

The Effect of Gross Profit, Operational Profit and Net Profit on Future Cash Flows

Mudjiyono

ITB Semarang

mudjionodaslim@gmail.com

Dimas Adi Wicaksono

ITB Semarang

terusbelajar9393@gmail.com

Abstract

This study aims to find empirical evidence about the effect of gross profit, operating profit, and net profit on cash flow of future operating activities in manufacturing companies listed on the Indonesia Stock Exchange in the period of 2016-2019. The method used to select the subject of this research is purposive sampling. The data were tested using multiple linear regression at a significance level of 5% with the help of the SPSS program. Based on the results of the partial test (t test), operating income and net income have significant effect in predicting the cash flows of operating activities in the future, while gross profit has no significant effect on predicting the cash flows of operating activities in the future. Meanwhile, based on the simultaneous test (F test), gross profit, operating profit, and net profit simultaneously have significant effect in predicting the cash flow of operating activities in the future.

Keywords: gross profit, operating profit, net profit, cash flow from operating activities.

INTRODUCTION

Company's published financial statements are important source of information for investors. Through the financial reports, investors can analyze the management performance and predict future earnings. In addition to this, investors can also estimate future cash flows.

Since the issuance of PSAK No. 2 of 1994 which was actively enforced starting January 1, 1995, cash flow statements have become an inseparable part of financial statements and become a necessity for companies to make cash flow statements. According to PSAK No. 2 of 2013, the information presented in the cash flow statement is useful for (1) evaluating changes in the

company's net assets, financial structure (including liquidity and solvency) and the ability to influence the amount and timing of cash flows in order to adapt to changes circumstances and opportunities; (2) assessing the company's ability to generate cash and cash equivalents and enable users to develop models to assess and compare the present value of the future cash flows of various companies; (3) examining the accuracy of the estimated future cash flows that have been made previously and determining the relationship between profitability and net cash flow and the impact of price changes.

In addition to cash flow statement, income statement is also a financial statement related to the prediction of future cash flows. Income statement is the main report on the performance of a company during a certain period. Income statement contains many profit figures, namely gross profit, operating profit, and net profit. Investors and creditors are the main parties to which financial reporting is intended for, with an interest in cash flows coming from the investments. This is in accordance with the financial reporting objectives of the Financial Accounting Standards Board (FASB). Chariri and Ghozali (2014) stated that financial reporting should provide information to assist both current and potential investors and creditors and other users in assessing the amount, timing and uncertainty of future cash receipts from dividends or interest and future cash receipts from the sale, redemption, or maturity of securities or loans.

According to PSAK No. 25 of 2013, the information provided by an income statement is often used to estimate the company's ability to generate cash flows and assets that are equated with cash in the future. Efforts to uncover potential earnings in its ability to predict future investment returns have been carried out by many researchers, ranging from those examining the content of earnings information value, earnings predictive ability to those related to stock returns. However, in general researchers do tests on net income figures or operating profit figures. As stated in

Rukmala's research (2019), accounting research on earnings, especially those looking for the relationship between profit figures and stock prices and stock returns, always uses operating profit figures or earnings per share which is calculated using net income figures and rarely uses gross profit figures.

Two studies which used gross profit in their research were found, namely Rispayanto (2013) and Rukmala et al (2019). Rispayanto (2013) describes that financial accounting research, especially those looking for the relationship between profit figures and stock prices, always uses operating profit or EPS (earnings per share) which is calculated using net income figures and never gross profit figures. The research conducted by Rukmala et al (2019) stems from the question why researchers always or at least prioritize the use of operating profit and net profit in studies using profit figures and have not been found those who use gross profit. The research examines the quality of gross profit, operating profit, and net profit as the proxy of strength of cumulative abnormal return, and it is found that gross profit is the strongest reaction.

