THE ABILITY OF EARNINGS AND CASH FLOW IN PREDICTING THE CORPORATE LIQUIDITY

A THESIS



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INTERNATIONAL PROGRAM

ISLAMIC UNIVERSITY OF INDONESIA

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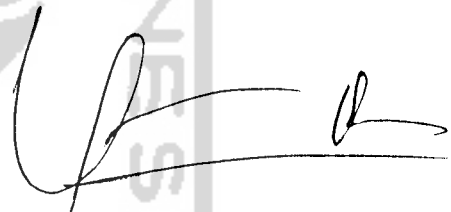
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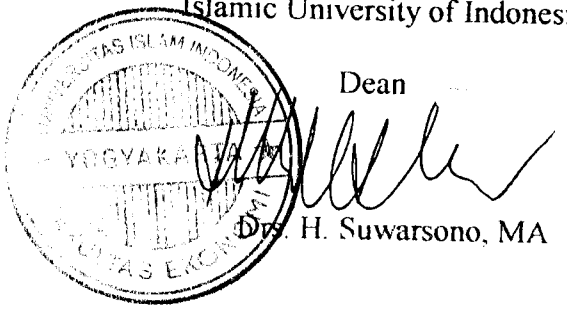
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THE ABILITY OF EARNINGS AND CASH FLOW IN PREDICTING THE CORPORATE LIQUIDITY

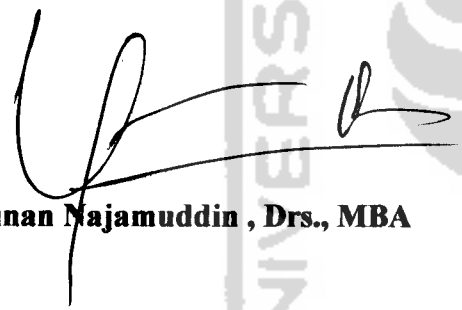
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The writer aware that this thesis is still not perfect yet. Therefore, it needs many critism and suggestion for its improvement. Finally, the writer hopes the thesis will be useful for students, the users of Financial Statement, and general public.

"Knock... knock... knock"
"Who's there?"
"Orange"
"Orange who?"
"Orange (aren't) you going to read this thesis?"

Yogyakarta, February 10, 2006
The Writer

(Nurdini Indah Nugrahaini)

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ABSTRACT

Nugrahaini, Nurdini. **The Ability of Earnings and Cash Flow in Predicting Corporate Liquidity**. International Program, Department of Accounting, Faculty of Economics, Islamic university of Indonesia. Yogyakarta. 2006.

This research replicates and extends prior work conducted by Lancester and Stevens on the relationship between liquidity and accrual income versus cash flow. The measure of corporate liquidity is expanded to use dynamic liquidity (cash conversion cycle) rather than static liquidity (current and quick ratio). The analysis is also extended to more recent data.

Prior conclusions on the insignificance of cash flow from operating activities in explaining liquidity are revised. Cash flow from operating activities is significantly related to cash conversion cycle.

Recommendation that can be suggested to the users of Financial Statement include: (1) had better to use cash flows than earnings as a predictor to evaluate corporate liquidity. (2) had better to use dynamic liquidity (cash conversion cycle) than static liquidity as the liquidity measurement. Because cash conversion cycle is needed to capture the ongoing liquidity from the firm's operations.

ABSTRAK

Nugrahaini, Nurdini. **Kemampuan Laba dan Arus Kas Dalam Memprediksi Likuiditas Suatu Perusahaan**. Program Internasional, Jurusan Akuntansi, Fakultas Ekonomi, Universias Islam Indonesia. Yogyakarta. 2006.

Penelitian ini mereplikasi dan memperluas penelitian terdahulu yang dilakukan oleh Lancester dan Stevens terhadap hubungan antara laba dan arus kas terhadap likuditas. Berbeda dengan penelitian terdahulu yang menggunakan konsep statis (current dan quick rasio) sebagai pengukur likuidits, penelitian ini menggunakan konsep dinamis (cash conversion cycle) sebagai pengukur likuiditas.

Penelitian ini membantah kesimpulan dari penelitian terdahulu yang menyatakan bahwa arus kas dari aktivitas operasi tidak berpengaruh secara signifikan terhadap likuiditas. Penelitian ini menyimpulkan bahwa arus kas dari aktivitas operasi mempunyai pengaruh yang signifikan terhadap likuiditas.

Rekomendasi yang disarankan untuk pengguna laporan keuangan antara lain: (1) dalam memprediksi tingkat likuiditas suatu perusahaan, penggunakan informasi yang terdapat dalam laporan arus kas lebih disarankan dibandingkan dengan laporan laba. (2) penggunaan konsep dinamis (cash conversion cycle) sebagai pengukur likuiditas lebih disarankan dibandingkan penggunaan konsep statis (current dan quick rasio) sebab cash conversion cycle diperlukan untuk mengatasi likuiditas yang berkelanjutan dari aktivitas operasional suatu perusahaan

CHAPTER I

INTRODUCTION

1.1. Background of the Study

Principally, liquidity is an important variable for the continuing life of a company. This can be seen from the liquidity concept, which is, in general sense, refers to the ability of a company to pay its short term debts as they become due. The corporate liquidity is used by creditor as a parameter for making a decision to give a loan to a company, because they can reasonably expected to be repaid in much the same pattern as the borrowing company has been paying its creditors in the recent past. Creditors indeed look for a high liquidity as their protection. Inattention to the liquidity management process may cause severe difficulties and losses due to adverse short-run developments even for the firm with favorable long-run prospects. Incorrect evaluation of the liquidity implications of a firm, may, in turn, subject creditors and investors to an unanticipated risk of default.

Corporate liquidity has two distinctly different dimensions. That is static and dynamic view of liquidity. Static view such as the current ratio and quick ratio are designed to measure an ability to meet obligations through the liquidation of assets. This static view of liquidity is based only balance sheet data for a given point of time. Hager (1976), Kamath (1989), Richards and Laughlin (1980) and Emery (1984) suggest that a dynamic view is needed to capture ongoing liquidity from the firm's operations. This dynamic view employs the 'cash conversion cycle' to measure

corporate liquidity. Usually, a company acquires inventory on credit, which results in accounts payable. The company will then sell the inventory on credit, which results in account receivable. Cash is therefore not involved until the company pays the account payable and collect account receivable. So, the cash conversion cycle measures the time between outlay of cash and the cash recovery. This cycle is extremely important for companies. This measure illustrates how quickly a company can convert its products into cash through sales. The shorter the cycle, the greater the corporate liquidity. In this study, we use the cash conversion cycle as the measurement of liquidity. The cash conversion cycle is measured by the inventory period plus the account receivable period minus the accounts payable period. If we looking at from the formula, we can see that the entire component used in the formula is based only in the balance sheet data. So, the validity of the liquidity value is depending on the information provided on the balance sheet data.

One of the characteristics of Financial Statement in order to make it useful for the user is the presence of the relevant characteristics in the information provided in the Financial Statement. According to SAK (2002), the relevant information is information that influences the user in making an economic decision by helping them in evaluating the past and present condition, and to predict the future, or correcting the evaluation report in the past. Based on the relevant information, the ability of the accounting information to predict the condition or certain financial variables in the future then become an important implication for the economic decision maker.

The accounting variables that still become an interesting topic to be examined until now is the earnings and cash flows; especially about their ability in predicting these variables itself and another accounting variables. Barth et al (2001) analyze the ability of earnings and cash flow in predicting future earnings and cash flow. Lancester and Stevens (1998) analyze the use of earnings and cash flow to measure liquidity in empirical studies of corporate performance.

Considering from the measurement principal of the recognition, there is a significant difference between earnings and cash flow. An earnings measurement is based on the accrual accounting rules. Based on the rules, the transactions and other events are being recognized when the transaction or other events occur (not at the time cash is being received or paid) and recorded on the accounting statement and reported on the financial statement at the period (SAK, 2002). The financial statement that has been arranged based on the accrual accounting rules will give some information to user, not only about the past transaction that involved the cash receipt and expenditure, but also the obligation of cash payment in the future. Based on the description above, earnings that reported on the financial statement will determine the liquidity or he ability of a company to pay its short term debt as they become due, if not all of the earnings is divided to the shareholders as a dividend.

Cash flow are not based on the accrual accounting rules, but recognized and recorded when the cash is being received or paid. . in SFAC No. 5, the FASB makes the following claims about a statement of cash flow: it provides useful information about an entity's activities in generating cash through operations to repay debt,

distribute dividends, or reinvest to maintain or expand operating capacity; about its financing activities, both debt and equity; and about its investing or spending of cash. Important uses of information about an entity's current cash receipts and payments include helping to assess factors such as the entity's liquidity, financial flexibility, profitability, and risk. In its bearing with the corporate liquidity, because of its reporting principle, hence, cash flow is more relevant compared to earning; because, from the cash flow statement, the real cash have been hold by a company. So, the calculation of corporate liquidity becomes more accurate. Based on the empirical evidence, the theoretical conclusion of corporate liquidity becomes more accurate. According to FASB, the cash flow data as an important supplement to the accrual-based income (earning) statement. Cash Flow statement has been advocated as a way of dealing with the arbitrariness of income measurement, because cash flow information is free from many of the drawback of accrual concept. Based on the empirical evidence, the conclusion is not supported by some consistent evidence. Lancester and Stevens (1998) analyze that the cash flow can not predict the corporate liquidity measured by the current ratio.

The purpose of this study is to replicate the Lancester and Stevens (1998). The reason is: (1) the study considering the ability of earnings and cash flow in predicting corporate liquidity is rarely performed. (2) an important extension in our study is the use of a dynamic measure of liquidity rather than static liquidity (3) Theoretically, the result of research conducted by Lancester and Stevens (1998) is

still required to be conducted at the different time and location, to know whether cash flow is more relevant compared to earnings.

Based on the descriptions and reasons explained above, the writer proposes the thesis entitled: **"THE ABILITY OF EARNINGS AND CASH FLOW IN PREDICTING THE CORPORATE LIQUDITY"**

1.2. Problem Formulation

Based on the background described above, the problems propose in this study are:

1. Do earnings has the ability in explaining the corporate liquidity?
2. Do cash flow has the ability in explaining corporate liquidity?

1.3. Research Objectives

The objectives of this research are:

To analyze the ability of earnings and cash flow in predicting the corporate liquidity

1.4. Research Contribution

The research will be expected o give contribution to the following parties:

1. For the reader

   This research is expected to be valuable in supplementing the literature and complementing the study on the variables that is more affecting the corporate liquidity, so that the economic decision will be taken based on the corporate liquidity will not be misled.

2. For the development of accounting

   The result of this research is expected to give some contribution in the form of empirical finding to the accounting, especially about the ability of earnings and cash flow in predicting corporate liquidity

3. For the researcher

   This research is expected to be useful to broaden the knowledge and implement it in financial report, with the intention that it may complement the empirical knowledge to the researcher.

1.5. Definition of Terms

1.5.1. Liquidity

Corporate liquidity refers to the ability of a company to pay its debts as they become due (Riyanto, 1995; 26)

In this study, we use dynamic view of liquidity (Cash Conversion Cycle) as the measurement of corporate liquidity because this view is needed to capture

ongoing liquidity from the firm's operations rather than the static view of liquidity that only based on the balance sheet data for a given point in time. The shorter the cycle, the corporate liquidity will be greater.

1.5.2. Earnings

Based on the accrual accounting rules, the recognition of revenues and expenses in the income statement, resulting in cash flows being allocated to periods rather than those in which they occur, so earnings recognized when it is earned at that period, not at the time cash money is obtained. Earnings of the company reported in the income statement

1.5.3. Cash Flows

According to SAK (2002) cash is defined as literal cash on hand or demand deposit, plus cash equivalents. Cash equivalents are highly liquid investments that are convertible to known amounts of cash and that have short-term maturities (generally, an original maturity of three months or less)

The research using cash flows from operating activities as one of accounting variable measures because the cash flow from operating activities represents the indicator determining whether from its operation activities the company can provide sufficient cash for paying a debt, maintain the operational activities of company, paying dividend and conduct the new investment without some financing sources from outside.

