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The Effect of Gross Profit, Operating Profit, and Net Profit in Predicting Future Cash Flows

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ABSTRACT

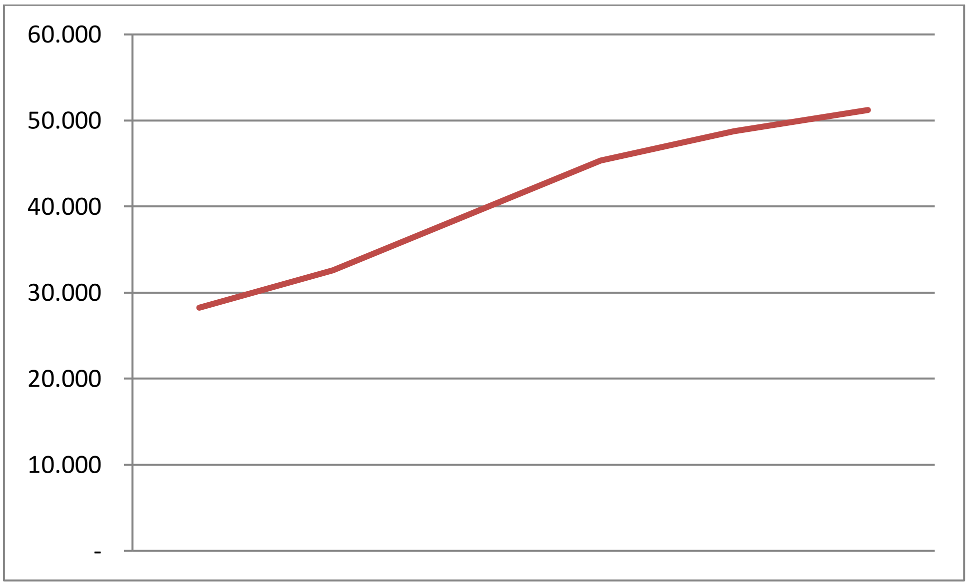
This study was conducted to determine gross profit, operating profit and net profit to cash flow in manufacturing companies in the consumption sector listed on the Indonesia Stock Exchange in 2017-2022. In this study, the sampling technique used is non-probability sampling with the technique taken, namely purposive sampling. The population in this study is all Manufacturing Companies in the Consumer Goods Industry Sector Listed on the Indonesia Stock Exchange in 2017 – 2022. The results of the F test were obtained from the three variables simultaneously on cash flow with a significance of 0.003 where the three variables of Gross Profit, Net Profit and Operating Profit simultaneously had a positive effect on cash flow in the future.

Keywords: Gross Profit, Operating Profit, Net Profit and Cash Flow.

INTRODUCTION

In the current era of globalization, the economic growth of manufacturing companies is increasingly competitive in the business world, one of which is companies in the consumer goods industry sector. Along with the return of community activities after the Covid-19 pandemic in 2023, growth in the industrial world is increasing to meet the needs of the community. This can encourage companies in the consumer goods industry sector to continue to develop and create consumer goods for people's daily needs. This can be seen in Table 1:

Picture 1 Graph of the Movement of Corporate Cash Flow in the Delta Food Consumer Goods Industry Sector in 2017-2022



In the chart above, the cash flow at Delta Food company experiences various fluctuations in a given year, cash flow is a key factor in the company's operational sustainability. Predicting future cash flows can assist management in long-term financial planning, investment decision-making, and evaluating a company's financial health. Meanwhile, a cash flow statement is a type of financial statement that has the ability of an entity to generate cash flow in the future. Cash flow statements can be used as a tool to predict a company's cash flow in the future. An income statement is also a financial statement related to the prediction of future cash flows (Situmeang, 2022).

According to Subramanyam (2010), PSAK No. 2 reveals that cash flow statements can provide information that allows users to evaluate changes in an entity's net assets. Cash flow information is useful for assessing an entity's ability to generate cash and cash equivalents and allows users to develop models to assess and compare the present value of future cash flows from various entities (Febriani & Sherlita, 2022).

