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## **Cash Flow Statements and Its Impact On Firms' Value**

**Samirah Dunakhir**

Universitas Negeri Makassar

Email : [samirah.dunakhir@unm.ac.id](mailto:samirah.dunakhir@unm.ac.id)

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### **ABSTRACT**

The research tries to explain the Cash Flow Statements and its impact on Manufacturing Firm Value Listed on the Indonesian Stock Exchange. The population in this study are all manufacturing companies in the sub-sector of various industries and consumer goods industries listed on the Indonesia Stock Exchange. The sampling method in this research is purposive sampling resulting a sample size of 120 in a period of 3 years 2018 to 2020. The data collection technique uses documentation techniques. Descriptive statistical analysis data, simple linear regression analysis, coefficient of determination test and t test are the method for data analyzing. The analysis results shows that there are significant effect of operating cash flow statements and investment cash flow statements on firm value, but there is no effect of the statements of cash flows funding on firm value. Based on the results of research on operating cash flow reports and investment cash flow reports of manufacturing companies listed on the Indonesia Stock Exchange for the 2018 - 2020 period, the firms' value using Tobins'Q is getting better every year. However, the funding cash flow reports shows that the firms' value is getting worse every year.

**Keywords:** Cash Flow Statements; Firms value

### **INTRODUCTION**

The manufacturing industry is defined as a process of economic modernization that includes all existing economic sectors, which are directly or indirectly related (Kohr, Budde, & Friedli, 2017) The products produced in the manufacturing industry range from food and beverages, textiles, furniture, metal goods, plastic goods, and so on. The manufacturing industry has an important contribution in advancing and prospering society. The products produced by the manufacturing industry are always products that are generally consumed. Therefore, Indonesia with a large population, is a potential market for manufactured products. The large number of companies and the large output value make the manufacturing sector the main indicator for investing in the capital market because it has the potential to earn profits. Steps that can be taken by companies engaged in the manufacturing industry to attract investors are to increase the value of the company. Company value is very important because it reflects the company's performance which can affect investor's perception of the company. Firm value is the market value of investor securities against the company plus the market value of debt (Sheikh, 2018). Thus, the addition of the company's total equity to the company's debt can reflect the value of the company. Firm value can describe the state of the company (Surwanti & Pamungkas,

2021). The better the value of the company, the company is seen as good by potential investors, because it has a high rate of return on investment to shareholders.

Increasing in firm value is related to the cash flow statement. Some research show that if the net cash flow increases, the firm value will also increase, and vice versa (Kusainov, Demeuova, Nurmanov, Toktarova, & Azhaipova, 2020). The cash flow statement is part of the financial statements of a company reported in an accounting period that shows the inflows and outflows of the company's cash. The company's operating cash flow report describes the company's operational activities including production activities, purchasing raw materials, sales receipts, payment of interest and taxes, and others. Kasmiasi and Santosa (2019) stated that the higher the company's operating cash flow, the higher the investor's confidence in the company so that it will increase the demand for shares in the stock market and increase the value of the company, and vice versa. The investment cash flow statement shows the company's expenditures for long-term investments by buying fixed assets such as machinery, equipment, and buildings. Companies that want additional income in the future will spend their funds on investment activities. If the right investment decisions are made, it will produce optimal performance so as to increase the value of the company (Hirdinis, 2019). The funding cash flow reports the cash inflows from financing activities. The increasing number of positive cash flow will increase the value of the company which is consistent with the company's market value (Harris & Roark, 2019). Therefore, companies should look for a capital budgeting project that will not only be beneficial for the sustainable development of the company but also be beneficial for increasing the value of the company.

From the results of research conducted by Dewi, Sari, Budiasih, and Suprasto (2019), it was concluded that the operating and funding cash flow statements had a significant positive effect on firm value, the investment cash flow statement had a significant negative effect on firm value. In contrast to the research conducted by Ni, Huang, Chiang, and Liao (2019), the results of the research show that there is a very significant effect between the cash flow statements of operating and financing activities and firm value and the correlation is negative, the investment cash flow statement has a positive relationship. However, a research conducted by Nugraha and Riyadhi (2019) shows that the operating, investment, and funding cash flow statements have a positive and significant effect on firm value. This means that there are differences in the results of the research (research gap) that there is a discrepancy/inconsistency of the relationship between cash flow statements and firm value. This is a consideration for researchers to conduct research on the effect of cash flow statements on firm value. Based on the background of the problem that has been described, the research tries to explain the Cash Flow Statements and its impact on Manufacturing Firm Value Listed on the Indonesian Stock Exchange.

