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CAN OTHER COMPREHENSIVE INCOME AFFECT DIVIDEND PAYMENTS IN INDONESIA?

Marhaendra Kusuma[1*]
Beby Hilda Agustin[2]
[1,2]University of Islamic Kadiri, Kediri, East Java, Indonesia
[*]*Corresponding Email: marhaenis@uniska-kediri.ac.id*

ABSTRACT – The concept of Other Comprehensive Income (OCI) refers to the difference between the fair value and historical value of assets, resulting from applying fair value principles in financial statement preparation. Despite being unrealized income, it affects equity, and some of its items have a real potential to be realized in the coming period. Previous research has mainly studied the effect of realized income (net income) on dividends, while the impact of unrealized income on dividends, especially in Indonesia, has received limited attention. This study investigates the relationship between OCI and dividends for 682 companies listed on the Indonesia Stock Exchange using data from annual reports spanning from 2015 to 2021. This study employs descriptive statistics, correlation analysis, multiple linear regression analysis, and path analysis to examine the mediating role of profitability and operating cash flows in the relationship between OCI and dividends. The results reveal that OCI, as a whole, does not have a significant impact on dividends. However, when analyzing only the items within OCI that are "to be reclassified to net income", specifically gains (losses) on “available-for-sale financial assets”, the study identifies a significant and positive relationship between OCI and dividends. These findings suggest that incorporating OCI with net income in the income statement format can enhance the relevance of financial information for users, emphasizing the importance of considering the impact of unrealized income on dividends and the mediating role of profitability and operating cash flows.
Keywords: Aggregate OCI, OCI Reclassification, Dividend

ABSTRAK – Dapatkah Other Comprehensive Income Mempengaruhi Pembayaran Dividen di Indonesia? *Konsep Other Comprehensive Income (OCI) merujuk pada perbedaan antara nilai wajar dan nilai historis aset, yang dihasilkan dari penerapan prinsip nilai wajar dalam penyusunan laporan keuangan. Meskipun merupakan penghasilan yang belum direalisasi namun mempengaruhi ekuitas dan beberapa item diantaranya ada potensi nyata terealisasi di periode yang akan datang. Kajian sebelumnya, terutama di Indonesia, umumnya hanya menguji pengaruh pendapatan yang terealisasi terhadap dividen, sedangkan pengaruh pendapatan belum terealisasi belum banyak dieksplorasi. Kajian ini bertujuan untuk meneliti hubungan antara OCI dan dividen pada 682 perusahaan yang terdaftar di Bursa Efek Indonesia menggunakan data dari laporan tahunan selama periode 2015- 2021. Analisis data dilakukan dengan statistik deskriptif, analisis korelasi, analisis regresi linear berganda, dan analisis jalur untuk mengeksplorasi peran mediasi variabel profitabilitas dan arus kas operasi dalam hubungan antara OCI dan dividen. Hasil kajian menunjukkan bahwa secara keseluruhan, OCI tidak memiliki dampak signifikan terhadap dividen. Namun, ketika analisis hanya dilakukan pada item-item OCI kelompok “yang akan direklasifikasi ke laba bersih”, khususnya pada item keuntungan (kerugian) aset keuangan tersedia untuk dijual, OCI berpengaruh positif signifikan terhadap dividen, dan profitabilitas serta arus kas operasi juga memediasi pengaruh OCI terhadap dividen. Temuan ini menunjukkan bahwa menggabungkan OCI dengan laba bersih dalam format laporan keuangan dapat meningkatkan relevansi informasi keuangan bagi pengguna, dengan menekankan pentingnya mempertimbangkan dampak penghasilan yang belum direalisasi pada dividen dan peran mediasi dari profitabilitas dan arus kas operasi.*
Kata Kunci: *OCI agregat, Reklasifikasi OCI, Dividen*

INTRODUCTION

Dividends have always been an interesting topic for accounting and financial management research. Dividends represent a convergence of investors' expectations in investing and a company's objective of issuing shares for equity funding. Companies issue shares to obtain additional funds from the public to develop their business without the obligation to refund or pay interest. Instead, shareholders receive the rights to the company's profits, which are called dividends. For long-term investors, buying company shares is motivated by the desire to receive dividends, while short-term investors aim to benefit from the difference in stock prices (Kusuma, 2017).

Dividend information is a positive signal that shapes investors' perceptions of the company and can affect the company's stock price in the market (García-Meca et al., 2022). The company's ability to pay dividends, the stability of dividend payments, and the trend towards an increase in the value of dividend payments are considered by the market as a reflection of the company's health and growth. Conversely, a decrease in dividend payments can negatively affect investors' perceptions of the company. The impact of dividend payments can increase the effect of investment decisions on firm value and increase the influence of financial decisions on firm value (Amrullah & Wijaya, 2018; Ibrahim, 2010). Therefore, many companies strive to maintain their ability to pay dividends, even in challenging circumstances. This is because they aim to create a positive market perception of the company that can positively affect stock prices (Krieger et al., 2021).

The dividend policy of a company is influenced by many factors, as demonstrated by previous research. These factors include profitability (Tekin & Polat, 2021), operating cash flow (Fatmawati & Ahmad, 2018), leverage level (Ali, 2022), company size (Wardhana & Tandelilin, 2018; Aulia et. al., 2020; Mailinda et al., 2018), stages of the company's life cycle (Duygun et al., 2018), concentration of share ownership (Liu, 2021), political connections (Zainudin & Khaw, 2021), governance and growth (Duygun et al., 2018), external environmental conditions such as the COVID-19 pandemic (Krieger et al., 2021), and the political and legal system of a country (Liu, 2021). The dividend policy of a company is greatly influenced by its income. In the context of fair value accounting, the preparation of financial statements based on which OCI is generated, and the recognition of all-inclusive income, which is the basis for presenting OCI in the income statement as required by IFRS and SAK, the

definition of income can be expanded to encompass a wider perspective. Revenue can be categorized into two types - realized income, which is reported as profit or net income, and unrealized income, which arises due to the fair value adjustments of assets and liabilities and is reported as OCI (Shi et al., 2017).

These empirical findings indicate that accounting information contained in financial statements is crucial information that affects dividends. Factors such as profitability, leverage, company size, and other accounting information like cash flow, sales, retained earnings, EPS, book value of equity, etc., are all important. Financial statements prepared by companies refer to financial accounting standards (SAK), and changes in SAK policy can impact the presentation of financial statements, including monetary value, post-recognition, display format, and so on (Kusuma, 2016).

A significant development in Indonesian SAK since 2012 is its convergence with IFRS. One aspect of this convergence is the presentation of fair value-based financial statements. As a result of fair value accounting, assets and liabilities are no longer presented at book value or historical value, but at fair value. When preparing financial statements, the difference in gain (loss) from adjusting the book value, carrying amount, or historical value of assets and liabilities to fair value is recognized as other comprehensive income (OCI). This OCI is considered unrealized income and presented in the statement of income or profit and loss, under the net income information presentation. The level of profitability of a company significantly affects its ability to pay dividends (Tekin & Polat, 2021; Wardhana & Tandelilin, 2018). Net profit is an important determinant of profitability, return, and firm value (Kiss et al., 2022).

Changes in SAK guidelines will affect the content and format of the income statement presentation, which determines profitability and dividend payments. One of the significant changes in SAK that affects the income statement and financial position presentation is the valuation of assets and liabilities from historical value to fair value. This change causes the emergence of a valuation difference called Other Comprehensive Income (OCI). OCI is presented in the income statement along with net income, and the sum of the two is called comprehensive income. However, research in Indonesia that links dividends with the application of fair value accounting manifested in the presentation of OCI in the income statement along with net income in comprehensive income

is limited. Comprehensive income pays more attention to the impact of macroeconomic volatility and is more representative, making it suitable for consideration in dividend payment decisions (Kusuma & Saputra, 2022).

