

Relevance of Financial Indicators on Investor's Decisions in Banking Sector in Sri Lanka

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Shareholders use financial indicators as their main source of obtaining the information regarding the performance of a business. Business entities do have to prepare and present their financial information in a way that can be useful to investors and attract them. Accounting Information contained in financial statements should be accurate and transparent enough to provide an indication of a business performance and financial condition to the decision makers including investors. According to the previous studies related with this topic, investors tend to focus on information contained in financial statements. The main objective of this is to study the validity of Accounting Indicators (AI) for investor's decision in Banks registered under Colombo Stock Exchange (CSE) in Sri Lanka. The validity of Accounting Indicators was measured by correlation coefficient between Market Price Per share (MPS) and selected Accounting Indicators as Earning Per Share (EPS), Return On Equity (ROE) and Earnings Yield (EY). The sample was based on the Accounting Indicators derived from the published financial statements of the Commercial Banks listed under CSE. It covers a period of 5 years from 2011 to 2015. According to the results there is a significant relationship between Accounting Indicators and Market Price Per Share. Further it concluded that the investors still tend to consider Accounting Indicators obtained through published financial statements of Commercial Banks in Sri Lanka for investment decisions. Therefore the companies when preparing their financial statements have consider this in to fact an present them in a way that is easily understandable to the investors.

Keywords: Financial indicators, Market Price per Share, Banking sector, Earnings Yield, Return on Equity, Earning per Share