Value Relevance of the Accounting Information; An Empirical Study of Selected Sri Lankan Firms

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Abstract

This research examines the value relevance of the accounting information in Sri Lanka which has taken book value per share (BVPS), operating cash flow per share (OCFPS), earnings per share (EPS) and return on assets (ROA) as independent variables and the market value per share (MVPS) as dependent variable. The sample of the study includes six largest sectors in Sri Lanka with the observations of 1490. The research is based on Ohlson's (1995) price model along with OCFPS and ROA are captured. Regression Study found that EPS, ROA and BVPS have significant positive relationship with market value per share. However OCFPS is not statistically significant, but it still acts as a one of the determinant of market value per share with other mentioned variables. The data have been taken from the period 2012 to 2019. The research has covered the periods after to the accounting restructure in 2012 in which Sri Lanka enforced LKAS and SLFRS that were fully converged to respectively IAS and IFRS.

Key words: *Accounting Information, Book Value per Share, Earnings per Share, Operating Cash Flow Per Share, Value Relevance*

1. Introduction

The main objective of accounting information through financial statements is to provide information about the financial position and performance of an entity that is useful to stakeholders in making economic decisions. Stakeholders are the parties who influence directly or indirectly towards the organization. Out of many stakeholders Investors are among the most important users of such information as they are the people who take high risk compared to other stakeholders and expect high return for their risk .Since it is concluded that if financial statements meet investors need, it will also meet most of the needs of other users. High quality accounting information is a necessary for well-functioning capital market and the economy as a whole. Hence, it should be of considerable importance to investors. A basic attribute of accounting quality is value relevance that is the relevance of accounting information for equity valuation. In addition value relevance research is motivated by the fact that listed firms use financial statements as one of the major medium of