Rukmala et al (2019) also use gross profit as a predictor of expected stock returns. Based on the research conducted by Cerniat, Waode, and Hasan (2020), it was found that gross profit was proven to be reacted by the market. In this study, gross profit is used as a variable that considerably has effect on expected stock return, and it is found that gross profit has significant effect. Based on these two studies, which indicate that gross profit is the strongest reaction by the market and has an effect on expected stock returns, the research on the effect of gross profit, operating profit and net profit on future cash flows of manufacturing companies listed on the Indonesia Stock Exchange during 2016-2019 period is conducted.

The results of this study are expected to provide benefits for users of financial statements as evaluation material for making investment decision. For management, the results of this study can

be used as input in determining company policies and making decisions. The results also provide empirical evidence on the ability of accounting earnings to predict cash flow so that it can be used by other researchers on issues related to the predictive ability of earnings on cash flows.

LITERATURE REVIEW

Financial Statements

The common financial statements include balance sheet, income statement, and change of capital statement, cash flow statement, and notes to financial statements. They are part of the financial reporting process and financial reports are the main means for communicating financial information to parties outside the corporation. The financial statements that are often presented are:

1. **Statement of Financial Position (Balance Sheet)**, often referred to as a statement of assets, liabilities and equity. The reports are prepared on a certain date and present the assets owned by the company as of that date as well as claims from creditors and owners of these assets.
2. **Income statement**, often referred to as operating statement. An income statement is prepared for a period, for example a year, a quarter, or a month. It reports the income, expenses, and the profit or loss in a period.
3. **Statement of owner's equity**, often referred to as statement of shareholder equity. The statement of owner's equity is prepared for the same period as that of the income statement. It reports changes in equity for the period due to profit or loss as well as certain gains and losses which include other comprehensive income and other transactions with owners that increase or decrease equity. Other transactions include additional investments by owners in the business,

payments of dividends or distributions to owners, or the repurchase of shares from owners by the company.

4. Cash flow statement. A statement of cash flows is prepared for the same period as that of the income statement and of the statement of owner's equity. This report details the company's cash receipts and payments during the period and shows how all of their changes together resulted in changes in cash on the balance sheet from the beginning to the end of the period.
5. Notes to financial statements. Since the purpose of financial statements which are prepared in accordance with GAAP is to enable external users to make better economic decisions about the company, various disclosures are needed to explain aspects of the four main financial statements. These disclosures include details that are not contained in the reports, and a description of the methods used for transactions and events. The notes to the financial statements must be read carefully to understand the four financial statements.

Income Statement and Its Use

The income statement can be used to help users of financial statements to predict future cash flows. As explained by Kieso (2018), profit and loss information can be used by investors and creditors to evaluate the company's past performance. By examining revenues and expenses, users of the income statement can assess the company's performance and compare it with competing companies. The statement provides basis for predicting future performance. Information on past performance can be used to determine important trends that provide information on future performance. It also help assessing risk or uncertainty of future cash flows. Components in earnings information, such as revenue, expenses, profit, and loss describe the relationship between these components and can be used to assess risk at a certain level of a cash flow in the future.

Users of the income statement need to be aware of certain limitations of the information contained in the statement that would reduce the usefulness of this report for forecasting the amount, timing, and uncertainty of future cash flows. Some limitations include the fact that income statement does not contain many items that contribute to the growth and general health of the company; profit figures are often influenced by the accounting method used; and the measure of profit is the subject of estimation (Kieso, 2018).

Accounting Profit

In the basic concept of preparing and presenting financial statements, IAI (2009) defines income as an increase in economic benefits during an accounting period in the form of income or an increase in assets, or a decrease in liabilities resulting in an increase in equity that does not come from investment contributions. Belkoui (2012) mentions that accounting profit has the following five characteristics:

- Accounting profit is based on actual transactions mainly from the sale of goods or services.
- Accounting profit is based on the periodization postulate and refers to the company's performance during a certain period.
- Profit accounting is based on the income principle which requires a special understanding of the definition, measurement and recognition of revenue.
- Accounting profit requires measurement of costs (expenses) in the form of historical costs.
- Accounting profit requires matching between income and costs that are relevant and related to the income.

