

## **Analysis of Net Profit and Cash Flow to Share Price Through Auditor Quality**

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### **Abstract**

*The design of this research Net profit in financial statements is one of the company's performances to get more value from investors. Net profit is also one of the tools to measure the income and costs of a company. cash flow statements aim to report both inflows and cash outflows. The cash flow statement also provides information on receipts and payments during a given period, the variable cash flows used, namely cash flow from operating activities, cash flows from investment activities and cash flows from financing activities. Share price is fickle or fluctuating all the time. In order to be trusted by the wearer or investor, it is necessary for auditors to bridge the needs of report users and financial report providers. The role of auditors is very important in bridging between the interests of investors and the interests of the company as a user and provider of financial statements. Research methods used in this the findings in this study are known that each variable X has a direct and significant effect on variables Y and Z. Variable Z is the quality of auditors in this study is not an intervening variable or mediator in the relationship X to Y.*

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## 1. Introduction

Consumer goods industry company is one of the companies that have gone international. As for the goods consumed such as food and beverages, clothing, medicines, cosmetics, and household goods, until electronic devices are developing well and have good prospects for the coming years. Kasmir (2018:303), Net Profit in financial statements is one of the company's performances to get more value from investors. Net Profit is also one of the tools to measure the income and costs of a company. Net Profit is profit that has been deducted from expenses i.e expenses of the company in a certain period including taxes. Hery (2016:85), the cash flow statement aims to report both inflows and cash outflows. The cash flow statement also provides information on receipts and payments during a given period, the variable cash flows used, namely cash flow from operating activities, cash flows from investment activities and cash flows from financing activities. Musdalifah (2015:82), the share price is a very important consideration when investing in stocks, but one of the factors of the two factors is very important to evaluate. Stock prices change or fluctuate all the time. In order to be trusted by the wearer or investor, it is necessary for auditors to bridge the needs of report users and financial report providers. The role of auditors is very important in bridging between the interests of investors and the interests of the company as a user and provider of financial statements.

The objectives achieved in this study so that manufacturing companies listed on the Indonesia stock exchange are audited by Public Accounting Firm international public accountant "The Big Four", The auditor's quality statement is expressed through audit opinion, reasonable opinion without exception from the auditor guarantees the accounting figures in the financial statements have been audited free of any of the material assessment going concern more based on the company's ability to continue its operations within the next 12 months.

Kadek's previous research (2018:47), stated that the variable cash flow hasn't significant influence on *the share price of consumer goods registered Indonesian stock market 2014-2016*. Meanwhile, according to Setiawati (2018:329), that Net Profit and operating cash flow together had no impact on *the the share price of food and beverages companies registered Indonesian stock market 2012-2015*. Judging from the phenomenon that occurred in the industrial sector manufacturing company problems of the company that requires considerable capital in the operation of its business, so that the company has difficulty in controlling the supply of goods in the company due to lack of capital, so that the company has difficulty in collecting the demand for products or goods. Various studies have been conducted to test the effect of Net Profit and cash flow on share prices. But the results are always inconsistent, so the author is interested in conducting further research under the title "Analysis of Net Profit and Cash Flow to Share Prices Through Auditor Quality in Consumer Goods Industry Sector Manufacturing companies listed on the Indonesia Stock Exchange".



Based on the background description, the problem formula in this study is:

1	:	Is there any effect of Net Profit on the share price of sector manufacturing companies listed on IDX
2	:	Is there any effect of cash flow of operating activities on the share price of sector manufacturing companies listed on the Indonesia Stock Exchange
3	:	Is there any effect of cash flow from investment activities on the share price of sector manufacturing companies listed on the IDX
4	:	Is there any effect of cash flow from funding activities on the share price of sector manufacturing companies listed on IDX
5	:	Is there any effect of auditor quality on the share price of sector manufacturing companies listed on IDX
6	:	Is there any effect of Net Profit on the share price through the quality of auditors of sector manufacturing companies listed on the IDX
7	:	Is there any effect of cash flow of operating activities on the share price through the quality of auditors of sector manufacturing companies listed on IDX
8	:	Is there any effect of cash flow from investment activities on the share price through the quality of auditors of sector manufacturing companies listed on the IDX
9	:	Is there any effect of cash flow from funding activities on the share price through the quality of auditors of sector manufacturing companies listed on the IDX

