CHAPTER I

INTRODUCTION

1.1. Background of the Study

A financial statement is one of the most important things not only for the small businesses but also for the huge corporations, of how great the financial performances are reflected in the financial reports. It recorded the summarized transactions that were made in one period (Sulistiyoningshih, 2020). The purpose of financial reporting is to provide (1) information that is useful for credit and investment decisions, (2) information to examine the future cash flow, and (3) information about the companies' resources, and the changes made (Kieso et al., 2008).

Many people believe that if a company's profit is increasing, it usually indicates that the financial performance of the company is also improving. However, this assumption will restrict economic players' ability to assess the performance of a company. If the company's profitability is in good condition but it has a cash flow deficit, which means that the company is experiencing financial difficulties and may be unable to pay off its obligations (F. P. Sari & Supriati, 2020).

In making financial decisions or investing in an organization, investors and creditors have to be able to examine and anticipate the financial condition of the organization, so that the decisions they make do not harm them in the long run

(Karpriana, 2019). Based on the information provided in financial reports or statements, investors and creditors can learn about the organization's current and prospective financial performance.

Cash flow statements are often used to forecast the financial performance of a company because it provides information to review the past operation and preparation for the future investment as well as the future expenses (Pangaribuan & Nopiana, 2021). On the other hand, investors and creditors are using this statement to assess the liquidity level and the organization's potential in making a profit.

An income statement is a report that is related to future cash flow. This statement includes the number of incomes in one period. Financial performance information, especially profit, is needed to provide information regarding the management's duty and responsibility in managing resources. It is also used as the benchmark to determine the efficiency of a company (Cerniati & Hasan, 2020).

Cash flow and profit are frequently used as an indicator to find out the financial performance of an organization. The financial performance is reflected in the financial reports to determine if the company is experiencing declining or growing steadily in a period. The firms who are facing changes, whether positive or negative performance, will have an impact on dividend policy, debt payment, investment, and the organization's ability to maintain its sustainability. Therefore, cash flow and profit can be used to forecast future financial performance, such as future cash flow (Karpriana, 2019).

Furthermore, receivable turnover also can be used in forecasting future cash flow, which is proved by Gian (2019) that conducted research in the period 2015-2018. The findings of the study revealed that the ratio of receivable turnover partially has a significant impact on future cash flow.

Receivables are an essential account in a business since they are a liquid current asset that can be received as cash immediately. The process starts from decision-making to approve credit for customers, shipping goods and services, and billing, until receiving payment. Moreover, every organization needs sufficient cash flow to fund the daily operational activities and debt payments on time. In a financial report, receivables can be used to analyze if the company is financing its activities properly and to evaluate its financial performance. In order to know the effectiveness of a company on converting receivables into cash, it can be calculated by the ratio of receivable turnover (Lubis, 2019).

According to Gian (2019), account receivable turnover is a measurement that shows the number of times a company's receivables have been turned back into cash during the financial year. This describes how many times the receivable is successfully billed so that it can become the future operating cash flow (Karpriana, 2019).

The consumer goods industry sector business is a portion of manufacturing companies in Indonesia. The consumer goods industry includes cosmetic and household companies, food and beverages companies, houseware companies, pharmaceuticals companies, tobacco manufacturers, and others.

Below is the movement of three consumer goods industry companies' operating cash flow in the period 2015-2019.

Table 1.1 The Operating Cash Flow Data of Consumer Goods Industry Companies Listed in Indonesia Stock Exchange period 2015 - 2019

Code	Company Name	Cash flow (in billion Rupiah)				
		2015	2016	2017	2018	2019
UNVR	PT Unilever Indonesia Tbk	6,299	6,684	7,060	8,161	8,669
ICBP	PT. Indofood CPB Sukses Makmur Tbk	3,486	4,585	5,174	4,653	7,398
KLBF	PT. Kalbe Farma Tbk	2,428	2,160	2,008	2,771	2,503

Source: Prepared by the writer (2021)

Based on table 1.1, the operating cash flow of PT Unilever Indonesia Tbk is increasing steadily each year. Starting from Rp6,299 billion in 2015 until Rp8,669 billion in 2019. The most rapid movement is in 2018, which is Rp8,161 billion, an increase of Rp1,101 billion from the previous year.