The purpose of earnings reporting is to provide useful information to interested parties. Information about company profits can be used as an indicator of the efficiency of the use of funds

embedded in the company which is manifested in the rate of return on invested capital, a measure of management performance, the basis for determining the amount of tax imposition, a means of controlling the allocation of a country's economic resources, a basis for compensation and bonus distribution, a management motivation tool in controlling the company, a basis for increasing prosperity, and the basis for the distribution of dividends (Chariri and Imam, 2014).

Gross profit is the difference between the company's revenue minus the cost of goods sold. The cost of goods sold is all costs sacrificed, in which calculation for manufacturing companies starts when the raw materials enter the factory, are processed, and ends with the products are sold. All direct costs associated with the creation of the product are classified as cost of goods sold.

The net profit figure is a number that shows the difference between all revenues from the company's operating activities and non-operating companies. Thus, actually this net profit is profit that shows the portion of profit that will be retained in the company and which will be distributed as dividends.

Cash Flow

Cash flow is the inflow and outflow of cash and current accounts. The cash flow statement is grouped into three parts:

1. Cash flow from operating activities. Operating cash flow is cash flow from operating activities resulting from transactions and events that affect operating profit both from the production and sale of goods and inventories. Examples of cash flows from operating activities are cash receipts from the sale of goods and services; cash receipts from royalties, fees, commissions and other income; cash payments to suppliers for goods and services; cash payments for salaries and wages of employees; and cash payments for other operating expenses.

2. Cash flow from investing activities. Investing activities are the acquisition and disposal of assets and other investments that are not cash equivalents. It represents cash flows from activities such as buying and selling marketable securities, buying and disposing of various assets such as equipment, land and other assets. Examples of cash flows from investing activities are cash receipts from the sale of fixed assets, intangible assets and other long-term assets; cash payments to purchase property, plant and equipment, intangible assets and other long-term assets including capitalized development costs and self-constructed property, plant and equipment.
3. Cash flow from funding activities. Funding cash flow is cash flow generated from the issuance of new shares or bonds, dividend payments, repurchasing company shares, borrowing debt or paying off debt. Examples of cash flows from financing activities are cash receipts from share issuance; cash payments to shareholders to withdraw or purchase company shares; cash receipts from bonds, loans, notes and other loans; and loan repayment.

Unlike other major financial statements, a statement of cash flows is not prepared from an adjusted statement of financial position. Information for preparing this report usually comes from three sources: (a) comparative balance presenting the total changes in assets, liabilities, and equity from the beginning to the end of the period, (b) the income statement for the current period, contains data that helps determine the amount of cash received or used by operations during the current period, and (c) certain transaction data providing additional detailed information needed to determine how cash was received and used during the period.

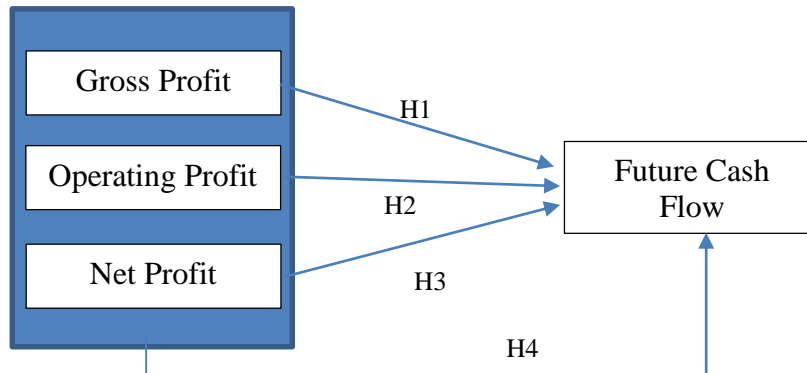
Information about a company's cash flows is useful for users of financial statements as a basis for assessing the company's need to use cash and cash equivalents. Therefore, in the economic

decision-making process of a company, it is necessary to evaluate the company's ability to generate cash and cash equivalents and the certainty they obtain.