Previous studies examining the effect of OCI on dividends were conducted by Chen and Gavious (2016) in Israel and Pieloch-Babiarz and Sajnóg (2019) in Poland. The results of Chen and Gavious's research (2016) conclude that aggregate OCI has a significant positive effect on dividends. Unfortunately, this Israeli research has different conceptions of unrealized income from asset fair value adjustments, including: 1) it does not involve all of the five OCI items regulated in SAK, but only one item, namely the fair value adjustment of financial assets, 2) involves adjusting the fair value of investment properties and investments in subsidiaries, both of which are treated differently from Indonesian SAK and are not part of OCI items, 3) does not accommodate the policy on presentation of OCI items to be reclassified to net income, and 4) does not use the term OCI but unrealized gains from the application of fair value accounting. Meanwhile, in Poland, Pieloch-Babiarz and Sajnóg (2019) concluded in their research that comprehensive income and net income have a positive effect on dividends, but the effect of both is not significant. This study does not specifically focus on OCI but uses the comprehensive income variable. Comprehensive income is net income plus OCI.

The present study differs from the previously mentioned studies in several aspects. Firstly, the focus of this study is specifically on Other Comprehensive Income (OCI), as opposed to Comprehensive Income (Net Income plus OCI), with Net Income being incorporated as part of the profitability variable. Secondly, this study encompasses all of the five OCI items, namely fair value adjustments of financial assets, revaluation of fixed and intangible assets, cash flow hedges, actuarial differences in benefit liabilities certainty, and the translation of the financial statements of business units in foreign countries. Thirdly, this study does not involve adjusting the fair value of investment properties and investments in subsidiaries, as these two items are not considered as part of OCI according to the Indonesian SAK. Fourthly, this study includes the presentation of OCI items that will be reclassified to Net Income. Fifthly, the terminology used in this study is OCI, which follows the Indonesian SAK, as a refinement of the term unrealized income. Finally, the data used in this study is different from that used in the studies conducted in Israel and Poland, with variations in market and company characteristics in Indonesia potentially producing different results.

Based on previous empirical research, it is widely accepted that realized income has a positive effect on dividend payments. However, this study aims to investigate the effect of unrealized income, specifically OCI, on dividend payments in emerging markets such as Indonesia. The Indonesian market exhibits unique characteristics, such as a concentrated ownership structure that includes family and state ownership, relatively low dividend payments, significant state influence, weak corporate governance, strong political-business ties, and limited protection for non-controlling interests. This study seeks to contribute to the existing academic literature on the relationship between OCI and dividends in Indonesia, as well as provide valuable insights for investors in forecasting dividends and stock prices by considering the potential for OCI items to be realized in the next period, which could affect a company's profitability.

LITERATURE REVIEW

Dividend

Agency theory, developed by Jensen and Meckling (1976), posits that companies with a separation of ownership and management and differences in controlling and minority share ownership are prone to information asymmetry and conflicts of interest regarding dividend payments. While owners expect high dividends, management may prefer to allocate profits towards company growth rather than distributing dividends. Signaling theory, as proposed by Miller and Rock (1985), argues that dividends are a vital information signal. If a company pays dividends or increases the amount of dividend payments, it signals positive prospects for financial performance and growth in the future by demonstrating the ability to share profits with owners. Conversely, if a company does not pay dividends or reduces the amount of dividend payments, it signals negative prospects for financial performance and growth in the future by demonstrating the inability to generate profits and distribute them to owners.

The pecking order theory by Myers and Majluf (1984) contends that companies in the growth stage tend to pay less dividends because they allocate more cash towards long-term, return-oriented investment activities. Similarly, companies with high levels of leverage pay less dividends since they prioritize cash utilization for covering the cost of debt. The irrelevance of dividends theory by Modigliani and Miller (1961) posits that dividends do not affect the market value of companies in efficient capital market conditions, characterized by

minimal information asymmetry and the absence of large investor power in shaping prices. The market value of a company is influenced by investment policy rather than financial or dividend policy.

Dividend payments are subject to various factors that influence the amount of payout made to shareholders. Prior studies have established a positive relationship between profitability and dividend payments (Tekin & Polat, 2021). The level of operating cash flow has also been found to have a positive impact on dividend payments (Krieger et al., 2021), as well as the size of the company (Fatmawati & Ahmad, 2018), and concentrated share ownership structure (Liu, 2021). On the other hand, a higher level of leverage has been associated with lower dividend payouts (Ali, 2021). In Indonesia, Duygun et al. (2018) found that companies with shareholdings concentrated in families tend to pay less dividends, while BUMNs with shareholdings concentrated in the state have higher dividend payments. Similarly, in Malaysia, share ownership that is concentrated in the government has a positive effect on dividend payments, and state-owned enterprises (SOEs) pay higher dividends than privately-owned companies. Furthermore, dividend payments in Malaysian SOEs are not related to financial performance (Zainudin & Khaw, 2021).

Companies that are in their growth stage, characterized by high investment costs, have been found to pay less dividends (Wardhana & Tandelilin, 2018). Similarly, companies with high levels of leverage have been found to pay lower dividends (Ali, 2022). The Covid-19 pandemic has also impacted dividend payments, as regulations related to dividend taxes have led to a decrease in payouts (Liu, 2021). Moreover, the pandemic has led to a decline in net income and cash flow, which in turn has resulted in a reduction and delay of dividend payouts (Krieger et al., 2021). Moreover, dividend payments are influenced by other factors such as retained earnings (Wardhana & Tandelilin, 2018), book value of equity (Fatmawati & Ahmad, 2018), political connections (Zainudin & Khaw, 2021), corporate governance (Duygun et al., 2018), market type, and the age of the company (Tekin & Polat, 2021; Wardhana & Tandelilin, 2018).

Ali (2022) conducted a study on the impact of the Covid-19 pandemic on dividend payments of 8,889 companies across the G-12 countries during the period of 2015-2020. The study revealed an increase in the proportion of dividend cuts during the pandemic. However, a majority of companies in Australia, Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Spain, Sweden, Switzerland, the UK, and the US have managed to maintain

and increase dividend payments amid the pandemic. Moreover, Ali (2021) posits that profitability, income prospects, company size, and level of leverage are significant determinants of dividend payout policy.

In the Indonesian context, Duygun et al. (2018) found that dividend payments are unaffected by the presence of conglomerates or business group affiliations, duality of positions, independent commissioners, and foreign ownership. Meanwhile, Fatmawati and Ahmad (2018) studied 110 BUMN companies during the period of 2009-2014 and discovered that the market value of equity and book value ratio (MB) does not influence dividend payment decisions.

Others Comprehensive Income

Investors can forecast a company's future dividend-paying ability by examining its financial statements for the current and preceding periods (Kusuma, 2017). These statements present the company's financial position, performance, and cash flow. The recognition, measurement, and presentation of transaction items in financial statements are guided by the Financial Accounting Standards (SAK). Changes in SAK regulations can impact the format and content of financial statements. One noteworthy modification in Indonesian SAK is the recognition and presentation of Other Comprehensive Income (OCI) in the income statement (Robik et al., 2021). OCI refers to the gain or loss resulting from the adjustment of assets and liabilities from their carrying or historical values to fair value at the financial statement presentation date (Banks et al., 2018). OCI is not actual income but fair value adjustments that affect the value of equity. Therefore, it is included in the income statement along with net income.