CHAPTER II

THEORETICAL REVIEW

2.1. Theoretical Review

2.1.1. Corporate Liquidity

Corporate liquidity can be interpreted as the company ability to provide their liquid assets so that it can fulfill their financial obligation as they become due (Riyanto, 1995; 26). In other words, corporate liquidity intended as a comparison between the amount of cash and another assets which can be analogous with money in one hand and the amount of current liabilities on the other hand. A comparison between current assets with the current liabilities of a company referred as by current ratio or working capital ratio (Riyanto, 1995; 26).

Inattention to the liquidity management process may cause severe difficulties and losses due to adverse short-run developments even for the firm with favorable long-run prospects. Incorrect evaluation of the liquidity implications of a firm, may, in turn, subject creditors and investors to an unanticipated risk of default. A cash conversion cycle approach illustrates the potential danger of an intuitive approach to liquidity analysis.

Liquidity has two distinctly different dimensions, that is static and dynamic (cash conversion cycle) view of liquidity.

1. Static View of Liquidity

Financial analysts traditionally have viewed the current ratio as a key indicator of a corporate liquidity position. Logue and Merville, in an empirical study of the capital asset pricing model, state his traditional view when they observe that: As our liquidity variable, the current ratio – current assets divided by current liabilities – was chosen. Even a cursory review of most investment texts suggests this variable's importance: it is widely understood by investors; has more intuitive appeal than other measures, such as short term assets divided by total assets.

Generalizations such as these must be viewed with caution. They fail to recognize that the basic liquidity protection against unanticipated discrepancies in the amount and timing of operating cash inflows and outflows is provided by a firm's cash reserve investments in combination with its unused borrowing capacity rather than by total current asset coverage of outstanding current liabilities.

Inter-firm and inter-period comparisons of current ratio statistics are of questionable value to the financial analyst because of qualitative differences in the liquidity attributes of current asset investments. A concentration of current assets in the less liquid receivables and inventory form may create an increasing current ratio reflecting a deteriorating ability by the firm to cover its current liabilities rather than an improved liquidity position for the firm. Analysts responded to this

problem by supplementing the current ratio with the more restrictive quick ratio, a ratio of the degree to which a company's current assets. By eliminating the relatively liquid inventories and prepaid operating expenses, the quick ratio relates a firm's current liabilities to its remaining current asset commitment to cash, near-cash, and receivables. Thus, the quick ratio is a much more severe test of current liquidity than is the current ratio.

The quick assets in this ratio are presumed to be convertible into cash at approximately their stated balance sheet amounts. Firms may, however, experience distinct differences in the speed with which they can convert receivables, as well as inventories, to usable cash flows. Thus, the quick ratio reflects a different, although not necessarily more reliable, test of potential liquidity, than the current ratio does. The usefulness of both static liquidity indicators is limited by their failure to provide adequate information about cash flow attributes of tae transformation process within a firm's working capital position.

Static liquidity indicators emphasize essentially liquidation, rather than a going concern, approach to liquidity analysis. The ability to meet a firm's obligations through assets liquidation in the event of default should be viewed as strictly a second line of defense. Investors should focus their concern on avoiding default situations by emphasizing 1) a firm's ability to cover its obligations with cash flows from an employment of inventory and receivable investments within the normal course of the firm's ability to cover its obligations with cash flows

from an employment of inventory and receivable investments within the normal course of the firm's operations, and 2) the sensitivity of these operating cash flows to declining sales and earnings during periods of economic adversity. Operating cash flow coverage, rather than asset liquidation value, is the crucial element in liquidity analysis.

2. Dynamic View of Liquidity (Cash Conversion Cycle

The Cash Conversion Cycle or Cash Cycle is an important analysis tool that allows the credit analyst to determine more easily why and when the business needs more cash to operate, and when and how it will be able to repay the cash. It is also used to distinguish between the customer's stated loan purpose and the borrowing cause. Once the cash conversion cycle for the borrower is mapped, the analyst is able to judge whether the purpose, repayment source and structure of the loan are the adequate ones. Managing asset conversion in favor of the business owner is the ultimate goal of transportation logistics and techniques such as just in time inventory.

The Cash Conversion Cycle represents the number of days it takes a company to purchase raw materials, convert them into finished goods, sell the finished product to a customer and receive payment from the customer / account debtor for the product. The Cash Conversion Cycle has three components (Accounts Receivable Turnover Days, Inventory Turnover Days and Payables Turnover Days). At its simplest expression the asset conversion cycle of a company is

defined by the sum of the Accounts Receivable Turnover Days and the Inventory Turnover Days subtracting the Accounts Payable Days.

1. Accounts Receivable Turnover in Days.

   Measures the average number of days from the sale of goods to collection of resulting receivables. It is obtained by the following formula: (Accounts Receivable / Sales X 365).

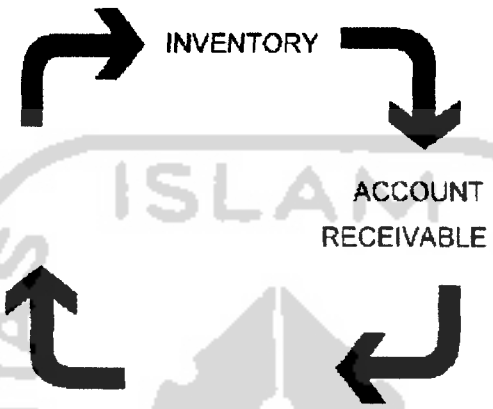
2. Inventory Turnover

   Measures the length of time on average between acquisition and sale of merchandise. For a manufacturer it covers the amount of time between purchase of raw material and sale of the completed product. It is obtained by the following formula: (Inventory / COGS X 365).

3. Payables Turnover in Days

   Measures the average length of time between purchase of goods and payment for them. It is obtained by the following formula: (Accounts Payable / COGS x 365).

Figure.1. Cash Conversion Cycle



Source: www. Loanuniverse.com. Asset Conversion Cycle.

Usually a company acquires inventory on credit, which results in accounts payable. The company will then sell the inventory on credit, which results in accounts receivable. Cash is therefore not involved until the company pays the accounts payable and collects accounts receivable. So the cash conversion cycle measures the time between outlay of cash and the cash recovery.

This cycle is extremely important. This measure illustrates how quickly a company can convert its products into cash through sales. The shorter the cycle, the more working capital a business generates, and the less it has to borrow, means that the liquidity is greater.

However, creditors always look at the cash conversion. They have to because most businesses are not disciplined enough to keep control over the collection of receivables, the managing of inventory or using vendor financing to its fullest. In fact, they will not only look at company's ratios, but having access to industry averages, they will compare a borrowing company to their competitors and determine how well its company in running its business in respect to its peers.

2.1.2. Cash Flow

1. Definition Goals, and Objectives of Cash Flows Statement

Information about cash flow of a company is necessary for the user of financial statement as a basis to assess the ability of a company in providing their cash, cash equivalents, and the role of cash flow in fulfilling the corporate need. In the process of economic decision maker, the user needs to do some evaluation toward the ability of company in providing cash and cash equivalents.

According to SAK (2002) cash flow is defined as inflow and outflow of cash or cash equivalents. The cash flow covers literal cash on hand or on demand deposit, plus cash equivalents. While cash equivalents is highly liquid investments that are convertible to know amounts of cash and that have short-term maturities (generally, an original maturity of three months or less).

A cash equivalent is owned by a company to fulfill the commitment of short-term debt, not for the investment or others. To fulfill the requirement of cash

equivalent, investment has to immediately convert into cash without facing any risk of value changing. Therefore, an investment will fulfill a requirement as a cash equivalent only if that investment immediately will due in a three months or less than the date of its acquirement. Investment in the form of stock will not include in the cash equivalents.. For example: preferred share bought that will immediately due and the redemption date have been determined.

Cash flow statement show the information of cash flow and equivalent cash. Financial Accounting of Standard Board (FASB, 1993: 1047) defining equivalent cash as: short-term investment, very liquid fulfilling two following condition: (1) available to make the cash with the definitive amount, and (2) it has the narrow due date, so the risk of value changing because of the interest rate changed is very small.

PSAK No.2 gives the clarification that the equivalent cash is owned to fulfill the short term cash commitment, and not intended for the investment or other. So that to fulfill the requirement of cash, he investment must be converted into cash immediately without experiencing of risk value changed which significant. The investment that included into cash equivalent have to fulfill some requirement, which is have a due time less than three months or less than the date of its acquirement.

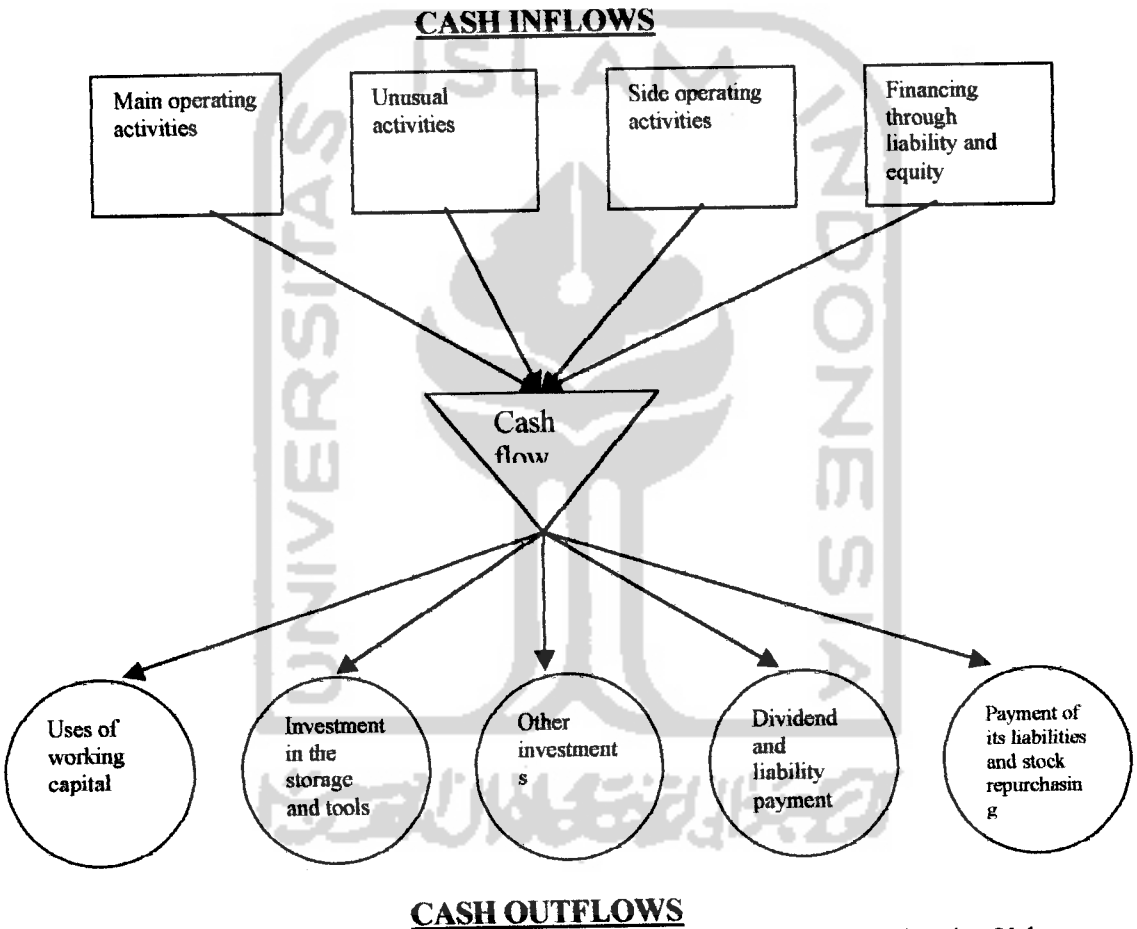
Cash flow do not include: the mutation among spots which is included in cash or cash equivalents, because of those components are more represent a part of company cash management and not as a party of operating activities, investment, and financing.