The previous research by Wartini (2013) on the effect of gross profit, operating profit and net profit in predicting future operating activities cash flow using linear regression analysis found that net income has significant effect on predicting future cash flows from operating activities. Meanwhile, gross profit and operating profit have no significant effect in predicting future cash flows from operating activities. Similarly, Rispayanto (2013) also found that gross profit has no positive effect on prediction of future operating cash flows and is not significant in predicting future operating cash flows. Furthermore, operating profit has proven to have positive effect on the prediction of future operating cash flows and is significant in predicting future operating cash flows. Net income has no positive effect on prediction of future operating cash flows and is not significant in predicting future operating cash flows. Operating cash flow has a positive effect on the prediction of future operating cash flows and is significant in predicting future operating cash flows.

Nurlita, Nugroho, and Ainiyah (2019) whose research in food & beverages companies listed on IDX in 2015–2017 concluded that gross profit and net income have no significant and positive effect in predicting future cash flows, but operating profit has significant and positive effect in predicting future cash flows. Cerniat and Hasan (2020) have arrived at the result that gross profit has the best ability to predict future cash flows compared to operating profit, while net income has no effect. Sari (2020) also arrived at the same result, that is gross profit and operating profit partially have significant effect on predicting future cash flows, while net income has no effect on predicting future cash flows.

Based on the research above, this study will examine the ability of gross profit, operating profit and net profit in predicting future cash flows with the following scheme:



Several hypotheses proposed in this study in accordance with the results of previous studies are:

H1: Gross profit has significant and positive effect in predicting future cash flows.

H2: Operating profit has significant and positive effect in predicting future cash flows.

H3: Net income has significant and positive effect in predicting future cash flows.

H4: Gross profit, operating profit, and net profit simultaneously have significant effect in predicting future cash flows.

METHODS

The research variables are cash flow as the dependent variable and gross profit, operating profit and net profit as the independent variables. The research addresses manufacturing companies listed on the Indonesia Stock Exchange in 2016-2019. The method used in selecting sample companies was purposive sampling and the certain criteria applied are:

- a. Availability of financial reports for the period 2016 – 2019.
- b. The required data are disclosed and presented in full.

- c. No loss, no merger during the observation period, and listed successively during the observation period.
- d. The data used must not have a negative value so as not to cause outliers in the data screening process.

With the above criteria, the sample data cover as many as 26 sample companies and thus the sample data are 26 x 4 periods = 104.

No	Code	Emitent	No	Code	Emitent
1	ADM	PT. Polychem Indoneis, Tbk.	14	HDTX	PT. Panasia Indosyntec, Tbk
2	AGII	PT. Aneka Gas Industri, Tbk.	15	INDR	PT. Indorama Synthestics, Tbk
3	AKPI	PT. Argha Karya Prima Industri,	16	MYRX	PT. Hanson International, Tbk
4	ARG	PT. Argo Pantes, Tbk.	17	MYTX	PT. APAC Citra Centerex, Tbk
5	BAJA	PT. Saranacentral Bajatama Tbk.	18	PBRX	PT. PAN Brothers, Tbk
6	BRPT	PT. Barito Pacific Tbk.	19	POLY	PT. Asia Pasific Fibers, Tbk
7	BTO	PT. Betonjaya Manunggal Tbk.	20	RICY	PT. Ricky Putra Globalindo,
8	CNT	PT. Century Textile Industry,	21	SRSN	PT. Indo Acidatama, Tbk
9	CTBN	PT. Citra Tubindo Tbk.	22	SSTM	PT. Sunson Tekstile
10	CPIN	PT. Charoen Pokphand Indonesia	23	TFCO	PT. Tifico Fiber Indonesia, Tbk
11	EKA	PT. Ekadharma International Tbk.	24	ULTJ	PT. Ultra Jaya Milk Industry &
12	ERTX	PT. Eratex Djaja, Tbk.	25	UNIT	PT. Nusantara Inti Corpora, Tbk
13	ESTI	PT. Ever Shine Tex, Tbk.	26	UNIC	PT. Unggul Indah Cahaya, Tbk.

