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# Can We (Still) Predict Future Earnings? The Case of China and Indonesia

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ABSTRACT

*Financial information, particularly earnings predictability, is crucial because it can be employed to forecast future performance. This research aims to forecast future earnings in emerging economies by examining earning predictability and its components. This study employed companies listed on Shanghai Stock Exchange (SSE) and Indonesia Stock Exchange (IDX) from 2017 to 2022. Our study's results indicate a detectable pattern in earnings that may be predicted in both markets. The results of our study indicate that future earnings can be forecasted based on past earnings, operating cash flows, and the combination of operating cash flows and accruals. Indonesian enterprises' past earnings have a greater capacity to forecast present earnings. In contrast, Chinese firms' past operating cash flows exhibit more predictability in earnings than Indonesian firms. This study contributes to research on earnings relevance. In practical terms, this study contributes to optimal investment decisions, as SSE and IDX play a significant role in Asian stock exchanges.*

## INTRODUCTION

The main question of our paper concerns the ability of financial information to predict future performance. The ability to make a difference in a decision is the top priority of an accounting body's maintenance of relevancy (IASB, 2018). Although Lev and Gu (2016) promote the declining quality of accounting information, Barth et al. (2023) present evidence that earnings still have the biggest impact on stock price, so we believe estimating future earnings is the lead indicator of estimating future stock return. When value relevance studies focus on the relationship between earnings and stock price, this paper focuses on earnings predictability. Investors may use previous financial data to predict current earnings.

Financial information, particularly earnings predictability, holds significant value as it can be used to predict future performance. This is a point emphasized by Do Nguyet (2017) and Graham et al. (2005), who note that managers often strive to ensure that earnings can be predicted by minimizing volatility. Earnings predictability is further underscored by its role in guiding the decisions of analysts, investors, and potential investors.

Several studies of earnings predictability were conducted using the US stock exchange. Our study uses emerging economies such as Indonesia and China. Although the Chinese stock market's market capitalization is less than 25% of the US market's, it is the biggest stock market in Asia. We use this observation to see different points of view than those results in US stock markets. China's current economic dominance is also one of the reasons why studying in that country is useful. With a GDP of $7,662.04 billion in 2023 and a predicted $18,532.63 billion in 2024, China's GDP ranks second after the US. Indonesia's GDP, which ranked 16th globally and led the Southeast Asia region (World Bank Group, 2023), was $1,475.51 billion in 2023 and is forecast to reach $1,371.17 billion in 2024 (Statista, 2024). In the Asian region, the economies of China and Indonesia hold a dominant position. China ranks top, while Indonesia ranks fourth, following India and Japan.

Complementing the discussion and analysis, we also analyze the issue using the Indonesian Stock Exchange (IDX), one of the representative stock exchanges with thin market capitalization. According to CEIC data, the US market capitalization was $54,000 billion during June 2024. By contrast, as of June 2024, Indonesia's market capitalization stood at $735.98 billion. Although some studies discuss that the earnings informativeness of firms in Indonesia is lower than in developed countries, the adoption of IFRS in practice may enhance the quality of financial information.

Our findings demonstrate the presence of earnings predictability in both markets. Previous earnings have the ability to forecast current earnings, and previous earnings components can forecast future earnings. These findings instill users with confidence in their ability to utilize earnings or operational cash flows as a means to predict future performance. Despite having a smaller market capitalization than SSE, IDX exhibits a greater capacity for prior earnings to forecast future earnings.

Our analysis provides practical advantages to investors and creditors in accurately forecasting the future performance of enterprises in both countries. In theory, we enhance financial accounting research by offering empirical support for the quality of financial information.

This article is divided into five sections. The first is an introduction. The second section discusses the literature review and hypothesis development. The next section is data and methodology, followed by results and discussion. Section five concludes.

## 1. LITERATURE REVIEW

Earnings information indicates a company's performance during a specific period and is believed to forecast future performance. Barth et al. (2023) conducted research that earnings information remains the most important for investors, while the significance of other financial report elements is also rising. This underscores the necessity of earnings predictability for investors, as it directly impacts their investment choices.

