ABSTRAK

The objective of the study was to examine the ability direct and indirect method information in predicting future cash flow and dividend. This study evaluated FASB's statements in SFAS 95 and IAI's statements in PSAK No. 2, that the direct method provided more useful information in predicting future cash flow than indirect method. The study evaluated two cash flow and dividend prediction models, that employed cash inflows from operating activities, cash outflows for operating activities, net income, and accrual. The sample of this study was manufacturing and non manufacturing companies listed in Jakarta Stock Exchange within the period of 2001-2006. The data was collected using purposive sampling method. The amount of the sample was 31 companies for cash flow and dividend for prediction models. The results of this study showed that a combination of cash inflows and cash outflows outperform net income and accrual in predicting future cash flow. The empirical results supported the FASB's statements, that direct method provided useful information in predicting future cash flow than indirect method.