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The Impact of Earnings Management on stock price "An empirical Study on Jerusalem Cigarette Company Ltd." 2020 – 2023

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Abstract

This study aims to provide a quantification method to find and quantify the risk that a company may face if it makes income smoothing. It will do this by conducting empirical studies showing the effect on stock price if the company tries to manipulate financial statements and creating some scenarios showing the impact of the bad scenario. The results indicate that earnings management impacts the accounting changes has an effect on the user decision for financial statements and has an impact on the stock price. It will affect the investors who make decisions.

Keywords: Earnings management, stock price, Jerusalem Cigarette Company Ltd.

1.1. Introduction

One of the main objectives of accounting is to provide useful financial information for internal and external users to make different decisions. So, the outputs of accounting must be applied under the criteria and generally accepted accounting principles (GAAP). Thus, these outputs represent the reality of the company, on this basis, the right decision is taken by the user (Ding, *et al*., 2008). But sometimes companies can use accounting standards to manipulate financial statements and increase profits. In other words, Since the effects of earnings management are no longer examined in the problem of financial statements and the process of scrutiny by the auditor only, also users of financial statements should study if any manipulations agree with the management and its goals, such as achieve a higher profit or less loss at low level of risk, This requires the user of the financial statements that deepen in the company's operations in the study and analysis of the reality of the financial statements of the company to find out where the company of inflating the assets or the management of the profits. In this study, the researcher will study variances among users' decisions regarding wedding dress in financial statements. Three parties have a relationship with these things, management which is seeking to achieve the objectives they have developed, and secondly, the owner of the company which seeks to increase its share and expand ownership, and the third party is external users of financial statements which aims to take the most accurate decision to invest or deal with the company (Ding, *et al*., 2008). Therefore, the researcher will be concerned with examining the extent to which earnings management affects external parties, and this study will explore the effects of earnings management on external users.

This study aims to provide a quantification method to find and quantify the risk that may happen by the company if they make income smoothing, by conducting an empirical study showing the effect on stock price if the company tries to manipulate financial statements and make some scenarios showing the impact on the bad scenario.

1.2. Importance

The study which is described as an empirical one, may be the first study to try to quantify the effect of some variables on others like the effect of earning management on the stock price by using the financial model for evaluation. This research is based on the theory of conflict of interest between management and other parties, and it investigates some of the methods used by management to mislead external users. This research will provide information about these methods and their effect on decisions for the user.

1.3. Research Problem

Through the agency theory and conflict of interest, we find that there is doubt in justice in the financial statements. As is well known, earnings management, and creative accounting, sometimes referred to as fraudulent accounting, leads to presenting misleading financial and accounting results to investors, thereby influencing their decisions. This, in turn, reflects on the market value of shares. Given that Jerusalem Cigarette Company is one of the Palestinian companies that places significant importance on the market value of its shares traded in the Palestinian Stock Exchange, and considering that various companies and institutions increasingly adopt earnings management practices, the research problem can be articulated through the following main question:

- **Main Research Question:**

Do earnings management practices (operating cash flow changes in company revenues and changes in accounts receivable) affect the market prices of shares for Jerusalem Cigarette Company Ltd.?

- **Sub- Questions:**

1. Does operating cash flow affect the market prices of shares for Jerusalem Cigarette Company Ltd.?

2. Do changes in company revenues impact the market prices of shares for Jerusalem Cigarette Company Ltd.?
3. Do changes in accounts receivable affect the market prices of shares for Jerusalem Cigarette Company Ltd.?

1.4. Objectives

The main objective of this research is to provide an idea of the results of company management, its earnings, and the impact of this process on the decisions of the outside user. As following:

- To assist external users in making the best decisions.
- To define earnings management, income smoothing, and creative accounting and study the effects of these scandals on the decisions made by external users or investors.
- To compare the earnings management and its relationship with the decisions of

  users.
- To explore how the stock price may be affected by management activity.