An income statement is the main report on the performance of a company over a certain period. The income statement contains many of them, namely gross profit, operating profit, and net profit. The presentation of profit information through financial statements is an important focus of company performance compared to performance measurement based on an overview of the increase and decrease in net capital. The explanation suggests that there must be a logical relationship between profit and cash flow in a company. This relationship will help investors and creditors in developing models to predict future cash flows, in order to assess their investments or capital (Purwanti, 2022). Gross profit is the difference between the company's total revenue minus the cost of goods sold. The value of revenue in gross profit comes from cash sales, but not only cash sales, income is also obtained from credit sales, which means that there is a possibility of cash inflows in the future or in the future period that will be received by the company. Which means that gross profit can be used to predict future cash flow. This is supported by the formulation of a hypothesis where H1, namely gross profit, can positively affect future cash flow. Research that proves the relationship between gross profit, operating profit and net profit with future cash flow In previous researchers' research, future cash flow is more dominant predictable through gross profit than operating profit and net profit. If you look at the effect partially, only gross profit can change cash flow in the future while operating profit and net profit are not. This is supported by the revision of the H2 hypothesis where net profit has a positive effect on future cash flow. However, when looking at the overall relationship between independent and bound variables, the value of cash in the future will change due to gross profit, operating profit and net profit (Situmeang, 2022).

Operating profit is the profit obtained from the company's main activities. Operating profit shows the difference between operating activities and non-operating activities. Operating profit is related to ongoing business activities. This is influenced by the company's operational expenses that support the company's main activities. Operating profit is influential in predicting future operating cash flows because the value contained in operating profit takes into account the company's operating expenses that support the company's main activities. In this case, it is supported by the assumption that operating profit affects future cash flow. However, in the operational expenses, there is a value of expenses that are still to be paid and expenses paid in advance that are accrual. (Rispayanto, 2019). Profit classified into operating profit and non-operating profit has the predictive power to predict cash flow in the future.

LITERATURE REVIEW

Signaling Theory was first proposed by Spence (1973) who explained that the sender (owner of information) provides a signal or signal in the form of information that reflects the condition of a company that is beneficial to the recipient (*investor*). According to Brigham and Houston (2011) signal theory explains management's perception of the company's future growth, which will affect the response of potential investors to the company. The signal is in the form of information that explains management's efforts in realizing the owner's wishes. This information is considered an important indicator for investors and business people in making investment decisions (Nurcahyani & Nurbaeti, 2021).

The signal theory in this study can refer to the concept that gross profit, operating profit, and net profit can function as signals or indicators of a company's health and financial performance. In general, companies that have good financial performance tend to generate consistent profits, which in

This in turn can reflect the company's ability to generate cash flow in the future. Signal theory can refer to the idea that information regarding a company's financial performance, reflected in gross profit, operating profit, and net profit, can provide clues or signals to stakeholders about the company's financial condition and ability to generate cash flow (Carolina et al., 2020).

Signal theory is a way in which company management communicates signals to users of financial statements. Signalling theory is based on the assumption that the information received by each party is not the same. In other words, signal theory is concerned with information asymmetry. Signalling theory states that there is a difference in information between the company's management and parties interested in the information. For this reason, managers must provide information to interested parties in the disclosure of financial statements (Rispayanto, 2019).

Signaling theory suggest how a company should signal to users of financial statements. These signals come in the form of information about what management has done to fulfill the owner's wishes. The signal can be in the form of promotions or other information that shows that the company is better than others. Managers inform through financial statements that they implement prudent accounting policies that lead to higher quality earnings (Koeswardhana, 2020). Because this principle prevents companies from exaggerating revenues and supporting users of financial statements by presenting profits and assets without exaggeration. The information that investors receive is first converted into good signals or bad signals. If the company's reported profit increases, the information can be considered a good signal because it shows the company's good health. Conversely, if reported profits decline, the business is in a bad state that should be considered a bad sign (Carolina et al., 2020).