## 2. Literature Review

### Financial Statements

Fahmi (2018:21), the report contains the company's financial condition a company, and furthermore This information can be seen in the company's financial condition and capability. Hery (2016:3), financial statements are a result of an accounting process that can be used as a tool to communicate financial data or corporate activities to all parties concerned. Financial statements also serve as an information tool that connects the company with the company with the mitigated, which shows the health condition of corporation and the Corporation Work Ability. From the urain above it can be found that the

### Net Profit

Kasmir (2018:303), Net Profit is profit deducted from expenses that are expenses of the company in a certain period including taxes. According to Hery (2016:108) net income comes from transactions of income, expenses, profits and losses. These transactions are summarized in the income statement. Accountants have adopted a transactional approach to measuring profit or loss, which emphasizes the direct calculation of revenues, expenses, gains and losses.

Based on the above understanding, it can be concluded that net income is a positive difference between profit before tax and total costs. So that the large amount of net profit obtained by the company depends on the two posts. One of the goals of the company is to be able to increase profits from year to year.



## Cash Flow Statement

Hery (2016:87), cash flow statement detailing sources of receipts and cash expenditures based on operating activities, investments, and financing. The information we want to know about the company's performance during a certain period is presented in a nutshell through the cash flow statement. Cash flow statements can be used as a tool to analyze whether the company's plans for investment or financing are already underway. Giri (2017:81), cash flow statement containing cash receipts and expenses. Cash receipts and expenses (including cash and cash equivalents) are classified into the company's three main business activity groups.

Cash flow statements report cash flow through three types of activities, namely:

### 1) Cash flow from operating activities

Giri (2017:81), operating activities are a classification that includes all transactions affecting cash derived from the company's business activities, especially those that influence the determination of the company's net profit. Some examples of cash flow operating activities are:

1. Cash receipts from the sale of goods and services
2. Cash receipts from royalties, commissions and other income
3. Cash payments to employees
4. Receipt and payment of cash to suppliers of goods and services

### 2) Cash flow from investment activities

Giri (2017:81), operating activities are classifications that include transactions that affect the company's cash derived from debt creation, and collection of loans, acquisition and termination of debt, capital instruments, and fixed assets. Some examples of cash flow investment activities are;

1. Cash receipts from property sales. Such as land, buildings, and equipment, assets do not materialize and other long-term assets
2. Acquisition of shares or financial instruments of other companies
3. Receipt of debt payments from other companies
4. Cash payments to buy fixed assets, unmaterialized assets and other long-term assets, including developer costs in capitalization and self-built assets.

### 3) Cash flow from funding activities

Giri (2017:81), funding activities are transactions that affect the company's cash derived from the obligations and capital of the owner, including obtaining capital from the owner, and *distributing to the owner (return on or return off)*, and the borrowing activities. Some examples of cash flow funding activities are;

1. Cash receipts from the seller of the company's shares or issuance of IOU
2. Cash payments to shareholders to withdraw or penetrate the company's shares.



## Share

Fahmi (2018:81), shares are one of the securities traded in the capital market that are proprietary. Hermuningsih (2019:86), shares are a sign of capital investment of a person or party (business entity) in a company or limited liability company. The shareholding portion is determined by the amount of investment invested in the company. The profits enjoyed by shareholders come from dividends received from rising share prices.

## Auditor Quality

The measurement of audit quality is still unclear, but ordinary financial report users associate with the reputation of auditors (Teoh and Won, 1993) in Aria Masdiana (2015). clients usually perceive that auditor who come from large Public Accounting Firms and who have affiliations with the International Public Accounting Firm will have higher quality because the auditor has characteristics that can be attributed to quality, such as training, international recognition, and the existence of peer review. Auditors who have a good reputation will tend to maintain the quality of their audits so that their reputation is maintained and does not lose clients. The audit external environment is characterized by intense competition, *fee pressures and slow growth* to compete successfully within the Public Accounting Firm environment must constantly strive to exceed client expectations and maximize client decisions, by understanding the determinant attributes of client satisfaction.

