

**ANALYSIS OF THE INFLUENCE OF OPERATING CASH FLOWS,  
DEBT TAX LOADS, AS WELL AS LISTED LEVELS ON PROFIT  
PERSISTENCY WITH SALES VOLATILITY AS MODERATING  
VARIABLES IN MANUFACTURING COMPANIES REGISTERED  
IN THE EXCHANGE OF PROFITS WITH SALES VOLATILITY  
AS MODERATING VARIABLES IN MANUFACTURING  
COMPANIES REGISTERED IN THE EXCHANGE OF  
INDONESIA WITH THE 2016-2015 PERIOD**

**Dessy Tarigan, Erlina, Idhar Yahya**  
Universitas Sumatera Utara

**Abstract:** This study aims to analyze operating cash flow, deferred tax expense, and debt levels that affect earnings persistence with sales volatility as a moderating variable in manufacturing companies listed on the Indonesia Stock Exchange for the period of 2016-2018. The population in this study amounted to 132 companies using a purposive sampling method obtained a sample of 34 data. Data testing methods used are multiple linear regression analysis and moderating analysis. The results of this study indicate that partially, the operating cash flow variable does not have a significant effect on earnings persistence, the deferred tax expense variable partially has a significant effect on earnings persistence, and the debt level variable also has a significant effect on earnings persistence. Sales volatility is able to moderate the influence of operating cash flow, deferred tax expense, and the level of debt to earnings persistence.

**Keywords:** Operating Cash Flow, Deferred Tax Expenses, Debt Levels, Sales Volatility, Profit Persistence.

## **1. INTRODUCTION**

Profit is one of the important aspects for the company because it is one of the main objectives of an established business. The company certainly expects high profits, sustainable and consistent in order to maintain the health of the company. But having high profits isn't enough. The company certainly also expects profits that show the actual state of the company and can be a reference to predict earnings in the coming period. In other words, persistent earnings are expected and important profits for the company (Suwandika, et al., 2013).

One form of financial statements is a statement of cash flows. The cash flow statement aims to see the effects of operating, investing and financing activities. A company's investment is reflected in assets. These investments need funding. The company gets its funding from various sources: shareholders, creditors (eg banks), suppliers (for example in the form of trade payables), from employees (for example in the form of salary debts), from the government (tax debt). Long-term loans are usually used for investments or assets that have a long term too. Just as an understanding of investment activities, an understanding of funding activities will also provide a better understanding of the company's financial condition. The company's operational activities try to achieve its main goal, which is to increase

the value of shares, which means increasing the prosperity of shareholders (company owners).

Besides cash flow, another factor influencing earnings persistence is deferred tax expense. Deferred tax expense arises due to the time difference between accounting profit and fiscal profit. The difference between accounting and fiscal financial statements is due to the fact that in preparing reports standard accounting gives more flexibility for management in determining accounting principles and assumptions than is allowed according to tax regulations (Yuliati, 2004). Deferred tax expense reported in the income statement is the result of applying the accrual accounting concept in recognition of revenues and expenses and has tax consequences. This deferred tax expense is reported in the income statement which is a transitory component, which means that the deferred tax expense does not occur continuously and only occurs in a certain period, that is, as long as the company adopts accounting methods and policies that are different from tax regulations (Wijayanti, 2016).

In addition to the deferred tax burden, the high level of debt will cause the company to increase earnings persistence with the aim of maintaining good company performance in the eyes of investors. With good performance, it is expected that creditors will continue to have trust in the company, continue to disburse funds, and the company will get ease in the payment process. Measurement for the level of debt (leverage) in this study using the Debt Ratio. This ratio emphasizes the importance of long-term funding by showing the percentage of company assets supported by debt. A high level of debt indicates an increase in risk to creditors in the form of the company's inability to pay debt. High levels of debt will also result in high interest payments and ultimately have an impact on returns on investors.