Until now, numerous valuation methods and corporate contracts have relied on earnings forecasts. As an illustration, executive compensation and bonus arrangements (Baber et al., 1998; Shuto, 2007). Financial and investment analysts have also created programs that enable them to produce more precise earnings forecasts (Dichev & Tang, 2009). Academics and analysts incorporate this strategy into fundamental analysis.

The predictability of earnings is closely tied to the earnings' quality. According to Do Nguyet (2017), earnings that remain consistent over time and accurately reflect actual conditions are more reliable for predicting future earnings than volatile earnings (Do Nguyet, 2017). Typically, earnings that are hard to forecast are less desirable due to their high level of uncertainty. In their study, Graham et al. (2005) surveyed over 400 executives to ascertain the elements that impact earnings reporting and disclosure. The findings indicated that 78% of participants were willing to compromise long-term value to achieve

smooth earnings reports. The poll also found that managers make efforts to ensure that earnings can be predicted in order to minimize the risk associated with information. It is often assumed that stock prices tend to rise when earnings are predictable. These findings are corroborated by the studies conducted by Dichev and Tang (2009) and Eames and Glover (2003), which revealed that analysts make systematic errors when interpreting data concerning earnings volatility.

The research and poll findings suggest that earnings predictability is a significant concern for information providers, analysts, investors, and potential investors. Earnings predictability leads to optimal investment decisions. Earnings is comprised of two elements: operating cash flow and accruals. Hence, these two elements can also be applied to forecast earnings.

Several studies have examined the predictive power of operating cash flow and earnings for future cash flow. Nevertheless, we maintain that using cash flow in forecasting earnings is as significant. A study conducted by Call et al. (2009) showed that financial analysts might enhance the accuracy of their projections by using the operating cash flow factor. They comprehend the existence of a correlation between operating cash flow and earnings. In addition, Shubita (2021) discovered that the correlation between cash flow and earnings is stronger for large companies with short operating cycles compared to small organizations with long operating cycles.

There are uncertainties regarding accruals' predictive power for future earnings. Accruals shift or adjust the timing of cash flow recognized to more precisely evaluate a company's financial performance through adjusted earnings. However, accruals require the use of assumptions and projections regarding future cash flows. Dechow and Dichev (2002) argue that when the level of estimation error in accruals increases, the quality of accruals and earnings decreases. An increase in estimation errors represents surprising non-recurring items in earnings measurement. From a predictability point of view, it decreases the ability to forecast.

In order to provide precise forecasts of earnings, it is essential for accruals, which are a part of the process of determining earnings, to possess a high level of quality. The predictive accuracy of accruals is contingent upon the degree of alignment between the accruals and historical as well as future cash flows, as well as the present and future economic success of the company. Dichev and Tang (2008) discovered that the predictive power of each type of accrual in determining profitability varies depending on its level of correspondence with cash flow. A higher prediction coefficient indicates a greater ability of the accrual to predict cash flow and earnings, which in turn affects the firm's value.

The objective of this article, as inferred from the aforementioned reasoning, is to provide a response to the research question of whether earnings (still) can be predicted by its previous earnings or earnings components.

## 2. DATA AND METHODOLOGY

This study utilized companies listed on the Indonesia Stock Exchange (IDX) and the Shanghai Stock Exchange (SSE). Both exchanges are indicative of emerging Asian markets (World Bank Group, 2023). SSE is the biggest stock exchange in Asia, and IDX represents a thin stock market in Asia.

The companies chosen as samples must possess comprehensive data pertaining to the research variables and have become publicly traded from 2017 to 2022, as we utilize lag data to forecast current net income. Furthermore, we eliminated companies with losses as their prediction factors differ from those of profitable enterprises (Hayn, 1995; Sin & Watts, 2000). From a confirmation bias point of view, loss firms lose their predictability because financial statement users tend to avoid using this information. The projection does not center around loss, as it is not anticipated to happen again in the upcoming term.

In order to address the hypothesis, we employ the subsequent regression model:

$$E_{i,t} = \propto_0 + \propto_1 E_{i,t-1} + \propto_2 E_{i,t-2} + \propto_3 E_{i,t-3} + \varepsilon_{i,t} \quad (1)$$

Where E is annual earnings or net income divided by beginning total assets. While i refers to firm i, and t refers to period.

