DETECTION OF RELATIONSHIP BETWEEN EARNINGS MANAGEMENT AND FIRM PERFORMANCE: EVIDENCE FROM SRI LANKA

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Abstract

Earnings management is a newer concept in the Sri Lankan context as there is abundant foreign research that could be seen for the past three decades, most of them check the impact of firm performance on earnings management or test the impact of earnings management. The objective of this study is to find the relationship between earning management and firm performance with eight independent factors: day sales receivables index, gross margin index, asset quality index sales growth Index, depreciation index, leverage index, total accrual to total assets index, value-added productivity and two dependent factors: return on assets and return on equity on detection of the relationship between earning management and firm performance. Data from the entities within the sample will be extracted for ten years from the financial years of 2011/2012 to 2021/2022. The data collection will be done through secondary data sources such as company annual reports, the Colombo Stock Exchange, the Central Bank of Sri Lanka, and firm profiles to detect the relationship between earning management and firm performance. Scores for the ten factors were identified, and their relationship to earning management and firm performance will be measured using the SPSS.

Keywords: Firm value, earning management, firm performance, financial performance, earning cycle, leverage, performance, profitability