According to Statement of the Financial Accounting Standard (PSAK) No. 1, which came into effect on January 1, 2018, the OCI component includes fair value adjustments of 1) financial assets categorized as available for sale, 2) cash flow hedges, 3) foreign currency translation of financial statements of business units in other countries, 4) actuarial differences from defined benefit liabilities, and 5) revaluation of tangible and intangible fixed assets. As a fair value adjustment, OCI exhibits relatively high volatility and sensitivity to macroeconomic fundamentals at the time of presentation, aside from internal company factors such as total ownership of assets and liabilities that will be valued at fair value (Black et al., 2019; Kusuma & Saputra, 2022; Kusuma & Athori, 2023).

Despite not being realized income and not being a direct result of management performance, several studies have established the relevance of Other Comprehensive Income (OCI) for users, including its impact on stock returns in Indonesia (Kusuma, Assih, et al., 2021), Malaysia (Yousefinejad et al., 2017), China (Xu & Qi, 2017), and Georgia (Jahmani et al., 2011). OCI can predict earnings (Kusuma, Zuhroh, et al., 2021) and cash flows (Kusuma, 2020; Canina & Potter, 2019), influence firm value (Kusuma, 2021b), and be used to evaluate a company's financial performance (Kusuma et al., 2022; Kusuma, 2021a; Būmane, 2018; Gazzola & Amelio, 2014). In certain types of industries, certain OCI items can even be used for tax evasion (Chen & Gavious, 2016; Kusuma & Rahayu, 2022). The profit (loss) of group financial assets available for sale, one of the OCI items, has a positive impact on dividends in Israel (Chen & Gavious, 2016).

The anticipation of dividends is an important consideration for investors when making investment decisions. Therefore, an important issue to consider is whether Other Comprehensive Income (OCI) has the potential to impact dividend payments in the Indonesian market. Previous research has demonstrated that OCI can influence firm value, future cash flows, net income, and future comprehensive income. Given these findings, it is necessary to investigate whether OCI can also affect dividend payments.

Others Comprehensive Income Concept in Islamic Perspective

The concept of OCI from an Islamic perspective is embodied in several principles: usefulness, helping users, honest presentation, fairness, and caring. One way in which OCI embodies the principle of usefulness is through the recognition of fair value accounting, which is more representative and has greater value relevance for users. This is consistent with the hadith of the Prophet that states:

خَيْرُ الناسِ أَنْفَعُهُمْ لِلناسِ

> "The best human being is the most beneficial for humans" (HR. Ahmad, ath-Thabrani, ad-Daruqutni. This hadith was confirmed by al-Albani in Shahihul Jami' no: 3289).

Secondly, the detailed presentation of OCI items, both per item and reclassified based on their realized potential in the future, facilitates users in interpreting

earnings, potential profits, and cash flows from OCI realization. This assists users in predicting performance, prospects for future cash flows, and returns on investments, including dividend predictions. This type of presentation that aids users in better understanding financial statements when making economic decisions is in line with the following words of the Prophet Muhammad (peace be upon him):

مَنْ كَانَ فِي حَاجَةِ أَخِيهِ كَانَ الله فِي حَاجَتِهِ

> "Whoever helps his brother's needs, Allah will help his needs." (Muttafaq 'alaih)

Next, the presentation of OCI in the income statement, even though it represents unrealized gains or losses, is still significant as it reflects changes in the fair value of assets and liabilities that impact equity. This all-inclusive income concept promotes transparency and honesty in financial reporting, which is in line with the principles of Islamic accounting as stated in Surat At-Taubah Verse 119, and the Prophet's Hadith regarding honesty.

In addition, presenting OCI together with net income in comprehensive income, and disclosing not only the aggregate amount but also the portion attributable to the majority and minority shareholders, reflects the "fair" principle in Islamic accounting. This approach ensures that all shareholders receive the same information about OCI, regardless of their share ownership. Moreover, it demonstrates a "care" principle as it recognizes the rights of minority shareholders as legitimate owners of the entity, rather than as mere burdens or liabilities.

Allah SWT says in the Qur'an surah Al Maidah verse 8 regarding honest and fair behavior.

يٰٓاَيُّهَا الَّذِيْنَ اٰمَنُوْا كُوْنُوْا قَوّٰمِيْنَ لِلّٰهِ شُهَدَاۤءَ بِالْقِسْطِۖ وَلَا يَجْرِمَنَّكُمْ شَنَاٰنُ قَوْمٍ عَلٰٓى اَلَّا تَعْدِلُوْا ۗاِعْدِلُوْاۗ هُوَ اَقْرَبُ لِلتَّقْوٰىۖ وَاتَّقُوا اللّٰهَ ۗاِنَّ اللّٰهَ خَبِيْرٌۢ بِمَا تَعْمَلُوْنَ ٨

> It means: "You who believe, be upholders (of truth) because of Allah (and) witnesses (act) fairly. Do not let your hatred of a people encourage you to act unfairly. Be fair because (fair) is closer to piety. Fear Allah. Verily Allah is All-Aware of what you do".

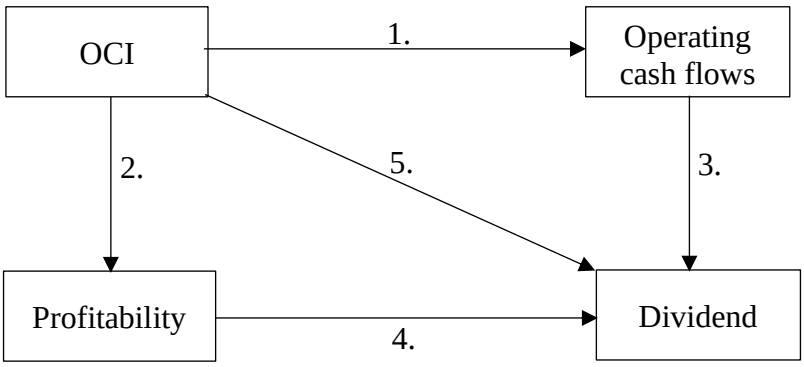

Figure 1. Research Conceptual Framework
(Sources: Kusuma, 2020; Canina & Potter, 2019; Kusuma, 2021a; Būmane, 2018; Wardhana & Tandelilin, 2018; Duygun et al., 2018; Wardhana & Tandelilin, 2018; Duygun et al., 2018; Chen & Gavious, 2016; Veltri & Ferraro, 2018; Pieloch-Babiarz & Sajnóg, 2019).

The role of grand theory in the formation of hypotheses, such as agency theory by Jensen and Meckling (1976), pecking order theory by Myers and Majluf (1984), and dividend irrelevance theory by Modigliani and Miller (1961), is crucial in the context of presenting other comprehensive income (OCI) information in financial statements. In particular, OCI information presented in the income statement enhances the representativeness, predictive value, and transparency of financial statements. *Firstly*, the presentation of assets and liabilities at their fair value at the date of financial statement presentation, instead of the historical value at the time of acquisition or the carrying amount according to book records, provides a more representative view of a company's financial position. This approach also accounts for changes in macroeconomic fundamentals that may affect the company's external environment.

Secondly, the presentation of OCI information, especially items in the "to be reclassified" group, provides more predictive value for users as it highlights the potential changes in net income and cash flows that may arise from the realization of assets and liabilities in the next period. This helps users to assess the prospects for future cash flows and earnings beyond current profits and cash flows from operating activities. Thirdly, the presentation of detailed OCI items, separated into those with potential to be realized in the next period and those that will not be realized, enhances transparency compared to the previous format where OCI was presented in a single account as an accumulation in the equity side of the balance sheet. The inclusion of OCI as part of the income statement also aligns with the concept of all-inclusive income, which defines income as any change in equity other than the owner's contribution, even if the income has not yet been realized.

The inclusion of OCI in financial statements has been found to improve their representativeness, predictive value, and transparency, thereby reducing information asymmetry and conflicts of interest, as posited by agency theory. The predictive value of OCI is particularly relevant for the Pecking Order theory, which suggests that investors use information on future cash flow prospects to predict future dividends. Additionally, OCI can impact stock prices, stock returns, and firm value, especially since OCI items in the "to be reclassified" group can affect earnings and cash flows.