2. Theoretical Backgrounds

2.1. Introduction:

Accounting began in the fifteenth century and developed significantly until 1929, during the global economic recession. At that time, accounting standards were established, and clear auditing standards were set for companies. This evolution was driven by the challenges faced by external users of corporate financial statements, particularly when companies manipulated their earnings to achieve specific goals. Cases of bankruptcy among large corporations emerged due to financial statement manipulations, and misleading external users. Companies may legally exploit accounting standards to manage their earnings, but financial statement users must possess the skills to detect and avoid such manipulations.

Earnings management can lead to two distinct outcomes. The first involves accelerating income and profit recognition to enhance financial statements by including future revenues in the current period and deferring current expenses to future periods ("financial embellishment"). The second outcome is distributing the company's income across financial periods ("income smoothing"). Dutta, S., & Gigler, F. (2002).

This study aims to assist external parties dealing with corporations by introducing them to the methods companies use to mislead targeted users and by highlighting the impact of such manipulations on their decisions. The study will explore earnings management, its primary forms, examples of these methods, and their effects on stock prices and user decisions.

2.2. Operational Definitions:

For this study, the researcher defined the operational meanings of the independent and dependent variables as follows:

2.2.1. Income Smoothing:

Income smoothing is "an attempt on the part of the firm's management to reduce abnormal variations in earnings to the extent allowed under sound accounting and management principles". (Beidleman, 1973).

2.2.2. Earnings Management:

Earnings management is a strategy employed by company management to deliberately manipulate earnings so that they align with a predetermined target. This practice is undertaken for financial embellishment or income smoothing purposes. According to Healy and Wahlen (1999), "Earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of a company or influence contractual outcomes that depend on reported accounting numbers. (Healy and Wahlen, 1999).

2.2.3. Earnings Management in Another Definition: "can be defined in many different ways. The former SEC Chairman defines it as "accounting hocus-pocus," where flexibility in financial reporting is exploited by managers trying to meet earnings expectations". (Elias, 2002).

The researcher knew Earnings Management: Practices conducted by management to manipulate profits to improve certain management gains or achieve a profit level that aligns with financial analysts' expectations. It was measured using the following variables:

Operating Cash Flow: The amount of cash generated or used by the company as a result of selling its products and services.

- **Change in Company Revenues:** The annual change in the company's revenues due to the sale of its products and services.
- **Change in accounts receivable:** The annual change in amounts paid by the company to others pending collection from others.

2.2.4. Market Prices of Stocks: The value at which a stock is sold in the market, which may equal to, exceed, or fall below its book value.

2.2.5. Earnings Smoothing: Earnings smoothing is a measure of earnings under the condition smoothly reported all the time. If the accounting profit is artificially smooth, then the profit figures fail to represent the actual performance of the economy, thus lowering the information on earnings reports which leads to earnings opacity. (Khaddaf, 2014).

2.3. Common Techniques Used to Manage Earnings:

The big bath: This strategy boosts financial performance in subsequent years by pushing costs and losses into a single year with already subpar outcomes. Businesses still employ this practice despite recent attempts by the Financial Accounting Standards Board (FASB) to stop it. One example is recognizing losses on assets whose fair market values are less than their present book values.

Creative acquisition accounting: Despite the decline in acquisitions since the late 1990s, it is still crucial to examine the way transactions are documented and how they affect present and future profits.

Cookie Jar Reserves: This technique controls profits by choosing when to recognize revenue or expenses. In order to boost performance, reserves are frequently increased during prosperous years and decreased during uncertain future times.

Materiality: Since almost everything is material and should be taken into consideration, this topic might not be extremely important to small businesses. However, big, publicly listed corporations with billion-dollar assets and sales may get away with making millions of dollars' worth of false assertions and simply dismissing them as "nonmaterial." The main concern of auditors is substantial misstatements. Materiality may enable businesses to make minor adjustments to their financial statements, just enough to bring them into line with analyst projections.

Revenue recognition: Inaccurate revenue recognition can cause current financial statements to be inflated at the expense of subsequent periods. Such actions may result in direct fraud and significant losses.

Capitalization practices: Capitalization strategies include research and development, software capitalization, and intangible assets. Companies were permitted to capitalize on the expenses of in-house software in 1997 and spread them out throughout the product's useful life, which is typically three to five years. The development expenses need to be represented by capitalization. Since these assets are frequently intangible and dependent on judgment, the capitalization process of businesses is susceptible to manipulation. To lower present operating costs, a company might devote more funds to a project that can be capitalized.