## Theoretical Background

A cash flow statement is a report that provides historical information regarding changes in cash and cash equivalents of a company that classifies cash flows based on operating, investing and financing activities during an accounting period. According to Dewi et al. (2019), a cash flow report is a report that presents information about cash inflows and outflows and cash equivalents of an entity for a certain period. Through the statement of cash flows, users of financial statements want to know how an entity generates and uses cash and cash equivalents. Cash flow statements shows or describes cash receipts and disbursements for a certain period of time (usually a year). The report shows the actual cash flows generated by the company during the year. Based on the definition that has been described, it can be concluded that the cash flow statement is a financial statement that shows the cash receipts and disbursements of a company over a period of time.

Meanwhile, firm value is an investor's perception of the manager's level of success in managing the company's resources entrusted to him which is often associated with stock prices. Firm value is often associated with stock prices. This is done by looking at the development of stock prices on the stock exchange, if the stock price increases, it means that the value of the company increases. The value of the company is said to be in real terms because the formation of prices in the market are points of stability in the strength of demand and buying and selling of securities in the capital market between sellers (issuers) and investors, or often referred to as market equilibrium. Therefore, in the theory of capital market finance, stock prices is related to the value of the firm (Eka, 2018). Based on the definition that has been described, it can be concluded that if there is an increase in the stock price, the company value will also increase. Therefore, the value of the company is necessary for investors to consider the company's prospects in the future.

## Research Method

The population in this study are all manufacturing companies in the sub-sector of various industries and consumer goods industries listed on the Indonesia Stock Exchange. The sampling method in this research is purposive sampling resulting a sample size of 120 in a period of 3 years 2018 to 2020. The data collection technique uses documentation techniques. Descriptive statistical analysis data, simple linear regression analysis, coefficient of determination test and t test are the method for data analyzing.

## Data Analysis and Results

The results of the Kolmogorov-Smirnov Test shows that the Asymp value. Sig. (2-tailed) for cash flow statements elements and Firm Value (Tobins'Q) data is 0.070 which is more than 0.05. Therefore, it can be concluded that the data in this study is normally distributed and suitable for use in the model. Based on table 8. The tolerance value of each variable is greater than 0.010 with the value of each variable being OCF (0.998), ICF (0.961) and FCF (0.960).

Meanwhile, the VIF value for each variable is less than 10 with successive values as follows: OCF (1.002), ICF (1.041) and FCF (1.041). Therefore, refers to the basis of decision making in the multicollinearity test, it can be concluded that there is no multicollinearity in the regression model. Moreover, Asymp value. Sig. (2-tailed) of 0.309 is greater than ( $>$ ) 0.05, it can be concluded that the regression model does not have symptoms or problems with autocorrelation. Thus, the autocorrelation problem that cannot be solved by the Durbin-Waston Test can be solved by the Runs Test, so that the linear regression analysis can be continued. T Test also shows that there are no waves in the distribution of points and the distribution of points is below the number 0 on Y axis and there is no wave-like pattern, widening, then narrowing. Thus it can be concluded that there is no symptom of heteroscedasticity in this regression.

The Multiple Linear Regression Analysis shows the value of the constant ( $\alpha$ ) of 2927.781 indicates that, if the independent variable (X) is zero, then the value of the dependent variable (Y) is 2927.781 units. The coefficient value of X1 ( $\beta_1$  OCF) is 5851.496 and is positive. This means that the value of the Y variable will be experienced an increase of 5851.496. The positive coefficient indicates that there is a direction between the OCF variable and firm value. This means that the higher the ratio between operating cash flow and sales, the higher the firm value. This has an impact on the high valuation of investors towards the company. The coefficient value of X2 ( $\beta_2$  ICF) is 35508.837 and has a positive sign. This means that the value of the Y variable will increase by 35508.837. The positive coefficient indicates that there is a direction between the ICF variables and firm value. This means that the lower the value between investment cash flows and fixed assets will have an impact on the high investor assessment of the company. The coefficient value of X3 ( $\beta_3$  FCF) is -0.824 and is negative. This means that the value of the Y variable will decrease by - 0.824 if the X1 variable has increased by one unit and the other independent variables have a fixed value. The coefficient with a negative sign indicates that there is an opposite relationship between the FCF variable and firm value. This means that the lower the ratio between funding cash flows and long-term debt and total equity will have an impact on the low investor assessment of the company's valuation.

