The Impact of IFRS Adoption on Financial Ratios

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Abstract

Since the world economy is getting globalized, past practices of accounting may not be able to satisfy the information requirements of global stakeholders. Therefore the concept of harmonizing the accounting practices has been put forward and realized by the implementation of International Financial Reporting Standards (IFRS) issued by International Accounting Standard Board (IASB).The main purpose of this research is to examine the impact of IFRS adoption on financial ratios in Sri Lankan listed manufacturing sector companies. The data was collected for the period of eight years from 2008/2009 to 2015/2016 using annual reports published on listed manufacturing sector companies. The total sample period is divided to two parts as pre IFRS and post IFRS for comparison. The ratios which are selected for the analysis are current ratio, earning per share, debt to equity ratio & return on equity ratio.

The findings of the study suggests that there is no significant difference between the ratios calculated as per previous accounting standards and after adopting IFRS except return on equity ratio. Through the impact was not found to be significant for debt equity ratio and current ratio. These findings would be useful since data used for the current study is more recent than most IAS or IFRS studies around the world and are stratified to allow for comparison between voluntary/early adopters and mandatory/late adopters.

Key Words: Financial Ratio, International Financial Reporting Standard Adoption