Operating activities: Managers frequently have the power to change the order of events so that the accounting system records them during the time frame that benefits management the most. The activity only affects the timing and, hence, the comparability of financial statements; it does not affect the transaction's long-term economic worth. A business might, for instance, speed up its delivery and sales processes such that it reports sales in December that would have been recorded in January. As a result, the business reports increased sales, revenue, and profits for the fourth quarter. The business would eventually report the same sales and profits in the long run, but it has exaggerated short-term growth and decreased profits in the long term.

Reserve one-time charges: One-time charges set up as a reserve might be utilized to control profits. As a precaution against future losses or expenses, the business acknowledges a one-time charge as a contingency reserve. They expect analysts to underestimate the penalty because it isn't considered operating income. The business gradually modifies its estimate (cuts) to recognize higher earnings. (Scott McGregor)

2.4. Accounting Changes:

Changes in accounting principles, estimates, or reporting entities require proper disclosure in financial statement notes to ensure transparency and enable users to evaluate different financial periods accurately.

The cumulative effect of an accounting change is observed after a change in:

1. Accounting principles, such as a new way to calculate amortization or depreciation.
2. Accounting estimates, for example, a revised projection of accounts receivable.
3. In a merger or acquisition, the new company now includes a new group of assets. **(Moore, *et al.*, 2003).**

2.5. Major Factors that Affect Stock Price

Major factors influencing stock prices include supply and demand, market capitalization, news, and earnings-to-price ratios. Disclosed information in financial statements is critical for investors to assess risks and expected returns using models such as Weighted Average Cost of Capital or the Gordon Model. (Teixeira, N., Carreira, F. J. A., Pardal, P., & Mata, C. (2010)).

2.6. Detecting Earnings Manipulation

Detecting improper earnings management practices is challenging. Warning signs of potential manipulation include:

- Cash flows that do not correlate with earnings.
- Accounts receivable is increasing faster than revenues.
- Decreased allowances for doubtful accounts despite growing receivables.
- Reserves not correlating with balance sheet items.
- Earnings consistently meet analysts' expectations.

Examples of Earnings Manipulation Cases

- **Pendant Corporation**

In 1998, Pendant announced errors in its financial statements, leading to a $14 billion loss in market capitalization within a single trading day.

- **Manhattan Bagel Company**

Accounting issues in its acquired operations caused a significant drop in stock price, ultimately leading to bankruptcy.

2.7. The Results of the Theoretical Framework

From the definition of earning management, accounting changes, and income smoothing, we see it as a very important issue nowadays, because many issues are influenced by them, and they have an impact on the stock price and the decisions made by investors. And this section discusses the tools and techniques used in earning management, the disclosure practices and its relation with the stock prices, and how to detect earning management, then we mention many examples about earning management, and finally; what is the motivation for earning management?

3. Previous Research:

There are many studies that explain earning management and explore it is impact on financial reporting and investor decision -making. For example,

Kamin and Ronen, (1978) examined and demonstrated whether management-controlled and owner-controlled businesses and businesses with high and low barriers to entry (BTE) displayed varying degrees of income number smoothing. According to this study, there are two main types of smoothing. The first is accounting smoothing, which influences income through accounting dimensions but does not arise from altering operating decisions or their timing. The second is the actual non-accounting smoothing of the input and output series of the company through the timing and decision-making of operations.

The study's conclusions indicate that managers do act as though they are determining the cues and signals that are communicated to users of financial statements through income numbers in a goal-directed manner. Future studies should look more closely at whether other economic and organizational factors influence cue alterations and different ways to check for them. Future research on whether MCs and OCs try to influence the firm's observed systemic risk by "manipulating" the amount of discretionary spending is also very interesting.

