ARE CASH FLOWS FROM OPERATIONS AND EARNINGS ABLE TO FORECAST FUTURE CASH FLOWS? EVIDENCE FROM THAILAND

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By
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Graduate School of Business
Universiti Utara Malaysia,
In Fulfilment of the Requirement for the Degree of Master of Science
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ABSTRACT

This study aimed to test the predictive ability of cash flows from operations and earnings as reported in the statement of cash flows and statement of comprehensive income respectively, in forecasting future cash flows based on data selection from 627 companies on Stock Exchange of Thailand for the period from 1994 to 2009. The ordinary least square (OLS) regression was used to test the hypotheses in the study.

The regression result of this study shows that cash flows from operations have a relationship with future cash flows. It also shows that earnings have the predictive ability for future cash flows.
ACKNOWLEDGMENTS

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Table of Contents

PERMISSION TO USE............................................................................................................. iii
DISCLAIMER......................................................................................................................... iv
ABSTRACT.............................................................................................................................. v
ACKNOWLEDGEMENTS.......................................................................................................... vi
TABLE OF CONTENTS............................................................................................................ vii
LIST OF TABLES .................................................................................................................. x
LIST OF FIGURES/CHARTS ................................................................................................... xi
LIST OF ABBREVIATIONS .................................................................................................... xii

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study................................................................................................. 1
1.2 Problem Statement ......................................................................................................... 4
1.3 Research Questions ...................................................................................................... 7
1.4 Research Objectives .................................................................................................... 7
1.5 Scope of the Study ........................................................................................................ 8
1.6 Significance of the Study ............................................................................................. 8
1.7 Organisation of the Study ............................................................................................ 10
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction .................................................................................................................. 11
2.2 Prior Research ............................................................................................................. 11
2.3 The Importance of Cash Flows from Operations and Earnings ................................. 13
   2.3.1 Cash Flows from Operations .................................................................................. 13
   2.3.2 Earnings ................................................................................................................ 16
2.4 The predictive ability of cash flows from operations and earnings in forecasting
   future cash flows. ............................................................................................................ 17
2.5 Summary ....................................................................................................................... 25

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction .................................................................................................................... 26
3.2 Theoretical Framework ............................................................................................... 26
3.3 Hypotheses Development .......................................................................................... 27
   3.3.1 Cash Flows From Operations .............................................................................. 28
   3.3.2 Earnings .............................................................................................................. 29
3.4 Data Selection .............................................................................................................. 30
3.5 Model Specification .................................................................................................... 32
3.6 Summary ....................................................................................................................... 33
CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction ......................................................................................................................... 34

4.2 Descriptive Statistics and Correlation Analysis ................................................................. 34

4.2.1 Descriptive Statistics ...................................................................................................... 34

4.2.2 Pairwise Correlation Analysis ......................................................................................... 36

4.3 Regression Analysis Results .............................................................................................. 37

4.4 Summary ............................................................................................................................. 39

CHAPTER FIVE: CONCLUSION

5.1 Introduction ......................................................................................................................... 40

5.2 Discussion and Conclusion ............................................................................................... 40

5.3 Limitations of the Study and Suggestion to the Future Research ........................................ 44

5.3.1 Limitations of the Study ................................................................................................. 44

5.3.2 Suggestion to the Future Research .................................................................................. 44

5.4 Summary ............................................................................................................................. 45

REFERENCES .......................................................................................................................... 46
LIST OF TABLES

Table 3.1 Total Number of Companies Based on Industry........................................... 31

Table 4.1 Descriptive Statistics for Year 1994-2009...................................................... 35

Table 4.2 Pairwise Correlation Matrix between CFO and FCF, EARN and FCF and

   CFO and EARN ........................................................................................................... 36

Table 4.3 Results from Ordinary Least Squares Regression Models of Cash Flows from

   Operations and Earnings .......................................................................................... 37
LIST OF FIGURES/CHARTS

Figure 3.1: Research Framework ................................................................. 27
# LIST OF ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>United States</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>SET</td>
<td>Stock Exchange of Thailand</td>
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<td>CFO</td>
<td>Cash Flows from Operations</td>
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<td>EARN</td>
<td>Earnings</td>
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<td>FCF</td>
<td>Future Cash Flows</td>
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<td>OLS</td>
<td>Ordinary Least Square</td>
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<td>FASB</td>
<td>Financial Accounting Standards Board</td>
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CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

The most important asset in any company is cash. The availability of cash shows liquidity and efficiency in the operations of a company. In addition, cash is used as an indicator of the well-being of a company, as shown in the financial statement. It can also be used to identify a company’s financial strength as the statement of cash flows is clear evidence of a company’s operation. For example, the total liquid cash reported in the financial statement is indicative of a company’s cash flow position. If the amount of cash in the financial statement is large, this indicates that there is high possibility of good liquidity as well. Besides that, the amount of cash as shown in the statement of cash flows indicates the net cash amount received and paid for and from a company’s operations.

Cash therefore, plays a vital role in attracting investors and building confidence for future investors to invest in a company. This is because investors invariably tend to make a decision whether to invest or not, based on the financial position of a company. Almeida, Campello, & Weusbach, (2004) documented that it is important to study cash flows of a firm. They emphasised that the cash value should be positive in order to attract investors’ attention.

In addition, Megan, Hategan, & Caciuc, (2009) implied that cash flows are very crucial for decision makers because it measures the actual money paid out or received by a company. The author also reported that the amount of cash
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REFERENCES


Finger, C. A. (1994). The ability of earnings to predict future earnings and cash