The size of the Public Accounting Firm ranges from having one staff to thousands of staff and partners. There are 4 sizes of the category of public accountants, namely (Arens & Loebbecke, 1997; in Aria Masdiana (2015)).

### 1) International Public Accounting Firm

The four largest public accounting firms in the United States are known as the International public accounting *firm*, "*The Big Four*". They are the first of four companies: Pricewaterhouse Coopers, Deloitte & Touche, KPMG, Ernst & Young. These four companies have offices throughout the U.S. and in many other cities around the world. Public accountancy *firm The Big Four* audits almost all of the largest companies both in the U.S. and around the world, and audits many small-scale companies.

### 2) National Public Accounting Firm

Several other Public Accounting Firms in the United States are considered national-sized KAP because it has branches throughout major U.S. cities, this Public Accounting Firm *provides the same service as* "The Big Four" and launches direct competition with them in terms of attracting clients. In addition, it also has relationships with Public Accounting Firms abroad so that it also has international potential.

### 3) Local and Regional Public Accounting Firm

As a Public Accounting Firm in Indonesia is a local or regional Public Accounting Firm, and especially once centralized in Java Island. Some of them are just branch offices in other areas. This Public Accounting Firm also competes with other companies in attracting clients including competing with international and national public accounting firms.



4) Small Local Public Accounting Firm

According to Aren and Loebbecke translated by Amir Abadi Yusuf, most public accounting firms in Indonesia have fewer than 25 professional workers in one Public Accounting Firm. They provide audit services and related services especially for small non-profit organizations, although some of them serve companies *going public*.

### 3. Research Methods

#### Research Method

According to Uma & Roger (2017: 15), research methods are the mindset of a study. The research method used in this research is quantitative research method, quantitative method is analysis that uses statistical formulas that are adjusted research title and problem formulation, to take into account the numbers in order to analyze the data obtained. The use of quantitative research study in the current case is due to the use of numerical data.

#### Data Collection techniques

The data collection in this study are documentation methods. The documentation used is to collect all secondary data of financial statements published in the Corner of the Indonesia Stock Exchange located at the official Indonesia Stock Exchange in [www.idx.co.id](http://www.idx.co.id) about consumption sector manufacturing companies listed on the Indonesia Stock Exchange during the observation period of 2014 - 2018, as well as other information obtained through libraries, journals and previous research related to research objects.

#### Research Variabels

According to Sugiyono (2014), research variables are attributes or traits or values or people, objects or activities that have certain variations that are determined by researchers to be studied and drawn conclusions. Exogenous variables: are variables whose values are not influenced/determined by other variables within the model; each exogenous variable is always an independent variable. According to the relationship between one variable and another variable, the various variables in the study can be distinguished into:

#### Exogenous Variables

Exogenous variables in a path model are all variables for which there are no explicit causes or in the diagram there are no arrows pointing towards them, other than in the measurement error section. If the exogenous variables are correlated then the correlation is indicated by an arrow with a two-head that connects those variables. An exogenous variable is a variable whose value is not influenced/determined by other variables in the model.

Exogenous or independent variables or free variables are variables that affect or cause changes or the onset of *dependent variables* or bound variables. The exogenous or *independent* variables in this study were X1 (Net Profit), X2 (Operating Activity Cash Flow), X3 (Cash Flow of Investment Activities) and X4 (Cash Flow of Funding Activities).





## **Endogenous Variables**

Endogenous variables are variables that have arrows towards them. The variables included include all intermediate and dependent variables. Endogenous intermediate variables have arrows that go in their direction and from the direction of those variables in the path chart model. While the variable depends on only having an arrow heading towards it. Intermediary variables are defined as an integration process that combines knowledge to evaluate two or more alternative behaviors, and choose one of them that is perceived by consumers. Intervening variables are Auditor Quality (Z) while dependent variables are influenced variables or variables that are a result, due to the presence of free variables. The dependent variable in this study was Stock Price (Y).

## **Sample**

The criteria for data selection in determining this sample are as follows:

1. Consumer *goods industry* manufacturing company registered in IDX period 2016-2018
2. There are financial reports that provide complete information or data needed by researchers from 2016-2018
3. Financial statements ending on December 31.