The analytical model used in this study is multiple linear regression which is mathematically formulated as $AK_{t+1} = b_0 + b_1LK + b_2LO + b_3LB + e$ in which AK_{t+1} : future cash flow, b_0 : intercept of AK, $b_{1,2,3}$: slope of the regression line, LK: gross profit, LO: operating profit, LB: net profit, e: error term.

The analysis technique in this study was carried out with the help of a computer program for Windows the SPSS version 17.0. Before testing the hypotheses using multiple regression analysis, the four variables were tested for classical assumptions which include normality test, autocorrelation test, heteroscedasticity test, and multicollinearity test. These tests are the

prerequisite of multiple linear regression. The goal is that the independent variable as an estimator of the dependent variable is unbiased (Gujarati, 1995).

To test the hypothesis regarding to the effect of independent variables on the dependent variable, statistical analysis tools of F test and t test were used. The F test was conducted to see the effect of the independent variables simultaneously on the dependent variable. This test was done by comparing the calculated F value with F table by following the steps:

1) Formulation of hypothesis

- $H_0 = 0$, there is no significant effect of the independent variables together on the dependent variable.
- $H_a \neq 0$, there is significant effect of the independent variables together on the dependent variable with

2) Determine the level of significance (α) which is 5%.

3) Determine the criteria for acceptance/rejection of H_0 by looking at the significant value:

- If significant $< 5\%$ then H_0 is rejected or H_a is accepted
- If significant $> 5\%$ then H_0 is accepted or H_a is rejected

4) Conclude

The t test was carried out to see significance of the influence of independent variable individually on the dependent variable by assuming the other variables were constant. This test is carried out by comparing t- count with t-table. The test steps are as follows:

1) Hypothesis formulation

- $H_0 = 0$, there is no significant effect of the independent variable on the dependent variable partially

- $H_a \neq 0$, there is significant effect of the independent variable on the dependent variable partially.
- 2) Determine the level of significance (α) which is 5%.
 - 3) Determine the criteria for acceptance/rejection of H_0 by looking at the significant values
 - If significant $< 5\%$ then H_0 is rejected or H_a is accepted
 - If significant $> 5\%$ then H_0 is accepted or H_a is reject

RESULTS AND DISCUSSION

Descriptive Statistics

Table 1 shows that there is an average gross profit of IDR 1,943,100.326 million, meaning on average the company is able to earn gross profit of IDR 1,943,100.326 million per year. The lowest gross profit value is IDR 90,752 million and the highest gross profit value is IDR 19,428,440 million. The standard deviation value is IDR 3,703,868.97610 indicating a very large variation in the distribution of gross profit data.

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Gross Profit	104	90752.00	19428440.00	1943100.3269	3703868.97610
Operating profit	104	33287.00	7733164.00	805061.5385	1570298.21988
Net Profit	104	2465.00	5274009.00	626178.6154	1141317.15701
Cash Flow	104	9662.00	9269318.00	766238.6346	1545526.75912
Valid N (listwise)	104				

The companies' operating profit shows an average operating profit of IDR 805,061.5385 million, meaning that on average the company is able to earn a net profit of IDR

805,061.538million per year. The lowest operating profit value is IDR 33,287.00 million and the highest one is IDR 7,733,164.00 million. The standard deviation value is IDR 1,570,298.21988.

The companies' net profit shows an average net profit of IDR 626,178.6154 million. This means that on average the company is able to earn net profit of IDR 626,178.6154 million per year. The lowest net profit value is IDR 2,465 million and the highest gross profit value is IDR 5,274,009 million. The standard deviation value obtained is IDR 1,141,317.15701.

The companies' cash flow shows that there is an average operating cash flow of IDR 766,238.6346 million. This means that on average the company is able to get cash inflows of IDR 766,238.6346 million per year. The lowest cash flow is IDR 9,662 million and the highest cash flow value is IDR 9,269,318 million. The standard deviation value is 1,545,526.75912 which indicates a very large variation in the distribution of cash flow data.

