SIGNALLING THEORY STUDY: PREDICT FUTURE CASH FLOWS WITH EARNINGS AND CASHFLOWS IN CONSUMER GOODS INDUSTRIES BEFORE PANDEMIC ERA

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ABSTRACT

This study aims to determine which of the cash flows and earnings have a better ability to predict future cash flows in the two years after the study period. This research was conducted on consumer goods industries listed on the Indonesia Stock Stock Trade in 2016 – 2019 employing a purposive examining procedure. (Dechow, Kothari, & Watts, 1997) found that earnings have a better ability to predict future cash flows than operating cash flows themselves. Another study conducted by (Dahler & febrianto, 2007) utilizing numerous straight relapse models found that operating cash streams for the current year have a better ability than profit in anticipating future working cash streams for both bunches of companies that have positive and negative benefits. Utilizing the same model, this study concludes that earnings have a better ability to predict future cash flows than cash flows themselves. However, cash flows still have a significant ability to predict future cash flows. In expansion, this consider too succeeded in demonstrating that profit have an incremental capacity to anticipate future cash streams.

Keywords: Cash Flow, Profit, and Predictability

INTRODUCTION

The development of the world in various things is so fast today it has also affected many financial statement makers in this case companies and users of financial statements both *internal* and *external* in this case *creditors, investors,* and other users of financial statements. Financial statements are a reflection of the company's performance in the period of issuing the financial statements, besides that the financial statements are also expected to be able to show the prospects for the company's development in *managing the* company's finances over the next few periods.

Users of financial statements can evaluate and predict the company to generate profits from the company's income statement and cash flow statement. The evaluation carried out by the user of the financial statements will eventually result in an economic decision from the user of the financial statements.

Presentation of complete financial statements including comparative information in one period, which is one year. Financial statements in their presentation are also expected to have a relevant level, especially in posts that can affect the final results of economic decisions by users of financial

statements.

The income statement and cash flow statement are still considered reliable tools in reducing the risk of uncertainty in making economic decisions. Especially on the income statement, until now it still has contradictions over the conclusions produced regarding the information it contains.

Based on the description above, the objectives of this study are (1) Knowing the ability of profits to predict future cash flows, (2) Knowing the ability of cash flows to predict future cash flows, and (3) Testing which is better between profits and cash flows in predicting future cash flows.

LITERATURE REVIEW

Signalling Theory

Signalling Theory is one of the theories related to the prediction of financial statements, especially predicting the performance of cash flows in the future which is to be. According to Brigham and Houston (2006: 36) "signalling theory is an action taken by company management that provides (signal) or instructions to investors regarding the performance management and prospects of the company in the future."

This theory describes the signals or instructions given by the company through financial statements used to predict the future performance of a management and company. These signals are often used by investors to see whether the company's performance in the future will be better or worse through one of the reports in the financial statements, namely the cash flow statement.

Cash Flow Statement

In (Peraturan Standard Akuntansi Keuangan Indonesia (PSAK), 2019) No. 02 states that "cash flow is the inflow and outflow of cash or cash equivalents. Cash *equivalents* are that are highly liquid, short-term, and that made into cash in a predeterminable amount and have the risk of insignificant value changes." Cash flow is a report issued company to show the company's cash flow that occurs in an accounting period, from which cash receipts and are used for what the company's cash is.

Information about an entity's cash flow is useful for users of financial statements as a basis for assessing the ability to generate cash and cash equivalents and assessing the entities to use those cash flows. In the process of making economic decisions, users need to evaluate the entity's ability to generate cash and cash equivalents and the certainty of its acquisition.

The cash flow statement has three main parts, namely:

1. Cash Flow from Operating Activities

   (Peraturan Standard Akuntansi Keuangan Indonesia (PSAK), 2019) No. 02 "Operating activities are principal revenue-producing activities and other activities that are not investment activities and funding activities. The amount of cash flow derived from operating activities is a key indicator to determine whether an entity's operations can generate sufficient cash flow to repay loan, maintain the entity's operating ability, pay dividends, and make new investments without relying on outside funding sources."

   Cash inflows from operating activities, among others, come from the sale of goods and services, royalty, fees, commissions, etc. Cash outflows from operating activities include cash payments to suppliers of goods and services, cash

payments to employees, tax payments, etc.

Operating cash flow is the entire main activity of the company relating to efforts to generate revenue from the results of the main operations/production of the company as well as the costs used for the company's operations.

