

The Impact of IFRS Adoption on Financial Statements and Value Relevance: Evidence from Sri Lanka

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Abstract

The aim of this study is to explore the effect of International Financial Reporting Standards (IFRS) adoption on commonly employed financial ratios and investigate the value relevance of IFRS adoption by comparing the association between accounting measures and market values under GAAP and under IFRS of listed manufacturing companies in Colombo Stock Exchange.

This study employs 20 listed manufacturing companies with both pre-IFRS (2009-2011) and post-IFRS (2013-2015) information. Data were analyzed by using panel data regression model and correlation analysis. And also T test and Wilcoxon signed rank test are used to explore the effect of IFRS adoption on financial ratios.

Results of the study showed that IFRS adoption does not significantly change the central values that depict the financial position and performance of Sri Lankan companies in financial statements. Therefore value relevance of accounting information has not significantly improved in the post-IFRS period than the pre-IFRS period. However several financial statement measures and ratio are affected significantly in transition to IFRS. Further studies are encouraged to conduct on investigating the impact of IFRS adoption on financial statement and value relevance by expanding the sample size with incorporating more accounting quality measurement indicators, measurement and ratios.

Key Words: IFRS adoption, Accounting quality, Value relevance, Sri Lanka, Manufacturing companies