Commonly, the financial statement includes: cover he report that described the fund allocation of a company at a period of time. Although this report is relied on the same data as a balance sheet and income statement, but the financial statement assist the decision maker in answering some questions that can not immediately answered by another elementary report. For example, fund report can assist to answer the question about: hw earnings used by accompany? Why company does not divide more dividends though earning has been acquired is increase? Why cash tend to decrease while earning get increase? How to pay the debt when a company suffering a loss? Whether the future fund fulfills the requirement of paying a debt?

In the 1971, The Accounting Principles Board (APB) released the opinion number 19 that requires the attachment of fund flow statement along with balance sheet and income statement, which furthermore referred as a fund flow statement. This report is being revised later in order to cover the more complete information, especially in explaining all of the changed of financial position of an entity. This statement later referred as statement of changes in financial position (SCFP). This statement, then, recommended by FASB to be changed become statement of cash flow. Statement of cash flow is intended to to give the relevant information about the cash receipt and cash payment from a company during one period. The main resources (cash inflows) and uses of cash (cash outflow) described on the figure.2. The cash resources including the cash inflow from the main operating activities of a company, from the side activities such as investment security, from unusual or extraordinary, and from financing activities through liabilities and equity. The uses of

cash flows including the cash outflow for maintain the main activities, to do the investment including storage and tools, to pay its obligation trough its liabilities and equities, including the liability payment, dividend payment, and stock repurchasing.

Figure.2.



Source: Skousen, Fred. (1990). Intermediatte Accounting: Comprehensive Volume: South-Western Publishing Co. P. 186

APB opinion No.19 stated that the reporting objectives of the SCFP are to: (1) complete the disclosure of changes in financial position, (2) summarize financing and investing activity, and (3) report funds flow from operations. These three items of information cannot be directly obtained from income statement and comparative balance sheets because of tae manner in which data is aggregated in these two financial statements. Therefore, new information is reported in a SCFP even though it summarizes tae same transactions reported in a n income statement and comparative balance sheets. In other words, the SCFP is a different way of classifying and reporting accounting transactions than occurs in a balance sheet and income statement. However since it relies on definitions and measurements of accounting elements from the other two financial statements, it may be described as a derivative financial statement.

The SCFP is successor to an earlier financial statement called the fund flow statement. in a funds flow statement, certain balance sheet accounts are defined as comprising what is called the fund balance. The purpose of the statement was to show how the fund balance accounts increased from income and other sources and decreased from losses and other uses. The fund flow concept represented the liquid, usable, and available resources of the firm. As such, it was an operating statement closer to cash flow accounting than accrual accounting.

SFAC No. 1 lists three general objectives of financial reporting. The first of these is very broad and simply sates: Financial reporting should provide information that is useful to present and potential investors and creditors and other users in

making rational investments, credit, and similar decisions two additional objectives can be thought of as specific ways of meeting the first objective. These are: (1) reporting information about the firm's net resources and changes in those resources, and (2) reporting information useful in assessing future cash flows these two reporting goals have motivated the FASB's adoption of cash flow statement. in SFAC No. 5, the FASB makes the following claims about a statement of cash flow: it provides useful information about an entity's activities in generating cash through operations to repay debt, distribute dividends, or reinvest to maintain or expand operating capacity; about its financing activities, both debt and equity; and about its investing or spending of cash. Important uses of information about an entity's current cash receipts and payments include helping to assess factors such as the entity's liquidity, financial flexibility, profitability, and risk.

An earlier FASB discussion memorandum suggested that cash flow data are useful supplemental disclosure because they:

1. Provide feedback on actual cash flows,
2. Help to identify the relationship between accounting income and cash flows.
3. provide information about the quality of income
4. Improve comparability of information in financial reports,
5. Aid in assessing flexibility and liquidity, and
6. Assist in predicting future cash flows.

In one way or another, all of the points above deal with the limitations of accrual accounting. This is not to say accrual data is uninformative, but, rather, that cash flow data can supplement the income statement and balance sheet.

It is obvious that cash flow is necessary in assessing past cash flows (point 1). It follows that cash flows is also necessary in understanding the actual cash flow being generated from operations (point 2) – that is, the relationship between accounting income and cash flows. The third point also relates to the cash flow component of accounting income. Quality of income is a term used by financial analysts to describe this relationship. The higher the correlation between accounting income and cash flows, the better the quality of earnings. The quality of earnings concepts reflects awareness that accounting income comprises many noncash accruals and deferrals and that is does not necessarily give a good indication of liquidity.

The fourth point deals with the uniformity problem. Owing to flexibility in he choice of some accounting policies, comparability between companies may not be achieved. Many areas of accounting fail to achieve uniformity. Cash flows from operation is a simpler measurement and is subject to fewer arbitrary choices of accounting policy. For this reason, cash flow measurement is more uniform tan income measurement and results in a higher level of comparability. Thus, cash flow statements have been advocated as a way of dealing with the arbitrariness of income measurement. There is an appealing simplicity to cash flow when contrasted with the abstractness and complexity of accounting income. The fifth point concerns the use of cash flow data to assist in assessing a firm's financial flexibility and liquidity. Cash

being generated internally from operations gives an indication of both liquidity and flexibility. Cash flow represents internal resources available for debt servicing and repayment, new investment, and distributions to stockholders. This was the original reason for requiring a fund flow statement.

Liquidity information is also contained in the balance sheet. However, the current-noncurrent classification system is a poor guide to liquidity; this is because some current items are deferred charges or credits that have no impact on future cash flows. Other assets such as inventory may not be readily converted into cash. Within the current group of assets, very few are actually convertible to cash within a short period of time. and since the attribute of measurement reported in the balance sheet is normally something other than net realizable value, it is not possible to determine how much cash will be generated from assets. A balance sheet presents nothing more than a crude ranking of liquidity. As a consequence. The balance sheet in its presents form reveals very little about liquidity and flexibility. A cash flow statement, on the other hand, gives itisight into the cash-generating potential of operations.

The sixth and final point suggests that cash flow data are useful for predicting future cash flows. Its makes sense that past cash flow data would be useful in predicting future cash flows. However, it is unclear if cash flow, fund flow, or accounting income are better predictors of future cash flows. The expanded disclosure philosophy would maintain that all potentially useful information should be disclosed, holding aside the question of costs. However, in the case of SCFP, there is only minimal cost in presenting the information since it is nothing more than a

different way of summarizing and classifying accounting transactions for the period. The preceding discussion points to the rediscovery of cash-basis accounting as an important supplement to accrual-based financial statements.

Goals of cash flows statement according to the Financial Accounting Standard (FAS) No. 2 is to provide a historic information of cash and cash equivalent change of a company.

2. The Classification of Cash Flows

This classifying of cash flows is important to be conducted to evaluate occurred cash flows and predict future cash flows. This cash flows statement is reported through three kinds of activity, that are: (1) cash flows from operating activities, (2) cash flows from investing activities, and (3) cash flows from financing activities.

This classifying allows the users to differ between constantly repetitive activity and the change of long term strategy. A company presents the cash flow from operating activities, investing activities, and financing activities using the most suitable with the business run by its company (SAK, 2002). The classification according to its activities gives some conducive information that enables the users to assess the effect of its activities toward the financial position, cash, and equivalent cash. The information also uses to evaluate the relation among those third activities

1. Cash Flows From Operating Activities

The amount of cash flow coming from operating activities is as an indicator that determines whether a company can provide enough cash flow to pay their debt, maintain the ability of the operating activities, paying dividend and conduct the new investment without relying on financing sources from outside. Information concerning certain element of historical cash flow along with other is useful to predict the future cash flow (SAK, 2002).

Cash flow from operating activities primarily is obtained from the main activity of a company that yielding earnings. Therefore, the cash flow generally coming from transaction and other events that determine the stipulating of profit or net loss. Some examples of cash flow from operating activities are (SAK, 2002):

- The cash inflow from sale of goods and services
- Cash inflow from royalty, fee, commission, earnings, and other.
- Cash payment to supplier
- Cash payment to employees
- Cash receipt from insurance company referring to premium, claim, the annuity and other insurance benefit.

- Cash expenditure or readmission (restitution) of income tax unless can be identified peculiarly as a part of financing and investing activities.
- Cash receipt and expenditure from a contract which is performed for the purpose of transaction of a business

The cash flow from operating activities represents the indicator determining whether from its operation activities the company can provide sufficient cash for paying a debt, maintain the operational activities of company, paying dividend and conduct the new investment without some financing sources from outside. The information of certain element of historical cash flow can be useful in predicting the future cash flow from operating activities.

Cash flow from operating activities obtained from the main activities of a company in providing earnings, which generally come from transaction or event influencing profit or loss stipulation. Some example of cash flow from operating activities are: cash inflow from sales of goods and service, cash inflow from royalty, fee, commission and other earnings; cash payment to the supplier, cash payment to employees, cash receipt and disbursement from business transaction and trading contract

2. Cash Flows From Investing Activities

Some transaction, like sale of factory equipments, can generate the advantage or loss that included into the calculation of profit or net loss. Cash flow concerning with this kind of transaction represents the cash flow from investing activities.

The separate disclosure of cash flow coming from investing activities require to be conducted because the cash flow reflected the cash receipt and cash payment in their relation with the resources that its purpose is to provide future earnings and cash flow. Some example of cash flow coming from investment activities are(SAK, 2002): (a) Cash expenditure to purchase the fix assets, asset that d o not be extent, and other long-term asset, including the capitalized development expenses. (b) Cash inflow from the land sale, ground sale, building and equipments, asset do not be extant and other long-term assets (c) the acquirement of share and other company's financial instrument (d) advanced money and loan to another party and also its redemption (unless if it is conducted by financial institution (e) cash payment referring to refuses contracts, forward contracts, option contracts, and swap contracts, unless the contract conducted for the purpose of commerce (dealing or trading), or if the payment is classified as the financing activities.

Investment activities including the supply and acceptance of a debt and also requirement and investment disposition (whether it is debt or equity) and also properties, factory and equipments

Cash flow from investing activities reflects the cash receipt and disbursement that related with the activities resulted earnings and future cash flow. Some examples of cash flow from investing activities are: cash flow from obtain the plant assets and other long term assets and advanced money or debt which given to another party and along with its redemption.

3. Cash Flows From Financing Activities

The separate disclosure of cash flow arising from financing activities requires to be conducted because it is useful for investor to predict the claim to the future cash flows. Some examples of cash flow from financing activities are (SAK, 2002): (1) cash inflow from the emission of share or other capital instrument. (2) Cash payment to all stockholders to draw or redeem the company share. (3) Cash inflow from obligation emission, loan, money order, other loan and mortgage. (4) Loan redemption. (5) Cash payment by lease to lessen the obligation balance that related with the lease

Financing activities entangle the post of obligation and owner's equities and cover: (a) Capital acquirement from owner and its compensation to them with the 4erturn from their investment and (b) Loan from creditor and its debt reimbursement.

Cash flow from financing activities is needed to give the information to outside party in predict the future cash flow. Examples of cash flow from financing activities are: cash inflow from share emission, obligation, debt, money order, mortgage, and other loan, cash payment to stockholder to draw or redeem the share; loan redemption.