2. Cash Flow from Investment Activities

(Peraturan Standard Akuntansi Keuangan Indonesia (PSAK), 2019) No. 02 "Investment activities are the acquisition and disposal of long-term assets and other investments excluding cash equivalents. Separate disclosure of cash flows derived from investment activities needs to be made because cash flows such reflect expenditures that have occurred for resources intended to generate future income and cash flows. Cash inflows from investment activities include cash receipts from sales land, buildings, and equipment, intangible assets, and other long-term assets. Cash investment activities include cash payments to purchase fixed assets, intangible assets, and other long-term assets."

Investment activities in the form of acquiring and releasing long-term assets and other investments that do not include cash equivalents. Cash in investment activities from the sale of fixed assets, the sale assets, the sale of shares or debt instruments of other entities, receipts from the payment of loans provided to other entities. Cash outflows for the purchase of fixed assets, the purchase of intangible assets, the purchase of investment shares or instruments debts of other entities, expenses for the provision of loans to other entities.

3. Cash Flow from Funding Activities

(Peraturan Standard Akuntansi Keuangan Indonesia (PSAK), 2019) No. 02 Financing activities are / activities "that result in changes in amount and composition of capital contributions and entity loans. Separate disclosure of cash flows derived from funding activities is important because it is useful for predicting claims for future cash flows by the entity's capital providers. cash from funding activities, among others, come from bonds, loans, and stocks. Cash outflows from funding activities, among others, come from dividend distribution and loan repayment."

Funding cash flow is all the company's activities that result in changes in the amount and composition of the and loan contributions, which are used to support the company's operations.

Income Statement

According to (Peraturan Standard Akuntansi Keuangan Indonesia (PSAK), 2019) no.01 "Profit and loss is the total income deducted expenses in the current period, excluding other components income. The entity presents all recognized revenue and expense posts in one period: in the form of a comprehensive income statement, or in the form of two statements: a statement showing component of income (separate income

statement); and a report that begins with the profit and loss and shows other components of comprehensive income (comprehensive income report)."

Income statement is a change resulting from revenue generated from operating of the company reduced by expenses incurred by the company for the operation of the company in a certain period time is not included in the component of comprehensive income other other, unless the financial statements are presented in one comprehensive income statement.

Company performance information which is reflected in the profit information in the comprehensive income statement is is important to be seen by investors in making decisions regarding investment or credit, and also evaluating management performance in managing the company.

METHOD

This research is *correlational research* that provides an explanation in form of a relationship / correlation between two or more variables in this variable of future cash flow as a variable studied with two predictor variables, namely past cash flow and past profit.

The purpose of this study is to see predictor variable on the variable under study. This study also conducted testing which one is better in predicting the variables studied. Is it past Profit or Past Cash Flow?

The population in this study is consumer goods industries listed on the Indonesia Stock Exchange (Indonesia B. E., 2019) from 2016 – 2019. The samples used in this study used *purposive sampling* techniques with the following considerations:

1. Consumer goods industries listed on the Indonesia Stock Exchange during research period from 2016-2019.
2. Consumer goods industries that issue reports finances periodically / do not conduct IPOs during the research period from 2016-2019.
3. Companies manufactures that publish financial statements with the period ended December 31.
4. Companies manufacturers that had consecutive positive profits during the research period from 2016-2019.
5. Companies that reported positive consecutive operating cash flows during the period study from 2016-2019.

There are several companies from research data that conduct publish financial statements in US$. The provisions for account data that use dollars must be equated with other data to Rupiah. Data on the rupiah exchange rate with USD is taken from data in BI with a link www.bi.go.id/id/moneter/informasi-kurs/transaksi-bi/Default.aspx. After that, the average exchange rate is weighted in each year.

Table 1 Sample Criteria

No.	Sample criteria	Number of companies
1.	Companies listed on the IDX during 2016 – 2019.	75
2.	Companies that do not report financial statements periodically / IPO during 2016 – 2019.	(7)
3.	The financial statements did not expire on December 31.	(4)
4.	Negative profit during 2016-2019.	(11)
5.	Cash flow was negative during 2016-2019.	(9)
Number of companies sampled		44

The data used to see the ability of cash flows and profits in predicting future cash flows is obtained from the financial statements that have been published by the companies included in the sample. Cash flow for the needs of this study is taken from cash flow

operations obtained from the cash flow statement. Cash flow from operating activities chosen because operating activities are a key measure of a company's liquidity.