After a normality test of 31 manufacturing companies engaged in manufacturing the food industry listed on the Indonesia Stock Exchange, which meets the above criteria, 18 companies with a total of 30 observation samples were selected.

## **Analyzed Data technique**

According to Widarjono (2010) Data analysis techniques used to test hypotheses in this study using path analysis techniques is a method to study direct effects and indirect effects of the variables studied. Path analysis can help researchers to decide whether correlation among those objects of research occurs directly or through variables between and can also compare the magnitude of the small influence, both direct and indirect by using standardized computer programs and calculated through the computer programs SPSS 20 for windows and AMOS 18. Management techniques using the AMOS program using the output results of Path Analysis that will explain the influence of exogenous variables namely Net Profit and cash flow through auditor quality to the share price while endogenous is audit quality as an intermediary (dummy).

## **4. Results**

### **Test Normality**

This test is used to see if the data used in the variables in the model is normal. By using data of 30 samples in 18 companies above, the results output amos normality test values can be seen in the table Assessment of Normality which is an output to test whether our data is normal multivariate or univariate.



**Table 1. Normality Test**

Variable	min	max	skew	c.r.	kurtosis	c.r.
AKP_LnX4	2.820	12.650	-2.070	-4.629	3.312	3.703
AKI_LnX3	9.150	12.870	.470	1.050	.147	.164
AKO_LnX2	3.020	12.570	.534	1.193	-1.194	-1.335
LB_LnX1	2.770	11.580	1.096	2.450	-.145	-.163
Kua_Auditor	.000	1.000	-.707	-1.581	-1.500	-1.677
HS_LnY	4.800	9.790	.159	.355	-.915	-1.023
Multivariate					-4.974	-1.390

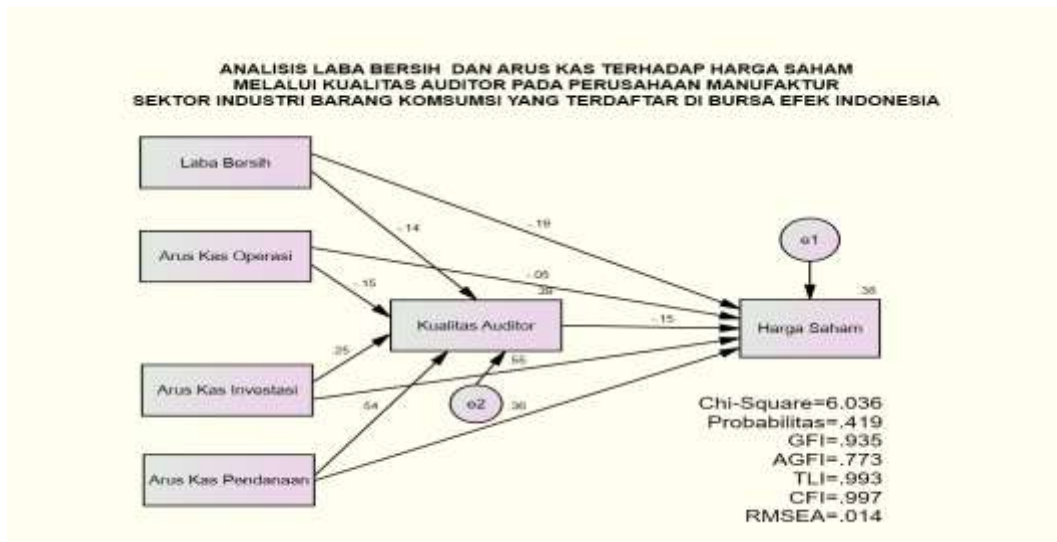
Source: Output Amos V. 18, 2020

Data normality is a key requirement that must be met in parametric analysis. In this study, data normality test using skewness and kurtosis test. Decision making in skewness and kurtosis test is if the skewness and kurtosis ratio values are  $-2.58$  and  $+2.58$  then the data distribution is normal. With the value located between  $-2.58$  critical  $-1,390$  below the value of  $2.58$  it can be concluded that the overall data is distributed normally (Ghozali, 2017:94).