Elias, (2002) used a national sample of 763 accounting practitioners' professors and students to investigate the ethics of this practice. It focuses on two main aspects: individual moral beliefs and how ethics and societal responsibility are viewed. Five assumptions regarding people with high or low idealism evaluating fraudulent financial reporting, as well as those with high or low relativism and the belief that social responsibility is critical to the firm's short-term performance, formed the basis of the study's hypothesis. This research seeks to determine how individual moral beliefs, ethics, and social responsibility relate to the moral assessment of earnings management practices. The American Institute of Certified Public Accountants (AICPA) provided 5000 names and addresses for this investigation.

The study also identified several factors that influence earnings management ethics, including social duty and individual moral convictions. It clarifies the relationship between these elements and earnings management behaviors as more unethical, although relativists saw them as more ethical. However, it is not able to predict earnings management intention or behavior based on these variables. People who valued long-term profits and corporate social responsibility thought these activities were more immoral, whereas people who valued short-term advantages thought they were more moral.

Bumman, (2003) looked at valuation and financial analysis problems brought on by off-balance sheet operations that aren't fully disclosed using the equity method of accounting. 3391 manufacturing companies from the 2000 active files were chosen for this investigation.

The valuation of off-balance sheet activities resulting from the equity method of accounting is empirically examined in this paper. The study has two major ramifications. Firstly, its limitations reduce the precision and utility of the analysis. Second: predicated on the correlation between the equity method's off-balance sheet operations and business value. The analysis concluded that investors guaranteed off-balance sheet obligations were significantly impacted negatively by the markets.

Tucker and Zarowin, (2006) employed a novel methodology to investigate whether income smoothing muddies earnings data enhances the usefulness of historical and present earnings in predicting future cash flows and earnings. The negative correlation between a firm's change in promenaded earnings and its change in discretionary accruals is how this study calculates income smoothing. According to this research, income smoothing is "an effort by the company's management to minimize abnormal fluctuations in earnings to the degree permitted by sound accounting and management principles." In summary, higher-smoothing corporations' current stock price movement provides more insight into their future earnings than does the stock price change of lower-smoothing enterprises. Additionally, the study offers a fresh method for examining the consequences of profit management. This study employs a novel methodology to investigate whether income smoothing muddies earnings data enhances the usefulness of historical and present earnings in predicting future cash flows and earnings. The negative correlation between a firm's change in promenaded earnings and its change in discretionary accruals is how this study calculates income smoothing. According to this research, income smoothing is "an effort by the company's management to minimize abnormal fluctuations in earnings to the degree permitted by sound accounting and management principles." In summary, higher-smoothing corporations' current stock price movement provides more insight into their future earnings than does the stock price change of lower-smoothing enterprises. Additionally, the study offers a fresh method for examining the consequences of profit management.

Rath and Sun, (2008) offered in this paper a thorough analysis of the research on earnings manipulation from the early 1960s to the present. It reviews the evolution of earnings management research, including studies on the economic effects of earnings management (EM) and the movement in research focus over time. The issue was how earnings manipulation affected an economy's distribution of resources and aims to provide investors, regulators, and academic academics with a better understanding of the problems associated with earnings manipulation. According to the hypothesis, since investors only use the company's financial reports as information sources, they can be routinely misled by accounting discretion. The researcher discusses the economic effects of earnings management as well as how various study foci changed at each step. Additionally, research on earnings manipulation has evolved from concentrating on the capital markets to focusing on non-capital markets before returning to the capital markets. These changes demonstrate how earnings manipulation and its economic ramifications significantly affect the allocation of capital resources.

Khaddaf, (2014) said that "Earnings management directly affects the overall integrity of financial reporting and significantly influences resource allocation in an economy. This study aims to improve understanding of earnings management challenges for investors, regulators, and academic scholars. We examine earnings management studies conducted since the early 1960s. We specifically go over how various study areas have evolved at each step of the field's evolution as well as the financial ramifications of profits management, which directly affects the distribution of capital resources.

According to Beaver (2002), accrual has been a significant problem for a long time. While some parts of earnings management have been covered in earlier studies, he focuses on the management of accruals for the upcoming period, wherein the corporations create profits through policy characteristics including overstating earnings, loss avoidance, and income smoothing. These aspects include: Reasons and methods for managing earnings, both non-discretionary and discretionary components in estimates

Tarigan and Utami, (2021) reevaluated how cash holdings, stock prices, and profitability affect income smoothing. Purposive sampling was used to select samples. All non-financial companies listed on the Indonesia Stock Exchange comprised the study's population. Information on net income is among the most crucial data for management decision-making. When assessing the performance or accountability of management, income data will be a key consideration. Additionally, this income data aids owners and other stakeholders in determining how strong the company's future profits will be.