Previous research conducted in various countries, including Australia, Japan, Malaysia, the United States, and Indonesia, has consistently shown that OCI significantly affects stock returns, which are a reflection of market reactions to information contained in financial statements, including information on OCI in the income statement. In particular, the market reacts to OCI information because it predicts future investment returns, which in this case is dividend prediction. Moreover, a study conducted in Israel by Chen and Gavious (2016) demonstrated that OCI information affects dividend payments, which supports the theory of dividend irrelevance by Modigliani and Miller (1961).

Chen and Gavious (2016) investigated the effect of unrealized income from fair value adjustments on dividend payments, tax avoidance, and earnings management, using data from 623 companies listed on the Israel Tel Aviv Stock Exchange for the period 2001-2012. Their results showed that fair value accounting, which is realized by recognizing gains in the fair value adjustment of financial assets, investment properties, and investments in subsidiaries, has a positive effect on dividend payments, earnings management, and tax avoidance. This suggests that companies in Israel use comprehensive income information in determining dividend payments, where comprehensive income is net income plus unrealized income from the increase in equity value due to the difference in the fair value of assets over their book value.

Similar findings were reported by Veltri and Ferraro (2018) in Italy, where OCI was found to be positively correlated with dividends, and both variables had a positive effect on the market value of the company. A study by Graham and Lin (2018) in the United States also concluded that OCI has a positive effect on earnings management, while in Tunisia, earnings management was found to have a positive effect on dividend policy (Ben Amar et al., 2018).

Finally, Pieloch-Babiarz and Sajnóg (2019) investigated the use of comprehensive income to predict dividends for the coming period in Poland, with net income, firm size, ratio of book value to market value, and level of leverage serving as control variables. Their sample comprised 83 manufacturing companies listed on the Warsaw Stock Exchange for the period 2009-2017. Their results revealed that comprehensive income had a positive effect on dividends, although not significant. Meanwhile, net income had a positive but not significant effect on dividends, with the size of the company having a significant positive effect, and the ratio of book value to market value and the level of leverage having a negative effect on dividends. Based on the facts, the following hypothesis is drawn:

H1. Aggregate OCI has a positive effect on dividends.

The income statement presents the Other Comprehensive Income (OCI) in detail by item, categorized into two groups: the reclassifiable group and the non-reclassifiable group. The former includes items that may be reclassified to net income in future periods, while the latter includes items that will not be reclassified. The OCI items that belong to the reclassifiable group in period t-1 have already been realized, and their gains or losses are recorded in the income statement as net income. The realization in cash of these gains or losses will affect the cash flows in period t. Therefore, the reclassification of OCI (ROCI) in period t-1 will impact both the net income and cash flows in period t, resulting from the gain or loss on the sale of assets in cash. The OCI items that are presented in the reclassifiable group in period t-1 are considered more relevant than those in the non-reclassifiable group.

The empirical evidence from Kusuma and Saputra (2022) demonstrates that the OCI items presented in the reclassifiable group have a positive effect on stock returns, while those presented in the non-reclassifiable group have no effect on stock returns. The positive effect of OCI reclassification on stock returns suggests that users utilize the information provided by the OCI reclassification to make decisions. Furthermore, the OCI items presented in the reclassifiable group in period t-1 provide more predictive information for the future. The research findings by Kusuma, Zuhroh, et al. (2021) and Zhao et al. (2018) indicate that the OCI items in the reclassifiable group in period t-1 have a positive effect on future earnings (comprehensive income t+1). This finding highlights that the OCI reclassification can predict future earnings. Similarly, previous research by Kusuma (2020) and Zoubi et al. (2016) concludes that the

OCI items presented in the reclassifiable group in period t-1 have a positive effect on future cash flows. This suggests that the OCI reclassification can predict future cash flow prospects. The positive effect of OCI items presented in the reclassifiable group in period t-1 on earnings and cash flow in period t, together with the impact of earnings and cash flows on dividends in period t, leads to the formulation of the following hypothesis in this study:

H2. OCI items in the reclassified group in period t-1 have a positive effect on dividends in period t.

The measure of profitability is commonly calculated as the ratio of net income to total assets. However, when financial statements contain information on OCI, it may be necessary to modify this measure to incorporate comprehensive income. Such modifications can be made to return on investment metrics, such as ROA and ROE, by including OCI in the calculation (Gazzola & Amelio, 2014; Būmane, 2018). Lee et al. (2020) found that OCI can be used to predict future financial performance, specifically ROA, in Korean firms. Furthermore, Novrizal et al. (2022) conducted a study on firms listed on the Jakarta Islamic Index and found a positive relationship between profitability and firm value. Notably, during the COVID-19 pandemic, the performance of the sharia stock index increased, as reported by Huda et al. (2022).

Empirical evidence suggests that modifying profitability measures to incorporate OCI and comprehensive income has a positive effect on future earnings, particularly from items presented in the OCI group that will be reclassified, as these items can impact net income and comprehensive income in the subsequent period (Kusuma, 2021a). Additionally, ROA and ROE metrics that incorporate OCI can be useful in evaluating the effectiveness of asset utilization in influencing firm value, as assets may be more accurately measured at fair value (Kusuma, 2021c). Finally, Kusuma (2020) provided evidence on the modification of comprehensive profit-based profitability in the sharia banking sector, indicating that OCI group items that will be reclassified can significantly affect profitability, and in turn, dividend payments. Based on the facts, third hypothesis can be drawn as follows:

H3. Profitability mediates the effect of OCI on dividends.

OCI items presented in the group will mainly be reclassified, which will affect cash flows, net income, and comprehensive income for the next period. This is

because the realization of assets sold (cash in) and debts repaid (cash out) has been recorded (Canina & Potter, 2019). OCI is also able to predict future cash flows, which is valuable information for investors in evaluating the potential for dividends and capital gains (Kusuma, 2020). The reclassification of group OCI items in the presentation of the current period can affect cash flows in future periods, which in turn affects profitability and dividend payments. Acar & Karacaer's (2017) study concludes that in Turkey, OCI has a positive impact on operating cash flow. Based on these facts, the following hypothesis can be formulated:

H4. Operating cash flows mediate the effect of OCI on dividends.

METHODOLOGY

This research aims to test the causal hypothesis by examining the effect of OCI on dividend payments, both with and without the mediation of operating cash flows and profitability. The research data was collected from the annual reports of 682 companies listed on the Indonesia Stock Exchange for the period 2015-2021. The sample was selected using a purposive sampling technique with detailed criteria as follows:

Table 1. Sample Selection Criteria

Description	Quantity
The population of companies listed on the IDX in 2015 – 2021.	682
Minus:	
1. Registered after 2015.	(17)
2. Not presenting financial reports on a regular basis	(14)
3. Presenting financial statements in USD	(46)
4. Does not present OCI in detail and is reclassified	(97)
Number of selected sample companies	508
Research period 2015 – 2021	7 years
Number of data observations (682 companies times 7 years)	n = 3,556

This study employs four proxies to measure the dependent variable, namely dividends. The selection of these proxies follows the methodological framework adopted in previous research by Duygun et al. (2018). Meanwhile, OCI, the independent variable, is measured using a ratio that captures the adjustment amount to the carrying value of assets (liabilities) to fair value

relative to total assets. This measurement method is based on the approach used by Kubota et al. (2011). Furthermore, the study includes three control variables, namely firm size, level of leverage, and concentration of share ownership. These variables have been utilized in previous research and are considered relevant in examining the relationship between OCI and dividend payments. The details pertaining to the measurement of the research variables are provided in the table below:

Table 2. Research and Measurement Variables

No	Variable	Definition	Measurement	Reference
Dependent Variable				
1.	Dividend Payment (Y).	The company's policy in paying dividends to shareholders (company owners), is measured in four proxies (Payer, DPS, DTA, DPR).	1.a. Payer, measured by a dummy variable: 1 company pays dividends in year t, 0 otherwise.	(Duygun et al., 2018)
			1.b. Dividend per Share (DPS) : $\frac{Dividend\ (Rp)}{Total\ Stock}$	(Duygun et al., 2018)
			1.c. Dividend per Total Assets (DTA): $\frac{Dividend\ (Rp)}{Total\ Asset}$	(Duygun et al., 2018)
			1.d Dividend Payout Ratio (DPR): $\frac{Dividend\ (Rp)}{Net\ Income}$	(Duygun et al., 2018)
Independent Variable				
2.	Others Comprehensive Income (OCI)	Increase (decrease) in historical value assets (liabilities) to fair value (OCI).	$\frac{OCI}{Total\ Asset}$	(Pieloch-Babiarz & Sajnóg, 2019; Chen & Gavious, 2016)
3.	Reclassifiation of OCI's Component	OCI items to be realized at t+1 (will be reclassified to net income) (ROCI).	$\frac{ROCI}{Total\ Asset}$	(Kusuma, 2021a)
3.	Profitability	The ability of assets to generate profit (ROA).	$\frac{Net\ income}{Total\ Asset}$	(Duygun et al., 2018)

4.	Operating Cash Flows	Cash in and out of major operating activities (CFO).	$\frac{CFO}{Total\ Aset}$	(Canina & Potter, 2019)
Control Variable				
5.	Companys Size	The size and scope of the company's transactions (SIZE).	Log total asset	(Duygun et al., 2018)
6.	Leverage level	The size of the debt to fund assets (LEV).	$\frac{Total\ Liability}{Total\ Asset}$	(Duygun et al., 2018)
7.	Family ownership	Percentage of family share ownership to total shares (FAM).	$\frac{Family\ Stock}{Total\ Stock} x\ 100\%$	(Duygun et al., 2018)
8.	State ownership	Percentage of state share ownership to total shares (GOV).	$\frac{State\ Stock}{Total\ Stock} x\ 100\%$	(Duygun et al., 2018)
9	Industry	Multiple dummy variables based on 9 IDX industry sectors		(Kusuma, 2021a)
10	Year	Multiple dummy variables based on 7 years of this research period, namely 2015 – 2021.		(Kusuma, 2021a)

Data analysis techniques used descriptive statistics, correlation analysis, multiple linear regression analysis and path analysis. Before testing the hypothesis, four classical assumption tests were conducted as a prerequisite for the analysis. The research model for hypothesis testing is as follows:

Data analysis techniques in this study include descriptive statistics, correlation analysis, multiple linear regression analysis, and path analysis. Before testing the hypothesis, four classical assumption tests were conducted as a prerequisite for the analysis. These tests were employed to ensure that the data meets the required assumptions for conducting the statistical analyses. The research model for hypothesis testing is presented as follows:

Aggregate OCI (OCI accumulation) period t:

$$DIV_{i,t} = \alpha_0 + \beta_1 OCI_{i,t} + \beta_2 ROA_{i,t} + \beta_3 CFO_{i,t} + \beta_4 SIZE_{i,t} + \beta_5 LEV_{i,t} + \beta_6 FAM_{i,t} + \beta_7 GOV_{i,t} + \beta_8 Industry + \beta_9 Year + \varepsilon \quad (1)$$

Group t-1 period OCI items to be reclassified to net income (ROCI):

$$DIV_{i,t} = \alpha_0 + \beta_1 ROCI_{i,t-1} + \beta_2 ROA_{i,t} + \beta_3 CFO_{i,t} + \beta_4 SIZE_{i,t} + \beta_5 LEV_{i,t} + \beta_6 FAM_{i,t} + \beta_7 GOV_{i,t} + \beta_8 Industry + \beta_9 Year + \varepsilon \quad (2)$$

OCI period t-1 specifically for profit (loss) items in the available-for-sale category of financial assets (AKTUD):

$$DIV_{i,t} = \alpha_0 + \beta_1 AKTUD_{i,t-1} + \beta_2 ROA_{i,t} + \beta_3 CFO_{i,t} + \beta_4 SIZE_{i,t} + \beta_5 LEV_{i,t} + \beta_6 FAM_{i,t} + \beta_7 GOV_{i,t} + \beta_8 Industry + \beta_9 Year + \varepsilon \quad (3)$$

Hypothesis 1 (H1) will be accepted if the coefficient of OCIi,t in equation 1 is statistically significant at the 1%, 5%, or 10% level. Hypothesis 2 (H2) will be accepted if the coefficient of ROCIi, t-1 in equation 2 is statistically significant at the 1%, 5%, or 10% level. Hypothesis 3 (H3) will be accepted if the path coefficients of OCI and ROCI on the indirect effect of dividends through profitability (ROAi,t) are greater than the direct effect coefficient. In other words, if the indirect effect is found to be stronger than the direct effect, H3 will be supported. Similarly, Hypothesis 4 (H4) will be accepted if the path coefficients of OCI and ROCI on the indirect effect of dividends through operating cash flows (CFOi,t) are greater than the direct effect coefficient. If the results indicate that the indirect effect is stronger than the direct effect, H4 will be supported.

RESULT AND DISCUSSION

Data Analysis Results

Table 3 presents the descriptive statistics results of the study. The sample consists of 508 companies that paid dividends (PAYER) during the 2015-2021 period, representing 47.7% of the total sample. The average ratio of the Rupiah dividend value to total shares (DPS) is 27.44, indicating the amount of dividend paid by companies to their shareholders. Furthermore, the average percentage of dividends to the company's total assets (DTA) is 1.4%. The average total Rupiah dividend value is 13.9% of net income (DPR), indicating the proportion of net income paid as dividends. The mean of OCI and OCI reclassification are positive, indicating that unrealized gains from an increase in the fair value of assets are greater than unrealized losses from a decrease in fair value. Both components will either be reclassified to net income or not. The mean of CFO is positive, indicating that cash inflows from operating activities are higher than cash outflows during the 2015-2021 period in the 508 companies sampled. The average ratio of total debt to total assets (LEV) is 45.2%, indicating that companies have a significant proportion of debt relative to their total assets. The average share ownership held by families to the total outstanding shares is

3.5%, while the government's average share ownership of the total outstanding shares is 2.5%.

Table 3. Descriptive Statistics Results

	Obs	Mean	Min	Max	SD
PAYER	3,556	0.477	0.000	1.000	0.509
DPS	3,556	27.443	0.000	788.000	80.661
DTA	3,556	0.014	0.000	0.925	0.057
DPR	3,556	0.139	0.000	0.809	0.182
OCI	3,556	0.431	–0.759	0.151	0.661
$ROCI_{t-1}$	3,556	0.067	–0.024	0.077	0.017
ROA	3,556	0.036	–1.488	0.387	0.107
CFO	3,556	0.668	–0.025	0.085	0.144
SIZE	3,556	9.018	9.170	18.731	1.704
LEV	3,556	0.452	0.037	0.978	0.233
FAM	3,556	0.035	0.000	0.941	0.117
GOV	3,556	0.028	0.000	0.901	0.125

Table 4 presents the results of the correlation analysis. The aggregate OCI does not show a significant correlation with any of the four dividend measurements. However, the OCI component presented in the group, which will be reclassified to net income, is positively correlated with DPR (0.411**) at the 5% level. This implies that the greater the OCI reclassification value in period t-1, the higher the net income in period t, resulting in a higher ratio of dividend payments to net income (DPR). The aggregate OCI does not exhibit a significant correlation with profitability, cash flow, and dividends. However, OCI reclassification shows a positive correlation with ROA (0.376*) and cash flow (0.489**). This indicates that the larger the OCI reclassification value, the higher the profitability and cash flow of the company.