The reason for the selection of independent variables in this study is originated from the inconsistency of the results of the previous researchers, so that researchers now try to analyze and identify, what really influences the persistence of earnings. The reason for population selection in this study is that the development of manufacturing industry companies has become the main needs of people in various regions both in urban and remote areas. Manufacturing companies were chosen because manufacturing companies were considered to have many different tax and accounting treatments. In addition, manufacturing companies are considered the most appropriate as an object because it takes a lot of data for this type of research that is predictive.

The researcher uses three variables, namely operating cash flow, deferred tax expense, and the level of debt in influencing earnings persistence with sales volatility as a moderating variable.

## **2. THEORETICAL BASIS**

### **2.1. Signalling Theory**

Signal theory explains how companies should give signals to users of financial statements. Signals given in the form of promotions or other information stating that the company is better than other companies. The signal theory framework states that the impetus for companies to provide information is because

there is information asymmetry between company managers and outsiders, this is because managers manage to know more information about the company and prospects to come than outsiders. According to Ross (1977) that information is an important element for investors and business people because it presents future conditions for the survival of a company and how it markets its effects. Companies can increase company value by reducing the information asymmetry. One way to reduce information asymmetry is by giving signals to outsiders, in the form of positive and trustworthy financial information that will reduce uncertainty about the company's future prospects so as to increase the company's credibility and success.

## **2.2. Profit Persistence**

Earnings persistence is often used as a consideration of earnings quality because earnings persistence is a component of qualitative characteristics of relevance namely predictive value (Martani, et al., 2008). Persistence is measured using the coefficient of regression between current and future period accounting earnings (Wijayanti, 2016).

Earnings persistence is determined by the accrual component and the cash flow contained in current earnings (Diana, et al., 2004). The accrual and current earnings components tend to be less repeated or less persistent to determine future earnings because they are based on accruals, deffered, allocations and valuations that have subjective distortions. Some financial analyzes prefer to increase operating cash flow as a determinant of earnings quality because cash flow is more persistent than the accrual component. They believe that the higher the ratio of operating cash flow to net income, the higher the profit quality will be.

Persistence of quality earnings is persistent earnings that is sustained earnings, more permanent and not transitory. Persistence as earnings quality is determined based on the perspective of its usefulness in decision making especially in the valuation of equity, high quality earnings are earnings that have high ability to predict future earnings (Schipper, et al. 2003).

## **2.3. Operating Cash Flow**

The statement of operating cash flows is a financial statement that reports cash receipts, cash disbursements and changes in net cash, the results of operating activities of a company during an accounting period, in a format that records the balance of the initial balance with the ending balance of cash. Through cash flow statements, users of financial statements want to know how entities generate and use cash and cash equivalents. The purpose and purpose of the cash flow statement is to present changes in the entity's cash flows and cash equivalents over a period classified according to operating, investing and financing activities. Disclosures about the importance of cash flow information are stated in PSAK No. 2 (IAI, 2014) which states that companies must prepare cash flow statements and must present these reports as an integral part of the financial statements for each period of financial statement presentation.

## **2.4. Deferred Tax Burden**

Tax burden is the aggregate amount of current tax and deferred tax (differed tax) which are calculated in determining the profit and loss for an accounting period (PSAK No.46). Taxes are the amount of income due for taxable income for the

period, while deferred tax is the amount of income tax payable for the coming period as a result of temporary differences. And from the temporary difference, the deferred tax burden is realized.

### 2.5. Debt Level

According to the FASB (Financial Accounting Standard Board) debt is a sacrifice of future economic benefits that may arise from the present obligation of an entity to hand over assets or provide services to other entities in the future as a result of past transactions. Saputra (2003) explains the level of debt or often also referred to as the level of solvency is the company's ability to pay long-term obligations. A solvable company indicates that the company has enough assets and wealth to be able to pay off its debts.

