

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

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

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A research project submitted to the Othman Yeop Abdullah

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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.*

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## **LIST OF ABBREVIATIONS**

US	United States
UK	United Kingdom
SET	Stock Exchange of Thailand
CFO	Cash Flows from Operations
EARNNS	Earnings
FCF	Future Cash Flows
OLS	Ordinary Least Square
FASB	Financial Accounting Standards Board

## **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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