In addition to making predictions using net income components:

$$E_{i,t} = \propto_0 + \propto_1 CFO_{i,t-1} + \propto_2 CFO_{i,t-2} + \propto_3 CFO_{i,t-3} + \varepsilon_{i,t} \quad (2)$$

In Equation (2), the CFO refers to cash flow from operations divided by the beginning total assets.

We also run a regression using accruals to predict earnings:

$$E_{i,t} = \propto_0 + \propto_1 ACC_{i,t-1} + \propto_2 ACC_{i,t-2} + \propto_3 ACC_{i,t-3} + \varepsilon_{i,t} \quad (3)$$

We subtract cash flow from operations from net income to arrive at accruals (ACC), which are then divided by the beginning total assets.

And we combine those two earnings components:

$$E_{i,t} = \propto_0 + \propto_1 CFO_{i,t-1} + \propto_2 CFO_{i,t-2} + \propto_3 CFO_{i,t-3} + \propto_4 ACC_{i,t-1} + \propto_5 ACC_{i,t-2} + \propto_5 ACC_{i,t-3} + \varepsilon_{i,t} \quad (4)$$

We run these regression models for each sample, from IDX, and from SSE, and also combine those data.

# 3. RESULTS AND DISCUSSION

## 3.1 Descriptive Statistics

Table 1 provides descriptive statistics of our sample. The total observations are 1,245 (4,642) Indonesia (China) firm-years. Considering financial statements, users and preparers tend to expect positive net income; this paper only tests the hypothesis using a positive net income sample. Supporting this issue, we also find that firms with future negative earnings have lower predictability (untabulated).

**Table 1.** Descriptive Statistics

| Panel a: IDX Data (N = 1,245) | | | | | |
|---|---|---|---|---|---|
| | N | Minimum | Maximum | Mean | Std. Deviation |
| $NI_{i,t}$ | 1,245 | 0 | 0.895 | 0.07 | 0.101 |
| $NI_{i,t-1}$ | 1,245 | -0.581 | 0.856 | 0.049 | 0.099 |
| $NI_{i,t-2}$ | 1,245 | -0.902 | 0.89 | 0.042 | 0.107 |
| $NI_{i,t-3}$ | 1,245 | -0.707 | 0.921 | 0.056 | 0.112 |
| $OCF_{i,t-1}$ | 1,245 | -4.026 | 2.113 | 0.075 | 0.191 |
| $OCF_{i,t-2}$ | 1,245 | -4.32 | 3.387 | 0.059 | 0.204 |
| $OCF_{i,t-3}$ | 1,245 | -5.446 | 3.387 | 0.042 | 0.273 |
| $ACC_{i,t-1}$ | 1,245 | -2.029 | 4.043 | -0.026 | 0.189 |
| $ACC_{i,t-2}$ | 1,245 | -3.265 | 5.002 | -0.017 | 0.216 |
| $ACC_{i,t-3}$ | 1,245 | -3.265 | 5.655 | 0.014 | 0.286 |

| Panel b: SSE Data (N = 4,642) | | | | | |
|---|---|---|---|---|---|
| | N | Minimum | Maximum | Mean | Std. Deviation |
| $NI_{i,t}$ | 4,642 | 0.000 | 0.955 | 0.065 | 0.070 |
| $NI_{i,t-1}$ | 4,642 | -0.681 | 0.995 | 0.065 | 0.085 |
| $NI_{i,t-2}$ | 4,642 | -0.681 | 0.955 | 0.068 | 0.087 |
| $NI_{i,t-3}$ | 4,642 | -0.924 | 0.999 | 0.073 | 0.092 |
| $OCF_{i,t-1}$ | 4,642 | -0.832 | 4.215 | 0.081 | 0.135 |
| $OCF_{i,t-2}$ | 4,642 | -1.511 | 4.215 | 0.082 | 0.135 |
| $OCF_{i,t-3}$ | 4,642 | -1.511 | 4.215 | 0.078 | 0.147 |
| $ACC_{i,t-1}$ | 4,642 | -4.184 | 0.897 | -0.015 | 0.124 |
| $ACC_{i,t-2}$ | 4,642 | -4.184 | 1.016 | -0.014 | 0.124 |
| $ACC_{i,t-3}$ | 4,642 | -4.184 | 1.073 | -0.005 | 0.128 |

Source: own

Table 2 presents the Pearson correlation matrix. Previous earnings and OCF can predict current earnings in both markets, but previous accruals do not correlate with current earnings, except $ACC_{i,t-3}$. Overall, last year's earnings produced more correlation than other variables.

