

# **The Persistence of Cash Component of Earnings and Its Effect to Stock Return**

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BACHELOR'S DEGREE  
in  
ACCOUNTING  
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## STATEMENT BY THE AUTHOR

I hereby declare that this submission is my own work and to the best of my knowledge, it contains no material previously published or written by another person, nor material which to a substantial extent has been accepted for the award of any other degree or diploma at any educational institution, except where due acknowledgement is made in the thesis.

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## ABSTRACT

### **The Persistence of Cash Component of Earnings and Its Effect to Stock Return**

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The main objective of this research is to analyze the persistence of cash component of earnings, and aftermath of the cash component persistence. Earnings persistence is an earning that has an ability to predict future profitability. Earnings persistence is important for stakeholders of a firm to gain knowledge about the firm's financial ability and predicts future earnings of that firm. Components of earnings are divided into two components, which are Cash Component of earnings and Accrual Component of earnings. The persistence of cash component of earnings can be measured by regressing the subcomponent of cash component of earnings, which are distribution to debt holders, distribution to equity holders and retained cash, using Fama and Macbeth regression. The sample for this research is manufacturing companies listed in IDX from 2008 - 2016. This research finds that cash component of earnings is more persistent than accrual component of earnings. It also appears that cash distribution to equity holders is the most persistent than other cash subcomponent. The result from analysis on stock return shows that investors in Indonesia correctly anticipate the persistence of cash component of earnings, shown by insignificant probability of free cash flows to both raw return and abnormal return.

*Keywords: Earnings Persistence, Cash Component Persistence, Cash Flows, Profitability, Stock return.*

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## **DEDICATION**

This thesis is dedicated to advancement of knowledge in Indonesia.



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