2.1.3. Earnings

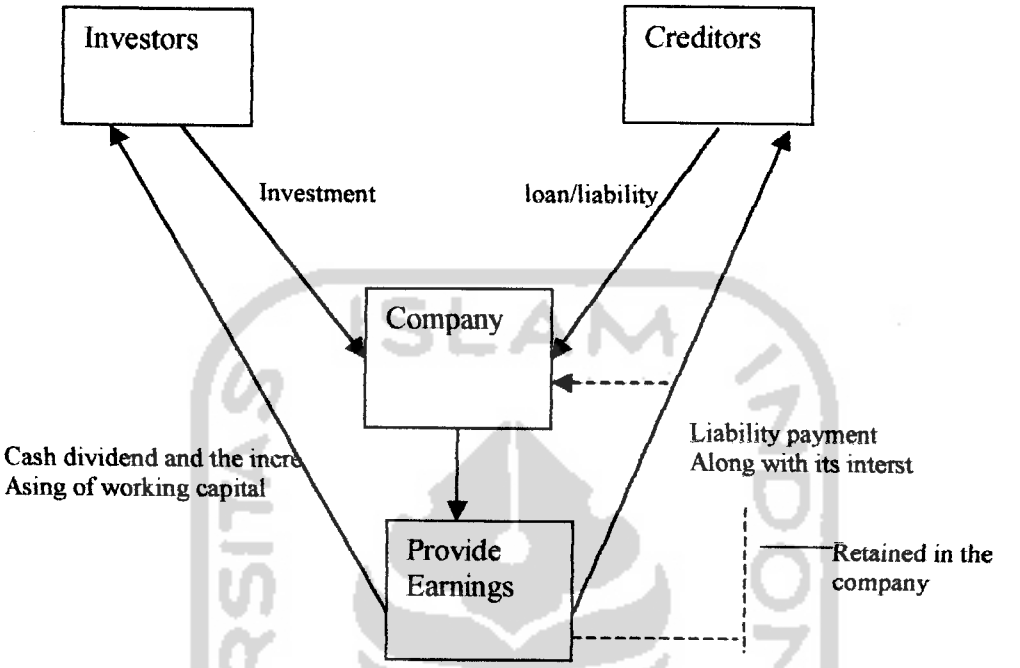
Earnings obtained by a company in a specified period reported on the income statement. Financial Accounting Standard Board defining the new term of the bottom line from income statement. The last calculation number from income statement usually referred as net income. But FASB do not define it as income, but earnings. In this study, we also defined earnings as income.

According to the Financial Accounting Standard (FAS 25), it is stated that income statement is main statement to report the performance of a corporation as long as certain period. In the FASB Statement of Financial Accounting Concept No. 1 stated that the main objective of financial statement is information of corporate achievement presented through income measurement and its components. Information existed at income statement is mainly about profitability is required by related parties as basic of economic decision making. Income calculation statement presents useful financial information to assess ability or success of the company as well as management efficiently in managing its venture activities, making profit

estimation in the future due to the success of corporate venture, and assessing profitability of capital invested by the owner.

Income calculation is quite important for stakeholders due to information presented provide information to investors and creditors to forecast amount, time, and uncertainty of future cash flows. Investors and creditors use earnings information and information related with the earnings component in several ways. Then, for the customer, income information can be used to determine the ability of a company to provide goods and service. For the employees and job union, income statement is useful as a basic of wage discussion. Whereas, for the authority, information existed at income statement can be used as the formulation of taxes and economic policy. The usefulness of income information for the investors and creditors will be presented on the figure.3.

Figure 3



Source: Skousen, Fred. (1990). Intermediatte Accounting: Comprehensive Volume: South-Western Publishing Co. P. 36

Goals of income statement according to Harnanto (1985) was to determine profit (loss) yielded by a company in certain period mentioned within it. Thus, goals existed in income statement is suitable with each importance

Stakeholders use income statement to determine the profitability, assess the investment and credit eligibility. Because of the obtained earnings represents the harsh estimation, the user of income statement have to be careful in giving the emphasis on it. The earnings measurement in accountancy represents a lot of assumption and principle specified during some decade by accountant, like the

assumption of periodicities, principal of revenue recognition, and principal of contesting (matching).

Income statement is important for investor and creditor. This matter is caused by those report provide the information that help them to forecast the amount, time and uncertainty from future cash flow. The accurate forecast of future cash flow assists the investor to assess the economic value of a company. It can also help creditor to determine the profitability from its claim reimbursement to a company.

Some benefits that can be obtained from income statement especially to its users are:

(1) Assisting the users to forecast the future cash flow

(2) Providing information to evaluate the achievement of a company. Though the achievement in the past does not need to have the same meaning with the achievement in the future, we can determine some tendencies that is followed with an assumption that if a correlation between achievement in the past and in the future can be assumed, so, the prediction of future cash flow can be made.

(3) Providing the information to determine the risk (the uncertainty level) from do not reach become the reached of certain cash flow.

(4) Providing the information to determine the company ability in providing goods and service.

According to SAK (2002), the earnings cover: posts arising from transfer of fix asset, unrealized earnings, for example earnings from marketable securities

revaluation and from the increasing of long term assets amount. Commonly, assets reported in the net amount.

2.5. Prior Studies

Here are some relevant prior studies that relevant with this study:

Wertheim, P and Robinson (1991). Wertheim, P and Robinson analyze the relative information provide by changes in accrual earnings and cash flow in explaining the changes in a company's liquidity. They conclude that the accrual income measures have more explanatory power than cash flow measures in explaining changes in liquidity.

Lancaster and Stevens (1998) analyze the ability of accrual earnings and cash flow in predict the corporate liquidity. The accrual earnings is measured using the income before extra ordinary items, while the cash flow measured by working capital from cash flow operation and cash flow from operating activities. They conclude that earnings has the ability in predicting the corporate liquidity significantly and the earnings measures has more explanatory power than cash flow from operating activities in explaining changes in liquidity.

2.6. Hypotheses

Earnings obtained by a company from its business activity, some of the earnings will be divided as a dividend and some of that will be kept as a retained earning. The retained earning has a function as internal source of fund for the continuity of the operation of the company. This retained earnings will be re invested (ploughed back) on the fixed and current assets, for example: the purchasing of raw materials and purchasing of indirect material to make a sales product (inventory), as a fund of company expansion, as a reserve to cover if there is a loss in the company, to reacquired of share and one of its function is to pay if there is any debt or liabilities. If the earnings is increase, the corporate liquidity will be increase also. Lancaster and Stevens (1998) analyze that the accrual earnings significantly affect the corporate liquidity. So, the hypothesis is:

H1: Earnings significantly related to (has the ability in predicting) the corporate liquidity.

The cash flow from operating activities represents the indicator determining whether from its operation activities the company can provide sufficient cash for paying a debt, maintain the operational activities of company, paying dividend and conduct the new investment without some financing sources from outside.

The prior study conducted by Lancaster and Silvester (1998) indicating that cash flow from operating activities significantly affect to (has the ability in predicting) the corporate liquidity. Thereby, the hypotheses are:

H2: Cash Flows from operating activities significantly related to (has the ability in predicting) the corporate liquidity.

CHAPTER III

RESEARCH METHOD

3.1. Research Object

Population in this study include all the company listed in the Jakarta Stock Exchange from the 2002 to the 2004. The sampling based on the purpose sampling, which aimed at obtaining the representative sample accordance with predetermined criteria. The criteria used to selecting the sample is followed: (1) Samples are the manufacturing companies listed in Jakarta Stock Exchange in the period of 2002–2004; (2) The samples has published the annual financial report in the period of 2002 2004

3.2. Research setting

Data used in this study were secondary data. All the data derived from financial report in the period of 2002-2004 that obtained from Central Capital Market Directory on Jakarta Stock Exchange (BEJ)

3.3. Research Variable

3.3.1. The Dependent Variable

The dependent variable in this study is corporate liquidity. We use the cash conversion cycle (dynamic view of liquidity) to calculate the corporate liquidity, which is formulated as follow:

$$Y = [INVt /(COGS_t /365)] + [RECT_t /(SALE_t / 365)] - \{APt /(COGS_t /365)]$$

Where:

Y = Corporate liquidity (cash conversion cycle in period)

INVT = Inventories (total)

COGS = Cost of Good Sold

RECT = Total current receivables

SALE = Sales (net)

AP = Accounts Payable

3.3.2. The Independent Variable

The independent variables in this research are earnings and operating cash flow. Earnings used is pre-tax earnings, excluding the extra ordinary items and discounted operation that was released for discounting the elements causing the intermittent earnings increasing –raised in one period but not in another (Machfoed 1994).

1. CFFO = Cash Flow From Operating Activities

The formula:

$$CFFO = WCFO_t + [(LCT_t - DLC_t) - (LCT_{t-1} - DLC_{t-1})] - [(ACT_t - CHE_t) - (ACT_{t-1} - CHEt_{-1})]$$

CFFO = Cash Flow From Operating activities

WCFO = Working Capital From Operation

LCT = Current Liabilities (total)

DLC = Long Term Debt Listed in Current Liabilities

ACT = Current Asset (total)

CHE = Cash and Cash Equivalent

While the Working Capital From Operations (WCFO) can be formulated as follows:

$$WCFO = CA - CL$$

Where:

WCFO = Working Capital From Operation

CA = Current assets (total)

CL = Current Liabilities (total)

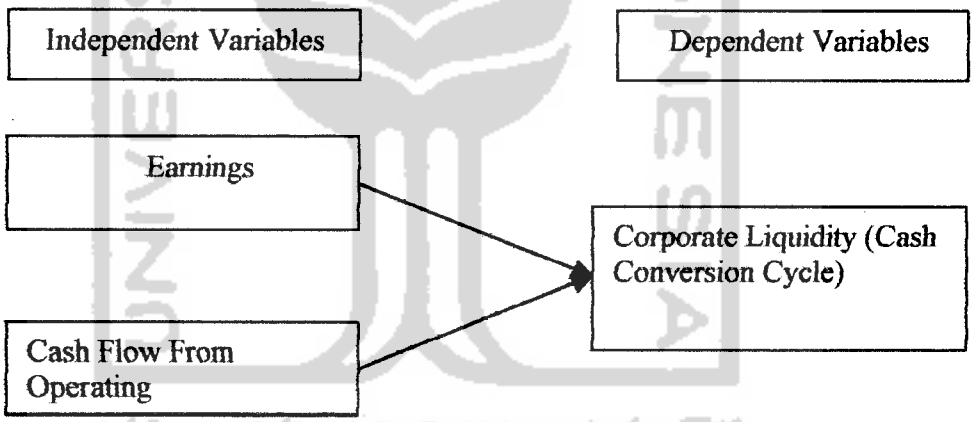
2. EBEI = Earning Before Extraordinary Items

3.4. Research Data

Data used in this study were the financial report in the period of 2002 – 2004. The financial report during 2002 – 2004 derived from central Capital Market Reference of Jakarta Stock Exchange. Data concerning the total samples acquired from Fact Book published by Jakarta Stock Exchange.

3.5. Theoretical Framework and Statistical Hypothesis

3.5.1. Theoretical Framework



3.5.2. Statistical Hypothesis

Where the statistical hypothesis of the research were followed:

$H_o1 : b1 = 0$, Earnings not significantly related to the corporate liquidity.

$H_o1 : b1 \neq 0$, Earnings significantly related to the corporate liquidity.

$H_o2 : b2 = 0$, Cash flow from operating activity not significantly related to the corporate liquidity.

$H_o2 : b2 \neq 0$, Cash flow from operating activity significantly related to the corporate liquidity.

3.6. Technique of Data Analysis

3.6.1. Correlation Analysis

In order to measure the relationship level between the two variables, the correlation analysis is used as supporting tool. This also used to knowing the relationship rate between variables in regression equation.