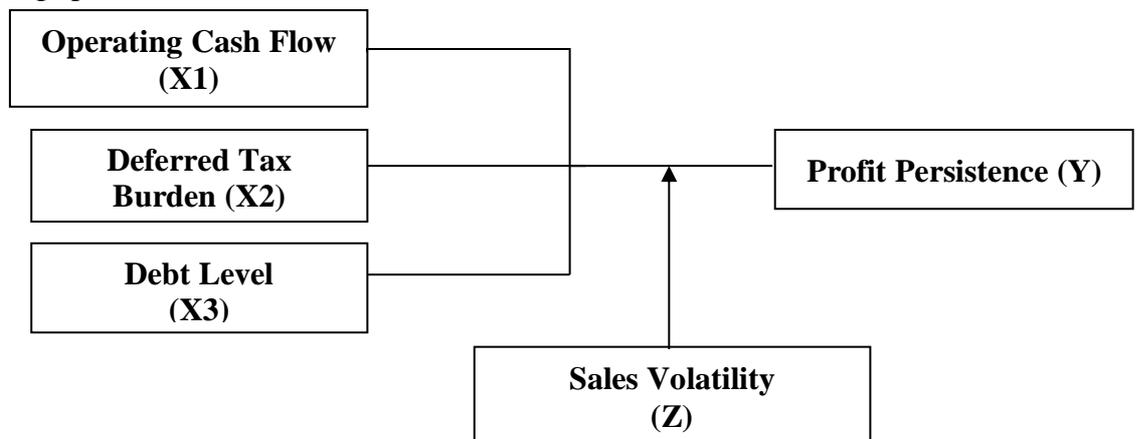
### 2.6. Sales Volatility

Sales is the most important operating activity in the company to generate profits. The high level of sales reflects the company's performance in marketing and selling products or services. Investors prefer the level of sales that are relatively stable or have low volatility. Low sales volatility will affect company profits where low sales volatility will be able to show the ability of low earnings to predict cash flow resulting from sales in the future so that the profits generated are more persistent.

Sales volatility is the degree of spread of sales or the distribution index of the company's sales distribution (Dechow, et al., 2002). Sales volatility indicates a volatility in the operating environment and greater deviation of approximation and estimation, and corresponds to greater estimation errors and low accrual quality (Dechow, et al., 2002). Low volatility from sales will indicate the ability of earnings to predict future cash flows.

## 3. CONCEPTUAL FRAMEWORK AND HYPOTHESES

Conceptual frameworks are formed to show the effect of independent variables on the dependent variable. Through a review of several previous researchers regarding earnings persistence, there are several variables that affect earnings persistence.



Based on the theoretical and conceptual framework, the hypotheses of this study are as follows:

1. Operating Cash Flow affects the Profit Persistence in Manufacturing companies listed on the Indonesia Stock Exchange.
2. Deferred Tax Burden affects the Profit Persistence in Manufacturing companies listed on the Indonesia Stock Exchange.
3. The level of debt affects the Profit Persistence in Manufacturing companies listed on the Indonesia Stock Exchange.
4. Sales Volatility is a moderating variable in the effect of Operating Cash Flow, Deferred Tax Expense and Debt Level to Profit Persistence in Manufacturing Companies listed on the Indonesia Stock Exchange.

#### 4. RESEARCH METHODS

Research to be conducted by researchers is to use causal research (Causal Research) by using replication models from previous research with the aim of answering problems and research objectives that have been formulated. This research was conducted by constructing a hypothesis first and then testing it using statistical test equipment. The population used is all manufacturing companies listed on the Indonesia Stock Exchange, with a total sample or data of 102 companies.

This study uses a data analysis method using SPSS software version 25. The measurement model is used to test the validity and reliability, while the structural model is used to test the hypothesis.

#### 5. RESEARCH RESULTS AND DISCUSSION

##### 5.1. Research Result

Based on the test results obtained by R Square results as shown in the following table :

Model	R	R Square
1	.433 <sup>a</sup>	.188

a. Predictors: (Constant), Debt Level, Operating Cash Flow, Deferred Tax Burden

b. Dependent Variable: Profit Persistence.