Table 4. Correlation Analysis Results

	PAYER	DPS	DTA	DPR	OCI	ROCI	ROA	CFO	SIZE	LEV	FAM	GOV
PAYER	1.000											
DPS	0.871***	1.000										
DTA	0.869***	0.943***	1.000									
DPR	0.934***	0.852***	0.821***	1.000								
OCI	0.011	0.018	0.015	0.009	1.000							
$ROCI_{t-1}$	0.216	0.276	0.223	0.411**	0.913***	1.000						
ROA	3.182***	3.437***	3.177***	3.231***	0.261	0.376*	1.000					
CFO	1.488***	1.770***	1.581***	2.038***	0.282	0.489**	0.913***	1.000				
SIZE	0.731***	0.623***	0.709***	0.814***	0.613***	0.624***	0.819***	0.732***	1.000			
LEV	-0.412**	-0.439**	-0.427**	-0.458**	0.019	0.008	0.511**	0.491**	0.863***	1.000		
FAM	0.218	0.135	0.085	0.156	0.081	0.113	0.148	0.224	0.136	0.362*	1.000	
GOV	0.740***	0.677***	0.614***	0.629***	0.602***	0.681***	0.764***	0.623***	0.092	0.135	0.116	1.000

***, **, * the significance of the correlation coefficient at the level of 1%, 5%, and 10%.

Moreover, the larger the size of the company, the higher the value of OCI, ROCI, ROA, cash flow, and dividends. On the other hand, the greater the debt ratio (leverage) of the company, the lower the dividend payment. In addition, the greater the financial performance (ROA), operating cash flow, company size, and government shareholding, the higher the dividend payout.

Table 5 presents the regression analysis results. Panel A indicates that aggregate OCI has no significant effect on the four dividend proxies. However, aggregate OCI has a positive effect on ROA and operating cash flow at a significance level of 10%. In panel B, the OCI component, which will be reclassified to net income (ROCI), has a positive effect on ROA at a significance level of 10% and on operating cash flow at a 5% level. Moreover, OCI reclassification has a positive effect on the four dividend proxies: PAYER, DPS, and DTA at the 10% level, and DPR at the 10% level. Panel C presents a specific test on one OCI component, namely gain (loss) on fair value adjustment of available-for-sale financial assets (AKTUD). AKTUD has a positive effect on ROA at a significance level of 10% and on operating cash flows at a level of 5%. Furthermore, AKTUD has a positive effect on the four dividend proxies: PAYER, DPS, and DTA at the level of 10%, and on DPR at the level of 5%.

Table 5. Regression Analysis Results

	$ROA_{i,t}$	$CFO_{i,t}$	Dividend			
			$PAYER_{i,t}$	$DPS_{i,t}$	$DTA_{i,t}$	$DPR_{i,t}$
Panel A : All of OCI's itemin t period (OCI aggregate)						
$OCI_{i,t}$	0.223*	0.289*	0.007	0.011	0.018	0.0090
	(3.144)	(3.802)	(1.677)	(1.342)	(1.098)	(1.323
$ROA_{i,t}$	-	-	3.132***	3.144***	3.158***	3.245***
			(14.026)	(14.787)	(14.435)	(14.012)
$CFO_{i,t}$	-	-	1.436***	1.775***	1.527***	2.041***
			(12.665)	(31.435)	(12.045)	(15.134)
$SIZE_{i,t}$	0.712***	0.684***	0.744***	0.765***	0.688***	0.616***
	(8.602)	(7.462)	(8.533)	(8.761)	(7.911)	(7.251)
$LEV_{i,t}$	0.686***	0.407**	-0.487**	-0.476**	-0.481**	-0.442**
	(8.436)	(5.255)	(-5.112)	(-5.671)	(-6.325)	(-5.542)
$FAM_{i,t}$	0.251	0.314*	0.245	0.146	0.088	0.211
	(3.114)	(4.703)	(3.504)	(2.655)	(1.782)	(3.560)
$GOV_{i,t}$	0.718***	0.611***	0.626***	0.678***	0.691***	0.739***
	(8.089)	(7.599)	(7.590)	(7.529)	(7.933)	(8.445)
Industry	YES	YES	YES	YES	YES	YES
Year	YES	YES	YES	YES	YES	YES
F-Statistics	96.41***	91.63***	97.61***	92.73***	98.27***	93.45***
Adj. R^2	0.6208	0.6239	0.5114	0.5776	0.5208	0.5145
Panel B : OCI's item in t-1 period ($ROCI_{i,t-1}$) will be reclassified in t period in net income						
$ROCI_{i,t-1}$	0.369*	0.441**	0.201*	0.261*	0.224*	0.208*
	(4.554)	(5.901)	(4.453)	(5.675)	(5.504)	(4.234)
$ROA_{i,t}$	-	-	3.861***	3.479***	3.765***	3.695***
			(16.556)	(14.613)	(14.434)	(12.901)
$CFO_{i,t}$	-	-	1.821***	2.071***	1.823***	1.771***
			(12.554)	(12.378)	(12.114)	(12.881)

	$ROA_{i,t}$	$CFO_{i,t}$	Dividend			
			$PAYER_{i,t}$	$DPS_{i,t}$	$DTA_{i,t}$	$DPR_{i,t}$
$SIZE_{i,t}$	0.708***	0.692***	0.721***	0.743***	0.706***	0.686***
	(9.654)	(8.490)	(9.998)	(9.093)	(8.098)	(8.065)
$LEV_{i,t}$	0.676***	0.413**	-0.425**	-0.490**	-0.475**	-0.428**
	(8.245)	(6.912)	(-6.109)	(-5.066)	(-6.735)	(-6.145)
$FAM_{i,t}$	0.276	0.351*	0.287	0.132	0.076	0.214
	(3.860)	(4.118)	(3.098)	(3.722)	(1.745)	(3.452)
$GOV_{i,t}$	0.732***	0.634***	0.651***	0.613***	0.698***	0.741***
	(8.563)	(8.009)	(7.034)	(7.109)	(7.099)	(8.688)
Industry	YES	YES	YES	YES	YES	YES
Year	YES	YES	YES	YES	YES	YES
F-Statistics	91.34***	95.23***	99.66***	94.34***	98.16***	95.11***
Adj. R^2	0.6712	0.6865	0.6845	0.6733	0.6641	0.6903
Panel C : Items from OCI (financial assets available for sale) period t-1 that will be reclassified in period t						
$ROCI_{i,t-1}$	0.382*	0.522**	0.182	0.256*	0.204*	0.425**
	(5.451)	(7.662)	(3.522)	(3.332)	(3.981)	(6.177)
$ROA_{i,t}$	-	-	3.877***	3.625***	3.816***	3.822***
			(14.844)	(14.568)	(14.771)	(14.146)
$CFO_{i,t}$	-	-	1.904***	2.148***	2.003***	2.013***
			(11.909)	(12.458)	(12.661)	(12.502)
$SIZE_{i,t}$	0.711***	0.704***	0.734***	0.746***	0.707***	0.714***
	(9.782)	(8.112)	(8.788)	(8.032)	(8.810)	(8.511)
$LEV_{i,t}$	0.681***	0.425**	-0.461**	-0.503**	-0.511**	-0.468**
	(7.277)	(5.588)	(-6.756)	(-7.110)	(-6.718)	(-6.878)
$FAM_{i,t}$	0.261	0.381	0.289	0.142	0.084	0.253***
	(3.511)	(4.011)	(3.566)	(3.116)	(3.498)	(4.034)
$GOV_{i,t}$	0.713***	0.675***	0.677***	0.684***	0.677***	0.762***
	(8.799)	(8.782)	(7.443)	(7.901)	(8.811)	(8.231)
F-Statistics	98.32	91.33	94.09	96.71	97.04	97.23
Industry	YES	YES	YES	YES	YES	YES
Year	YES	YES	YES	YES	YES	YES
Adj. R^2	0.6841	0.6922	0.6884	0.6621	0.6836	0.7031

***, **, * the significance of the regression coefficients at the level of 1%, 5%, and 10%.

Table 5 shows that family share ownership does not have a significant effect on ROA, CFO, and the four proxies for measuring dividends. On the other hand, financial performance, cash flow, company size, and government ownership have a significant positive effect on the four dividend proxies. However, the control variable, leverage, has a significant negative effect on the four dividend proxies.