**Path Analysis Results**

In the picture below, Figure1. it can be seen the value of the influence of each independent variable on the dependent variable, then the influence of the intermediary variable on the independent variable in its influence on share prices. The following will explain in stages the results of the calculation of the output:

**Figure 1. Effect Path Diagram between variables**



Source: Output Amos V. 18, 2020





## Model Test Results

These results indicate that the model used is acceptable. The CMIN/DF value of 1.006 indicates a good structural equation model. The RSMEA measurement index is in the range of expected values, namely 0.08, which is 0.014. Although chi-square, probability level, CFI, TLI received marginally. From several model feasibility tests, the model is said to be feasible if at least one of the model feasibility test methods is met (Hair et al, 1998 in Ghazali, et al, 2017). In an empirical study, a researcher is not required to meet all the goodness of fit criteria, but it depends on the judgment of each researcher. The Chi-Square value in this study is 6.036.

**Table 2. Testing Goodness of Fit**

No	Indeks	Nilai Kritis	Hasil	Evaluasi Model
1	Chi-Square	Mendekati nol	6.036	Marginal
2	Probability level	≥ 0,05	0,419	Good
3	CMIN/DF	< 2,00	1,788	Good
4	CFI	≥ 0,95	0,997	Marginal
5	RMSEA	≤ 0,08	0,014	Good
6	TLI	≥ 0,90	0,993	Good
7	GFI	≥ 0,90	0,935	Good
8	AGFI	≥ 0,90	0,773	Marginal

Source: Output Amos V. 18, 2020

**Table 3. Regression Load Calculation**

	Estimate	S.E.	C.R.	P	Label
Kua_Auditor <--- AKO_LnX2	-.024	.025	-956	.339	par_6
Kua_Auditor <--- AKI_LnX3	.141	.083	1.702	.089	par_7
Kua_Auditor <--- LB_LnX1	-.027	.028	-.972	.331	par_8
Kua_Auditor <--- AKP_LnX4	.109	.032	3.420	***	par_9
HS_LnY <--- LB_LnX1	-.099	.080	-1.247	.213	par_1
HS_LnY <--- AKO_LnX2	-.023	.073	-.308	.758	par_2
HS_LnY <--- AKI_LnX3	.853	.248	3.440	***	par_3
HS_LnY <--- AKP_LnX4	.206	.107	1.915	.055	par_4
HS_LnY <--- Kua_Auditor	-.424	.529	-.803	.422	par_5

Source: Output Amos V. 18, 2020

From Table 3 above, you can see the value of each variable in forming a research model. Here is explained the influence of each - each variable to answer the problem formulation in the research.

### a. Direct Effect

#### 1) Contribution of Net Profit (X1) on Stock Price (Y)

From table 3 above it is known that the effect of Net Profit (X1) on the share price (Y) can be seen through *the standardized coefficient* value of 0.213 > 0.05 this indicates that the Net Profit (X1) has no contribution on the share price (Y).



- 2) **Contribution of Operating Cash Flow (X2) on Stock Price (Y)**  
From Table 3 above it is known that the effect of Operating Cash Flow on share price can be seen through *standardized coefficient value* of  $0.758 > 0.05$ , this indicates that it turns out that Operating Cash Flow (X2) has no effect on the share price. I'm not going to say that.
- 3) **Contribution of Investment Cash Flow (X3) on Stock Price (Y)**  
From table 3 above it is known that the influence of Investment Cash Flow (X3) on the share price (Y) can be seen through *the standardized coefficient value* of  $0.000 < 0.05$ , this indicates that it turns out that investment cash flow (X3) affects the share price (Y)
- 4) **Contribution of Funding Cash Flow (X4) on Stock Price (Y)**  
From table 3 above it is known that the influence of cash flow funding (X4) on the share price (Y) is worth  $0.055 > 0.05$ , this indicates that the Funding Cash Flow(X4) has no effect on the share price (Y)
- 5) **Contribution of Auditor Quality (Z) on Stock Price (Y)**  
From table 3 above, it is known that the influence of auditor quality (Z) on the share price (Y) can be seen through the *standardized coefficient value* of  $0.422 > 0.05$ , indicating that the quality of auditor (Z) has no effect on the share price (Y).

