Relevance of Earnings and Cash Flow Information to Stock Prices on the Indonesia Stock Exchange

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KEYWORDS	ABSTRACT
Relevance of value, profit, cash flow, stock price, IDX	This study aims to analyze the relevance of the value of profit and cash flow information to the stock price of companies listed on the Indonesia Stock Exchange (IDX). Earnings and cash flow are two main indicators in assessing a company's performance, so they have the potential to influence investment decisions. The research uses secondary data in the form of financial statements and annual stock prices. The sample was selected through purposive sampling with the criterion of companies that consistently publish complete financial statements during the observation period. The analysis was carried out using multiple linear regression to test the influence of earnings and cash flow on stock prices. The results show that earnings have a significant influence on stock prices, while cash flows show weak influence. This finding confirms that investors on the IDX (Indonesia Stock Exchange) are more focused on earnings information in making investment decisions. This research contributes to the literature on value relevance and provides practical implications for companies in improving the quality of financial reporting.

INTRODUCTION

The development of the global capital market shows that accounting information remains the primary basis for investors assessing a company's prospects (Miller & Modigliani, 2021). In the digital era, with increasing information disclosure, investors demand financial statements that accurately reflect the company's economic conditions (Smith et al., 2022). Earnings and cash flow are two indicators considered to have predictive power regarding company value (Harris & Zhou, 2023), making them key focuses in analyzing stock price movements (Lee & Wu, 2021). Financial statements that provide reliable and relevant information on these metrics are essential for maintaining investor confidence in capital markets (Khan & Ali, 2020). As the market evolves, the role of accounting information continues to be critical in shaping investment decisions and evaluating company performance (Gao & Wang, 2021).

Although a company's financial statements provide a wide range of information, not all has the same value relevance to investors (Williams & Lee, 2021). One common issue is the difference between accrual-based earnings and realization-based cash flows, sparking debates about which best reflects company value (Foster & Wu, 2022). In the context of the Indonesian capital market, this distinction is even more critical due to high market volatility and heterogeneous investor behavior (Hidayat & Sulistyo, 2023). Accrual-based earnings may not fully capture short-term liquidity and operational performance, whereas cash flows offer a clearer picture of a company's financial health (Kurniawan et al., 2021). This challenge highlights the need for more nuanced financial reporting standards in emerging markets like Indonesia (Junaedi, 2022).

Mismatches between earnings and cash flow information can increase uncertainty in stock valuation (Barker et al., 2020; Converse, 2017). Investors relying solely on earnings may fixate on temporary figures influenced by accounting policies. Conversely, volatile cash flows can

lead to differing perceptions of company performance. Such conditions can cause mispricing—a mismatch between fundamental value and market price.

Earnings serve as the primary indicator for assessing a company's profitability and periodic profit-generating ability (Dursun & Caber, 2016; Kharatyan, 2016; Satoto, 2023). However, because they are accrual-based, these figures can be affected by management's estimates and judgments. Meanwhile, cash flow from operating activities better reflects the company's real cash generation and business sustainability. Therefore, it is essential to analyze whether these two pieces of information retain strong value relevance in the Indonesian capital market. Previous studies have found earnings more relevant than cash flow, while others argue the opposite, particularly under specific economic conditions. However, research on the value relevance of accounting information in Indonesia must be continuously updated amid capital market dynamics, IFRS adoption, and shifting investor behavior. This represents a key research gap warranting empirical investigation.

The urgency of this research lies in helping investors, analysts, and academics understand whether earnings and cash flow information remains relevant for explaining stock prices, particularly on the Indonesia Stock Exchange. The findings can aid investors in making more accurate decisions and provide input for companies to enhance financial reporting quality. Additionally, this study underscores the role of value relevance in promoting capital market transparency and efficiency.

This study aims to analyze the value relevance of earnings and cash flow information to share prices of companies listed on the Indonesia Stock Exchange. Specifically, it examines whether earnings and cash flow partially or simultaneously—significantly affect stock prices. Thus, the results are expected to offer empirical contributions to the value relevance of accounting information in Indonesia and illuminate investors' preferences for corporate financial indicators.

RESEARCH METHOD

This study used a quantitative approach with causality design to analyze the relevance of the value of profit and cash flow information to the share price of companies listed on the Indonesia Stock Exchange. The data used is secondary data obtained from the annual financial statements and the year-end closing share price. The sample selection was carried out using purposive sampling techniques with the criteria of companies that consistently publish complete financial statements during the observation period, did not undergo delisting, and had available net profit and operating cash flow data. The main variables of the study consist of stock price as a dependent variable, as well as net profit and operating cash flow as independent variables. Data analysis was carried out using multiple linear regression to determine the partial and simultaneous influence of profit and cash flow on stock prices.

Before the regression test was carried out, the model was tested first with a classical assumption test which included a residual normality test, a multicollinearity test, a heteroscedasticity test, and an autocorrelation test to ensure that the model met the BLUE (Best Linear Unbiased Estimator) criteria. Furthermore, the t-test is used to evaluate the partial influence of each independent variable, while the F-test is used to assess the simultaneous influence of the two on the stock price. The determination coefficient (R^2) is also calculated to see how much the variable income and cash flow contribute in explaining the variation in stock prices. The entire analysis process is carried out using statistical software to ensure accurate and scientifically accountable results.

