



DISSERTATION

VALUE RELEVANCE OF ACCOUNTING INFORMATION AND STOCK
PRICES: EVIDENCE FROM THE COLOMBO STOCK EXCHANGE

Submitted by

Ahamed Lebbe Sarivudeen

FGS/02/10/02/2013/22

A thesis submitted to the Faculty of Graduate Studies, University of Kelaniya, in
partial fulfillment of the requirements for the degree of Master of Commerce



ප්‍රවේශ අංකය:	1388
විෂය අංකය:	

January 2017

Abstract

This study investigates the value relevance of accounting data in the Sri Lankan stock market, in order to determine whether the accounting information has the ability to capture data that affect the share prices of the companies listed on the CSE from 2010 to 2015. The main objective of this study is explore the relationship between equity price with earnings, dividends and book value per share. This study used secondary data to investigate the value relevance of accounting numbers. Secondary data were obtained from the Annual Financial reports of companies listed on the CSE. Eighty one (81) companies have been selected to the sample representing nineteen sectors in the Sri Lankan share market. Cross-section pooled, fixed year and fixed sector regressions are performed to analyze the data. More ever, this study is motivated by reformulating the ohlson (1995) model for explaining the equity price with the incremental relevance of accounting variables.

The findings show that there is a significant relationship between accounting information and share prices of companies listed on the CSE. Earnings are the most widely used accounting information for investment decisions in Sri Lanka, followed by dividends and book value.

Therefore, the study suggests that companies should improve the quality of earnings as manipulated earnings (of which Dividends are sub-sets) have a significant effects on share prices. Moreover, there should be firm and stiff penalty by the national standards setters for manipulating earnings in the Sri Lankan stock market. It is also recommended that all companies listed on Sri Lankan Stock Exchange should prepare Simplified Investor's Summary Reports (SISR) with emphases on the most widely used accounting information along the required mandatory detailed financial statements to suit Sri Lankan peculiarities. It is expected that the removal of information over-load particularly for non-accountants and financial analysts. It is expected the above measures to increase investors' confidence in the accounting numbers and thus on economic growth in Sri Lanka.

Key Words: Accounting Information, Equity Price, Financial Reports, Stock Market and Value Relevance,