(Hejazi, *et al*., 2011) looked into how profit quality and income smoothing affected the way businesses listed on the Tehran Stock Exchange performed. This study included 96 businesses that were listed between 1999 and 2003. The information about the average performance of businesses over five years was compiled, examined, and tested annually. Their performance is not affected by earnings quality or income smoothing, according to the study's findings. Stated differently, no discernible variation was discovered in the performance mean.

Whelan, (2004) assesses how earnings management affects book value and real earnings to investigate the connection between business valuation and earnings management. The modified Jones model was used to analyze earnings management through discretionary accruals, encompassing both short- and long-term discretionary accruals. There were 807 companies listed on the Australian Securities Exchange that made up the study sample. Regression analysis was employed to assess the study's hypotheses, and the findings demonstrated that book value was unaffected by earnings management through total discretionary accruals. By way of long- and short-term discretionary accruals, on the other hand, earnings management reduced the importance of earnings without influencing book value.

The study conducted by Ashqar, (2010) aimed to investigate the relationship between stock returns and earnings management in the Palestinian securities market. 23 businesses that were listed between 2005 and 2009 on the Palestinian stock exchange made up the study sample. To assess earnings management, the researcher employed a descriptive-analytical methodology and the modified Jones model. According to the survey, the majority of businesses that were listed on the Palestinian stock exchange engaged in earnings management. It also discovered a connection between revenue fluctuations, stock returns, operating cash flows, and operational profit margins. On the other hand, there was no correlation between stock returns and changes in receivables and asset characteristics.

Tabassum, *et al*., (2013) examined how earnings management affects businesses' financial performance. The study sample consisted of 119 industrial businesses listed between 2004 and 2011 on the Karachi Stock Exchange. The study assessed earnings management using non-recurring operating cash flows, non-recurring production costs, and non-recurring discretionary spending using a descriptive-analytical technique. Return on equity, return on assets, and earnings per share were used to quantify financial performance; sales growth and firm size were used as control variables. According to the study, firms that engage in earnings management are unable to increase shareholder wealth, and it has a detrimental impact on financial performance.

Gill, *et al*., (2013) investigated whether earnings management affected firm value, how it affected performance, and how beneficial it was for management in Dutch businesses. Regression analysis and descriptive statistics were employed in the study to test its hypotheses, the sample of 250 companies listed on the Mumbai Stock Exchange between 2009 and 2012. The market generally understood the reasons for earnings management, which caused stock prices and the market value of these companies to decline. The results showed that greater earnings management negatively impacted return on assets in later years.

AI-Louzi, (2013) examined how stock prices are affected by earnings management in industrial joint-stock businesses that are listed on the Amman Stock Exchange. The impact of variables like firm size and leverage on stock prices was also investigated in the study. 28 businesses were included in the study sample, which ran from 2008 to 2011. The modified Jones model and descriptive-analytical methodology were employed by the researcher to assess earnings management. 53.5% of the organizations engaged in earnings management, according to the results a statistically significant correlation was found between the stock prices of Jordanian industrial enterprises and their company size.

Baqila and Akour, (2018) investigated how company attributes and earnings management affect the market value of industrial and service firms listed on the Amman Stock Exchange. A total of 131 enterprises (70 industrial and 61 services) were included in the study, which collected data from annual reports for businesses from 2011 to 2016. Regression analysis was used to test the study's hypotheses, and the modified Jones model was employed to gauge earnings management. The key conclusions of the study demonstrated that earnings management significantly harmed the attributes of the organization. Additionally, it was discovered that, aside from profitability, earnings management had no discernible effect on the relationship between firm attributes and market value.