Table 6. Path Analysis Results

Direct Effect		Indirect Effect		Sobel Test	P-Value	Conclusion
Panel A						
OCI → PAYER	0.007	OCI → ROA → PAYER	0.223 X 3.132 = 0.698	2.716	0.012	Mediated
		OCI → CFO → PAYER	0.289 X 1.436 = 0.415	2.455	0.010	
OCI → DPS	0.011	OCI → ROA → DPS	0.223 X 3.144 = 0.701	2.848	0.003	Mediated
		OCI → CFO → DPS	0.289 X 1.775 = 0.512	3.132	0.010	
OCI → DTA	0.018	OCI → ROA → DTA	0.223 X 3.158 = 0.704	2.078	0.011	Mediated
		OCI → CFO → DTA	0.289 X 1.527 = 0.441	3.715	0.017	
OCI → DPR	0.009	OCI → ROA → DPR	0.223 X 3.245 = 0.723	3.518	0.008	Mediated
		OCI → CFO → DPR	0.289 X 2.041 = 0.589	2.441	0.007	
Panel B						

Direct Effect		Indirect Effect		Sobel Test	P-Value	Conclusion
$ROCI_{t-1}$ → PAYER	0.201	ROCI → ROA → PAYER	0.369 X 3.861 = 1.424	3.356	0.005	Mediated
		ROCI → CFO → PAYER	0.441 X 1.821 = 0.803	3.866	0.001	
$ROCI_{t-1}$ → DPS	0.261	ROCI → ROA → DPS	0.369 X 3.479 = 1.283	2.687	0.000	Mediated
		ROCI → CFO → DPS	0.441 X 2.071 = 0.913	2.134	0.000	
$ROCI_{t-1}$ → DTA	0.224	ROCI → ROA → DTA	0.369 X 3.765 = 1.389	3.979	0.002	Mediated
		ROCI → CFO → DTA	0.441 X 1.823 = 0.803	2.507	0.000	
$ROCI_{t-1}$ → DPR	0.208	ROCI → ROA → DPR	0.369 X 3.695 = 1.363	3.315	0.000	Mediated
		ROCI → CFO → DPR	0.441 X 1.771 = 0.781	3.828	0.005	
Panel C						
AKTUD → PAYER	0.182	AKTUD → ROA → PAYER	0.382 X 3.722 = 1.421	3.643	0.000	Mediated
		AKTUD → CFO → PAYER	0.522 X 1.928 = 1.006	3.738	0.000	
AKTUD → DPS	0.256	AKTUD → ROA → DPS	0.382 X 3.182 = 1.215	2.254	0.005	Mediated
		AKTUD → CFO → DPS	0.522 X 2.113 = 1.102	2.861	0.000	
AKTUD → DTA	0.204	AKTUD → ROA → DTA	0.382 X 3.665 = 1.400	3.018	0.000	Mediated
		AKTUD → CFO → DTA	0.522 X 2.421 = 1.263	2.418	0.002	
AKTUD → DPR	0.205	AKTUD → ROA → DPR	0.382 X 3.581 = 1.367	3.266	0.000	Mediated
		AKTUD → CFO → DPR	0.522 X 2.857 = 1.491	2.778	0.000	

Table 6 shows the results of the path analysis. In panel A, it is revealed that ROA and operating cash flow mediate the effect of aggregate OCI on all dividend measures (PAYER, DPS, DTA and DPR). This is indicated by the coefficient of indirect influence through ROA and CFO mediation, which is greater than the coefficient of direct influence. This is also supported by the results of the Sobel test, which shows the Sobel Test value above 1.96 and significant at the 5% level. In panel B, it shows that ROA and operating cash flow mediate the effect of OCI reclassification on all dividend measures (PAYER, DPS, DTA and DPR). In panel C, it shows that ROA and operating cash flows mediate the effect of gains and losses on the fair value adjustment of financial assets (AKTUD) on all dividend measures (PAYER, DPS, DTA and DPR). This is supported by the results of the Sobel test which shows the Sobel Test value above 1.96 and significant at the 5% level.

Table 7. Summary of Hypothesis Testing

Hypothesis	Acceptance Criteria	Test Results	Conclusion
H1. OCI has a positive effect on dividends.	The aggregate OCI coefficients in Panel A of Table 5, are significant at the 1%, 5%, or 10% level.	The aggregate OCI coefficient in Panel A Table 5 is not significant	H1 is rejected.
H2. The previous period's OCI items presented in the "to be reclassified" group have a positive effect on dividends for the next period.	Reclassification coefficient ($ROCI_{i,t-1}$) in Panel B Table 5, significant at the level of 1%, 5%, or 10%.	The reclassification coefficient ($ROCI_{i,t-1}$) in Panel B Table 5, is significant at the 10% level.	H2 accepted
H3. Profitability mediates the effect of OCI on dividends.	The coefficients of aggregate OCI (Panel A), OCI Reclaification (Panel B,) and AKTUD (Panel C) after ROA mediated were greater than before.	The coefficients of aggregate OCI (Panel A), OCI Reclaification (Panel B,) and AKTUD (Panel C) after ROA mediated were greater than before.	H3 accepted

Hypothesis	Acceptance Criteria	Test Results	Conclusion
H4. Operating cash flows mediate the effect of OCI on dividends.	The coefficient of aggregate OCI (Panel A), OCI Reclaification (Panel B,) and AKTUD (Panel C) after being mediated by CFO is greater than before.	The coefficient of aggregate OCI (Panel A), OCI Reclaification (Panel B,) and AKTUD (Panel C) after being mediated by CFO is greater than before.	H4 accepted

Table 7 summarizes the results of hypothesis testing. H1 is rejected because aggregate OCI does not have a significant effect on dividends. However, the components of OCI that are reclassified to net income have a significant positive effect on dividends. The specific test on one OCI component, the fair value adjustment of financial assets available for sale category, also has a significant positive effect on dividends. H2 is accepted because profitability mediates the effect of OCI on dividends. H3 is also accepted because operating cash flows mediate the effect of OCI on dividends, for both aggregate OCI and its components.

Discussion

Effect of OCI (aggregate) on Dividends

This study did not find evidence that the accumulation of OCI (aggregate) has a significant effect on dividends. This is because OCI represents adjustments of historical values of assets and liabilities to fair values, which are unrealized gains or losses. The aggregate OCI includes fair value adjustment items that may not be realized in the short term, such as revaluation of property and equipment and actuarial differences of post-employment defined benefit plans, and these items are presented for a long time in the group that will not be reclassified to net income. As such, the fair value adjustment of these items is not related to net income and operating cash flows in the short term. The OCI item of revaluation of assets often has a large amount in rupiah, while the OCI item of defined benefit actuarial differences appears in every period due to the pension plan requirements in Indonesia. These findings are consistent with Pieloch-Babiarz & Sajnóg (2019) in Poland, but in contrast to Veltri & Ferraro (2018) in Italy and Chen & Gavious (2016) in Israel.