Using IDX data, we examine the ability of earnings to be predicted using previous-year earnings and operating cash flow. The tests are presented in Table 3. In columns (1), (2), and (3), we give evidence that last year's earnings can predict current earnings. The coefficients of $NI_{i,t-1}$ are positively significant at a 1% level. Alternatively, in columns (4), (5), and (6), we also use previous OCF to predict earnings. The results also show positive coefficients, although the model at columns (1), (2), and (3) produces bigger adjusted $R^2$ than columns (4), (5), and (6).

**Table 2.** Pearson correlation matrix

| | $NI_{i,t}$ | $NI_{i,t-1}$ | $NI_{i,t-2}$ | $NI_{i,t-3}$ | $OCF_{i,t-1}$ | $OCF_{i,t-2}$ | $OCF_{i,t-3}$ | $ACC_{i,t-1}$ | $ACC_{i,t-2}$ | $ACC_{i,t-3}$ |
|---|---|---|---|---|---|---|---|---|---|---|
| $NI_{i,t}$ | | 0.453** | 0.190** | 0.222** | 0.246** | 0.141** | 0.103** | -0.011 | -0.04 | -0.011 |
| $NI_{i,t-1}$ | 0.550** | | 0.493** | 0.338** | 0.281** | 0.173** | 0.094** | 0.243** | 0.080** | 0.043 |
| $NI_{i,t-2}$ | 0.455** | 0.633** | | 0.500** | 0.157** | 0.144** | 0.042 | 0.101** | 0.358** | 0.155** |
| $NI_{i,t-3}$ | 0.372** | 0.485** | 0.648** | | 0.175** | 0.154** | 0.084** | 0 | 0.102** | 0.311** |
| $OCF_{i,t-1}$ | 0.357** | 0.435** | 0.265** | 0.187** | | 0.304** | 0.205** | -0.863** | -0.209** | -0.127** |
| $OCF_{i,t-2}$ | 0.253** | 0.404** | 0.441** | 0.313** | 0.348** | | 0.243** | -0.216** | -0.873** | -0.171** |
| $OCF_{i,t-3}$ | 0.219** | 0.259** | 0.378** | 0.512** | 0.179** | 0.298** | | -0.158** | -0.208** | -0.921** |
| $ACC_{i,t-1}$ | -0.009 | 0.217** | 0.148** | 0.131** | -0.785** | -0.099** | -0.016 | | 0.253** | 0.151** |
| $ACC_{i,t-2}$ | 0.042** | 0.001 | 0.218** | 0.112** | -0.193** | -0.780** | -0.061** | 0.211** | | 0.238** |
| $ACC_{i,t-3}$ | 0.016 | 0.051** | 0.032* | 0.132** | -0.071** | -0.118** | -0.784** | 0.113** | 0.150** | |

IDX data (SSE data) are upper (below) diagonal.
** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