While PT. Indofood CPB Sukses Makmur Tbk's operating cash flow was increasing from 2015 to 2017 with the amount of Rp3,486 billion and Rp5,174 billion respectively. However, it decreased in 2018 to the amount of Rp4,653 billion and improved again in 2019 with the amount of Rp7,398 billion.

As for the operating cash flow of PT. Kalbe Farma Tbk, dropped continuously from Rp2,428 billion in 2015 to Rp2,008 billion in 2017. But it increased by Rp763 billion in 2018 to the amount of Rp2,771 billion. Still, it fell again in 2019 with the amount of Rp2,503 billion.

As can be seen from the three companies in the consumer goods industry above, each of them showed a different movement of operating cash flow. Furthermore, the competitive risk may have an impact on future cash flow. The examples of competitive risk are pricing, innovation, location, resources, promotion, distribution, and intellectual property. Furthermore, since there are many enterprises that run similar businesses and an increase in newcomers each year, many companies are forced to sell their products at a lower price (I. D. K. Sari, 2020).

Moreover, according to Wareza (2019) in her article in CNBC Indonesia, regardless of the fact that the consumer goods sector's performance on the Indonesian Stock Exchange is weakening, it remains attractive to investors. This is due to the fact that the consumer stock sector remains quite promising in the long run, even after challenges in the short to medium term (Wareza, 2019). Thus, the researcher is interested in choosing the consumer goods sector industry as the object of the research.

Below is the table of gross income, net income, receivable turnover, and future cash flow movement of two companies in the consumer goods industry sector listed on the Indonesia Stock Exchange period 2015-2019.

Table 1.2 The Gross Income, Net Income, Receivable Turnover, and Future Cash Flow Data of Consumer Goods Industry Companies Listed in Indonesia Stock Exchange Period 2015 - 2019

Code	Company Name	Year	in billion Rupiah			
			Gross Income	Net Income	Receivable Turnover	Future Cash Flow (t+1)
HMSP		2015	21,764	10,363	30.58	14,077

		2016	23,855	12,762	19.64	15,376
	PT. Hanjaya Mandala Sampoerna Tbk	2017	24,216	12,671	22.58	20,193
		2018	25,491	13,538	28.10	17,146
		2019	26,123	13,722	27.90	11,953
INDF	PT. Indofood Sukses Makmur Tbk	2015	17,258	3,710	13.52	7,176
		2016	19,338	5,267	12.92	6,508
		2017	19,770	5,097	11.64	5,936
		2018	20,212	4,962	10.93	13,344
		2019	22,716	5,903	12.22	13,855

Source: Prepared by the writer (2021)

As can be seen from table 1.2, the gross income of both companies is increasing steadily from Rp21,764 billion in 2015 to Rp 26,123 billion in 2019 for PT. Hanjaya Mandala Sampoerna Tbk. It went the same as PT. Indofood Sukses Makmur Tbk, the gross income in 2015 amount Rp17,258 billion increased to Rp22,716 billion in 2019.

As for net income, PT. Hanjaya Mandala Sampoerna Tbk kept on increasing from Rp10,363 billion to Rp13,722 billion from 2015 to 2019. While for PT. Indofood Sukses Makmur Tbk, the net income rose from Rp3,710 billion in 2015 to Rp5,097 billion in 2017. However, in 2018, it decreased to Rp4,962 billion and increased again in the next year to Rp5,903 billion.

Moreover, the receivable turnover for PT. Hanjaya Mandala Sampoerna Tbk dropped from 30.58 to 22.58 from 2015-2017. But it increased in 2018 to the amount of 28.10 and slightly decreased to 27.90 in the next year. PT. Indofood Sukses Makmur Tbk's receivable turnover ratio also dropped from 2015 to 2018 from 13.52 to 10.93 but it rose to 12.22 in 2019.

While for the future cash flow, both companies experienced up and down. PT. Hanjaya Mandala Sampoerna Tbk's future cash flow was increasing from Rp14,077 billion in 2015 to Rp20,193 billion in 2017. For the next two years, it declined to Rp11,953 billion. Fluctuation is also experienced by PT. Indofood Sukses Makmur Tbk's future cash flow. It decreased from 2015 to 2017 from the amount of Rp7,176 billion to Rp5,936 billion respectively. Still, it rose continually until 2019 to Rp13,855 billion.

