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Effect of accounting profit, cash flow, and return on assets on stock returns (Empirical Study on Consumer Goods Industry Listed on the Indonesia Stock Exchange Period 2007 -2009)

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ABSTRACT

The goal to be achieved in this study is to determine the effect of accounting profit, cash flow components, return on assets on stock returns. The research data was obtained from the official website of the Indonesia Stock Exchange. The object of this research is all consumer goods industry companies listed on the Indonesia Stock Exchange for the period 2007-2009. Determination of the sample in this study using a purposive sampling method based on the availability of data during the study period and the type of data is secondary, while the analytical method used is a multiple linear regression model. The results of this study show that accounting profit, operating cash flow, investment cash flow, funding cash flow, and return on assets together have a significant influence on stock returns. While partially the effect is different, accounting profit, investment cash flow and funding cash flow each have a significant negative effect on stock returns. Operating cash flow has no significant positive effect on stock returns and ROA has a significant positive effect on stock returns. The conclusion of this study shows that the regression model formed with independent variables consisting of accounting profit, operating cash flow, investment cash flow, financing cash flow and return on assets can be used to predict stock returns in the consumer goods industry.

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1. INTRODUCTION

The 2008 global financial crisis is thought to have had a large impact and significant changes to the economies of various countries. Even though the financial crisis began in a developed country, its impact reached the economies of developing countries through various channels, including decreasing capital inflows, increasing lending rates, depleting development financing resources from donor countries, and decreasing export demand. In Indonesia itself, it is starting to feel the impact marked by the weakening of prices and demand (volume) for exports. Several of Indonesia's main export commodities, such as crude palm oil, petroleum, plantation and mining products, fell significantly.

Meanwhile, demand for non-oil and gas export commodities and goods in the form of manufactured goods such as footwear, textile, garment, handicraft and furniture companies has also begun to show a decline in demand. This reduced demand is likely to continue into 2009, especially for market destinations that are currently experiencing an economic crisis, including the United States, Europe and Japan. The impact of the global crisis also disrupted stock trading on the Indonesia Stock Exchange. Many foreign and domestic investors are more focused on the global economic situation. The climax was the closing on October 9, 2008 due to the global situation which was neither foreign nor domestic, more focused on the global economic situation.

The climax was the closing on October 9, 2008 due to the unfavorable global situation, marked by a sharp decline in the stock price index. Under these conditions, the most important thing that investors must do before investing in the capital market to minimize investment risk is to look for sources of information to make an assessment and make a decision about which investment to choose, because information is the most important element for business people in assessing a company. One important source of information used to analyze is financial reports.

Financial reporting is a form of management accountability to parties with an interest in the company during a certain period. In financial reporting, according to the Statement of Financial Accounting Concept No. November 1, 1978 has two goals. First, it is useful for investors, potential investors, creditors and other users to make investment, credit and serious decisions. Second, it provides information about cash flow prospects to assist investors and creditors in assessing the company's net cash flow prospects (Hamzah, 2007:13). Financial statements that have been audited and published are one of the important information that accompanies every decision maker (Soesetio, 2005: 144).

Financial reports that are often presented are balance sheets, profit and loss reports, cash flow statements and reports on owner's or shareholder's equity, besides that notes to financial statements or disclosures are also an integral part of every financial report (Keiso et. al., 2002: 3). From the financial statements presented, accounting profit and cash flow are information that can be used as material for consideration in deciding to invest in the capital market, in this case, to value a company's shares. Both accounting profit and cash flow have a close relationship with stock prices (Keni, 2008: 155).

The income statement contains many profit figures, namely gross profit, operating profit and net profit. The purpose of the income statement is to measure the efficiency of managers in managing the company (Daniati and Suhairi, 2006:4). The statement of cash flows reports a company's principal sources of cash receipts and its principal uses in cash payments for a period. Prior to the issuance of Statement of Financial Accounting Standards (SFAS) No. 95, cash flow statements were not part of the generally accepted accounting principles (GAAP) financial statements, only balance sheets and income statements. The report on cash flow of funds required by the Accounting Principles Board (APB) is still voluntary and its position in the financial statements is still a supplement. On September 7, 1994, IAI issued Financial Accounting Standards (SAK) which became effective January 1, 1995 and through PSAK No. 2, IAI changed the presentation of the report on changes in financial position, which was originally in the form of a flow of funds to a statement of cash flows.