Effect of OCI Reclassification on Dividends

The study found that only certain items belonging to the OCI reclassification group had a significant positive effect on dividends, specifically the OCI reclassification in period t-1 and the fair value adjustment of financial assets in

the available-for-sale category (AKTUD) for period t-1. The gain on the sale of the asset or gain on the settlement of the hedging liability has actually occurred and affects net income and cash flow, which in turn affects net income and cash flow dividends.

Although OCI does not directly affect dividends, the realization of OCI items can affect net income and profitability, which ultimately determines the amount of dividend payments. The most frequently presented OCI item in the group to be reclassified is the fair value adjustment of available-for-sale financial assets (AKTUD), which is a liquid and flexible item that can be realized according to management's wishes.

The significant effect of OCI reclassification on dividends indicates that the OCI reclassification item has the ability to predict dividends, which is in line with its relevance value as an indicator. This finding is consistent with previous research by Kusuma, Zuhroh, et al. (2021), which showed that OCI reclassification can predict future net income and comprehensive income, as well as the findings of Canina & Potter (2019) and Kusuma (2020), which showed that OCI reclassification can assess prospects for future cash flows from realized assets presented as cash income.

Mediation of Profitability in the Effect of OCI on Dividends

Profitability mediates the effect of OCI on dividends, for both accumulated OCI (aggregate) and the group of OCI reclassification items, specifically the OCI items that adjust the fair value of financial assets in the available-for-sale category. This is because when an OCI item is realized, such as when a financial asset is sold, there will be a gain (loss) on the sale of the financial asset that is realized. The value of this gain (loss) is the difference between the fair value at the realization date and the carrying amount. This difference is part of net income and is recorded as a profit (loss) account on the sale of financial assets. Since a portion of net income affects profitability, the greater the profit on the sale of financial assets, the greater the profitability. This, in turn, affects the amount of dividend payments. Figure 2 below illustrates the relationship between OCI reclassification for period t, realization at t+1 with profitability, cash flow, and dividends.

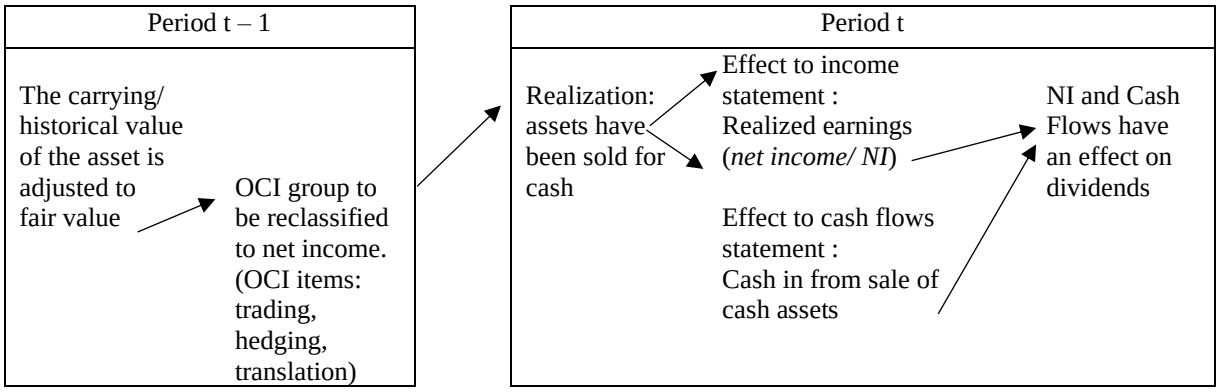

Figure 2. The relationship between OCI reclassification in period t, realization at t+1 with profitability, cash flow and dividends

Mediation of Operating Cash Flows in the Effect of OCI on Dividends.

Operating cash flows mediate the effect of OCI on dividends, including both accumulated OCI (aggregate), the group of OCI reclassification items, and specifically on OCI items related to fair value adjustments of available-for-sale financial assets. This is because when OCI items are realized, such as through the sale of assets or the payment of debts, it will result in an increase (or decrease) in cash. The greater the profit on cash sales of financial assets, the greater the cash inflows, which will in turn affect the amount of dividend payments. Cash receipts from various sources, such as from the sale of financial assets, settlement of hedging contract receivables, overseas business units, and revalued fixed assets, as well as cash payments for the settlement of hedging liabilities and defined benefit liabilities, are important factors in this mediation. In period t, OCI is not directly related to cash flows, as it only represents an increase (or decrease) in the value of assets and liabilities from their carrying value to their fair value. However, SAK regulations that require companies to group OCI based on plans to be realized or not to be realized, help users relate OCI's ephemeral income to cash flow and profitability. This policy can certainly increase the value relevance of OCI, and improve the practice of fair value assessment in the presentation of financial statements.

Table 5 presents the effect of various company characteristics on dividends. Size has a significant positive effect on dividends, as companies with more assets have a wider scope of business and economic transactions, and are therefore more able to earn profits and generate cash flows, making them more able to pay dividends. These findings are consistent with previous studies conducted in Indonesia (Duygun et al., 2018), Malaysia (Zainudin & Khaw,

2021), Egypt (Ali, 2022), and China (Liu, 2021). The concentration of share ownership by family has a negative effect on dividends, as companies with a high concentration of family ownership tend to pay fewer dividends, while state-owned companies (BUMN) pay more dividends. This is consistent with the findings of previous studies conducted in Indonesia (Duygun et al., 2018) and Malaysia (Zainudin & Khaw, 2021). The level of leverage also has a negative effect on dividends, as companies with high levels of leverage tend to pay less dividends. This finding is consistent with various previous studies, including those conducted in Indonesia (Duygun et al., 2018). This may be because companies prioritize paying interest and principal debt over paying dividends.

CONCLUSIONS

This study examines the effect of OCI on dividends in Indonesian companies from 2015-2021, specifically looking at the aggregate OCI and "to be reclassified" group. It explores the mediating role of profitability and operating cash flow, and considers the impact of OCI recognition policy on dividend payments. Control variables include firm size, share ownership concentration, and level of leverage. In the overall sample of industries, OCI did not have a significant effect on dividends, and neither profitability nor operating cash flow mediated the relationship between OCI and dividends. However, when examining only companies with OCI items of financial assets available for sale and those that will be reclassified to net income, a positive and significant effect of OCI on dividends was observed. Additionally, profitability and operating cash flow mediated this relationship. The short-term ownership of financial assets available for sale and the potential for profits from their sale in the next period were likely responsible for this effect. Similarly, reclassified OCI items affected net income and operating cash flow in the following period, thus impacting dividends. Including OCI alongside net income in the income statement could enhance its predictive value for users, as the significant effect of OCI on future dividends implies its potential use in predicting future returns.

The present study bears important practical implications for investors and potential candidates who seek to forecast future financial performance and potential dividend payments. It underscores the need to go beyond relying solely on net income and operational cash flows in the current and previous periods, and rather to include OCI items in the reclassification group, as these items will materialize in the subsequent period and impact net income and cash

flows operations. The academic significance of this research lies in its contribution to the extant literature on financial accounting, particularly in sharia accounting. Specifically, it sheds light on the positive impact of OCI's presentation in financial statements, grounded in fair value accounting, which aligns with the provisions of PSAK No.1 and SFAC No.2.

Although this study has yielded significant results, it should be noted that the specific impact of each OCI item on dividend payments or the concentration of share ownership was not analyzed. To address this gap, future research could explore the implications of fair value accounting and OCI presentation in relation to dividend payments, across developed and emerging markets, as well as primary and alternative markets. Building on the current findings, investors are advised to not solely rely on net income and cash flow information when predicting dividends and stock prices, but to also consider the potential impact of OCI items on a company's profitability in the next period.

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