The Effect of Gross Profit on Future Cash Flow

In the income statement, one of the components is gross profit. From gross profit, we can see the growth of the company's sales, if the gross profit increases, the company's sales will also increase. The theory of gross profit to cash flow is concerned with how changes in a company's gross profit can affect cash flow. Gross profit is the difference between total revenue and direct production costs (Febriani & Sherlita, 2022) Meanwhile, cash flow is the amount of money that comes in and leaves a company over a period of time. This provides a signal for investors to predict the cash flow generated by the company in the future. Ratnasari (2020), in his research stated that gross profit has a significant effect on future cash flow. Based on the relationship described above, the hypothesis proposed is:

H1 : Gross profit has a positive effect on cash flow in the future.

The Effect of Operating Profit on Future Cash Flow

Operating profit is the difference between the company's gross profit and operating expenses which are obtained from the company's main operating activities. Operating profit has an effect on future cash flow because the value in operating profit takes into account the company's operating expenses used for the company's main activities. The theory of operating profit to future cash flow refers to how changes in a company's operating profit can affect future cash flows. Operating profit is the profit generated from the company's core operating activities, which includes revenue and operating expenses. The relationship between operating profit and cash flow can provide insight into a company's ability to generate cash from its operating activities (Situmeang, 2022).

Kartika (2020) in her research stated that operating profit has a significant effect in predicting future cash flow. Based on the relationship explained above, the hypothesis proposed is:
H2 : Operating profit has a positive effect on cash flow in the future.

The Effect of Net Profit on Future Cash Flow
Net profit is the result of net sales minus cost of goods sold, operating expenses and taxes. In short, net profit is the difference between operating profit and income tax or other financial expenses. The theory of net profit to future cash flow includes an analysis of the relationship between the change in net income of a company and its impact on future cash flow. Net profit is the profit that remains after all expenses and expenses, including taxes, are deducted from income. The relationship between net income and cash flow can provide insight into how the profit reported on the income statement may affect the actual cash that comes in or out of the company (Rifky et al., 2021). For investors, this is a signal for decision-making regarding net profit, where the larger the net profit obtained, the greater the cash that enters the company. Widjianto (2020) stated in his research that net profit has a positive influence on predicting future cash flows. Based on the relationship explained above, the hypothesis proposed is:
H3 : Net profit has a positive effect on cash flow in the future.

The Effect of Gross Profit, Operating Profit and Net Profit on Future Cash Flow
Financial reporting should provide useful information to potential investors and creditors and other users in the context of rational investment, credit, and other similar decisions. An analysis of the relationship between gross profit, operating profit, net profit, and cash flow provides a complete picture of how a company's operational activities affect its cash flow. Let's discuss each of these theories on cash flow (Purwanti, 2022).

One of the financial statements that is used as a reference in making decisions is the income statement because the company's profit is used as a measure of the success of a company and can also be used to predict the company's cash flow. Pangesti (2020) stated in his research that simultaneously gross profit, operating profit, and net profit have the ability to predict future cash flows. Based on the relationship explained above, the hypothesis proposed is:
H4 : Gross profit, operating profit and net profit have a simultaneous effect on future cash flow.

