ABSTRACT

This study aims to examine the effect of surplus free cash flow and good corporate governance earnings' ability in predicting future cash flow. Earnings is an important information needed by investors for decision making. High quality of earnings is reflected by its ability to predict future cash flow. Surplus free cash flow can decrease earnings predictability. It can stimulate manager to take inappropriate action with principal's interest such as over-investment and earnings management. Firm with high free cash flow but low growth opportunity represents surplus free cash flow problems. Good corporate governance mechanism is used to mitigate surplus free cash flow problem. The monitoring effectiveness by board and managerial ownership are expected could solve the problem.

The population in this study are all publicly listed manufacturing companies on the Indonesia Stock Exchange (IDX) 2010-2013. The number of companies samples were 74 companies or 296 year observations. Regression analysis is used as a main analysis tool.

The result of this study find evidence that earnings have ability to predict future cash flow. This study also proves surplus free cash flow decrease earnings ability in predicting future cash flow. The study proves that board size moderate negative effect of surplus free cash flow on earnings predictability. However, this study doesn't find evidence that managerial ownership can solve the surplus free cash flow problem.

Keywords : Earnings, future cash flow, surplus free cash flow, board size, managerial ownership