

ABSTRACT

Financial report is the result from a quantitative accounting process that the information present therein can help many persons (intern otherwise extern) for making decisions that the decisions very influent to company living. The user of financial report can evaluate company determination to get the cash better if they get information focused in financial position, earnings, changes in financial position and the company's cash flow statement.

The aim of this research to determine the correlation of earnings ability and cash flow predict earnings and future cash flows. Sampling data 143 manufacture companies were taken from Indonesia Stock Exchange (ISX), which has published during period 2006 to 2007 by using purposive sampling method. To test the hypothesis, this research use regression analysis. The conclusion of hypothesis done with the value of correlation coefficient and regression, consider significance of test result are F - test and t – test level for significance 5 %, the test use classical assumption test such as normality test, multicollinearity test, autocorrelation test, and heteroskedasticity test.

The statistical results for the first hypothesis show that earnings predictor to predict future earnings better than predictor cash flows. However from statistical test result Dublin Watson find the positive autocorrelation. Further for the second hypothesis find the evidence that earnings predictor not good enough to predict future cash flows, compare with cash flows predictor. And for the third hypothesis show that earnings gives incremental predictive ability to cash flows.

Keyword : earnings, cash flows, and predictor