Based on the table above, it can be seen that the value of R Square (R<sup>2</sup>) is 0.188, which means that 0.188 or (18.8%) operating cash flow variables, deferred tax expense and debt levels are able to describe or explain the persistence of earnings. While the remaining 81.2% is described or explained by other variables not included in the research model.

### T test (partial)

The results of regression analysis testing through t-test in the following table:

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	Profit Persistence	-2.289	.679			
	Operating Cash Flow	-.095	.051	-.178	-1.850	.067
	Deferred Tax Burden	.170	.056	.293	3.041	.003
	Debt Level	-.199	.059	-.310	-3.395	.001

Based on the table above, the results of the t test stated that the deferred tax burden and the level of debt partially have a significant effect on earnings persistence. While operating cash flow variables do not have a significant effect on earnings persistence.

Operating cash flow has a significance value of t of 0.067 which is greater than 0.05, meaning that operating cash flow partially has no significant effect on earnings persistence. Deferred tax expense has a significance value of t of 0.003 which is smaller than 0.05, meaning that the deferred tax expense partially has a significant effect on earnings persistence. The level of debt has a significance value of t of 0.001 which is smaller than 0.05, meaning that the level of debt partially also has a significant effect on earnings persistence.

### 5.2. Discussion

1. The first hypothesis in this study is that operating cash flow affects earnings persistence in manufacturing companies listed on the Indonesia Stock Exchange. While the test results in this study indicate that operating cash flow partially does not have a significant effect on earnings persistence in manufacturing companies listed on the Indonesia Stock Exchange. According to the Indonesian Institute of Accountants (2015) cash flows from operating activities are obtained primarily from the main revenue generating activities of the entity. Therefore, cash flow is generally generated from transactions and other events that affect profit or loss. Operating cash flow also reflects the amount of cash spent on operations in other words making a profit. If the operating cash is positive, it will contribute profit and vice versa. The results of this study are in line with the results of research conducted by Sulastrri (2014) which in his research stated that operating cash flow does not have a significant effect on earnings persistence.
2. The second hypothesis in this study is the deferred tax burden affects earnings persistence in manufacturing companies listed on the Indonesia Stock Exchange. The test results in this study indicate that the deferred tax burden partially has a significant effect on earnings persistence on manufacturing companies listed on the Indonesia Stock Exchange. Deferred tax expense arises due to the time difference between accounting profit and fiscal profit. The difference between accounting and fiscal financial statements is due to the fact that the preparation of accounting standard

reports provides more flexibility for management in determining accounting principles and assumptions than is allowed according to tax regulations (Yuliati, 2004). That way, the results of this study are in line with the results of research conducted by Mahmudah et al. (2019) which in their research stated that deferred tax expense has a significant effect on earnings persistence.

3. The third hypothesis in this study is that the level of debt affects earnings persistence in manufacturing companies listed on the Indonesia Stock Exchange. The test results in this study indicate that the level of debt partially has a significant effect on earnings persistence in manufacturing companies listed on the Indonesia Stock Exchange. Previous research that supports the results of this study is a study conducted by Kusuma, et al. (2014); and Fanani (2010) which in their research stated that the level of debt had a significant effect on earnings persistence.
4. The fourth hypothesis in this study is that sales volatility is a moderating variable between the effect of operating cash flow, deferred tax expense and the level of debt to earnings persistence. Based on the results of the moderating test conducted with the residual test in table 5.11 it can be concluded that sales volatility can be used as a moderating variable between the influence of operating cash flow, deferred tax expense and the level of debt to earnings persistence. This is because the earnings persistence coefficient value in equation (2) has a negative value and has a significant effect on the absolute residual value of equation (1).