#### b. Indirect Effect

##### 1) The Effect of Net Profit on the share price through the quality of auditors manufacturing sector of the food industry

To find the value t-count, then we must enter the value obtained into the formula above. Coefficient a is  $-0.027$ , while the value of coefficient b is  $-0.424$ . Then the standard value of error a ( $s_a$ ) =  $0.028$  and the standard error b ( $s_b$ ) =  $0.529$ . after the value is known then we can start the calculation of sab value as follows (calculation attached): $0.647$  is the calculated value of the indirect influence of Net Profit on the share price through the quality of auditors as intermediary variables. Then compare the value of t calculate with t table. The known table value is  $2,042$ . Since the Calculated value of t is less than the reference list t ( $0.647 < 2.042$ ) it can be concluded that  $H_a$  is rejected and  $H_o$  is accepted. This means that indirect Net Profit has no significant effect on the share price. It also proves that auditor quality variables are not intervening variables for net profit variables in their effect on the share price.

##### 2) Effect of Operating Cash Flow on share price through quality auditor of food industry manufacturing sector

From the calculation using sobel test  $0.647$  is the calculated value of the indirect effect of operating cash flow on the share price through the quality of the auditor as an intermediary variable. Then compare the value of t calculate with t table. The known table value is  $2,042$ . Since the Calculated value of t is less than the reference list t ( $0.647 < 2042$ ) it can be concluded that  $H_a$  is rejected and  $H_o$  is accepted. It gives an overview indirect variabel X2 no significant impact on the Share price. It also proves that auditor quality variables are not intervening variables for Operating Cash Flow variables in their effect on the share price.



**3) The influence of Investment Cash Flow on the share price through the quality of auditors manufacturing sector of the food industry**

From the calculation in can value - 0641 is the value t calculate from the indirect influence of Net Profit on the share price through the quality of auditors as intermediary variables. Then compare the value of t calculate with t table. The known table value is 2,042. Since the t-count value is smaller than the t-table ( $0.641 < 2.042$ ) then it can be stated that the final result is that  $H_a$  is ignored and  $H_o$  is pass. It gives an overview the Investment Cash Flow indirectly has no influence on the Share Price. It also proves that auditor quality variables are not intervening variables for investment Cash Flow variables in their effect on the share price.

**4) The effect of Cash Flow funding on the share price through the quality of auditors manufacturing sector of the food industry**

From the value sobel test - 0.754 is the calculated value of the indirect influence of Net Profit on the share price through the quality of the auditor as an intermediary variable. Then compare the value of t calculate with t table. The known table value is 2,042. Since the Calculated value of t is less than the reference list t ( $0.754 < 2.042$ ) it can be concluded that  $H_a$  is rejected and  $H_o$  is accepted. It gives an overview indirect variabel X4 no significant impact on the Share price. It also proves that auditor quality variables are not intervening variables for investment Cash Flow variables in their effect on the share price.

## 5. Conclusions and Suggestions

### Conclusion

- 1) Variable Net Profit (X1) has not significant impact on The Stock Price (Y)
- 2) Variable Operating Cash Flow (X2) has not significant impact on Stock Price (Y)
- 3) Variable Investment Cash Flow (X3) has a good impact on the Stock Price (Y)
- 4) Variable Cash Flow Funding (X4) has not significant influence on The Stock Price (Y)
- 5) The quality of auditors (Z) has no impact on the share Price (Y)
- 6) Auditor quality variables are not variables intervening between Net Profit to Share Price
- 7) Auditor quality variables are not intervening variables between operating cash flow to Stock Price.
- 8) Auditor quality variables are not variables intervening between investment cash flow to Stock Price.
- 9) Auditor quality variables are not variables intervening between investment cash flow to share prices.



## Suggestions

Based on the above conclusions, it can be suggested as follows:

- 1) Number of samples is an important thing and a priority in the execution of similar research in the future. The use of Sobel Test that requires huge amounts of samples cannot be fulfilled. However, when this research was conducted, the author has yet to find other references which can be used to test the indirect effect of each variable.
- 2) The addition of variables can be a consideration in subsequent research, this is to complement research that discusses the share price as a bound variable.

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