3.6.2. Hypothesis Test With Regression Analysis

Statistical analysis method used to provide evidence for the hypothesis is multiply linear regression. This analysis aimed at finding the relationship between dependent variable and one or more independent variable.

The method analysis used in this study is multiple regression analysis. The regression model refers the regression model applied by Lancaster and Stevens (1998).

Here are some models used to test the hypotheses:

$$Y = \beta_0 + \beta_1 EBEI + \beta_2 CFFO + \varepsilon$$

Where:

Y : Dependent variable (Current Ratio, Quick Ratio, Cash Conversion Cycle)

EBEI : Earning Before Extraordinary Items

CFFO : Cash Flow From Operation

ε : Disturbance error at the t period

Statistical test of hypothesis to testing the Ho and Ha is significance test of regression coefficient number. This test intended to know the significance level of independent variable (X) estimated by dependent variable (Y). The steps involve in this testing are:

1. Determining hypothesis

   Ho : $b = 0$

   Ha : $b \neq 0$

2. Determining the critical area of test point (n, α, df, and t-table)

   $Df = n - 1 - k$

3. Measuring the t-test (derived from SPSS output)
4. Comparing the t-test with t-table

In the sense that t-test > t-table, then it is significant that X become the Y estimator. While in the condition that t-test < t-table it is not significant that X becomes the Y estimator.

3.6.3. The Classical Assumption Test

The regression test is valid when it is fulfilled the classical assumption, which there are no multicollinearity, hetreroscedasticity, and autocorrelation.

1. Autocorrelation Test

The autocorrelation represents the correlation among members in time series or between spaces for the cross section data. If there is an existence of significant autocorrelation, the appraiser becoming inconsistent, though do not deflect.

The examination toward the autocorrelation phenomenon in the analyzed data can be conducted by using Durbin-Watson Test, employing the following criterion:

$d < d_L$	: reject Ho
$d > d_U$	: do not reject Ho
$d_L \leq d \leq d_U$	: inconclusive examination
$d > 4-d_L$	: reject Ho*
$d > 4-d_U$	: do not reject Ho*
$4-d_u \leq d \leq 4-d_L$	: inconclusive examination

The formula employed in this static of Durbin Watson is as follows (Gujarati, 1995;422):

$$d = \frac{\Sigma\hat{\mu}_t^2 + \Sigma\hat{\mu}_{t-1}^2 - 2\Sigma\hat{\mu}_t\hat{\mu}_{t-1}}{\Sigma\hat{\mu}_t^2}$$

Where:

d : Durbin-Watson statistic

$\hat{\mu}_t$: Residual value in t period

$\hat{\mu}_{t-1}$: Residual value in t-1 period

2. Heteroscedasticity Test

The heteroscedasticity (the same variant) is an assumption where in the each of the interruption factor (ei) of certain independent variable has the same variant value in the amount of 2. if the result model does not fulfill the assumption, so, there is a possibility that the heteroscedasticity occurred. When the heteroscedasticity occurred, then the variant become deviate, so that the significance test is not valid.

The examination to the assumption of heteroscedasticity is conducted using Spearmen's Rank Correlation. The test of heteroscedasticity will be relied on the following hypotheses:

Ho : $r_s = 0$ the heteroscedasticity does not occur

Ha : $r_s > 0$ the heteroscedasticity occur

Test of criterion: if rs<r table, so that Ho is accepted and Ha is refused, means that the heteroscedasticity does not occur. The level of rs is calculated using formula (Gujarati, 1995):

$$r_s = 1 - 6\left[\frac{\Sigma d_i^2}{n(n^2-1)}\right]$$

Where:

rs: Spearman correlation coefficient

d_i: Ranking differences

n : Sample amount

3. Multicollinearity Test

Multicollinearity is a condition in which one or more independent variable can be stated as linear combination from other independent variables. This test of assumption was to test whether correlation between independent variable occurs. The method to test multicollinearity can be seen at the tolerance value (VIF). If VIF is bigger than 10, so the independent variable has the multicollinearity problem with another independent variable. the VIF value in this model is less than 5 for all the variables, so, this model does not have the multicollinearity problem.

Formula to calculate VIF is as follow (Gujarati, 1995):

$$VIF_j = var(\beta_j)\frac{\Sigma x_j}{\sigma^2}$$

All the calculation used in the data analysis, especially regression analysis and test of assumption employ the SPSS 13.0 program.

3.6.4. t Test

The hypotheses on this study will be examined using the t test

H_o : $b_i=0$ The independent variable Xi is significantly related to the independent variable Y.

H_a : $b_i\neq0$ The independent variable Xi is not significantly related to the independent variable Y.

The test to the hypotheses will be conducted through the test of the significance of regression coefficient of bi using the t test. The criterion used to accept or refuse the hypothesis is as follows:

If $t_{value}>tt_{able}$ so that the alternative hypothesis (H_a) will be accepted and the null hypothesis (H_o) will be rejected.

The tt_{able} value obtained from the distribution table of t in the α significance and the degree of freedom of n-k-1. Where n = the sample amount, k = independent variable amount, while the t_{value} can be obtained from the print out program of SPSS 13.0

CHAPTER IV

RESEARCH FINDINGS

4.1. Descriptive Analysis

In this research, the data used by the researcher is the secondary data that is audited Financial Statement data of companies listed in Jakarta Stock Exchange (BEJ) that categorized as manufacturing companies for the year 2002, 2003, and 2004.

The sample used in this research is sixty manufacturing companies listed in JSX. Data was analyzed with linear multiple regression method to know the association between earnings and cash flow with corporate liquidity using dynamic measurement (cash conversion cycle).

Analysis procedure was done by doing test of assumptions in linear multiple regressions like autocorrelation, multicolleration, and heteroscedasticity, and also test of significance model like F test and t-test.

4.2. List of Sample

No.	Companies	Code
1	Andhi Chandra	ACAP
2	Aqua Golden Missisipi	AQUA
3	Arwana Citramulia	ARNA
4	Astra Graphia	ASGR
5	Astra International	ASII
6	Astra Otopart	AUTO
7	Barito Pacific	BRPT
8	Branta Mulia	BRAM
9	Cahaya Kalbar	CEKA
10	Citra Turbindo	CTBN
11	Dankos	DNKS
12	Darya Varia	DVLA
13	Dynaplast	DYNA
14	Ekadharma Tape Industry	EKAD
15	Eratex Jaya	ERTX
16	Evershine	ESTI
17	Fajar Surya Wisesa	FASW
18	Fortune Mate	FMII
19	Gajah Tunggal	GJTL
20	Goodyear	GDYR
21	GT Petrochem	KBLI
22	HM Sampoerna	HMSP
23	Indah Kiat Pulp & Paper	INKP
24	Indocement	INTP
25	Indofarma	INAF
26	Indofood	INDF
27	Indomobil Sukses Int	IMAS
28	Indorama Syntetics	INDR
29	Indospring	INDS
30	Interdelta	INDL
31	Jaya Pari Steel	JPRS
32	Kalbe Farma	KLBF

33	Kedawung Setia	KDSI
34	Kimia Farma	KAEF
35	Langgeng Makmur	LMPI
36	Lautan Luas	LTLS
37	Lion Metal Works	LION
38	Lionmesh Prima	LMSH
39	Merck Indonesia	MERK
40	Multi Prima Sejahtera	MLTS
41	Mustika Ratu	MRAT
42	Prasidha Aneka	PSDN
43	Roda Vivatex	RDTX
44	Ryane Adibusana	RYAN
45	Sarasa Nugraha	SRSN
46	Sari Husada	SHDA
47	Schering Plough	SCPI
48	Selamat Sampurna	SMSM
49	Semen Cibinong	SMCB
50	Semen Gresik	SMGR
51	Siwani Makmur	SIMA
52	Sorini Corporation	SOBI
53	Sugi Samapersada	SUGI
54	Sumiplast	SMPL
55	Sunson Textile Fanufacture	SSTM
56	Surya Damai	SYDM
57	Tifico	TFCO
58	Tirta Mahakam	TIRT
59	Tjiwi Kimia	TKIM
60	Unggul Indah Cahaya	UNIC

4.3. Classical Assumption

4.3.1. Autocorrelation Testing

The Durbin-Watson value is 1.901. We can see from Durbin_Watson table that 1.901 lies between d_u and 4-d_u. the d_u is 1.72 and 4-d_u is 2.28 from the SPSS result, we can see that the Durbin-Watson value (1.901) is between 1.65 and 2.35. So, this model does not have the autocorrelation problem.

4.3.2. Multicollinearity Testing

Table: 4.3.1.

Analysis result of Multicollinearity

Variables	Multicollinearity	
	VIF	Tolerance Value
IBEI	2,012	0,497
CFFO	2,011	0,498

EBEI : Earnings Before Extraordinary Item

CFFO : Cash flow From Operation

Multicollinearity is a condition in which one or more independent variables can be stated as linear combination from other independent variables. This test of assumption was to test whether correlation between independent variable occurs. The method to test multicollinearity can be seen from the

tolerance value (FIV). If FIV is bigger than 5, so, the independent variable has the multicollinearity problem with another independent variables. The FIV value in this model is less than 5, so this model does not have the multicollinearity problem.

4.3.3. Heteroscedasticity Testing

Table 4.3.2

Analysis Result of Heteroscedasticity

Variables	Sig.2-tailed
IBEI	0,656
CFFO	0,773

The test of heteroscedasticity assumption using Rank Spearmen test shows that the significant of all the variables is bigger than 0.05. We can conclude then, that in this research, the heteroscedasticity problem does not occur.

4.4. Model Testing

Equation:

$$Y = \beta_0 + \beta_1 IBEI + \beta_1 CFFO + \varepsilon$$

Table 4.4.1

The Regression Data Analysis Result

Variables	Coefficient	t-value	significant
(Constant)	5.20	2.564	0.816
IBEI	-0.285	2.356	0.001
CFFO	-0,752	4.256	0,002

R : 0.919

R-squared : 0.845

A. Regression Analysis

To know the relationship between both earnings and cash flows and corporate liquidity, further, the regression analysis is needed. The regression will be done to test whether earnings and cash flows has a significant impact to the corporate liquidity. The regression calculation here can be seen in appendix with the results described bellow:

a. R and R squared

- R = 0.919

The closer the coefficient of R to 1, the stronger the relationship between dependent and independent variables. As the coefficient of R is 0.919, it can be said that the relationship between both earnings and cash flow from operating activities with corporate liquidity is strong because the result of calculation is above 0.05

- $R^2 = 0.845$

The variation of earnings and cash flow from operating activities will explain around 84.5% to the variation of corporate liquidity. The rest of 84.5% means that the rest of corporate liquidity is influenced by other variables.

b. Regression Function

Regression equation:

$Y = Y = \beta_0 + \beta_1 EBEI + \beta_2 CFFO + \varepsilon$

$Y = 5.202 + (0.285)\ AE + (0.752)\ CFFO + \varepsilon$

It means:

- $\alpha_0 = 5.202$

  Constant of corporate liquidity, means that if there is no earnings and cash flow, so the corporate liquidity will increase 5.202

- $\alpha_1 = -0.285$

  Earnings has a negative relation to the changes of corporate liquidity. If earnings increases of 1, the cash conversion cycle will decrease by 0.285

- $\alpha_1 = -0.752$

  Cash flow from operating activities has a negative relation to the changes of corporate liquidity. If cash flow from operating activities increases of 1, the cash conversion cycle will decrease by 0.752

c. t-test

the hypothesis is :

Ho;b = 0 means that X will not significantly affect Y

Ho;b ≠0 means that X will significantly affect Y

Conditions:

If t<t-table, Ho is accepted, Ha is rejected.

If t>t-table, Ho is accepted, Ha is rejected.

It means:

- Earnings

  The multiple regression analysis of earnings shows that t = 2.356 at the df of 177 and α = 5%. The t table = 1.960

  Significance: 0.001<0.005

  $t_{value} > t_{table}$. It means that there is significant relationship between earnings and corporate liquidity.

