

# **PREDICTING EARNINGS USING COST ACCOUNTS RATIOS: EVIDENCE FROM MANUFACTURING LISTED FIRMS**

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**ABSTRACT:** In the research fields of earnings forecast and the behavior of cost accounts there are many studies that indicate factors that affect earnings and factors that are affected by the cost accounts.

Earnings affected by many factors as investments, cash flows, ROI, cost of capital, size, and others. Also in the area of earnings management crucial factors that affect earnings are inventories, accounts receivable, accounts payable, depreciation expense, accrued liabilities and others.

Recent research in cost accounting field addresses the stickiness of CGA cost as an important factor that may be affect earnings or stock return in all industries except financial service industry. The stickiness of cost has investigated mostly in SGA cost because the manufacturing cost, inventory and cost of goods sold, change proportionately with activity levels that it means that are mostly variable factors.

This empirical study investigates the impact of manufactory cost and SGA to operating income in manufacturing industry, using data from 2.128 listed firms, separated in three sectors according to sales level.

The findings show that manufacturing cost and SGA cost affects the operating income differently in the three levels. This result disclosures the need for further investigation in separated industries, in different countries and finally to find a stable forecasting model using the cost accounts.

*Keywords: Earnings Predictability, Cost Structure, SG&A, Manufacturing Cost, Cost of Goods Sold*

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