The Ability of Accounting Earnings Components to Better Predict Operating Cash Flows in Jordanian Public Shareholding Industrial Companies

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Abstract

This study aimed to demonstrate the ability of current accounting earnings components to better predict operating cash flows up to three years ahead in Jordanian industrial public shareholding companies. The study population and sample were represented by all industrial companies listed on Amman Stock Exchange for the period (2011-2018) and consisted of (53) companies that met the study criteria. Simple and multiple linear regression analyses were used to test the study hypotheses.

The study concludes several results, which the most important of them are that current earnings have a higher ability than current operating cash flows in predicting future operating cash flows for three subsequent years, and disaggregating earnings into their components leads to a better ability in the forecasting process; specially, using current discretionary and nondiscretionary accruals and cash flows together improves the predictive ability on the long run.

This study recommends companies to predict future operating cash flows by using current earnings components, and recommends companies to focus on making a balance between cash inflows and outflows from operating activities, so achieving a relative stability in cash flows to increase the benefit of using cash flows in the forecasting process.

Keywords: accounting earnings components, future operating cash flows, industrial companies.