ABSTRACT

This study aimed to provide empirical evidence on gross profit, operating profit and net income in predicting future cash flows by examining each variable. Through this research, we can know what income concept that is best in predicting cash flow.

The object of research is the manufacturing companies listed in Indonesia Stock Exchange (IDX) from 2006 to 2008 who did not experience a loss, do not merge during the observation period, and consecutively registered during the observation period. The method used in the selection of objects in this study was purposive sampling. Analysis model used in this study is multiple regression analysis model performed with the aid of the computer program SPSS version 17.0 for Windows.

The results of this study indicate that gross profit has the best ability as compared with operating income and net income in predicting future cash flows. Partially only variable that proved significant gross profit affect the dependent variable (cash flow). However, simultaneously gross profit, operating profit and net earnings have predictive ability for future cash flows.

Keywords: gross profit, operating income, net income, cash flow.