on stock prices. This means that any increase or decrease in the total cash flow of the company will not affect changes in stock prices.

The total cash flow has no effect on stock prices because total cash flow information is more useful for predicting the provision of cash flows to pay debts to creditors and dividends to investors, and not the amount of profit that will be received by investors on stock investments. Meanwhile, some investors are not too interested in capital gains. There is no effect of total cash flow on stock prices because investors are more interested in generating profit information for profit [17].

The results of this study are in accordance with previous research conducted by [1, 9, 14, 17] which stated that total cash flow had no significant effect on stock price. The results of this study reject previous research conducted by [2, 8, 16, 19] which stated that total cash flow had an effect on stock prices.

Effect of Accounting Profit and Total Cash Flow on Stock Price

Based on these results, it shows that accounting profit and total cash flow in various industrial sectors listed on the Indonesia Stock Exchange for the 2016-2018 period have no effect on stock prices. That is, every increase and decrease, which together with the company's profit and total cash flow, will affect changes in stock prices. The amount of accounting profit and total flows contributed 34.48% to the stock price.

The results of this study are in accordance with previous research conducted by [7, 17]). The results of his research indicate that accounting profit and total cash flow simultaneously have a significant effect on stock prices.

Conclusion

The results of research conducted on the effect of accounting profit and total cash flow on stock prices in various industrial sector companies listed on the Indonesia Stock Exchange for the 2016-2018 period. The accounting profit has an effect on stock prices but he total cash flow has no effect on stock prices in various industrial sector companies listed on the Indonesia Stock Exchange for the 2016-2018 period.

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