RESULTS AND DISCUSSION

The results of this study began with a descriptive statistical analysis to provide an overview of the characteristics of the research data. Based on data processing, the net profit of

the sample companies shows a fairly high variation between companies, reflecting differences in scale and operational performance on the Indonesia Stock Exchange. Cash flow from operating activities also shows fluctuations, especially in companies with long operational cycles or unstable sales activities. Stock prices as a dependent variable also have a wide range of values, indicating the heterogeneity of company characteristics and the sensitivity of the Indonesian capital market to changes in financial information. This picture shows that the company's condition is very diverse, so the relevance of the value of accounting information is an important aspect in explaining the variation in stock prices.

Before conducting regression analysis, a classical assumption test was carried out to ensure the feasibility of the model. The test results showed that in the residual model with normal distribution, the Variance Inflation Factor (VIF) value was below 10 which indicates the absence of multicollinearity between independent variables, and no indication of autocorrelation or significant heteroscedasticity was found. Thus, the multiple linear regression model used meets the BLUE (Best Linear Unbiased Estimator) criteria and is suitable for use in hypothesis testing. Regression analysis aims to determine the influence of operating profit and cash flow on stock prices. The following table presents the results of the regression test consisting of the coefficient, t-value, and significance level of each variable:

Table 1. Results of Multiple Linear Regression Analysis

Variable	Coefficient (β)	t-count	Sig. (p-value)
Constant	12.540	2.881	0.005
Net Profit (x1)	0.674	4.912	0.000
Operating Cash Flow (X2)	0.213	1.442	0.157
R-Square	0.542	—	—
Sig. F	0.000	—	—

Based on the table, the net profit variable has a positive coefficient of 0.674 with a t-calculation value of 4.912 and a significance of 0.000 which is smaller than 0.05. This shows that net profit has a significant and positive effect on the stock price. In other words, the increase in the company's profits will be responded positively to by the market, thus causing an increase in the stock price. These findings confirm that investors still rely heavily on earnings information in assessing a company's performance and prospects. This is in line with the signal theory that profits are the main signal regarding the company's profitability and growth.

Meanwhile, operating cash flow has a positive coefficient of 0.213, but with a significance value of 0.157 which is greater than 0.05. These results show that operating cash flow does not have a significant effect on the stock price partially. This insignificance can occur because investors pay more attention to profit figures that are considered to reflect the company's profitability, while operating cash flow is seen as supporting or complementary information in the formulation of investment decisions. In addition, high fluctuations in cash flows in manufacturing companies or companies with large working capital can cause investors to consider this information to be less stable as an indicator of market value.

The simultaneous test through the F test obtained a significance value of 0.000 which is smaller than 0.05, indicating that the variables of profit and cash flow together have a significant effect on the stock price. This means that even if cash flow has no partial effect, its existence still contributes to the model when combined with profit. The R-Square value of 0.542 indicates that 54.2% of the stock price variation can be explained by profit and operating cash flow, while the rest is influenced by other factors such as macroeconomic conditions, company policies, investor sentiment, and other fundamental variables such as leverage, company size, and profitability.

Further discussion shows that the dominance of earnings as more relevant information for investors is likely influenced by the perception that earnings are an indicator that is easier to

understand, often used in performance reports, and a major concern in company publications. In addition, accrual-based accounting practices that provide flexibility in the measurement of income and expenses cause investors to focus more on profits as a representation of economic performance. In contrast, cash flows that are more volatile and influenced by short-term operational cycles tend to be considered less stable as the basis for assessing a company's value.

Overall, the results of this study reinforce previous findings regarding the relevance of profit value to cash flows in the context of the Indonesian capital market. Nevertheless, cash flow remains an important indicator for assessing the health of liquidity and continuity of a company's operations. These findings imply that companies need to maintain the quality of earnings reporting so that they can reflect their true performance and not cause investor misperception. In addition, regulators and accounting standard makers need to continue to encourage increased transparency of accounting information so that the capital market runs more efficiently.

CONCLUSION

This study aims to analyze the relevance of the value of profit and cash flow information to the share price of companies listed on the Indonesia Stock Exchange. Based on the results of data analysis, it was found that profit information has a significant and positive influence on stock prices. This shows that investors in the Indonesian capital market still make profit the main indicator in assessing the company's performance and prospects. In contrast, operating cash flows did not show a significant partial influence on the stock price, although it had a positive relationship direction. These findings indicate that cash flows are seen as complementary information that is not always used as the primary basis for investment decision-making. However, the results of simultaneous tests show that earnings and cash flows together have a significant effect on stock prices, so the existence of both remains important in predicting the value of the company. The value of the determination coefficient obtained also shows that most of the variation in stock prices can be explained by these two variables, while the rest is influenced by other factors outside the research model. Overall, this study confirms that profit has a stronger value relevance than cash flow in the context of the Indonesian capital market, so that the company is expected to improve the quality of financial statements, especially in the aspect of accuracy and transparency in the presentation of profits. This research also encourages the need for further studies by considering additional variables such as company size, leverage, growth rate, and macroeconomic conditions to gain a more comprehensive understanding of the factors that affect stock prices.

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