Furthermore, a company's success can be measured by the total cash flow used to finance its operating activities. For this reason, cash flow is considered as a magnet that can attract investors and creditors. Investors can choose whether to invest in the company or not. For creditors, it can be used to check the quality of a given loan guarantee. Thus, investors and creditors may easily predict if the future cash flow generated will rise or fall compared to the year before (I. D. K. Sari, 2020).

According to Karpriana (2019), profit is frequently used as an indicator to forecast the financial performance of an organization. In line with the research conducted by Pangaribuan & Nopiana (2021) stated that net income has a significant impact on future cash flow. However, the result of Sari (2020) research stated that net income doesn't affect future cash flow significantly meanwhile gross income has a significant influence toward future cash flow. Different from the research done by I. L. Kusuma & Sumadi (2021) that stated gross income and net income have no significant impact toward future cash flow.

Based on the research by Karpriana (2019), by knowing the ratio of receivable turnover, the company can determine the amount of future cash flow from the company's operating activities. The result of Karpriana (2019) and Gian (2019) research showed that receivable turnover has a significant impact toward future cash flow. However, the result of Hadi (2020) research showed that receivable turnover has no significant influence on future cash flow.

Due to the contradictory results of some previous studies by using gross income, net income, and the ratio of receivable turnover as the independent variable and future cash flow as the dependent variables, the researcher is interested in this topic. Therefore, the researcher is interested to research "**The Influence of Gross Income, Net Income, And Receivable Turnover in Forecasting Future Cash Flow on Consumer Goods Industry Companies Listed on The Indonesia Stock Exchange Period 2015-2019**"

1.2.   Problem Limitation

This research intended to analyze the influence of income and financial ratio on forecasting future cash flow. The variables used are limited to three independent variables which are gross income, net income, and the ratio of receivable turnover, as well as one dependent variable which is future cash flow.

Furthermore, the object of research was limited to companies in the consumer goods industry sector that were listed on the Indonesia Stock Exchange. The period of financial data used in this research is between 2015 and 2020. Due to

time constraints, the financial data for the year 2021 is not included in this research because financial statements of some companies have not yet been published.

1.3. Problem Formulation

Below is the problem of study formulated, based on the background of study described above:

1. Does gross income partially have a significant influence on forecasting future cash flow in consumer goods industry companies listed on Indonesia Stock Exchange 2015-2019?

2. Does net income partially have a significant influence on forecasting future cash flow in consumer goods industry companies listed on Indonesia Stock Exchange 2015-2019?

3. Does receivable turnover partially have a significant influence on forecasting future cash flow in consumer goods industry companies listed on Indonesia Stock Exchange 2015-2019?

4. Do gross income, net income, and receivable turnover simultaneously have a significant influence on forecasting future cash flow in consumer goods industry companies listed on Indonesia Stock Exchange 2015-2019?

1.4. Objective of the Research

According to the problem formulation, below is the objective of this research:

1. To analyze the influence of gross income on forecasting future cash flow in consumer goods industry companies listed on Indonesia Stock Exchange 2015-2019.

2. To analyze the influence of net income on forecasting future cash flow in consumer goods industry companies listed on Indonesia Stock Exchange 2015-2019.

3. To analyze the influence of receivable turnover on forecasting future cash flow in consumer goods industry companies listed on Indonesia Stock Exchange 2015-2019.

4. To analyze the influence of gross income, net income, and receivable turnover on forecasting future cash flow in consumer goods industry companies listed on Indonesia Stock Exchange 2015-2019.

1.5.   Benefit of the Research

The following are some of the theoretical and practical benefits of this research:

1.5.1   Theoretical Benefit

This research is intended to provide a greater understanding and knowledge of gross income, net income, and receivable turnover, as well as their impact on forecasting future cash flow. Also, it can be useful as a reference for other researchers to conduct additional research.

1.5.2   Practical Benefit

1.   For Management

The finding of this research is expected to be used as information for consideration and insight into planning and decision making in order to maintain and improve the company's financial performance.

2.   For Investors

The result of this research is expected to provide alternative approaches for investors to take into account when evaluating a company's cash flow before making an investment decision.