RESEARCH METHOD

The type of research used is quantitative research. The quantitative method is a method used to present research results in the form of numbers or statistics (Sugiyono, 2016). This study is intended to analyze gross profit, operating profit and net profit to predict future cash flows in manufacturing companies in the Consumer Goods Industry Sub-Sector listed on the Indonesia Stock Exchange in 2017 – 2022. The population in this study is all Manufacturing Companies in the Consumer Goods Industry Sector Listed on the Indonesia Stock Exchange in 2017 – 2022. The measurement of the variables of this study is:

Table 1. Measurement Variables

Variable	Measurement
Gross Profit	Gross Profit = Net Sales – Cost of Goods Sold
Operating Profit	Operating Profit = Gross Profit – Operating Expenses
Net Profit	Net Profit = Profit Before Tax – Income Tax
Cash Flow	Cash Flow = Total Money Inflow - Total Money Out

The data analysis of this study uses Multiple Linear Regression Analysis. The regression equations used in this study are as follows:

$$\mathbf{Y\ it = \alpha + \beta 1LK\ it + \beta 2L\ it + \beta 3\ LB\ it + \varepsilon}$$

Description: Yi,t: Cash flow in the company i, t, α: Constant, B: Regression coefficient, LK: Gross profit, LO: Operating profit, LB: Net profit, ε: Standard error.

RESULTS

Table 2 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Cash Flow	102	1.37	733.42	51.3246	74.74269
Gross Profit	102	28.43	558.13	128.1195	91.55793
Operating Profit	102	7.39	986.09	71.9962	167.4022
Net Profit	102	628.73	987.77	842.582	67.08144

Source: Processed Secondary Data (2024)

Table 2 shows that the cash flow variable has a range of mean values of 1.37 and a high of 733.42. The average value is 51.3246, closer to the maximum value than to the minimum value, meaning that the percentage of companies that have an impact on future cash flow is large/large. The standard deviation value of 74.742629 > *mean* indicates that there is a variation in the data, this is evidenced by the distance between the maximum and minimum values that is quite far.

In this study, the Gross Profit variable has a minimum value of 28.43 and a maximum value of 558.13. The average value of 128.1195 is closer to the maximum value than to the minimum value, meaning that the gross profit variable has a large sample of companies on average. Definition standard value 91.55793 > the mean value shows that the data varies, this is evidenced by the distance between the maximum and minimum values having a fairly long range.

The Operating Profit variable has a minimum value of 7.39 and a maximum value of 986.09. The average value of 71.9962 is closer to the maximum value than to the minimum value, meaning that the operating profit variable has a large average sample of companies. The standard value of the definition is 167.4022> the mean value shows that the data is diverse, this is evidenced by the distance between the maximum and minimum values has a fairly long range.

Table 3 Multiple Linear Regression Test Results

Type	Unstandardized B	Sig.
(Constant)	0.878	0.294
Gross Profit	0.280	0.002

Operating Profit	0.113	0.174
Net Profit	0.891	0.000

DISCUSSION

Effect of Gross Profit on Future Cash Flow

The results of the t test from the first hypothesis were obtained with a calculated t of 2.453 with a significance of 0.002. The significance value of the Gross Profit variable shows a value below the set significance level of 5% (0.05). Thus H1 is accepted, which means that gross profit has a positive effect on the company's cash flow in the future.
In this study, Signal Theory assumes that information such as gross profit can provide clues about a company's future performance. If gross profit increases, this can be interpreted as a positive sign for future cash flow growth and sustainability according to Irawan research (2021). Additional research supports the findings of this study, Sari (2020) and Supriyanti (2020) that future cash flow is affected by the results of the company's gross profit value.

The Effect of Operating Profit on Future Cash Flow

The results of the t-test from the second hypothesis were obtained with a t-count of 1.798 with a significance of 0.174. The significance value of the operating profit variable shows a value above the set significance level of 5% (0.05). Thus H2 was rejected, which means that operating profit has a negative effect on the company's cash flow in the future.

According to signal theory, operating profit can be considered as a signal or clue to stakeholders related to the company's performance and financial health, eori signal pays attention to the quality of the signal generated by operating profit. While a high operating profit can be considered a positive signal, the quality of the operating profit is also important. Increased operating profit may be due to aggressive accounting practices or unsustainable one-time transactions, so it does not always reflect sustainable cash flow growth (Irawan, 2021).