Classical Assumption Test

Normality test. The normality test on the residuals from all initial samples ($n = 104$) is presented in figure 1. It is known that the PP Plot pattern still has a fairly large deviation. Kolmogorov Smirnov Z test shows that value Asymp Sig. (2-tailed) for the residuals of the regression model is 0.000 (smaller than 0.05) which indicates that the regression model residuals are not normally distributed. Since the regression model requires a normal distribution of the residuals, the next step is to perform a natural logarithm transformation.

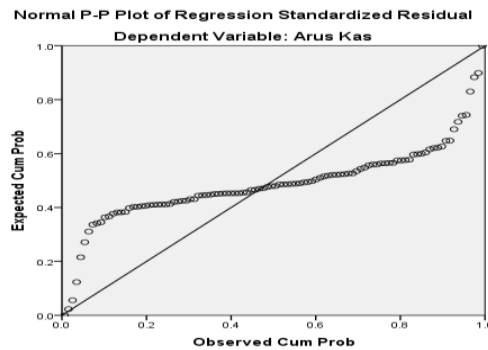


Figure 1. Normality Test

Table 2. One-Sample Kolmogorov-Smirnov Z Test

		Unstandardized Residual
N		104
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	529938.5309915
Most Extreme Differences	Absolute	.276
	Positive	.276
	Negative	-.267
Kolmogorov-Smirnov Z		2.813
Asymp. Sig. (2-tailed)		.000

a. Test distribution is Normal. b. Calculated from data.

The Asymp value Sig. (2-tailed) for the regression model residual on the second test is 0.294 which is greater than 0.05. This shows that the residuals of the regression model are normally distributed.

Table 3. Kolmogorov Smirnov Z Second Test

		Unstandardized Residual
N		104
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.62225714
Most Extreme Differences	Absolute	.096
	Positive	.065
	Negative	-.096
Kolmogorov-Smirnov Z		.978
Asymp. Sig. (2-tailed)		.294

a. Test distribution is Normal. b. Calculated from data.

Multicollinearity test. To find out whether multicollinearity occurs, VIF value contained in each variable is determined (table 4). From the table, it is found that all independent variables have VIF value under 10. Thus, there is no multicollinearity problem in the regression model.

Table 4. Multicollinearity Test with VIF

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
1 Gross Profit	.135	7.404
Operating Profit	.109	9.163
Net Profit	.186	5.383

Heteroscedasticity test. To detect the presence of heteroscedasticity, scatter plot test was conducted. It is found that the model shows a diffuse pattern and this shows that the model has no heteroscedasticity problem.

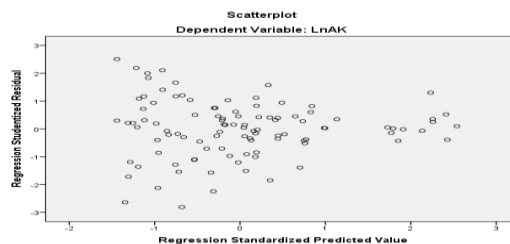


Figure 2. Heteroscedasticity Test

Autocorrelation test. To find out whether there is autocorrelation, the D-W test value must be seen. The results show the D-W value is 1.995. While the value of dU obtained is 1.74 and dL = 1.62. Thus it is obtained that the value of DW = 1.995 is between dU which is 1.74 and (4-dU) is (4 - 1.74) = 2.26. Thus, it shows that the regression model is in the autocorrelation-free region.

Table 5. Autocorrelation Test
 Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.893 ^a	.798	.792	.63152	1.995

a. Predictors: (Constant), Ln Net, Ln Gross, Ln Operating

b. Dependent Variable: Ln Cash Flow

Regression Analysis

The hypothesis tests aim to test the significance of the effect of the independent variables on the dependent variable. The results of the regression presented in table 6 can be written in the regression equation as follows

$$\text{Ln Cash Flow} = 0.311 + 0.217 \text{ Ln GROSS} + 0.696 \text{ Ln OPERATION} + 0.043 \text{ Ln NET} + e$$

Table 6. Regression Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.311	.688		.452	.652
Gross Profit	.217	.134	.198	1.620	.108
Operating Profit	.696	.142	.664	4.884	.000
Net Profit	.043	.094	.047	.454	.651

The results can be explained as follows:

- The coefficient of gross profit is 0.217 with a positive direction which means that 1 unit increase in gross profit will increase operating cash flow by 0.217 units, assuming other variables are constant.
- The coefficient of operating profit is 0.696 with a positive direction which means that 1 unit increase in operating profit will increase operating cash flow by 0.696 units, assuming other variables are constant.

