**Referee report from Yulu Su**

**Summary**

This manuscript analyzes the impact of accrual accounting on cash flow and further demonstrates that accrual accounting is still important in modern accounting system. Bushman, Lerman, and Zhang (2016) elaborated that the negative relationship between cash flow and accrual is diminishing for years and challenged the importance of accrual accounting. Bushman et al also indicated that “the potential reasons for the observed attenuation, we find that increases in non-timing-related accrual recognition, as proxied by one-time and nonoperating items and the frequency of loss firm years, explain the majority of the overall decline.” This manuscript gives a new method to screen the main reason which caused the attenuation in the research of Bushman et al. The new method is to employ the cash flow and accrual data from experienced experts’ forecast reports since the experienced experts are proficient to screen the one-off and nonoperating accrual item in calculating cash flow. The result from the test does show that except for the main reason noted in the Bushman et al (2016), the relationship between accruals and cash flows is still observable and accrual accounting is just clouded but not disappear.

The research question, whether the relationship between accruals and cash flows is still strong and accrual accounting is still crucial, is important to me, as the research question is the opposite of a previous research and it gives new method to solidify the question. The research questions raised in the manuscript are logical and well developed. The first and second questions want to test whether analysts reply on the information in accrual to forecast and are capable to filter the noise out of the accrual data. If yes, researcher could use the analysts’ forecast report to isolate the one-off, nonoperating accrual noise. With this solid foundation, the authors proceed to the core questions that whether the negative relationship between accruals and cash flows is mitigating and whether the relationship is weakened by the “noise”. The author provides an opposed question and unveil a different view behind the reasons provided by prior researchers. However, since the topic is obsoleted, the contribution may not be obvious.

**Major comments:**

**Research question:**

From my perspective, the research question is very important and support the importance of accrual accounting. The research question contradicts the conclusion of another research. The conclusion of previous research provided several reasons to explain why the negative relationship between accrual and cash flow declined for decades. But this manuscript indicates that the relationship is just hidden by the reasons but not wane. In order to verify the research questions, the manuscript provides a distinct method, which is quite brilliant to screen the noise data out of accrual. Since the analysts are proficient in data forecast and they understand to remove the one-off nonoperating accrual out, the accrual and cash flow forecast would be free of noise and realized accrual and cash flow would have noise. By testing the cleaned and noisy data, researchers can get the answers to the questions.

**Motivation:**

In my opinion, the research motivation is quite attractive. The motivation is very important since it proves that the accrual accounting is still useful and important. The previous research concluded that accrual accounting had lost the smoothing ability. On the contrary, this manuscript underpins that the accrual accounting is crucial for smoothing out temporary timing fluctuations in operating cash flows.

**Contributions:**

The contribution is not clear to me. First of all, the research question is not novel. Although the research question is the opposite of a previous research, the related research questions have been proposed before. Another main contribution from this research is to find a new method to solidify the research questions. The expert analysts are capable and willing to clean the noisy one-off nonoperating accruals, the researchers can easily collect and rely on the data provided by analysts. However, the reason why this manuscript chooses this method is that one-time nonoperating accruals are the main reason to diminish the relationship between accrual and cash flow. And the reason has been disclosed in previous research.

**Hypothesis development:**

The questions are raised reasonably and well developed. The first two questions give the foundations to use analysts’ forecast since they are willing and capable to remove the noise out of the accrual. The third and fourth questions will help to analyze the existence and the trend of relationship between cash flow and accrual. In addition to the confirmation of the relationship, the manuscript gives evidence that accrual does not lose their informativeness and still serve a timing role.

However, I find one question regarding the hypothesis development and may cause endogenous issue. The common method to calculate cash flow is to use earnings minus accrual. It is possible for experts to frequently employ this method to estimate cash flow and hence strengthen the negative relationship between cash flow and accrual. When researchers test the relationship between cash flow and accrual, the result will show obviously negative. Actually, the relationship may be caused by the method experts employed.

**Research design:**

The research design is clear. The first two questions are solved in accordance with the literature review. The manuscript illustrates that analysts have the expertise to recognize which non-recurring items introduce noise in the accrual process and to exclude these items from their forecasts. After solving the first two questions, the manuscript filters the target company and ensures the company data are similar to the research of Bushman et al. First, they replicate the Bushman test and find that the result is the same as the Bushman’s, that means the filtered data now are similar to the Bushman’s. Then, the manuscript employs regression test to confirm their research questions. However, I still have two questions regarding the research design.

1. In sample selection, I notice that the quantity of forecast reports from experts is far less than the reported data. It is questioned that the forecast data test is not adequate to explain the conclusion. Even though the author has employed methods to eliminate the possibility of self-selection, the sample bias is still hardly to be thought adequate.
2. In manuscript, the cash flow and accrual are deflated by total assets, but I think it should be scaled by revenue. First, the cash flow is generated by the revenue and accrual account is also from the revenue. Second, the ratio of cash flow over total assets varies in different business vectors.
3. I found that the test is running on year’s basis. It is also highly recommended to run the test with business vectors’ basis when using total assets as denominator.