- Cash Flow From Operating Activities

  Significance: 0.002<0.005

  The multiple regression analysis of cash flows from operating activities shows that t = 4.256 at the df of 177 and α = 5%. The t table = 1.960

$t_{value} > t_{table}$. It means that there is a significant relationship between cash flow from operating activities and corporate liquidity.

d. F Test

The hypothesis is:

Ho; b = 0 means that X will not significantly affect Y

Ho;b ≠0 means that X will significantly affect Y

Conditions:

If F>0.005 – Ho is accepted, Ha is rejected

If F<0.005 – Ho is accepted, Ha is rejected

It means:

- F = 0.000<0.005

Earnings along with cash flow from operating activities has significant impact on corporate liquidity

In short, the results of regression analysis above can be explained as follows:

There is a strong relationship between independent variables of earnings and cash flow from operating activities and dependent variable of corporate liquidity. Earnings and cash flow from operating activities explain around 84.5%, while the rest of 15.5% means that corporate liquidity is influenced by other variables outside earnings and cash flows from operating activities.

Cash flow from operation is highly significant in explaining cash conversion cycle (α = -0.752 is closer to -1) while income before extraordinary item is insignificant (α= -0.285). The shorter the cycle, the greater the corporate liquidity. Cash flow gives higher contribution than earnings in explaining corporate liquidity.

Overall, the results in table 4.4.1 offer important modifications to the Lancester and Stevens study. Lancester and Stevens, using static view of liquidity conclude from their findings that earnings are more significantly related to corporate liquidity than are cash flows from operating activities. This conclusion is modified when the cash conversion cycle is the measure of corporate liquidity. A more appropriate conclusion is that cash flows from operating activities offers a highly significant relationship with a dynamic liquidity measure (cash conversion cycle)

The computed F statistic for this hypothesis in both the Lancester and Stevens study and the replication are statistically significant at the level of 5%, which means the null hypothesis is not supported.

CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

5.1. Conclusions

Based on the calculation and analysis above, some conclusions can be described as follows:

1. Earnings significantly affect corporate liquidity. It supports the first hypothesis stated before.
2. Cash flow from operating significantly affects corporate liquidity. It supports the second hypothesis stated before.
3. Cash flow from operating activities is highly significant in explaining changes in the corporate liquidity while earnings is insignificant because cash flow from operating activities gives higher contribution than earnings. It may occur because Earning is a poor indicator of liquidity when the cash conversion cycle is the measure of corporate liquidity. Three reasons for this is accounting earnings comprises many noncash accruals and deferrals and that is does not necessarily give a good indication of liquidity because they have no impact on future cash flow. Cash flow, on the other hand, is free from many of the drawbacks of accrual concepts and contain of cash equivalent that owned to fulfill short-term cash commitment, and can be converted into cash immediately (have the due time less than 3 months or less from the date of its

redemption) and should be more useful than reported income in assessing liquidity.

5.2. Recommendation

1. For the Users

If the users of Financial Statement want to evaluate the corporate liquidity, they had better to use cash flows than earnings as a predictor to evaluate corporate liquidity.

2. For Future Research

This replication follows suggestions made by Lancester and Stevens to extend the measures of liquidity in the analysis of accrual income versus cash flow. An important extension in our study is the use of dynamic measure of liquidity rather than static measure of liquidity used in the Lancester and Stevens study, but there are still a number of areas where future research is needed. First, other measures of accounting flow data should be examined relative to corporate liquidity to see if others measures affect the reasons. Second, both Lancester and Stevens and our replication use manufacturing companies. Relationship between liquidity measures and accrual income versus cash flows may be different for subsets of service firms or firms with specific condition. Finally, added research should test for more recent data and time.

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DEPENDENT VARIABLE: CASH CONVERSION CYCLE (2003)

No	companies	AR	INV	AP	COGS	SALE	COGS/365	SALE/365	INV/(COGS/365) 1	AR/(SALE/365) 2	AP/(COGS/365) 3	1+2+3
1	Andhi Chandra	2E+10	3E+10	1E+10	-1E+11	1E+11	-3,18E+08	3,91E+08	-84,03943242	54,79169295	-37,45218485	-66,6999
2	Aqua	2E+11	8E+09	4E+10	1E+12	1E+12	2,657E+09	2,95E+09	2,94126926	51,4730297	13,41333182	67,8276
3	Arwana	4E+10	1E+11	5E+10	1E+11	2E+11	343906849	5,29E+08	410,169208	67,23624565	149,8516244	627,257
4	Astra Graphia	1E+11	1E+11	1E+11	6E+11	8E+11	1,523E+09	2,2E+09	68,65631775	59,17904354	74,85857586	202,694
5	Astra Internatio	1E+12	1E+12	3E+12	-2E+13	3E+13	-6,3E+10	8,49E+10	-15,86956522	13,62274194	-40,62608696	-42,8729
6	Astra Otopart	6E+11	3E+11	4E+11	1E+12	2E+12	2,74E+09	5,48E+09	93,44	111,8725	133,59	338,903
7	Barito	2E+11	3E+11	7E+11	2E+12	2E+12	5,184E+09	5,13E+09	55,23518132	36,38220263	135,4500771	227,067
8	Branta Mulia	2E+11	3E+11	2E+11	1E+12	1E+12	2,701E+09	3,38E+09	94,02636917	67,11212146	86,2525355	247,391
9	Cahaya Kalbar	3E+09	2E+09	5E+09	5E+09	5E+09	15035502	12574557	163,5432128	227,0159854	322,8503228	254,212
10	Citra Turbindo	4E+11	9E+10	3E+10	7E+11	8E+11	1,959E+09	2,17E+09	44,92307692	162,8305556	13,61730769	221,371
11	Dankos	2E+11	9E+10	1E+11	6E+11	1E+13	1,579E+09	3,26E+10	58,58666572	6,704503082	60,42127891	125,712
12	Darya Varia	3E+10	1E+11	1E+11	9E+12	1E+10	2,34E+10	34359600	5,854056206	733,24485	4,282308203	98,568
13	Dynaplast	2E+11	5E+11	2E+10	6E+11	1E+11	1,678E+09	3,44E+08	326,8635143	626,9265161	12,84023687	966,63
14	Ekadharma	5E+11	2E+11	3E+11	2E+10	5E+12	59017295	1,5E+10	3645,787958	36,0950619	5348,361821	210,202
15	Eratex Jaya	2E+12	6E+11	1E+09	6E+11	2E+11	1,679E+09	5,9E+08	365,0512144	3204,993398	0,56931315	223,232
16	Evershine	1E+12	2E+11	2E+09	2E+11	1E+12	638356164	3,08E+09	292,1832833	320,0188928	2,617660944	98,698
17	Fajar Wisesa	5E+09	2E+11	1E+12	5E+10	6E+10	125698225	1,61E+08	1806,533067	34,09794074	8082,850808	99,985
18	Fortune Mate	7E+11	3E+09	3E+11	1E+11	2E+10	271232877	58790828	10,52462908	12161,76106	1229,987323	102,362
19	Gajah Tunggal	6E+11	4E+11	3E+11	1E+11	2E+10	262567123	59035333	1345,636863	9763,034623	1013,074282	256,785
20	Goodyear	9E+12	1E+12	8E+10	1E+11	2E+11	378109589	4,36E+08	2644,735889	19610,42521	223,6913681	223,232
21	GT Petrochem	1E+12	2E+12	1E+11	7E+11	2E+10	1,959E+09	59031753	965,8395175	16702,87513	51,38638462	452,256
22	HM Sampoerna	5E+09	1E+12	2E+11	7E+11	2E+11	1,794E+09	6,74E+08	549,6192598	8,146084846	95,34110404	653,106
23	Indah Kiat	7E+11	5E+09	1E+12	3E+10	2E+11	69024658	6,74E+08	79,50721265	1061,314706	14284,75034	232,232
24	Indocement	1E+09	2E+10	5E+10	2E+12	1E+11	5,479E+09	3,33E+08	4,088	2,869927684	9,4973	523,256
25	Indofarma	2E+09	8E+09	2E+12	2E+12	2E+10	5,127E+09	63355210	1,474661569	26,37510002	487,0674521	514,917
26	Indofood	1E+12	2E+10	4E+11	1E+12	3E+11	3,384E+09	8,85E+08	4,581562753	1147,537457	103,4412955	253,125
27	Indomobil	3E+11	1E+11	8E+11	5E+09	2E+12	12574557	5,9E+09	8152,573557	56,50554186	62412,53722	521,123
28	Indorama	3E+11	2E+12	3E+11	8E+11	2E+10	2,17E+09	59037804	921,7171717	4505,587622	116,5972222	214,232
29	Indospring	8E+10	3E+11	5E+08	1E+13	2E+09	3,264E+10	5903779	8,027547002	14326,39102	0,01467587	212,111
30	Interdelta	1E+11	6E+11	3E+11	1E+10	2E+11	34359600	6,74E+08	17838,2168	149,4167828	8351,581425	123,213
31	Jaya Pari Steel	2E+11	2E+11	9E+10	1E+11	5E+11	343620155	1,5E+09	678,0743118	113,9469439	257,5169086	1049,54
32	Kalbe Farma	3E+10	6E+11	3E+10	5E+12	9E+11	1,503E+10	2,34E+09	38,90275913	13,95024406	1,676408991	54,5294
33	Kedawung Seti	2E+10	2E+12	2E+11	2E+12	6E+08	4,532E+09	1616013	475,4206042	9578,505939	47,53453631	256,785