4. Study Model

In light of the research problem and its hypotheses, and to achieve its purpose and specified objectives, the study model was designed with its variables. Figure (1-1) illustrates the study model, which shows two variables: one independent and the other dependent. The independent variable, represented by earnings management, is measured by three dimensions: the operating cash flow the change in company revenues, and changes in accounts receivable. The figure also indicates the dependent variable, which is the market prices of stocks. The dependent variable referred to measuring and calculating the offering of the studied company's shares on the Palestinian Stock Exchange from 2020 to 2023.

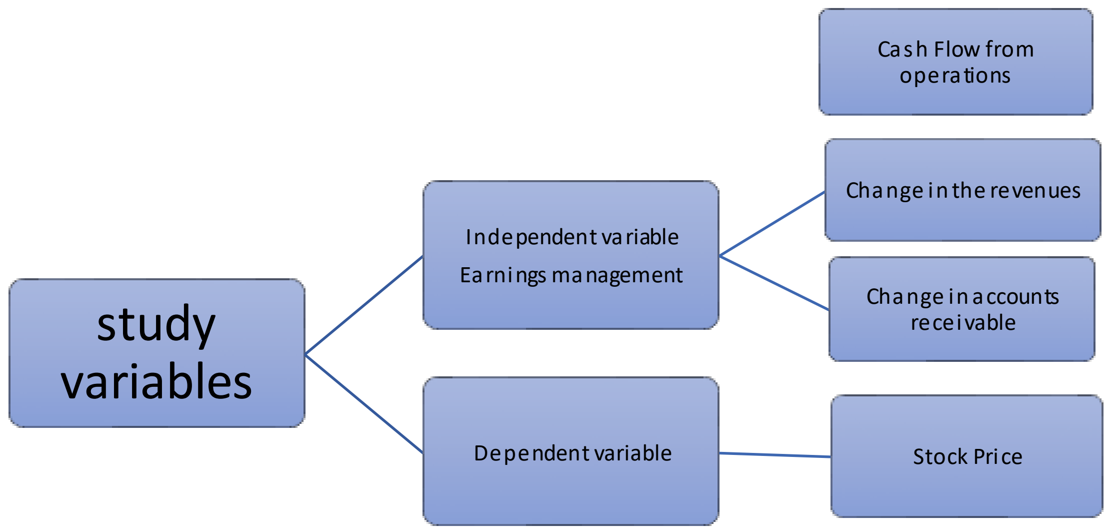

Figure (1-1): Study Model

Source: Prepared by the researcher based on the study hypotheses

5. Research Method

5.1. Study Methodology (Methods and Procedures)

5.1.1. Introduction

This study aimed to examine the impact of earnings management on the market prices of stocks in cigarette companies in Palestine. The methodology included a description of the adopted research methods, the study population and sample, study tools, sources of information, and the statistical analyses employed.

5.1.2. Research Methodology

This study employed the descriptive-analytical approach. On the descriptive side, a desk survey was conducted, and theoretical and field studies—both in Arabic and foreign—were reviewed to establish the foundations and principles of the theoretical framework and identify key prior studies that significantly contribute to this research. On the analytical side (empirical study), the financial statements of the sampled company were used to collect and analyze data about the study variables during the specified period (2020 –2023). The descriptive-analytical approach is considered the most suitable for achieving the objectives of this study. It is a method of analysis that relies on sufficient information about a specific phenomenon or topic over a limited and defined period to obtain scientifically interpreted results. The statistical software (SPSS) was used to analyze the study's data.

5.2. Study Population and Sample

The study population includes all Palestinian companies listed on the Palestine Exchange (PEX), totaling 53 companies (https://www.gsc.ps/ar/listed-companies?page=1). The study sample includes only the Jerusalem Cigarette Company Ltd. (http://www.jerucig.com/), the sole company listed on the Palestine Exchange from Jerusalem Governorate, under the trading symbol (JCC).

5.3. Study Tools and Sources of Information

To achieve the study objectives, the researcher utilized two main sources for information collection:

Primary Sources: To address the analytical aspects of the study topic, primary data were collected through the financial statements of the sampled company as the main tools for the study, covering the period from 2020 to 2023.