In PSAK statement NO. 2 stated that the company must prepare a statement of cash flows in accordance with the requirements in this statement and must present the report as an integral part of the financial statements for each period of presentation of the financial statements. Information about cash flows is useful for decisions regarding the organization's ability to pay current obligations (Simamora, 2000:23). Cash flow information is useful for investors and creditors to determine the company's ability to generate future net cash flows and compare it with short-term and long-term obligations, including the possibility of future dividend payments (Utari, 2006:57).

In addition to accounting profit and cash flow statements as important information for investors, the ratio of return on assets (ROA) is also able to provide information for investors. Return on assets (ROA) shows management's performance in using company assets to generate profits. The company expects returns that are proportional to the funds used (Astuti, 2004: 37). Some empirical evidence about the effect of accounting profit, cash flow and return on assets on prices or stock returns shows the inconsistency of the results obtained. The results of Utari's research (2006) concluded that accounting profit, cash flow from operations, investment and funding simultaneously affect stock returns and prices, but partially cash flow from investment does not affect stock returns. Daniati and Suhairi (2006), concluded that profit, cash flow from operations, cash flow from investment, company size simultaneously affect the expected stock return. However, partially cash flow from operations does not affect the expected stock return. Soesetio (2005), concluded that the components of total cash flows from financing and investing activities and changes in total cash flows have information content. In other words, this information becomes a reference for investors to decide, buy, hold or sell shares. concluding the components of total cash flows from financing and investing activities and changes in total cash flows has informational content. In other words, this information becomes a reference for investors to decide, buy, hold or sell shares. concluding the components of total cash flows from financing and investing activities and changes in total cash flows has informational content. In other words, this information becomes a reference for investors to decide, buy, hold or sell shares.

Triyono and Hartono (2000), concluded that cash flows from financing, investing and operating activities as well as profits have an influence on stock prices, while using the stock return model, all the hypotheses put forward have no relationship. Research on return on assets on prices or stock returns was carried out by several researchers. Yuniarti and Nurmala (2007), concluded that return on assets has an effect on stock prices which, according to researchers, is suspected to be related to stock returns being studied, but Wulandari and Sasongko (2006), who examined the effect of profitability ratios on stock prices, concluded that ROA had no effect on prices. stocks, which according to researchers allegedly have an impact on stock returns. Widodo (2007), concluded that ROA has an effect on stock returns. The existence of different analysis results related to the effect of accounting profit, cash flow and ROA on stock prices and returns requires similar research to be able to produce a clear theoretical basis. In this study, researchers only focused on stock returns.

2. RESEARCH METHOD

The scope and object of this research are companies that are included in the consumer goods industry which are listed on the Indonesian Stock Exchange. The research conducted was indirect observation and used secondary data. The data used in this study were obtained from balance sheets, income statements and cash flow statements as well as year-end closing stock prices which were obtained and published. to examine the effect of the independent variables namely accounting profit, operating cash flow, investment cash flow, financing cash flow and return on assets on the dependent variable, namely stock returns. The sampling method used is non-probability sampling, namely a sampling technique that does not provide opportunities or opportunities for each element or member of the population to be selected as a sample. The technique used to determine the sample to be used in this study is purposive sampling or judgment sampling, namely the selection of non-random sampling whose information is obtained using certain considerations (generally adjusted to the objectives or research problems). Secondary data is data obtained from other parties in the form of annual and idx montly reports obtained from IDX publications through the website www.idx.co.id. The data collection method is carried out by studying and analyzing literature whose sources are books, journals, articles and others related to the problems encountered. The analytical method used to test the hypothesis in this study is the method of multiple regression analysis (multiple regression analysis). The multiple linear regression analysis method aims to test two or more independent variables on the dependent variable. In this study, multiple linear regression was used to determine the relationship between the dependent variable, namely stock returns, and the independent variables, namely accounting profit reports, cash flow statements and return on assets.

3. RESULTS AND DISCUSSIONS

Research Results and Discussion

1. Descriptive Statistics Test

The variables used in this study include accounting profit, operating cash flow, investment cash flow, funding cash flow, and ROA as independent variables. While the dependent variable is stock returns.

