

Value Relevance of Accounting Information on Stock Prices in Finance Sector Companies listed in Colombo Stock Exchange

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Abstract

As an increasing number of business organizations around the world are engaged in the value relevance of accounting information. This study investigates the value relevance of accounting data in determining whether accounting information has the ability to capture data that affect stock prices of finance sector companies listed in Colombo Stock Exchange. The studies on value relevance of accounting information produce mixed result regarding which of the variables most affect share prices of different sectors of the economy. Therefore, this study examines the extent to which stock price of Sri Lankan listed financial companies are associated with accounting variables. This study adopts the aggregate stock market reaction method to evaluate the value relevance of accounting information. Study population consists of 71 listed financial companies in Colombo Stock Exchange and the study examines the impact of accounting information on a sample of 50 banks, insurance and diversified financial companies from the period 2014/2015 to 2018/2019. Based on the Ohlson's model (1995) and other empirical studies, this study examines how firm specific factors such as earning per share (EPS), book value per share (BVPS), dividend per share (DPS), net operating cash flow per share (NOCFPS) and return on equity (ROE) affect to determine the stock price. Panel data regression method is adopted for this study. The findings of the study will provide useful insights to the investors to make investment decisions and the accounting standard setters to enhance the quality of the financial reporting in order to increase the value relevance of financial statements. This study will also be important to accounting practitioners, regulatory bodies, preparers of accounting information, government agencies and other emerging stock markets.

Keywords: Accounting Information, Colombo Stock Exchange, Financial Companies, Stock Price, Value Relevance