**Table 3.** Regression for earnings predictability – IDX data

| | Dependent variable: $NI_{i,t}$ | | | | | | |
|---|---|---|---|---|---|---|---|
| | (1) Coeff. t-value | (2) Coeff. t-value | (3) Coeff. t-value | | (4) Coeff. t-value | (5) Coeff. t-value | (6) Coeff. t-value |
| Constant | 0.0474*** | 0.0481*** | 0,045*** | Constant | 0.0604*** | 0.0591*** | 0.059*** |
| | 16.705 | 16.751 | 15.216 | | 20.325 | 19.682 | 19.624 |
| $NI_{i,t-1}$ | 0.4589*** | 0.4811*** | 0.467*** | $OCF_{i,t-1}$ | 0.1299*** | 0.1182*** | 0.1150*** |
| | 17.915 | 16.349 | 15.852 | | 8.962 | 7.786 | 7.500 |
| $NI_{i,t-2}$ | | -0.0420* | -0.089*** | $OCF_{i,t-2}$ | | 0.0361*** | 0.0319** |
| | | -1.532 | -2.992 | | | 2.539 | 2.204 |
| $NI_{i,t-3}$ | | | 0.102*** | $OCF_{i,t-3}$ | | | 0.0157* |
| | | | 3.890 | | | | 1.494 |
| F-stat | 320.957*** | 161.825*** | 114.156*** | F-stat | 80.318*** | 43.559*** | 29.812*** |
| Adj $R^2$ | 0,142361 | 0,142361 | 0,148611 | Adj $R^2$ | 0.060 | 0.064 | 0.065 |
| DW Stat | 1.922 | 1.909 | 1.912 | DW Stat | 1.833 | 1.847 | 1.846 |
| N | 1,245 | 1,245 | 1,245 | N | 1,245 | 1,245 | 1,245 |

*, **, *** indicates significance at the level of 10%, 5% and 1%, respectively. One-tailed test.

Expanding the scope of analysis, we duplicate the tests using SSE data. Table 4 shows that earnings can be predicted using previous earnings and OCF. The positive coefficients presented in columns (1), (2), (3), (4), (5), and (6) produce the same conclusion. Similar to IDX data, previous earnings produce a bigger adjusted $R^2$ than OCF.

**Table 4.** Regression for earnings predictability – SSE data

| | Dependent variable: $NI_{i,t}$ | | | | | | |
|---|---|---|---|---|---|---|---|
| | (1) Coeff. t-value | (2) Coeff. t-value | (3) Coeff. t-value | | (1) Coeff. t-value | (2) Coeff. t-value | (3) Coeff. t-value |
| Constant | 0.035*** | 0.032*** | 0.030*** | Con-stant | 0.050*** | 0.046*** | 0.043*** |
| | 32.938 | 28.469 | 26.523 | | 44.858 | 39.095 | 35.691 |
| $NI_{i,t-1}$ | 0.449*** | 0.357*** | 0.349*** | $OCF_{i,t-1}$ | 0.185*** | 0.159*** | 0.153*** |
| | 44.878 | 27.996 | 27.220 | | 26.050 | 21.170 | 20.499 |
| $NI_{i,t-2}$ | | 0.144*** | 0.109*** | $OCF_{i,t-2}$ | | 0.076*** | 0.057*** |
| | | 11.462 | 7.515 | | | 10.114 | 7.465 |
| $NI_{i,t-3}$ | | | 0.058*** | $OCF_{i,t-3}$ | | | 0.063*** |
| | | | 4.779 | | | | 9.418 |
| F-stat | 2,014.012*** | 1,100.987*** | 745.058*** | F-stat | 678.610*** | 397.860*** | 299.821*** |
| Adj $R^2$ | 0,210417 | 0,223611 | 0,225694 | Adj $R^2$ | 0,088194 | 0,101389 | 0,1125 |
| DW Stat | 0,39375 | 0,407639 | 0,407639 | DW Stat | 0,169444 | 0,190278 | 0,204861 |
| N | 4,642 | 4,642 | 4,642 | N | 4,642 | 4,642 | 4,642 |

*, **, *** indicates significance at the level of 10%, 5% and 1%, respectively. One-tailed test.

**Table 5.** Regression for earnings predictability using earnings components

| | Dependent variable: $NI_{i,t}$ | |
|---|---|---|
| | IDX data | SSE data |
| | Coeff. t-value | Coeff. t-value |
| Constant | 0.0419*** | 0.028*** |
| | 13.930 | 23.824 |
| $OCF_{i,t-1}$ | 0.4910*** | 0.380*** |
| | 16.043 | 29.16 |
| $OCF_{i,t-2}$ | -0.0750*** | 0.096*** |
| | -2.348 | 6.452 |
| $OCF_{i,t-3}$ | 0.0995*** | 0.064 |
| | 3.611 | 5.305*** |
| $ACC_{i,t-1}$ | 0.4329*** | 0.299*** |
| | 14.411 | 21.924 |
| $ACC_{i,t-2}$ | -0.0872*** | 0.118*** |
| | -2.942 | 8.026 |
| $ACC_{i,t-3}$ | 0.0884*** | 0.057*** |
| | 3.375 | 4.425 |
| F-stat | 62.203*** | 406.304*** |
| Adj $R^2$ | 0,158 | 0,239 |
| DW Stat | 1.919 | 0,612 |
| N | 1,245 | 4,642 |

*, **, *** indicates significance at the level of 10%, 5% and 1%, respectively. One-tailed test.