The profit in this study uses *Net Income Before Extraordinary Items* (NIBEI) or *Net Income* after tax in that year. Operating cash flows in 2016 and 2017 were used for variable independent research. The data is used to test whether cash flow is capable to predict the next two years.

Meanwhile, 2018-2019 was used for research dependent variables. This study aims to determine the ability operating cash flow to predict the operating cash flow itself for the next two years.

The profit data used only profit in 2010 and 2011. This is because the profit in this study is only used to see the extent to which profit can predict future cash flows, as well as better which between operating cash flows and profits in its ability to predict future cash flows.

After obtaining data that is in accordance with researcher, data processing is then carried out. Data processing is carried out using spss (*Statistical Package for Social Science)* 21.0 *for windows.* Processing is carried out twice, namely to calculate regression in the first year and then calculate in the second year.

This study tested the research hypothesis as follows:

H1: Cash flow has a better ability to predict future cash flows compared to profits.

H2: Profit has a better ability to predict future cash flows compared to the cash flow itself.

H3: Earnings provides/*incremental predictive* capability of future cash flows.

Before testing the data, the data used in this study needs to be tested for classical assumptions to be valid for use as forecasting. The classical assumption tests used consist of: multicollinearity test, autocorrelation test, heterochedasticity test, and normality test.

In the first test, the data in this study awarded heterokedasticity test and normality test. However, it does not meet the multicollinearity test and autocorrelation test so that to be able to meet the classical assumption test, the "Ln" transformation is carried out at y, x_1, and x_2.

In both quantitative and qualitative research, the use of appropriate methods of participants sampling, study design, measures, and statistical analysis critically influences the study's methodological soundness. A good methodology should be clean and clear. Clean means the use of appropriate, valid, and unflawed methods of sampling and use of instruments, procedures, and analysis. Clear means the idealmethod is written in a clear manner, such that another researcher could duplicate the study.

RESULTS AND DISCUSSION

The results of the test based on the hypothesis are described as follows:

H1: Cash flow has a better ability to predict future cash flows compared to profits.

The regression test result for the t+1 period was 0.815 or 81.5% and for the t+2 period it was 0.813 or 81.3%. With an F test value of 179.909 and the value is statistically significant at alpha 0.05 so the regression model can be used to predict future cash flows. From the calculation of such regressions it can be seen that simultaneously or together, cash flows and profits in the

t-period can be used to predict future cash flows of periods t+1 and t+2.

Based on table 4.31 of the calculation of the results of the T test carried out, it is known that the value of the cash flow T test is not greater than the Profit, both in the t +1 period and the t + 2 period. It can be concluded from the explanation above that in the results of the research conducted rejecting H1 which states that cash flow has a better ability to predict future cash flows than profits.

The results of this study are not in accordance with research conducted by several previous studies, namely: (Dahler & febrianto, 2007), (Seng, 1998), (Dwiati, 2008), and (Raharjo, 2012) which stated that "operating cash flow for the current year has a better ability to predict future operating cash flow compared to the current year's profit. This could be due to differences in the country where the research was carried out, the company under study and the year in which the research was conducted. Because this can affect the results of the tests carried out."

However, it is still in accordance with research conducted by (Ramon, 2013), (Rahmawati, 2008), and (Dechow, Kothari, & Watts, 1997) which states that "cash flow is no better than profit in predicting future cash flows. And this research is still in line with all previous studies that state that operating cash flow has a significant ability to future operating cash flow and positively affects future operating cash flow."

According to (Peraturan Standard Akuntansi Keuangan Indonesia (PSAK), 2019) No. 02 "if used in relation to other financial statements, the cash flow statement can provide information that allows users to evaluate changes in the entity's net assets, financial structure including liquidity and solvency and the ability to influence the amount and timing of cash flows in order to adjust to changing circumstances and opportunities. Cash flow information is useful for assessing an entity's ability to generate cash and cash equivalents and allows users to develop a model for assessing and comparing the present value of *future cash flows* from different entities."

The information also increases the appealability of reporting the operating performance of various entities because it can negate the effect of using different accounting treatments on the same transactions and events. However, in this case, the increase in cash flow in the future has not been able to be ascertained precisely by the operating cash flow itself. This is because if there is an increase in operating cash flow, it is not necessarily that operating cash flow in the future will also increase. The cash flow prediction is only to ensure that the company is able to generate positive operating cash flow in the future.

H2: Profit has a better ability to predict future cash flows compared to the cash flow itself.

