

HOW DO ACCOUNTING PROFIT, CASH FLOW AND RETURN ON ASSET AFFECT SHARE RETURNS? A STUDY AT FOOD AND BEVERAGES COMPANIES LISTED IN INDONESIA STOCK EXCHANGE

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ABSTRACT

This study aims to determine the effect of accounting profit, cash flow and Return On Assets on share return of food and beverage companies listed on the Indonesia Stock Exchange. The data used was the company's financial report that published from 2017-2020. The number of observations is 84 data and a sample of 21 companies from 30 food and beverages companies listed on the Indonesia Stock Exchange. The data analysis methods using multiple regression analysis. The results revealed that accounting profit, cash flow and Return on Assets have a significant effect on share return partially and simultaneously.

Keywords: Accounting Profit, Cash Flow, Return on Assets, Share Return

INTRODUCTION

The capital market is seen as an effective way to accelerate the development of a country. This is possible because the capital market is a vehicle that can mobilize long-term funds from the public to be channeled into productive sectors. The capital market can be used by companies to meet their funding needs. Community participation is expected to be actively involved in driving the wheels of the economy. Investors who have excess funds will choose investments to obtain maximum profits. This is because the capital market can create a better allocation of funds. In investing in the capital market, investors will be interested in the expected rate of return in the future related to the company's risk. In the business world, almost all investments contain an element of uncertainty or risk. Another thing that investors face is that if they expect high profits, they must be willing to bear high risks as well. According to Restiyani (2006) an investment certainly has its own risks. Investors cannot know for sure what risks will be accepted when investing. Therefore,

investors need analysis to invest their funds and minimize risk.

Financial statements are one of the concerns of investors, because they can provide useful information for investors in making investment decisions. Statement of Financial Accounting Standards (PSAK) No.1 explains that the purpose of financial statements is to provide information regarding the financial position, performance, and changes in financial position of a company that is useful for a large number of users and decision making. One of the things that investors pay attention to is profit. Information about the company's profit provides a better basis for predicting the company's performance in the future. The importance of earnings information has been explicitly stated in Statement of Financial Accounting Concepts (SFAC) No. 1 states that the ability of representative earnings can help estimate management performance and also to assess risk in terms of investment. Investors can take advantage of the total profit generated by the company, because the profit reflects the company has a good performance or not.

Information on liquidity related to cash receipts and disbursements used by investors to obtain returns can be found in the cash flow statement which is an integral part of the financial statements of public companies in Statement of Financial Accounting Standards No. 2 of 2015. The cash flow statement can be used as a tool to analyze whether the company's plans in terms of investment and financing are running as they should. Several studies on accounting profit and cash flow on share returns have been carried out, including Lidyawati (2020) which shows that it has a significant effect on share returns of Consumer Goods Industry Companies. Sriti, et al (2021) show that accounting profit has a positive effect on share returns of LQ-45 companies

Other financial statement information that must also be considered is financial performance. Information about the performance of a company is needed to attract investors to invest in the company because it can be used as a benchmark in investing. To find out the condition of the company's performance, investors can find out through the results of financial ratios. Financial ratios only simplify information that describes the relationship between certain items and other items, in words this simplification can quickly assess the relationship between these items and can compare them with other ratios so that they can obtain information and provide an assessment (Harahap, 2004). According to Fahmi (2011), there are three financial ratios to determine the performance condition of the company, namely the liquidity ratio, profitability ratio and solvency ratio. In this study will use one ratio in the category of profitability ratios, namely the ratio of Return On Assets (ROA). Increasing ROA also means increasing the value of net income, which means increasing sales value. The increase in profit occurs due to increased sales of the company so that the company's operations experience a good and healthy condition, this will be a good attraction for investors.

Rational investors will choose to invest in companies that have high profitability, so that it can encourage an increase in stock prices which in turn will encourage an increase in share returns that will be received by investors. Several studies on Return On Assets, including Tarau, et al (2020) the results of these studies state that ROA, CR, DER simultaneously affect share returns. Noviyana, et al (2019) the results of the study stated that Return On Assets, Total Asset TurnOver and Current Ratio had an effect on stock prices.