- The coefficient of net profit is 0.043 with a positive direction which means that 1 unit increase in net profit will tend to increase operating cash flow by 0.043 units, assuming other variables are constant.

The result of simultaneous effect of the independent variables is indicated by the F value presented in table 7. The obtained F value is 131.896 with significance of 0.000 (smaller than 0.05). The calculated F value > F table (2.70) which means that this regression model gives significant effect of gross profit, operating profit, and net income simultaneously on operating cash flows.

Table 7. Model Test F
 Anova^a

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	157.808	3	52.603	131.896	.000 ^b
Residual	39.882	100	.399		
Total	197.690	103			

a. Dependent Variable: Ln Cash Flow

b. Predictors: (Constant), Ln Net, Ln Gross, Ln Operating

Source: Processed secondary data

The value of the coefficient of determination shows the percentage of the dependent variable that can be explained by the independent variables. This study obtained value of the adjusted R² of 0.792. This means that only 79.2% of operating cash flow that can be explained by gross profit, operating profit, and net income, while the other 20.8% variations in cash flow can be explained by other variables.

Table 8. Coefficient of Determination
 Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.893 ^a	.798	.792	.63152	1.995

a. Predictors: (Constant), LnNET, LnGROSS, LnOPERATING

b. Dependent Variable: LnAK
Source: Processed secondary data

Partial test (t test) was to see which variables have partially significant effect on cash flow.

Table 9 presents the results.

Table 9. Hypothesis Testing

Model	t	Sig.
(Constant)	.452	.652
Gross Profit	1.620	.108
1 Operating Profit	4.884	.000
Net Profit	.454	.651

The test result for gross profit on cash flow shows the t-count result of 1.620 with a significance of 0.108. The value of t table with $df = 104 - 3 - 1 = 100$ is 1.984. Thus, we get t arithmetic ($1.620 < t$ table (1.984)). With the significance value of 0.108 which is greater than 0.05 indicates that at the 5% significance level, gross profit does not have significant effect on cash flow.

The test result for operating profit on cash flow shows significance of 0.000 (smaller than 0.05). The value of t table with $df = 104 - 3 - 1 = 100$ is 1.984. Thus, the result of t count of $4.884 > t$ table (1.984). Thus, this indicates that at the 5% significance level, operating profit has significant effect on cash flow.

The test result for variable net income on cash flow shows the results of t count is 0.454 with a significance of 0.651 (greater than 0.05). The obtained t count (0.454) which is $< t$ table (1.984) indicates that at the 5% significance level, net income does not have significant effect on cash flow.

Discussion

The results of this study found that of the three variables used in this study, only one variable that affect cash flow significantly. The operating profit shows that it has significant and positive effect on future cash flows.

Since gross profit does not have significant effect on future cash flows, it can be stated that the condition of high gross profit in one period does not always result in obtaining better future cash flows. In other words, high gross profit information does not support flows of higher future cash flow reporting. The result also shows that net profit does not have significant and positive effect on future cash flows. Reporting net income for a long period is unable to provide good predictions for future cash flows.

CONCLUSION

The purpose of this study is to obtain empirical evidence regarding to the effect of gross profit, operating profit, and net income on operating cash flow in predicting future earnings and cash flows and in proving supportive information that operating cash flows are more influential in predicting future cash flows than net income. The conclusions that can be drawn from the research are that gross profit and net income do not have significant effect on future cash flows. Only operating profit that is proven to have significant effect on future cash flows.

Based on the results, it can be suggested that future research is expected to use a longer period in order to obtain more comprehensive results, to add to other variables, and to use different analytical tools from those of previous research.

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