The results of this study are supported by research conducted by Diah (2019) and Febriana (2020), namely that a high or low operating profit value does not have an impact on the company's cash flow in the future. The reason is that there is a time difference between the income and expenses recognized in the income statement and when the cash is actually received or paid. For example, the sale of credit may increase operating profits, but cash may not be fully received.

Effect of Net Profit on Future Cash Flow

The results of the t-test from the third hypothesis were obtained with a t-count of 1.108 with a significance of 0.000. The significance value of the net profit variable shows a value below the set significance level of 5% (0.05). Thus H3 is accepted, which means that net profit has a real impact on future cash flows. In signal theory, net profit can be thought of as a signal that provides information to a company's stakeholders, including investors, financial analysts, and shareholders, about the company's condition and performance. A high net profit can provide a positive signal regarding the company's ability to pay dividends or make investments in the future. However, dividend and investment policies also depend on the company's management policies and financial policies

The results of this study are supported by the research conducted by Daris (2022) and Rifky (2021) The amount or value of net profit owned by the company has a positive effect on the company's cash flow in the future. The reason is, high net profit can be considered a positive signal for future cash flow growth.

Effect of Gross Profit, Operating Profit and Net Profit on Future Cash Flow
The results of the F test produced from the three variables simultaneously on cash flow with a significance of 0.003 which states that these three variables simultaneously have a positive effect on cash flow in the future.

Supported by the research of Hapsari (2022) and Rifky (2021) which stated that the three variables of gross profit, net profit and operating profit simultaneously have a positive effect on future cash flow.

Revenue from sales, which is a major component of gross profit, net profit, and operating profit, will essentially increase the cash flow from the company's operating activities. Meanwhile, the costs deducted from revenue to achieve net profit and operating profit are the costs that have been incurred in the process of generating these revenues. Therefore, the greater the gross profit, net profit, and operating profit, the greater the possibility of cash flows generated by the company in the future.

CONCLUSION

This study was conducted to determine gross profit, operating profit and net profit to cash flow in manufacturing companies in the consumption sector listed on the Indonesia Stock Exchange in 2017-2022. After a thorough analysis and discussion of these factors, the conclusion is:

1. The Gross Profit variable has a positive effect on cash flow. This explains that cash flow is affected by the high or low gross profit. Because investors who are basically temporary owners of the company are more likely to prioritize the value of free cash flow in the company. The effect of gross profit on future cash flow can be understood by considering several factors that affect the relationship between gross profit.
2. The Operating Profit variable has a negative effect on future cash flow. The reason is that changes in inventories and receivables cannot affect cash flow. High operating profit but accompanied by a significant increase in inventory or receivables can reduce cash flow.
3. Net Profit has a positive effect on future cash flow, Net Profit reflects accounting profit obtained from income statements, while Operating Cash Flow reflects actual cash flow from business operations. The difference between net profit and operating cash flow can be caused by factors such as changes in working capital, non-cash adjustments, or certain accounting policies.
4. Gross Profit, Net Profit and Operating Profit simultaneously have a positive effect on future cash flow, Revenue from sales, which is the main component of gross profit, net profit, and operating profit, will basically increase the cash flow from the company's operating activities. Meanwhile, the costs deducted from revenue to achieve net profit and operating profit are the costs that have been incurred in the process of generating these revenues. Therefore, the greater the gross profit, net profit, and operating profit, the greater the possibility of cash flows generated by the company in the future.

LIMITATION

The results of the analysis of the conclusions in this study have several limitations that may affect the results of the research to be achieved. The following are the limitations in this study:

1. The value of the determination coefficient (*Adjusted R Square*) in this study of 655 means that it has a value of 65.5% influenced by variables in the research model while the remaining 34.5% is influenced by other variables outside the study.
2. The results of the hypothesis test showed that there was one independent variable that was rejected, namely operating profit. The results of the study show that operating profit has a negative effect on the company's cash flow in the future, while according to the theory operating profit has a significant positive effect on cash flow in the future.

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