## **6. CONCLUSIONS AND RECOMMENDATIONS**

### **Conclusions**

Based on the results of data analysis and processing in this study, the following conclusions can be made:

1. Operating cash flow does not have a significant effect on earnings persistence in manufacturing companies listed on the Indonesia Stock Exchange. With these results, H1 was rejected.
2. Deferred tax expense has a significant effect on earnings persistence in manufacturing companies listed on the Indonesia Stock Exchange. With these results, H2 is received.
3. The level of debt has a significant effect on earnings persistence in manufacturing companies listed on the Indonesia Stock Exchange. With these results, H3 is accepted.
4. Sales volatility is a moderating variable between the effect of operating cash flow, deferred tax expense and the level of debt to earnings persistence at manufacturing companies listed on the Indonesia Stock Exchange. With these results, H4 is accepted.

### **Recommendations**

Based on the conclusions obtained in this study, the advice given is as follows.

1. The results of this study indicate that the debt level variable has a negative and significant effect on earnings persistence. So it is expected that manufacturing companies listed on the Indonesia Stock Exchange can pay

attention to the level of debt owned by the company because the level of debt also has a negative influence on earnings persistence. That is, if the level of debt owned by the company increases, the persistence of the company's profits will decrease.

2. In this research it is proven that sales volatility can be used as a moderating variable between the influence of operating cash flow, deferred tax expense and the level of debt to earnings persistence in manufacturing companies listed on the Indonesia Stock Exchange, so it is expected for companies to maintain the level of sales volatility due to sales volatility. can strengthen or weaken the influence of operating cash flow, deferred tax expense and debt levels on earnings persistence.
3. This research was conducted based on measuring devices (parameters) that the author only knew, so the results of this study might not be the same if applied with other measuring devices (parameters). In future studies it is recommended to use another measurement tool (parameter) so that the results can be compared with the results of previous studies.
4. In this study the independent variables studied were only operating cash flow, deferred tax expense, debt levels only. In further research it is recommended to examine more independent variables that have an influence on earnings persistence such as market concentration, company size, managerial ownership, audit fees and so on.

## **BIBLIOGRAPHY**

- Barus, A. and Setiawati, C. (2015). Effect of Information Asymmetry, Corporate Governance Mechanisms, and Deferred Tax Burden on Earnings Management. *Journal of Microeconomic Entrepreneurs*. 5 (1). 31-40.
- Dechow, P., and Dichev, I. (2002). The Quality of Accruals and Earnings: The Role of Accrual Estimation Errors. *The Accounting Review*, 77.
- Diana, S. R. and Kusuma, I. W. (2004). Effect of Contextual Factors on the Use of Earnings and Operating Cash Flow in Explaining Stock Returns. *Indonesian Accounting Journal*. 7 (1). 74-93.
- Djamaluddin, S., Wijayanti, H. and Tri., R. (2008). Analysis of the effect of the difference between accounting profit and Fiscal Profit on the persistence of Profit, Accruals, and Cash Flow on Banking Companies Listed on the Jakarta Stock Exchange. *Indonesian Journal of Accounting Research*. 11 (1). 52-74.
- Efendi, E. 2019. Determination of Earnings Management with Free Cash Flow as a Moderating Variable in Consumer Goods Companies on the Indonesia Stock Exchange. *Journal of Accounting*, University of North Sumatra.
- Erly, S. (2001). *Tax Planning*. Salemba Empat: Jakarta
- Fanani, Z. (2010). Analysis of Determinants of Profit Persistence. *Indonesian Journal of Accounting and Finance*.