Extending to the deeper analysis, in Table 5, we also test the components of previous years' earnings to predict current earnings. Using OCF and accruals, we provide evidence that adjusted $R^2$ is higher than using previous earnings or cash flow (see Tables 3 and 4). Those are 15.8% and 23.9% for IDX and SSE markets, respectively. In both markets, $OCF_{i,t-1}$ and $ACC_{i,t-1}$ produce a positive coefficient.

**Table 6.** Regressions result using SSE and IDX data (full sample)

| | *Dependent variable: $NI_{i,t}$* | | | |
|---|---|---|---|---|
| | *(1)* | *(2)* | *(3)* | *(4)* |
| | *NI Model* | *OCF Model* | *ACC Model* | *OCF and ACC* |
| | *Coefficient* | *Coefficient* | *Coefficient* | *Coefficient* |
| | *(t-value)* | *(t-value)* | *(t-value)* | *(t-value)* |
| Constanta | 0.045*** | 0.059*** | 0.070*** | 0.042*** |
| | 20.759 | 26.431 | 31.472 | 19.073 |
| $NI_{i,t-1}$ | 0.467*** | | | |
| | 21.626 | | | |
| $NI_{i,t-2}$ | -0.089*** | | | |
| | -4.082 | | | |
| $NI_{i,t-3}$ | 0.102*** | | | |
| | 5.307 | | | |
| D_Country | -0.015*** | -0.016*** | -0.005** | -0.014*** |
| | -5.806 | -6.116 | -1.887 | -5.494 |
| D_Country×$NI_{i,t-1}$ | -0.118*** | | | |
| | -4.533 | | | |
| D_Country×$NI_{i,t-2}$ | 0.198*** | | | |
| | 7.234 | | | |
| D_Country×$NI_{i,t-3}$ | -0.044** | | | |
| | -1.874 | | | |
| $OCF_{i,t-1}$ | | 0.115*** | | 0.491*** |
| | | 10.101 | | 21.966 |
| $OCF_{i,t-2}$ | | 0.032*** | | -0.075*** |
| | | 2.968 | | -3.214 |
| $OCF_{i,t-3}$ | | 0.016** | | 0.099*** |
| | | 2.012 | | 4.943 |
| D_Country×$OCF_{i,t-1}$ | | 0.038*** | | -0.111*** |
| | | 2.673 | | -4.115 |
| D_Country×$OCF_{i,t-2}$ | | 0.025** | | 0.171*** |
| | | 1.831 | | 5.925 |
| D_Country×$OCF_{i,t-3}$ | | 0.047*** | | -0.036* |
| | | 4.356 | | -1.458 |
| $ACC_{i,t-1}$ | | | 0.000 | 0.433*** |
| | | | -0.020 | 19.730 |
| $ACC_{i,t-2}$ | | | -0.018** | -0.087*** |
| | | | -1.693 | -4.028 |
| $ACC_{i,t-3}$ | | | -0.001 | 0.088*** |
| | | | -0.089 | 4.621 |
| D_Country×$ACC_{i,t-1}$ | | | -0.011 | -0.134*** |
| | | | -0.698 | -4.987 |
| D_Country×$ACC_{i,t-2}$ | | | 0.043*** | 0.205*** |
| | | | 3.034 | 7.491 |
| D_Country×$ACC_{i,t-3}$ | | | 0.007 | -0.031 |
| | | | 0.580 | -1.295 |
| F-stat | 337.683*** | 124.419*** | 2.332** | 198.031*** |
| Adj $R^2$ | 0.286 | 0.128 | 0.002 | 0.303 |
| DW Stat | 1.109 | 0.890 | 0.641 | 1.130 |
| N | 5,887 | 5,887 | 5,887 | 5,887 |

*, **, *** indicates significance at the level of 10%, 5% and 1%, respectively. One-tailed test. D_Country = 1 if the data is from firms listed in SSE and 0 otherwise.