For this reason, this research focuses on the company's fundamentals, namely financial performance which is reflected in the analysis of financial statements and is considered to be able to affect share returns. The purpose of this study is to know that there are an effect between accounting profit, cash flow and Return On Asset on share returns. This study aims to provide information and evidence regarding the influence of internal factors in the company on share returns. Investor knowledge of the company's operational activities is very important because it relates to share returns.

THEORETICAL BASIS

Share Returns

Share return according to Zubir (2011) is a document as proof of ownership of a company. If the company makes a profit, then each shareholder is entitled to a share of the distributed profits or dividends in accordance with the proportion of ownership. Shares are securities that show the ownership of the company so that shareholders have the right to claim dividends and company assets with priority after the claim rights of other shareholders are fulfilled in the event of liquidity.

Accounting Profit

According to Adisetiawan (2012) accounting income (accounting income) is operationally defined as the difference between the realized income for one period and the costs associated with that source of income. Profit is the excess of income or expenses related to business activities.

Earnings measure describes management's performance in generating profit. The accounting profit used in this study is net income after tax. Profit before income tax deducted by income tax will result in a net profit or loss. This net profit or loss provides users of financial statements with a summary measure of the company's overall performance during the current period (which includes both primary and secondary activities) and after calculating the amount of income tax.

Cash Flow

According to Rudianto (2012) the cash flow report is a report on the company's cash receipts and disbursements activities during a certain period, along with an explanation of the sources of cash receipts and disbursements. Each source of cash receipts must be able to make details of how much money is obtained from each source. Each source of expenditure should also be able to make a breakdown of how much money is needed for the activity. In finance, we focus on net cash flow. The value of an asset is determined by the cash flow generated. A company's net income is important, but cash flow is even more important because dividends must be paid in cash necessary to purchase the assets needed to perform operations.

Return on Asset

The return on assets is a ratio that shows how much the asset contributes in creating net income. In other words, this ratio is used to measure how much net profit will be generated from each rupiah of funds embedded in total assets. This ratio is calculated by dividing net income by total assets. The higher the return on assets, the higher the amount of net profit generated from each rupiah of funds embedded in total assets. Conversely, the lower the return on assets means the lower the amount of net profit generated from each rupiah of funds embedded in total assets.

HYPOTHESES

The Effect of Accounting Profit on Share Returns

Accounting profit is one of the factors that attract investors to invest in a company. The increase in accounting profit will attract investors to invest their shares in the company. The more investors who buy the company's shares, the more the stock price will increase. so that it directly affects share returns. The results of research by Daniati and Suhairi (2006) and Lidyawati (2020), show that accounting profit have a significant effect on share returns. Therefore, the hypothesis can be formulated as follow:

H1 : Accounting profit affect on share returns

The Effect of Cash Flow on Share Returns

The amount of the company's cash flow can determine whether a company is able to repay loans, maintain company operations, pay dividends and make new investments with financing from within the company without external funding. Research conducted by Utari (2006) and Sriti, et al (2021) shows that cash flow has a significant effect on share returns. Therefore, the hypothesis can be formulated as follow:

H2 : Cash flow affect on share returns

The Effect of Return on Asset on Share Returns

A company has a high value of Return on Assets indicating that the company is able to utilize its assets to earn a profit so that the value of the company will increase. The increased value of the company will have an impact on increasing stock prices which in turn will increase share returns. Widodo (2007), Savitri (2012) and Tarau, et al (2020) in their research conclude that Return on Assets has a significant effect on share returns. Therefore, the hypothesis can be formulated as follow:

H3 : Return on Asset affect on share returns

The Effect of Accounting Profit, Cash Flow, Return on Asset Simultaneously on Share Returns

Accounting profit, cash flow and Return on Assets are components in the financial statements that can measure the company's financial performance. Octavia (2008) in his research shows that cash flow, cash flow components and accounting earnings have an effect on stock prices. In Rudiyanto's research (2011), accounting profit, book value of equity and cash flow affect stock prices and share returns. On the basis of this, in this study the following hypotheses were formulated:

H4 : Accounting profit, cash flow and return on Asset affect on share returns

METHOD

This study uses data from the financial statements of food and beverages companies on the Indonesia Stock Exchange from 2017 to 2020. The variables studied are divided into independent variables and dependent variables. the dependent variable is share return. The independent variables that affect share returns in this study are accounting profit (X_1), cash flow (X_2) and Return on Assets (X_3). The method used is multiple linear regression analysis. The regression equation proposed in this study as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Description:

Y	= Share Return
X_1	= Accounting Profit
X_2	= Cash Flow
X_3	= Return on Asset
a	= constanta
b_1, b_2, b_3	= predictor coefficients of regression equation

RESULTS AND DISCUSSION

Descriptive Statistics

Table 1 shows descriptive statistics of research variables with 84 valid data for each variable as follows:

Table 1. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Accounting Profit	84	20.68	29.80	26.0043	1.87060
Cash Flow	84	19.2400	29.2900	24.860595	2.1741734
Return On Assets	84	-2,6400	0,6100	0,058571	0,3240450
Share Return	84	3.9120	10.1316	6.986920	1.5591621

Accounting Profit has a minimum value of 20,68 and a maximum value of 29,80. These results indicate that the accounting profit of the Food & Beverages Sector companies that are sampled in this study ranges from 20,68 to 29.80 with an average of 26,0043.

Cash Flow has a minimum value of 19,2400 and a maximum value of 29,2900. These results indicate that the Net Cash Flow of the Food & Beverages Sector companies that are sampled in this study ranges from 19,2400 to 29,2900 with an average of 24,860595.

Return On Assets has a minimum value of -2,6400 and a maximum value of 0,6100. These results indicate that the Return On Assets of the Food & Beverages Sector companies that are sampled in this study range from -2,6400 to 0,6100 with an average of 0,58571.

Classic Assumption Test

This classical assumption test needs to be done to find out whether regression analysis can be carried out or not. Classical assumption test which is used in this research is normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test.

Normality Test

The normality test to determine whether the residual is normally distributed or not is to use the Kolmogorov Smirnov On-Sample test.

Table 2. One-Sample Kolmogorov-Smirnov Test

	Unstandardized Residual
Kolmogorov-Smirnov Z	0,527
Asymp. Sig. (2-tailed)	0,944

Based on the table above, the statistical value of Kolmogorov-Smirnov is 0.527 with a significance probability of 0.944. The value of Asymp.Sig (2-tailed) is

more than $\alpha = 0,05$. This indicates that the residuals are normally distributed

The Multicollinearity Test

The multicollinearity test aims to determine whether there is a correlation between the independent variables in the regression model. Multicollinearity can be seen from the value of tolerance and VIF.

Table 3. The Multicollinearity Test

Model	Collinearity Statistics	
	Tolerance	VIF
Accounting Profit	0,675	1,482
Cash Flow	0,669	1,495
Return On Assets	0,986	1,014

The calculation results show that there is no independent variable that has a tolerance value $> 0,1$. The same thing is shown by the VIF value, where the VIF value is no more than 10 so it can be concluded that the regression model in this study does not occur multicollinearity and the regression model is feasible to use.

Heteroscedasticity Test

To prove that the homoscedasticity assumption is met, it can be seen from the scatterplot.

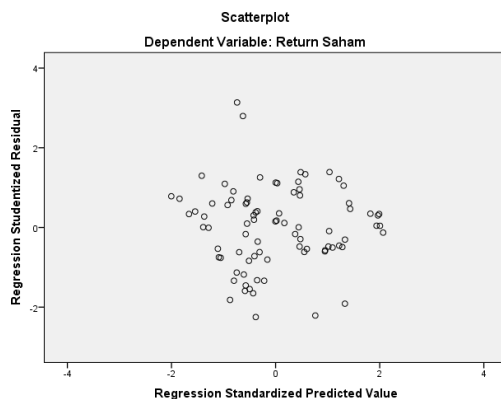


Figure 1. Scatterplot Predicted Value vs Residual

Based on the graph above, it can be seen that the points spread randomly and do not form a certain pattern, so it can be concluded that there is no heteroscedasticity.

Autocorrelation Test

The results of this autocorrelation test can be seen in the following table:

Table 4. The Results of Autocorrelation Test

Model	R	R Square	Durbin-Watson
1	0,621	0,386	1,160

Based on the table above, it can be seen that the DW value is 1,160. This value will be compared with the value of the Durbin-Watson table using a significance value of 5%, the number of samples is 84 (n) and the number of independent variables is 3 (k = 3), then the Durbin-Watson table will obtain a lower limit value (dl) which is 0,6577 and the upper limit value (du) is 1,8640. The result is $0,6577 < 1,160 < 1,8640$. This means that there is no autocorrelation between the independent variables, so the regression model is feasible to use.