The regression test result for the t+1 period was 0.795 or 79.5% and for the t+2 period it was 0.847 or 84.7%. With an F test value of 168.759 and the value is statistically significant at alpha 0.05 so the regression model can be used to predict future cash flows. From the calculation of such regressions it can be seen that simultaneously or together, cash flows and profits in the t-period can be used to predict future cash flows of periods t+1 and t+2.

Based on the calculation of the results of the T test carried out, it is known that the T test value of profit is greater than the cash flow, both in the t+1 period and the t+2 period. Thus, it can be concluded from the explanation above that in the results of the research

conducted receiving H2 which states that profits have a better ability to predict future cash flows than cash flows themselves.

This is in accordance with the results of research conducted by (Dechow, Kothari, & Watts, 1997), (Rahmawati, 2008), and (Ramon, 2013) which states that "Profit has a better ability to predict future cash flows compared to cash flow itself. In addition, the results of this study are still in line with all past journals which state that profits have a significant ability and have a positive predictive ability in predicting future cash flows in two periods t +1 and t + 2."

(Kieso, Weygant, & Warfield, 2015)"Income statement helps users of financial statements predict future cash flows in various ways, one of which is to help assess the risk or uncertainty of achieving future cash flows. Information regarding past performance can be used to determine important trends that, if continued, provide information about future performance. Information about the components of profit, namely income, expenses, profits, and losses, can show the relationship between these components that can be used to assess the company's failure to achieve a certain level of cash flow in the future."

Profit is considered to have a better ability to predict future cash flows compared to cash flow itself because profit is considered more capable of analyzing what will happen to the company's operating activities in the future. If the profit is positive or increases, then future cash flow is predicted and can be ascertained to increase.

H3: Earnings provide *incremental predictive* ability to future cash flows.

From the two analyses of the F statistical test, it can be concluded that the two regression models both have the ability to predict the future cash flow variable (Y) or it can be said that the free variables, namely operating cash flow (CFOt) and net profit (NIBEIt) simultaneously or together have an effect on the bound variable, namely future operating cash flow (CFOt +1 and t +2).

From the explanation, it can be concluded that the third hypothesis is accepted. This is in accordance with the research of (Seng, 1998) which states that "profit has incremental predictive ability or additional predictive ability and together affects future operating cash flow. Although in the results of this study the ability to predict profit is better in predicting future cash flows compared to the operating cash flow itself."

In accordance with all previous studies that profit is either used partially or together with cash flow is a significant *predictor in predicting* future cash flows. It was also found that profits provide *incremental* or additional content in predicting future cash flows. The above evidence indicates that earnings do help in predicting future cash flows.

According to (Martani, S., Wardhani, Farahmita, & Tanujaya, 2012) "An income statement is a financial statement that measures the success of a company's performance over a certain period. Information about the company's performance is used to assess and predict the amount and time of uncertainty of future cash flows. A comprehensive income statement is useful for assisting financial statements in predicting future cash flows, in order to determine profitability, investment value, and creditworthiness."

Company performance information reflected in the profit information on the income statement is

important information seen by investors in making decisions regarding investment or credit, and also evaluating management's performance in managing the company.

CONCLUSION

Based on the secondary data obtained, then the selection of samples was carried out in accordance with the predetermined sample criteria, 44 companies were selected as samples in this study. After testing classical assumptions consisting of multicollinearity tests, autocorrelation tests, heterochedasticity tests, and normality tests to see whether there was a correlation between free variables, there was a correlation between the disruptor's error in the t period and the disruptor's error in the t-1 (previous) period, the existence of heterochedasticity problems, and the data were spread normally.

The data was transformed into Ln because there were several tests of classical assumptions that were violated in the first test. From the analysis and discussion that has been described, the following conclusions can be drawn:

1. This research did not succeed in proving that cash flow has a better ability to predict future cash flows than profit.
2. This research has proven that profits have a better ability to predict future cash flows compared to cash flows themselves.

RESEARCH LIMITATION

This research has limitations, namely the selection of samples for this study only uses consumer goods industries so that it cannot be used to generalize research results for sectors other than manufacturing. In addition, this study only used a sample of companies that had operating cash flow and positive profits only.

SUGGESTION

By looking at the limitations of the research stated above, the suggestion for further research is to increase the sample of companies, not only using the manufacturing sector. Take a sector outside of manufacturing to see if the research results remain the same when using sectors other than manufacturing.

Attention to the next researcher, could use a sample of companies that have operating cash flow and negative profit. Whether the test results for companies that have operating cash flow and negative profit can still predict future cash flows.

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