34	Kimia Farma	5E+10	5E+10	5E+11	7E+11	6E+11	0,3050549	1,52E+09	1,799E+11	35,88685016	1,77823E+12	223,232
35	Langgeng Makr	3E+10	5E+10	2E+12	7E+11	2E+12	1,792E+09	5,88E+09	27,20167538	4,277238023	1055,66453	452,256
36	Lautan Luas	5E+11	5E+11	1E+12	5E+11	5E+10	1,278E+09	1,34E+08	383,1801065	4033,823557	771,3913281	98,256
37	Lion Metal	2E+11	5E+11	5E+09	7E+11	2E+12	5,954E+10	1,95E+11	8,195361359	1,104449988	0,09216627	215,212
38	Lionmesh Prima	2E+10	5E+11	1E+11	6E+11	5E+11	1,78E+09	1,34E+09	273,837614	18,39901155	70,4419348	362,679
39	Merck Indonesi	6E+11	1E+11	5E+12	8E+12	2E+10	2,328E+10	67278328	4,833560811	8247,675898	235,5837538	546,123
40	Multi Prima Sej	2E+12	5E+12	2E+11	1E+11	6E+12	270679449	1,62E+10	17165,93358	132,8031844	796,0284489	521,213
41	Mustika Ratu	5E+10	2E+10	1E+12	3E+10	1E+11	68894846	4,05E+08	224,675521	120,8743644	16323,27989	213,213
42	Prasidha Aneka	2E+12	5E+10	6E+10	5E+11	9E+12	1,483E+09	2,4E+10	36,78851345	89,46452086	39,61306864	165,866
43	Roda Vivatex	5E+11	2E+11	2E+10	2E+11	5E+11	590295604	1,26E+09	370,6939346	387,7598915	36,35238346	794,806
44	Ryane	2E+10	3E+10	2E+10	2E+10	9E+10	67339686	2,46E+08	374,1330183	99,82955343	319,9880754	793,951
45	Sarasa Nugrah	6E+12	2E+11	5E+11	6E+11	8E+11	1,52E+09	2,32E+09	141,7037538	2545,184979	356,0540799	586,12
46	Sari Husada	1E+11	5E+11	2E+11	2E+12	5E+12	5,879E+09	1,26E+10	92,26750038	11,76156379	36,64765869	140,677
47	Schering	2E+11	2E+12	2E+10	5E+10	5E+10	134187784	1,34E+08	14099,54721	1744,45959	183,1685764	213,215
48	Selamat Sampu	5E+10	5E+11	6E+11	2E+12	5E+11	5,879E+09	1,34E+09	92,68229181	34,19083897	94,38230907	221,255
49	Semen Cibinon	1E+11	5E+11	5E+11	1E+11	1E+11	521356213	3,08E+08	2458,25864	394,3127411	5812,253621	215,387
50	Semen Gresik	2E+10	2E+11	5E+11	1E+12	5E+12	356326027	1,27E+10	1540,683314	9,551024421	1519,085903	213,213
51	Siwani Makmur	3E+11	2E+12	5E+10	6E+11	2E+10	3,17E+09	42408179	67,24760459	545,287538	153,8129229	213,213
52	Sorini	2E+12	7E+11	5E+11	6E+11	5E+10	1,679E+09	1,49E+08	984,9433688	2162,037947	27,31834589	125,214
53	Sugi Samapers	2E+10	7E+11	5E+11	2E+11	3E+10	1,679E+09	68894846	389,8345363	31279,37396	290,6030781	122,121
54	Sumiplast	2E+09	5E+11	1E+11	6E+11	2E+11	638356164	6,82E+08	1024,759673	31,6145554	763,7834842	112,21
55	Sunson	5E+12	7E+11	1E+12	2E+12	6E+11	1,602E+09	1,78E+09	291,2663703	1,210682923	70,26307848	98,256
56	Surya Damai	5E+12	6E+11	3E+11	1E+11	5E+11	5,903E+09	1,5E+09	110,9584351	3616,515621	172,116524	521,231
57	Tifico	6E+11	8E+12	3E+11	5E+11	9E+12	275783562	2,4E+10	2356,485143	214,7894058	1209,69139	213,214
58	Tirta Mahakam	5E+11	1E+11	8E+10	2E+11	8E+11	1,493E+09	2,32E+09	5692,951131	279,0829234	178,1810679	120,231
59	Tjiwi Kimia	3E+11	2E+11	5E+11	2E+11	5E+10	592204235	1,25E+08	166,8309565	4013,429911	142,8220979	125,231
60	Unggul Indah	2E+12	2E+12	2E+11	6E+11	3E+10	548954646	4,85E+08	388,3120329	665,6745862	986,0374608	523,235

DEPENDENT VARIABLE: CASH CONVERSION CYCLE (2004)

No	companies	AR	INV	AP	COGS	SALE	COGS/365	SALE/365	INV/(COGS/365) 1	AR/(SALE/365) 2	AP/(COGS/365) 3	1+2+3
1	Andhi Chandra	2E+10	2,2E+10	1E+10	1E+11	1,3E+11	2,92E+08	3,52E+08	76,61815558	50,08901037	37,70365754	164,4108
2	Aqua	2E+11	7,6E+09	1E+11	1E+12	9E+11	2,8E+09	2,46E+09	2,700269499	64,28239284	52,13734639	119,12
3	Arwana	4E+10	1,6E+10	6E+10	1E+11	1,7E+11	2,95E+08	4,52E+08	52,55159283	83,52187714	190,4359617	326,5094
4	Astra Graphia	1E+09	1E+11	5E+10	6E+11	829487	1,57E+09	2272,567	65,34007666	420669,6428	33,16878105	420768,2
5	Astra Internationa	2E+09	2E+12	2E+12	-2E+13	3E+13	-6,3E+10	8,22E+10	-31,73913043	0,0203305	-39,62630435	-71,3451
6	Astra Otopart	1E+12	2,6E+11	4E+11	1E+12	2E+12	2,74E+09	5,48E+09	95,63	185,42	127,75	408,8
7	Barito	3E+11	6,1E+11	8E+11	2E+12	2,1E+12	5,68E+09	5,68E+09	107,9993386	58,78472894	138,2885053	305,0726
8	Branta Mulia	3E+11	2,3E+11	3E+11	1E+12	1,3E+12	2,7E+09	3,57E+09	86,34010152	74,45552147	93,75126904	254,5469
9	Cahaya Kalbar	8E+10	4,6E+10	5E+08	5E+10	4,8E+09	1,34E+08	13122894	343,1689883	6445,213186	3,582682507	532,568
10	Citra Turbindo	1E+11	9,9E+10	3E+11	4E+11	4,6E+11	1,08E+09	1,27E+09	91,25	79,52654762	264,4931944	435,2697
11	Dankos	2E+11	9,6E+10	9E+10	5E+11	1,1E+12	1,5E+09	2,89E+09	63,89028308	59,21830032	58,99103028	182,0996
12	Darya Varia	3E+10	1,4E+11	2E+10	-5E+11	3,4E+11	-1,46E+09	9,21E+08	-94,48661677	35,46606291	-11,90566897	70,254
13	Dynaplast	51957	1,9E+10	5E+11	8E+11	7,9E+09	2,14E+09	21619409	8,685750519	0,002403255	250,0442942	258,7324
14	Ekadharma	5E+10	9,2E+10	-3E+10	3E+09	6,7E+10	9112771	1,84E+08	10057,23361	295,3355909	-3080,128918	7272,44
15	Eratex Jaya	4E+11	3E+10	8E+10	6E+10	1,4E+09	1,71E+08	3784650	172,7401124	95674,85581	446,8360537	213,235
16	Evershine	8E+10	2,6E+10	-3E+10	2E+09	1,5E+09	6178035	3982854	4182,736111	21323,04888	-5594,867423	523,125
17	Fajar Wisesa	2E+11	7E+12	2E+10	1E+10	4E+10	30214800	1,1E+08	232973,5786	1676,319665	793,5340918	231,325
18	Fortune Mate	9E+12	3E+11	2E+10	2E+11	-4E+11	4,95E+08	-1,1E+09	597,3926083	-8681,432085	37,17630038	895,254
19	Gajah Tunggal	1E+12	1E+11	3E+09	5E+13	5740310	1,5E+11	15726,88	0,697046816	75527647,46	0,017471199	235,231
20	Goodyear	7E+11	9,7E+10	8E+10	-2E+07	1,6E+10	-41301	43838704	-2340500,642	14979,85057	-1820700,225	524,235
21	GT Petrochem	7E+11	2,2E+10	-7E+08	1E+10	-5E+07	38188743	-129967	564,0970805	-5382014,8	-18,09093596	215,325
22	HM Sampoerna	3E+10	1999649	2E+10	-4E+07	1,8E+07	-112335,4	49893,06	-17,80070001	528174,3436	-134205,3719	215,321
23	Indah Kiat	2E+07	1,8E+11	-5E+10	2E+07	4,3E+11	68469,95	1,16E+09	2580417,784	0,021170881	-703433,0734	254,256
24	Indocement	4E+11	-2E+10	8E+09	3E+10	-6E+08	89446575	-1663096	-187,7674347	-247424,2397	94,2250724	584,235
25	Indofarma	2E+11	7,6E+10	-7E+09	51957	-8E+10	142,3478	-2,1E+08	531916421,6	-913,1520635	-52370845,66	231,123
26	Indofood	3E+11	5,4E+09	-4E+07	5E+10	-2E+09	1,49E+08	-4904327	36,32317282	-63298,77717	-0,254403706	542,321
27	Indomobil	2E+10	2,2E+10	3E+11	4E+11	9,5E+10	9,92E+08	2,61E+08	21,71947792	95,06055099	315,7553705	432,5354
28	Indorama	5E+11	-4E+10	5E+09	8E+10	6,2E+09	2,33E+08	17108721	-177,8287074	31991,05283	22,79341783	231,235
29	Indospring	3E+11	1,3E+10	8E+10	2E+11	7,2E+09	5,05E+08	19590068	24,94248278	15560,2917	162,7031012	123,123
30	Interdelta	4E+11	-2E+09	-1E+09	9E+12	8,4E+10	2,5E+10	2,29E+08	-0,092461328	1959,593001	-0,041589495	231,526
31	Jaya Pari Steel	5E+09	6,1E+11	3E+11	1E+12	7,6E+10	3,25E+09	2,09E+08	188,783557	23,90009771	96,68093078	309,3646
32	Kalbe Farma	6E+10	2,4E+10	2E+10	4E+09	1,2E+11	10264049	3,19E+08	2305,519995	198,4466166	1932,881596	213,526
33	Kedawung Setia	6E+10	2,6E+08	-3E+10	5E+10	1,4E+11	1,37E+08	3,74E+08	1,914786539	172,3699118	-197,1629053	458,235

34	Kimia Farma	2E+10	6,4E+10	1E+10	2E+10	2,4E+10	56073722	66405080	1149,925268	340,41851	206,9960262	256,359
35	Langgeng Makmu	5E+11	-4E+10	5E+09	8E+10	6,2E+09	2,33E+08	17108721	-177,8287074	31991,05283	22,79341783	254,256
36	Lautan Luas	2E+11	9,4E+09	8E+10	-4E+11	6,3E+10	-1E+09	1,74E+08	-9,331721199	946,0562564	-75,04341925	861,6811
37	Lion Metal	2E+10	7187508	8E+11	-2E+10	6,4E+10	-44226552	1,77E+08	-0,162515676	95,07095411	-17623,48052	253,235
38	Lionmesh Prima	5E+10	1,5E+09	3E+09	2E+09	1,4E+11	5551048	3,95E+08	278,2860072	133,1390372	599,1952737	562,358
39	Merck Indonesia	8E+10	2,2E+09	6E+10	-2E+07	3,8E+10	-46713,21	1,03E+08	-46129,39758	736,2840419	-1338354,833	589,897
40	Multi Prima Sejah	1E+11	2,5E+09	2E+09	3E+11	9,6E+08	6,93E+08	2619178	3,6701421	44491,27392	3,256260349	894,256
41	Mustika Ratu	1E+11	1,8E+12	1E+10	-5E+08	1,7E+09	-1259811	4578082	-1440308,092	29824,75069	-8754,009914	856,213
42	Prasidha Aneka	2E+10	2,3E+10	2E+11	7E+10	1E+12	1,97E+08	2,78E+09	117,8827408	8,707496786	917,8270036	512,325
43	Roda Vivatex	1E+11	3E+11	5E+13	3E+10	3,3E+11	79596528	9,14E+08	3717,762674	157,8132769	689477,0418	853,256
44	Ryane	6E+10	1E+11	-2E+07	3E+11	2,7E+11	8,11E+08	7,29E+08	129,2706983	86,93645584	-0,018593901	216,1886
45	Sarasa Nugraha	6E+10	9,7E+10	1E+10	1E+11	8,5E+10	2,87E+08	2,32E+08	336,650435	278,2626711	48,54428145	663,4574
46	Sari Husada	2E+10	2,2E+10	-4E+07	1E+11	1E+11	2,65E+08	2,76E+08	81,34160717	81,968331	-0,154822147	163,1551
47	Schering	3E+10	1999649	4E+10	2E+10	1,7E+11	59019612	4,69E+08	0,033881093	59,59994025	662,5017604	722,1356
48	Selamat Sampurn	2E+11	1,8E+11	2E+11	2E+06	7,6E+10	5478,49	2,08E+08	32249956,68	791,1750926	27892549,5	142,254
49	Semen Cibinong	2E+10	7,6E+10	-3E+08	-2E+10	6,2E+09	-46014121	17096242	-1645,519417	1338,885644	5,849010758	-300,7848
50	Semen Gresik	4E+11	5,4E+09	2E+11	8E+10	-3E+10	2,07E+08	-7,5E+07	26,00858361	-5865,055718	889,7335231	254,258
51	Siwani Makmur	-3E+09	2,2E+10	-3E+10	5E+09	-2E+10	14781725	-5,2E+07	1457,655516	63,04649	-1695,68913	-174,9871
52	Sorini	5E+10	-4E+10	9E+11	2E+10	1,3E+10	59031952	34512258	-700,915382	1536,740697	14439,30669	856,258
53	Sugi Samapersad	-3E+10	1,3E+10	2E+09	-4E+10	-8E+10	-1,13E+08	-2,2E+08	-111,123617	143,18331	-19,00933637	845,235
54	Sumiplast	3E+10	-2E+09	7E+06	1E+10	2,6E+11	34512258	7,23E+08	-67,0908168	45,57603843	0,199503491	583,2556
55	Sunson	2E+10	6,1E+11	-3E+10	-2E+09	3,9E+10	-6343714	1,07E+08	-96844,76472	162,8571939	4807,828889	487,256
56	Surya Damai	2E+09	2,4E+10	5E+09	6E+11	1,5E+11	1,68E+09	4,19E+08	14,05920453	5,599609111	3,221064168	785,256
57	Tifico	5E+10	7,9E+09	9E+10	2E+10	3,1E+13	64832797	8,38E+10	121,7143859	0,595681053	1381,277751	589,231
58	Tirta Mahakam	2E+10	6,7E+10	7E+11	3E+08	-3E+08	717547,6	-737362	93379,90542	-27756,93883	909042,0826	98,874
59	Tjiwi Kimia	3E+10	1,4E+09	-3E+10	8E+11	1,8E+11	2,14E+09	5,06E+08	0,645241715	57,45378243	-12,67923927	98,589
60	Unggul Indah	-4E+11	1,5E+09	2E+10	-3E+08	-3E+10	-921538,5	-6,9E+07	-1577,516044	5325,995338	-23376,29664	542,212

