

ABSTRACT

This research aims to examine whether the components of disaggregate cash flow from operation (CFO) and accrual components can be good predictors for future earnings. In addition, this research also examines whether disaggregate CFO has higher predictive ability to predict future earnings than aggregate CFO.

Thirty listed manufacturing companies on IDX in 2005 to 2010 were chosen randomly as sample. The information of disaggregate cash flow from operation; core receipts, core payments, tax paid, interest paid, interest receipt, other receipts, and other payments; and accrual components; increase/decrease in receivables, payables, and inventories, depreciation expense, and other accruals; were analyzed by using multiple regression analysis to examine whether those components can predict future earnings. However, there was a multicollinearity problem that should be addressed by omitting core payments out of the model.

The results of this research show that information of disaggregate CFO, together with accrual components, can assist in the prediction of future earnings. In addition, disaggregate CFO has higher predictive ability to predict future earnings. However, not all of the components of disaggregate CFO and accrual can be good predictors for future earnings.

Key words: cash flow; accrual components; disaggregate; aggregate