- Hanlon, M., 2005, The Persistence and Pricing of Earnings, Accruals, and Cash Flows When Firms Have Large Book-tax Differences, *The Accounting Review*, 80 (1). 137-166.
- Harahap, (2007). *Critical Analysis of Financial Statements*, First Edition. Jakarta: Raja Grafindo Persada.
- Indonesian Accounting Association (2014), *Financial Accounting Standards*. Jakarta: Salemba Empat.
- Joos, Peter and Plesko, George A. 2004. "Valuing Loss Firms". *Sloan School of Management*, E52-325.
- Kusuma, B. and R. Arja Sadjarto (2014). Analysis of the Effect of Cash Flow Volatility, Sales Volatility, Debt Levels, Book Tax Gap, and Corporate Governance on the Profit Persistence of Companies listed on the Indonesia Stock Exchange. *Tax and Accounting Review*. 4 (1).
- Lestari, Budi. (2011). Analysis of the influence of Book Tax Differences on Earnings Growth. *Accounting journal*.
- Loist, C. 2019. The Influence of Intellectual Capital on Profitability and its Impact on Stock Prices in Banking Companies Listed on The Indonesia Stock Exchange. *Journal of Accounting*, University of North Sumatra.
- Mahzura, T. 2019. The Analysis of The Influence of Financial Performance, Company Size, Ownership Structure, Leverage and Company Growth on Company Values in Food and Beverage Industry Companies Listed in IDX 2012-2016 Period. *Journal of Accounting*, University of North Sumatra.
- Martani, Dwi and Aulia Eka Persada. (2008). Analysis of Factors Affecting Book Tax GAP and Its Effect on Profit Persistence. *Indonesian Journal of Accounting and Finance* Vol. 7, No.2.
- Meythi, 2006, The Effect of Operating Cash Flow on Stock Prices with Profit Persistence as an Intervening Variable, IX National Accounting Symposium, Padang.
- Mohamad Nasir and Mariana Ulfah. (2008). Analysis of the Effect of Cash Flow on Share Prices Through Profit Persistence as an Intervening Variable. *Journal of Action*. Vol. 8
- Mahmudah, W., Suryati, A., and Husadha, C. (2019). Tax Planning and Deferred Tax Charges for the Profit Persistence of Manufacturing Companies on the IDX. *Journal of Accounting and Management Impliah (JIAM)*. 15 (1). 29-37.
- Nur Asma, Tuti (2012). Effects of Cash Flow and Differences in Accounting Profit and Fiscal Profit on Profit Persistence. Thesis. Padang State University.
- Persada, A.E, and Martani, D. (2010). Analysis of Factors Affecting Book Tax Gap and Its Effect on Profit Persistence. *Indonesian Journal of Accounting and Finance*, 7 (2), 205 - 221.
- Philips, J., M. Pincus, and S. Rego. 2003. *Earnings Management: New Evidence Based on Deferred Tax Expenses*. SSRN Working Paper, 2014.
- Ratna Dwiati, Agustina (2008). The Effect of Corporate Governance and Earnings Management on Dividend Policy. *Journal of Accounting*, Surabaya State University Vo.5.
- Salvatore, Dominick. *Managerial Economics in the Global Economy*. Salemba Empat: Jakarta, 2005, p. 14-24.

- Sinaga, D. 2019. The Effect of Good Governance, Leverage and Profitability on Profit Management in the Register of Manufacturing Companies on the Indonesia Stock Exchange. *Journal of Accounting*, University of North Sumatra.
- Shavira, Dea. 2019. The Effect of Liquidity, Profitability, Growth of Sales and Firm Size on Dividend Policy with Capital Structure as Moderating Variables in Consumption of Goods Industry Sector Companies Listed on the Indonesia Stock Exchange. *Journal of Accounting*, University of North Sumatra.
- Sloan, R. 1996. "Do Stock Prices Fully Reflect Information in Accruals and Cash Flows About Future Earnings?". *The Accounting Review* 71 (3): 289315.
- Soemarso, S. R., 2005, *An Introduction to Accounting*, Issue 5 (Revised), Salemba Empat, Jakarta.
- Suwandika, I.M.A., & Astika, I.B.P. (2013). Effects of Differences in Accounting Profit, Fiscal Profit, Debt Level on Profit Persistence. *E-Journal of Accounting*, Udayana University, 5 (1), 196 - 214.
- Wijayanti, S. (2016). The Effect of Deferred Tax Expenses on Profit Persistence and Profit Management in Manufacturing Companies. *Unesa Journal*. 2 (1).
- Winah, Sri. 2008. Analysis of the Effect of Operating Cash Flow on Stock Prices with Profit Persistence as an Intervening Variable (Empirical Study of Manufacturing Companies Listed on the IDX). Essay. Brawijaya University. Poor.