Table 1. Descriptive Statistical Test Results

	N	Minimum	Maximum	Means	std. Deviation
La	69	-351	4511940	4.74E5	824749.965
Ako	69	-187307	1363583	1.16E5	221219.290

Battery	69	-645440	57615	-7.09E4	125105.343
Akp	69	-473789	571467	-1.07E4	154268.564
Roa	69	-.062	166,360	2.49064	20.017833
Rs	69	-.756	2,947	,39848	,923104
Valid N (listwise)	69				

Table 1. presents information that the number of data that is the object of research is 69. The number is 23 companies that are members of the consumer goods sub-company for the period 2007 to 2009 that meet the criteria in selecting the sample.

Accounting profit

Table 1 shows that the largest accounting profit sample is Kalbe Farma Tbk, which is IDR 4511,940,302,360.00 in 2009 and the data sample with the smallest profit is Kedaung Indah Can Tbk, which is IDR -351,179,442.00 in 2007. For the average size of accounting profit owned by the company from the large amount of data studied is IDR 473,616,858,605.00. The standard deviation of accounting profit is 824749.965.

Operating Cash Flow

Table 1 shows that the largest operating cash flow sample is Indofarma Tbk, which is IDR 1,363,583,440,601.00 in 2009 and the data sample with the smallest operating cash flow is Indofarma Tbk, which is IDR -187,307,305,048.00 in 2008. For the average size of the operating cash flow owned by the company from the large amount of data studied is IDR 115,893,018,760.00. The standard deviation of the operating cash flow is 221219.290.

Investment Cash Flow

Table 1 shows that the largest investment cash flow sample is Ultar Jaya Milk Tbk, which is IDR 57,615,722,117.00 in 2009 and the data sample with the smallest investment cash flow is Kalbe Farma Tbk, which is IDR -645,440,196,892.00 in 2009. For the average size of the investment cash flow owned by the company from the large amount of data studied is Rp -70,925,101,740.00. The standard deviation of investment cash flows is 125105.343.

Roa

Table 1 shows that the largest ROA sample is Delta Djakarta Tbk, which is 166.3595 in 2009 and the data sample with the smallest ROA is Kedaung Indah Can Tbk, which is -0.061875 in 2009. For the average ROA, by the company from the large amount of data studied is 2.491 The standard deviation of ROA is 20.017833.

Stock returns

Table 1 shows that the largest stock return sample is Mayora Indah Tbk, which is 2.947 in 2009 and the data sample with the smallest stock return is Indofarma Tbk, which is -0.756098 in 2008. For the average size of the stock return owned by the company of the many amounts of data studied is 0.398. The standard deviation of stock returns is 0.923104.

2. Classical assumptions

Multicollinearity Test

The multicollinearity test aims to test whether the regression model found a correlation between the independent variables. If there is a correlation, then there is a multicollinearity or multico problem. A good model should not have a correlation between the independent variables. Multicollinearity testing can be seen from the amount of VIF (Variance Inflation) and tolerance. Regression that is free from multicollinearity problems if the VIF value ≥ 10 and tolerance ≤ 0.10.

Autocorrelation

The autocorrelation test aims to test whether in the linear regression model there is a correlation between the confounding errors in period t and the confounding errors in the t-1 (previous) period. If there is a correlation, then it is called an autocorrelation problem.

Heteroscedasticity

The heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from one residual observation to another. If the variance from one observation residual to another observation remains, then it is called homoscedasticity and if it is different it is called heteroscedasticity. A good regression model is the one with homoscedasticity

Table 2. The results of the t-count regression coefficient test

Model		Unstandardized Coefficients		standardizedC oefficients		
		B	std. Error	Betas	t	Sig.
1	(Constant)	.322	.126		2,551	013
				-.553		
	La	-6.195E-7	.000		-2,421	.018
	ako	1.613E-7	.000	039	.117	.907
	battery	-4.061E-6	.000	-.550	-2003	.050
	akp	-3.454E-6	.000	-.577	-2,054	044
	roa	011	005	.230	2020	048

3. Effect of accounting profit on stock returns

Based on the t statistical test in table 2. the independent variable accounting profit has a significant value of 0.018 which is less than the alpha value of 0.05 (0.018 <0.05). It can be said that Ha1 is accepted, which means that accounting profit has a significant effect on stock returns. This study is supported by Utari (2006), which states that accounting profit has a significant effect on stock returns. The coefficient value is negative (-0.553) meaning that accounting profit is responded negatively by investors, although profit growth between 2007 and 2009 has increased, this is not in accordance with research conducted by Utari (2006). This discrepancy may be caused by differences in the conditions of the capital markets studied, the characteristics of the sample, the number of observations, and the time period of the study.