Multiple Linear Regression Analysis

Multiple linear regression analysis was used to determine how the influence of the independent variables on the dependent variable. The results of multiple linear regression analysis are presented in the following table:

Table 5. The Constanta and The Coefficient of Regression Equation

Model	Unstandardized Coefficients	
	B	Std. Error
(constant)	-6,336	1,993
Accounting Profit	0,340	0,089
Cash Flow	0,178	0,077
Return On Assets	0,910	0,425

Based on these coefficients, the following regression equation can be formed:

$$Y = -6,336 + 0,340 X_1 + 0,178 X_2 + 0,910 X_3 + e$$

Description:

- Y = Share Return
- X₁ = Accounting Profit
- X₂ = Cash Flow
- X₃ = Return on Asset

The regression equation above has a constant value of -6.336 meaning that if the independent variables, namely accounting profit (X_1), net cash flow (X_2), Return On Assets (X_3) are constant or equal to zero, then the share return value is -6.336 . The regression coefficient values of all independent variables are positive, this means that there is a unidirectional relationship between all independent variables on share returns. So if accounting profit, cash flow and Return on Assets increase, the share return also increases.

Partial Effect Test

The following table is the result of a partial test using t-test statistics.

Table 6. The t-test

Model	t	Sig.
(constant)	-3,179	0,002
Accounting Profit	3,826	0,000
Cash Flow	2,318	0,023
Return On Assets	2,142	0,035

Based on Table 6, the t value of all independent variables is more than the table t value (1.99). The P-value of all variables is less than $\alpha = 0.05$. So it can be decided that the variables of accounting profit, cash flow and return on assets have an effect on share returns partially. it can be decided that the first hypothesis (H1), second hypothesis (H2) and third hypothesis (H3) are accepted.

The results of the study identify accounting profits have an effect on share returns, because the higher the profit, the higher the possibility of dividends that will be generated, thus investors are increasingly interested in buying these shares. The more demand, the higher the share return that will generate capital again. The results of this study support the results of research by Daniati and Suhairi (2006) and Lidyawati (2020).

The results of this study are in line with Utari (2006) and Sriti, et al (2021) which state that net cash flow has an effect on share returns. High cash flow indicates that operational activities are very productive in generating profits, so

companies that have the ability to earn profits are required to prepare share returns to be paid to shareholders in the amount of a predetermined dividend determination.

The results of the study identify that Return on Assets has a significant effect on Share Return. This is in line with the research of Widodo (2007), Savitri (2012) and Tarau, et al (2020). Every 1% increase in ROA will be followed by an increase in Share Return. When ROA is higher, it means that the company is able to use assets productively, so that it can generate large profits and be able to attract the attention of investors to invest in the company.

Simultaneous Effect Test

To determine the effect of all independent variables simultaneously, it will be tested using the F-test.

Table 7. The F-Test

Model	df	Mean Square	F	Sig.
Regression	3	25,957	16,760	0,000
Residual	80	1,549		

Based on the data table above, it can be seen that the significant value is $0,000 < 0,05$ and the F value is more than the F value table ($16,760 > 2,72$). So it can be decided that all independent variables have a simultaneous effect. Then the fourth hypothesis (H4) is accepted. The results of this study support the results of research conducted by Octavia (2008) and Rudiyanto (2011).

If seen from the value of the coefficient of determination (R Square) in Table 4, it can be concluded that the variance that occurs in share returns can be explained by the variables of accounting profit, cash flow and return on assets of 38,6%, while other variables have an effect of 61,4%.

CONCLUSION

In this paper, we analyze the relationship between accounting profit, cash flow and return on assets with share returns in food and beverages companies

listed on the Indonesia Stock Exchange. We find that there is a unidirectional relationship between accounting profit, cash flow and return on assets with share returns. The results of this study also show that there is an effect of accounting profit, cash flow and return on assets on share returns either partially or simultaneously. The results of this study are expected to be input for investors when deciding to invest.

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