The Adjust R Square value is 0.727. This means that 72.7% of firm value is influenced by Operating Cash Flow, Investment Cash Flow, Funding Cash Flow and the remaining 23.7% is influenced by other variables that have not been studied in this study. The results of the analysis with multiple regression shows that the operating cash flow statement variable (OCF) has a significant effect on the value of the manufacturers firms listed on the Indonesia Stock Exchange (IDX) for the 2018-2020 period. This can be seen in the value of sig < significant criteria (0.05). Thus, the operating cash flow statement (OCF) has a positive effect on firm value. According to Nugraha and Riyadhi (2019), the company's operating cash flow report describes the company's operational activities including production activities, purchasing raw materials, sales receipts, payment of interest and taxes, and others. In theory, the higher the company's operating cash flow, the higher the investor's confidence in the company, so that it will increase the demand

for shares on the stock market and increase the value of the company. The results of this study are consistent with research (Ross, 2010) that operating cash flows are positive or cash inflows are more than cash outflows indicate the company can generate cash from its operational activities so that it can be said that the company is good. If in the long term the operating cash flow is negative, it will cause problems because the company does not have sufficient cash to pay for its operational costs.

Based on the results of the analysis with multiple regression, it shows that the funding cash flow statement (ICF) variable has a significant effect on the company value in manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2020 period. This can be seen in the value of  $\text{sig} < \text{significant criteria} (0,05)$ . Thus, the operating cash flow statement (OCF) has an effect on firm value. According to (Prasetyo, 2011:109) the investment cash flow report shows the company's expenditures for long-term investments by buying fixed assets such as machinery, equipment, and buildings. Therefore, if they want additional income in the future, they will spend their funds on investment activities. If the right investment decisions are made, it will produce optimal performance thereby increasing the value of the company. Companies can raise funds for capital budgeting projects for sustainable development purposes that generate cash inflows from activities that the company seeks to maximize the company's market value in making capital expenditure decisions for the company. Firms with low investment cash flows can be assumed that firms has a stable or even good financial condition and is making large expenditures related to investments such as property, factory, equipment, machinery, etc. Which it aims to improve the performance and value of the company in the future. If the investment is too small the company does not have sufficient capacity so that it can result in the company losing the opportunity to dominate market share.

Based on the results of data analysis on multiple regression results, it can be seen that the funding cash flow coefficient is  $(-0.824)$  with a significant value of  $0.684 > 0.05$ . Therefore, it can be concluded that the hypothesis made is rejected. Thus the FCF variable has a negative effect on firm value. According to Husna and Satria (2019), the higher the company's dependence on debt will encourage reduced firm value. Large debt will further increase the company's risk for losing the trust of stakeholders, besides that large debt is a signal that shows the health condition of a company as well as illustrates the prospect of the company to survive getting smaller, this condition indicates a decline in company value. Funding cash flows involve liability and equity items, including obtaining resources from owners and giving them a return on their investment, and lending money from the creditor and pay a sum of money. Companies with negative funding cash flows or deficits indicate that a company does not carry out financing activities in that period.

### Conclusion

Based on the results of data analysis and research discussions on the effect of cash flow statements on firm value in manufacturing companies listed on the Indonesia Stock Exchange for the 2018-2020 period, the following conclusions are obtained:

1. There is a significant effect of operating cash flow statements on firm value; there is a significant effect on the investment cash flow statement on firm value; there is no effect of the statements of cash flows funding on firm value.
2. Based on the results of research on operating cash flow reports and investment cash flow reports with 40 samples of manufacturing companies on the Indonesia Stock Exchange for the 2018 - 2020 period using Tobins'Q, it can be said that the firms value is getting better every year. Statements of operating cash flows that are positive or cash inflows are more than cash outflows indicate the company can generate cash from its operational activities so that it can be said that the company is good, while the cash flow statements of companies with low investment cash flows can be assumed that the company has a stable financial condition or can even be said to be good and is making large expenditures related to investments such as property, factories, equipment, machinery, etc. Which it aims to improve the performance and value of the company in the future.
3. Based on the results of research on funding cash flow reports with 40 samples of manufacturing companies on the Indonesia Stock Exchange for the period 2018 - 2020 using Tobins'Q, it can be said that the firms value is getting worse every year. To the firm's value, funding cash flows involve liability and equity items, including obtaining resources from owners and providing them with a return on their investment, and lending money from creditors and paying out sums of money. Companies with negative funding cash flows or deficits indicate that a company did not carry out financing activities in that period.
4. For further researchers, this research is expected can add information and knowledge and become a reference to further clarify the statement of cash flows and company value.

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