Secondary Sources: The theoretical framework was developed using secondary data sources, including relevant Arabic and foreign books, references, journals, articles, reports, and previous studies. The researcher also utilized various online platforms, particularly Schobot, for academic research. To facilitate accurate and efficient access to required information and ensure proper documentation aligned with research methodology. The purpose of these secondary sources was to familiarize the researcher with scientific and methodological foundations for writing academic studies and provide an overview of the latest developments related to the study topic.

5.4. Statistical Processing Methods

To answer the research questions and test its hypotheses, the researcher employed the following statistical methods:

Arithmetic Means (Averages) for study variables.

Multiple Regression Analysis to determine the impact of earnings management on the market prices of stocks.

A simple regression analysis is used to test the effect of each independent variable on the dependent variable, the market prices of stocks.

6. Research Hypothesis

6.1. Main Hypothesis (H0)

There is no statistically significant effect at a significance level of ($\alpha \leq 0.05$) of earnings management practices (operating cash flow and changes in company revenues and changes in accounts receivable) on the market prices of Jerusalem Cigarette Company shares.

The main hypothesis is subdivided into the following sub-hypotheses:

6.1.1. First Sub-Hypothesis (H01)

There is no statistically significant effect on the market prices of Jerusalem Cigarette Company shares at a significance level of ($\alpha \leq 0.05$) of operating cash flow.

6.1.2. Second Sub-Hypothesis (H02)
There is no statistically significant effect at a significance level of ($\alpha \leq 0.05$) of changes in company revenues on the market prices of Jerusalem Cigarette Company shares.

6.1.3. Third Sub-Hypothesis (H03)

There is no statistically significant effect at a significance level of ($\alpha \leq 0.05$) of changes in accounts receivable on the market prices of Jerusalem Cigarette Company shares.

6.2. The conclusion and test of the hypothesis:

Table 1. Model Summary

					Change Statistics				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.952[a]	.907	.629	2120707.535	.907	3.257	3	1	.382

a. Predictors: (Constant), changes in account receivable, sales of cigarettes, cash flow

Table 2. ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.394E+13	3	1.465E+13	3.257	.382 [b]
	Residual	4.497E+13	1	4.497E+12		
	Total	4.844E+13	4			

Dependent Variable: stock price

Predictors: (Constant), changes in account receivable, sales of cigarettes, cash flow

Table 3. Coefficients[a]

Model		Unstandardized B	Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Zero-order	Correlations Partial	Part
1	(Constant)	-3699527.232	10950050.070		-.338	.793			
	sales of cigarettes	.473	.160	1.000	2.949	.208	.935	.947	.899

cash flow	-.346	.602	-.248	-.574	.668	-.195	-.498	-.175
changes in account receivable	-.457	.882	-.241	-.518	.696	.314	-.460	-.158

a. Dependent Variable: stock price

Results

1. **Sales of Cigarettes:** The relationship between cigarette sales and stock prices is not statistically significant (p = 0.208).
This indicates that cigarette sales do not have a strong or significant impact on stock prices.
2. **Cash Flow:** It showed a negative effect on stock prices, but the effect is not statistically significant (p = 0.668).
This implies that cash flow does not significantly influence stock prices based on the available data.
3. **Changes in Accounts Receivable**
There is a negative association with stock prices. But also, not statistically significant (p = 0.696).
This means that changes in accounts receivable are not a significant factor influencing stock prices in this context.

7. Recommendations

1. **Accounts Receivable**
Implement strategies to optimize accounts receivable turnover, such as stricter credit or improved collection practices, to enhance cash flow from operations, and monitor the accounts receivable closely, as its significant impact on cash flow could affect operational stability.
2. **Capitalize on the Link between Sales and Stock Price**
Leverage the strong relationship between cigarette sales and stock price by prioritizing sales growth strategies, such as marketing campaigns, product diversification, or geographic expansion.
Communicate sales performance effectively to investors to maintain confidence in the stock.
3. **Evaluate Other Predictors of Stock Price**

Since cash flow from operations has a weak correlation with stock prices, investigate other potential drivers, such as industry performance, or macroeconomic factors.

4. **Diversify Revenue Streams**

   While the strong dependence of stock price on cigarette sales is beneficial in the short term, it poses a risk in case of market shifts or regulatory changes. Diversifying the company's revenue sources could reduce this dependency.

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