Table 6 shows the regression analysis of our combined sample using SSE and IDX data. In all models, we use a new variable, D_Country, representing dummy 1 for firms listed in SSE and 0 for firms in IDX. We also interact with the dummy variable with other variables to analyze the role of the country in the ability to predict. Based on the adjusted R2, we see that the combination of OCF and ACC produces the highest number (column 4).

The coefficient of D_ Country$xNI_{i,t-1}$ is -0.118. Previous earnings of firms in China (Indonesia) have a lower (higher) impact on current earnings. From a cash flow perspective, D_ CountryxOCF,i,t-1 of SSE (IDX) firms produce more (less) impact on current earnings. The coefficient is 0.038. The impact of last year's accrual is not significant enough to affect current earnings, but the role of the previous two-year accrual decreases the ability to predict current earnings. In column (4), using the combination of earnings components, earnings predictability in China is lower than in Indonesia. Higher earnings volatility in Indonesia may indirectly affect this situation, affecting previous earnings and earnings components to become more sensitive and producing higher coefficients.

Our study is questioning the ability of earnings to be predicted. Predictability is an important factor in improving the quality of financial information. When this quality is lost, financial information becomes less useful. After examining the data, we conclude that current earnings can be predicted by the previous year's earnings, either using IDX or SSE data. The results support the research results of Do Nguyet (2017). Additionally, we also conclude that earnings components: previous OCF, and accrual numbers are also valuable for predicting current earnings for both markets. The findings on both stock exchanges indicate that operating cash flow has the ability to forecast earnings, aligning with the research conducted by Call et al. (2009). Analysts use components of operating cash flow in their endeavors to provide more precise earnings forecasts. Accruals have the capacity to forecast earnings. Hutton et al. (2009) argue that cash flow, by itself, is insufficient for predicting future performance, as it merely represents the distribution of value. In order to accurately represent the company's true performance, it is necessary to include accruals in the earnings figure. Nevertheless, it is important to acknowledge that the utilization of this accrual method requires significant discretion from the providers of financial reports, specifically managers. Consequently, this allows for greater potential for subjective decision-making by managers when selecting the extent of accruals included in the financial report. Consequently, the quality of accruals is indicative of the quality of earnings.

Through a comprehensive investigation, we have determined that the predictive power of previous earnings and accruals for future earnings is higher in IDX compared to SSE. In SSE, prior operating cash flows has greater influence on earnings predictability.

Our evidence supports the usefulness of accounting information. When relevancy focuses on the ability of earnings to affect the stock price, we analyze the lead indicators by using previous earnings to predict current earnings. Then, implicitly, the numbers can be used to predict stock prices, improving the relevancy of financial information. Furthermore, these findings provide additional evidence for the qualitative characteristics of financial reporting, specifically the requirement for financial reports to include predictive value in order to be considered relevant (IASB, 2018).

## CONCLUSIONS & FUTURE STUDIES

Financial information's predictability is important in business and stock markets. When it loses predictability, financial numbers become less useful and irrelevant. Our findings conclude that earnings can be predicted by previous earnings, operating cash flows, and earnings components, as well as the combination of operating cash flows and accrual. Our results produce the same conclusions in China and Indonesia. Previous earnings and their components of Indonesian firms produce a better ability to predict current earnings; conversely, previous operating cash flows of Chinese firms generate more earnings predictability than that of Indonesian firms.

Although we are not focusing on relevancy, our study has an impact on becoming lead indicators for predicting future stock returns. This study has limitations that can be improved for future studies. First, this research can be developed using more extended periods and broader scopes of countries. Second, our paper only analyses firms with current positive net income, but the predictability for loss firms should

be important to anticipate bad news in the future. The special discussion about earnings predictability for loss firms will give new perspectives. Lastly, considering the growth of new economy firms, future research can bring intangible assets and research and development expense issues in predicting earnings.

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