

Abstract

Accounting information provides background information of a firm's performance. In addition, earnings attributes are usually mentioned in accounting research as desirable and often used as indicators of earnings quality. Therefore, this study examines the association between accounting-based earnings attributes (persistence, predictability, smoothness, and accruals quality) and analysts' forecast accuracy. The analysis is based on annual data of U.S. firms during the years 2002-2010. Panel regression analysis provides support evidence of the usefulness of earnings attributes from analysts' perspective.

In short-term analysis (one-year ahead), analysts' forecasts are more accurate for firms with high persistence, predictability, smoothness, and accrual quality in the earnings series. Besides, when comparing firms which have different level of persistence and predictability, the results reveal that analysts' forecasts are more accurate for firms that have high level of predictability regardless of the level of persistence. Furthermore, the usefulness of smoothness is condition on the level of accrual quality. Analysts' forecasts are more accurate for firms that have high levels of smoothness and accrual quality. There are indifferent in analysts' forecast accuracy for firm with either have high levels of smoothness or accrual quality and low levels of both smoothness and accrual quality.

On the other hand, in long-term forecast (three-years ahead), the results show that only persistence and accrual quality are significantly related to analysts' forecast accuracy. In other words, analysts' forecast accuracy is higher for firms that have a high level of persistence and accrual quality. A possible explanation is that the usefulness of predictive value of historical earnings, which reflects in predictability and smoothness attributes, is more likely to be reduced in long-term forecasts.

Overall, the results from short-term and long-term analysis suggest that the use of earnings information might difference in forecast horizons.