In addition, according to Jang, et. al. (2007), who examined the factors that influence earnings quality in manufacturing companies on the Jakarta Stock Exchange, concluded that earnings growth has a significant negative effect on earnings quality. That is, the higher the company's profit growth rate, the lower the earnings quality. The profit growth of a company is usually due to the surprise profits obtained in the present. Investors may respond to the surprise earnings information as an indication of management's intervention in the financial statements, causing profits to increase. Thus, the profit generated by the company does not reflect the actual situation. Therefore, an increase in profits will be responded negatively by investors.

4. Effect of operating cash flow on stock returns

Based on the t statistical test in table 2. the independent variable operating cash flow has a significant value of 0.907 greater than the value of 0.05, meaning that operating cash flow has no effect on stock returns, Ha2 is rejected. This research is supported by Triyono and Hartono (2000). The insignificant effect of operating cash flow on stock returns is presumably because investors in the year of observation focused on global economic instability. The instability of the global economy greatly affects stock prices. Therefore, investors have no effect on the increase in operating cash flow. The coefficient value is positive (0.039) meaning that an increase of Rp.

1.000.00 from operating cash flow will increase the number of stock returns by the value of the coefficient, which is 0.039.

5. Effect of investment cash flow on stock returns

Based on the t statistical test in table 2. the independent variable investment cash flow has a significant value of 0.050, meaning that investment cash flow affects stock returns, Ha3 is accepted. The coefficient value is negative (-0.550) meaning that investment cash flows are responded negatively by investors. This research is supported by Daniati and Suhairi (2006). The addition of continuous and excessive investment tends to reduce the allocation of funds for interest financing and dividends distributed to investors. If we refer to the definition of investment according to Sharpe et. al. (1999) in Soesetio (2005), means sacrificing money now to earn money in the future. Sacrifice occurs when now has certainty,

6. Effect of funding cash flow on stock returns

Based on the t statistical test in table 2. the independent variable funding cash flow has a significant value of 0.044 which is less than the value of 0.05, meaning that cash flow from financing activities affects stock returns, Ha4 is accepted. The coefficient value is negative (-0.577) meaning that the funding cash flow is responded negatively by investors. This research is supported by Soesetio (2005). Corporate financing through debt incurs interest costs on debt. If the profit generated is insufficient to pay off debt and interest, the company will be in financial distress which can lead to bankruptcy. If the company goes bankrupt, the investor is the last party to claim the company's assets. This situation makes investors avoid investing in companies that have high debt. as a result of this,

7. Effect of return on assets on stock returns

Based on the t statistical test in table 2. the independent variable return on assets has a significant value of 0.048 which is less than the value of 0.05, meaning that ROA affects stock returns, so Ha5 is accepted. This result is supported by Widodo (2007). The coefficient value is positive (0.230) meaning that the current return on assets is responded positively by investors. This shows that changes in ROA values will provide a positive and significant contribution to changes in stock returns. The higher the ROA value will contribute to the stock return value and vice versa the lower the ROA value will contribute to the lower stock return. Based on the results of this research, ROA can be used as a predictor in predicting stock returns.

4. CONCLUSION

This study aims to determine the effect of accounting profit, operating cash flow, investment cash flow, financing cash flow, and return on assets on stock returns. The data was taken based on the results of the company's financial statements between 2007 and 2009. Based on the data that has been collected and the tests that have been carried out using the multiple regression model, the following conclusions can be drawn; The simultaneous test results (F test) explain that the independent variables (accounting profit, operating cash flow, investment cash flow, funding cash flow, and ROA) jointly affect stock returns; The results showed that the accounting profit variable has an influence on stock returns. This study is in accordance with the results of research conducted by Utari (2006), but the value of the coefficient is negative, this is contrary to the results of Utari; The results showed that the operating cash flow variable had no effect on stock returns. This research is in accordance with the results of research conducted by Triyono and Hartono (2000).

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