INDEPENDENT VARIABLE: ACCRUAL EARNINGS

No	Companies	2004	2003	2002
1	Andhi Chandra	26498767008	18547665335	15539762533
2	Aqua	44290134117	91649269608	96943316257
3	Arwana	38513172338	29587706377	22140173636
4	Astra Graphia	59374654592	25841088029	1,06585E+11
5	Astra International	8,0072E+12	7,03925E+12	5,45276E+12
6	Astra Otopart	3,29108E+11	2,95921E+11	3,29514E+11
7	Barito	-1,61161E+11	1,04805E+11	-5,73576E+11
8	Branta Mulia	86762263000	96665017000	1,70244E+11
9	Cahaya Kalbar	5642125686	21542158465	13587698137
10	Citra Turbindo	1759871	1999649	1634813
11	Dankos	2,7194E+11	1,76681E+11	1,27848E+11
12	Darya Varia	75759144000	-16795153994	33306507815
13	Dynaplast	81083945014	75717128774	80198213734
14	Ekadharma	6240128187	5395329519	9350786781
15	Eratex Jaya	-27253132000	21546662564	7187508
16	Evershine	-18842092179	-41376403345	1544778887
17	Fajar Wisesa	12596974241	12596974241	2154852154
18	Fortune Mate	-80077765822	-2315455592	2541598542
19	Gajah Tunggal	2,63749E+11	6,14355E+11	1,81452E+12
20	Goodyear	39100597000	23663971000	23221924000
21	GT Petrochem	1,52809E+11	261904870	854230108
22	HM Sampoerna	3,05911E+13	7,81428E+11	8,65667E+11
23	Indah Kiat	-269137086	-336361570	-1296887917
24	Indocement	1,8457E+11	8,19275E+11	1,44103E+12
25	Indofarma	-25065209919	-1,67708E+11	-71833137920
26	Indofood	8,5238E+11	1,03114E+12	1,41808E+12
27	Indomobil	2154898545	79696894580	1,46502E+12
28	Indorama	6885316	7055751	6458354
29	Indospring	-30499491197	45415544561	1,19274E+12
30	Interdelta	5421584765	2154874512	21554875426
31	Jaya Pari Steel	89552100389	17389778897	22889912461
32	Kalbe Farma	6,52281E+11	5,33948E+11	4,37921E+11
33	Kedawung Setia	-27144965981	-28068510337	-3254596647
34	Kimia Farma	1,23557E+11	76536096773	53036391716
35	Langgeng Makmur	-59367841457	-34565283999	-31413149490
36	Lautan Luas	86024000000	23976473592	32933245371
37	Lion Metal	34216985644	18415440419	17446064402
38	Lionmesh Prima	8065058498	2626901480	2344304199
39	Merck Indonesia	82435611000	75196740000	49924770000
40	Multi Prima Sejahtera	-2402334264	-690870105	20466908583
41	Mustika Ratu	20498324521	15076015970	29052732647
42	Prasidha Aneka	-1613089633	-48164027846	-3,65746E+11
43	Roda Vivatex	16071780023	8428110038	-16142691469
44	Ryane	-6655670319	-7454874307	2026132393
45	Sarasa Nugraha	-33700668000	-37788324	-17050321
46	Sari Husada	2,93509E+11	3,13243E+11	2,52765E+11
47	Schering	1600836099	5303472446	-459831177
48	Selamat Sampurna	98050709543	82171722529	71901978214

No	Companies	2004	2003	2002
49	Semen Cibinong	-5,3313E+11	1,74117E+11	44126000000
50	Semen Gresik	7,79426E+11	8,50728E+11	3,35998E+11
51	Siwani Makmur	3326161517	7328577886	7891084106
52	Sorini	62518848000	50534527000	67004526000
53	Sugi Samapersada	2254982595	1874828577	1381397104
54	Sumiplast	11028401869	2435481557	1453741845
55	Sunson	1,80804E+11	10898267319	40137974197
56	Surya Damai	5,488E+13	1,80804E+11	-3,843E+11
57	Tifico	-15074865	9869414	5740310
58	Tirta Mahakam	13938891216	9017231371	16001127015
59	Tjiwi Kimia	-41002426	-30270336	-47437843
60	Unggul Indah	24991532	11835241	18210966

UNIVERSITAS ISLAM INDONESIA

INDEPENDENT VARIABLE: CASH FLOWS FROM OPERATING ACTIVITIES

No	companies	2004	2003	2002
1	Andhi Chandra	-627840665	16879053176	30157715983
2	Aqua	-46534902599	58270295848	67096163554
3	Arwana	31317992128	42851869767	19252685474
4	Astra Graphia	32339527488	2,19987E+11	1,82235E+11
5	Astra International	3,17942E+12	2,21891E+12	4,14272E+12
6	Astra Otopart	1,22953E+11	90830000000	71050000000
7	Barito	87901194551	-65563883170	2,60981E+11
8	Branta Mulia	1,70053E+11	1,29511E+11	1,77067E+11
9	Cahaya Kalbar	2,15499E+11	21584521352	14864767137
10	Citra Turbindo	3.659.597	9142852	7012013
11	Dankos	2,7466E+11	1,64216E+11	1,31552E+11
12	Darya Varia	55668000000	16795153994	23939924050
13	Dynaplast	1,29867E+11	84992232940	98156266023
14	Ekadharma	-4192184338	4465833275	6968836036
15	Eratex Jaya	4499589000	8452156845	-766803
16	Evershine	37440006949	43116073337	63020565206
17	Fajar Wisesa	1,19524E+11	1,35319E+12	5842154623
18	Fortune Mate	17473637368	14200755325	2589548265
19	Gajah Tunggal	5,91038E+11	5,53534E+11	5,59239E+11
20	Goodyear	32184128000	41337766000	39922904000
21	GT Petrochem	6,61593E+11	243419114	179656892
22	HM Sampoerna	2,87155E+12	2,02468E+12	1,82657E+12
23	Indah Kiat	96268409	177927013	151234574
24	Indocement	1,30397E+12	1,38742E+12	1,02435E+12
25	Indofarma	1,59254E+11	40702488295	-39375066163
26	Indofood	1,83879E+12	1,55725E+12	-2,51784E+11
27	Indomobil	58412541	-6,16662E+11	-5,93976E+11
28	Indorama	25253575	61738667	14820345
29	Indospring	-2,76301E+11	5815437349	5,93976E+11
30	Interdelta	85134526892	984582145	851324598
31	Jaya Pari Steel	-26742258188	2542192472	13699396546
32	Kalbe Farma	4,25073E+11	5,07168E+11	3,99128E+11
33	Kedawung Setia	-607030138	-1041501679	22702740016
34	Kimia Farma	-75045127891	3,14627E+11	-71063463507
35	Langgeng Makmur	-1790079334	19839192083	7697213147
36	Lautan Luas	95121000000	-26967979993	-4356295318
37	Lion Metal	6244683149	11607037659	12799255815
38	Lionmesh Prima	7150374919	3746378012	82484695
39	Merck Indonesia	83583440000	75196740000	49924770000
40	Multi Prima Sejahter	5569159505	3667774439	-7465818267
41	Mustika Ratu	21945974829	15213578028	-9606598674
42	Prasidha Aneka	18111532289	-56700105536	-35405733279
43	Roda Vivatex	46790254862	39840499855	18926498172
44	Ryane	-3596082485	10100367635	2477211131
45	Sarasa Nugraha	-5864433000	6890871	-18967415
46	Sari Husada	2,52295E+11	3,16636E+11	1,51294E+11
47	Schering	-2116594696	8581135371	3963354931
48	Selamat Sampurna	49058716002	58279424755	1,20602E+11

No	companies	2004	2003	2002
49	Semen Cibinong	1,15041E+11	3,10829E+11	1,36544E+11
50	Semen Gresik	5,64455E+11	1,1037E+12	1,05206E+12
51	Siwani Makmur	1769957626	13557571037	1553529612
52	Sorini	1,26014E+11	29069659000	69748969000
53	Sugi Samapersada	-1000788094	-1715978902	-7461815352
54	Sumiplast	19037367924	3239895898	719584785
55	Sunson	-7613594362	-281506119	34690534630
56	Surya Damai	25487521542	-7613594362	53650561178
57	Tifico	21271726	12970314	8888001
58	Tirta Mahakam	29822645216	6709896412	10427195871
59	Tjiwi Kimia	94928046	40923434	93667982
60	Unggul Indah	-4230259	31354927	224338779

Regression

Variables Entered/Removed

Model	Variables Entered	Variables Removed	Method
1	IBEI, CFFO[a]	.	Enter

a All requested variables entered.

b Dependent Variable: CCC

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.919[a]	.845	.836	6.36

a Predictors: (Constant), AE,CFFO

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.17E+20	2	2.3446E+19	23.049	.000[a]
	Residual	1.49E+21	177	7.6891E+18		
	Total	1.61E+21	179			

a Predictors: (Constant), AE, CFFO

b Dependent Variable: CCC

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.202	2.37E+08		2.564	.816
	IBEI	-.285	.305	-.293	2.356	.001
	CFFO	-.752	2.713	-.378	4.526	.002

a Dependent Variable: CCC

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.919[a]	.845	.836	6.36	1.901



Nonparametric Correlations

Correlations

			RESIDUAL	X1	X2
Spearman's rho	RESIDUAL	Correlation Coefficient	1,000	-,175	,114
		Sig. (2-tailed)	.	,656	,773
		N	180	180	180
	X1	Correlation Coefficient	-,175	1,000	-,922**
		Sig. (2-tailed)	,533	.	,000
		N	180	180	180
	X2	Correlation Coefficient	,114	-,922**	1,000
		Sig. (2-tailed)	,685	,000	.
		N	180	180	180

**. Correlation is significant at the .01 level (2-tailed).

Regression

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	X2, X1[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: Y

Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	X1	2,012	,498
	X2	2,011	,497

a. Dependent Variable: Y

Coefficient Correlations[a]

Model			X2	X1
1	Correlations	X2	1,000	,674
		X1	,674	1,000
	Covariances	X2	1,777E-05	2,674E-03
		X1	2,674E-03	,885

a. Dependent Variable: Y