

The Impact of International Financial Reporting Standards Adoption on the Value Relevance of Accounting Information: Evidence from the Public Listed Manufacturing Companies in the Colombo Stock Exchange in Sri Lanka

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Abstract

The purpose of this study is to investigate the impact of International Financial Reporting Standard (IFRS) adoption on the value relevance of accounting information in Sri Lanka and also the study has made a comparison between the value relevance of accounting information in pre- and post- adoption periods of IFRS. Sri Lanka has adopted Sri Lanka Financial Reporting Standards (SLFRS) which is almost aligned with the IFRS with effect from 1st January 2012 onwards.

This study employs Ohlson (1995) price regression model to explain value relevance of accounting information. It explains market value per share (MPS) using earning per share (EPS) and book value of equity per share (BVEPS). The pre-IFRS period consist of 5 years from 2007 to 2011, and the post-IFRS period is 5years from 2012 to 2016. The sample comprises 28 firms and 280 firm-year observations.

There are many studies available on IFRS adoption internationally. However, there is no clear evidence that IFRS adoption enhances the quality of accounting information pertaining to Sri Lankan context. Mainly the data were analyzed by using multiple regression model and correlation analysis. Results of the study showed that value relevance of accounting information has not significantly improved in the post-IFRS period than the pre-IFRS period. Further studies are encouraged to conduct by expanding the sample size and incorporating more accounting quality measurement indicators.

Key Words: IFRS adoption, Value relevance, Ohlson Model, Manufacturing companies