

Value Relevance of Financial Information in Determining Stock Price in Colombo Stock Exchange

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Abstract

Value relevance refers to the usefulness of financial information and ability to influence stock prices through information in financial statements. This study examines whether financial information is value relevant and the level of dilution over the time to the investors in Colombo Stock Exchange (CSE). Related prior studies have found mixed empirical evidences depending on research methodologies or research periods employed. Furthermore, most of the prior studies had focused on developed and emerging markets where dearth of empirical evidences available in relation to frontier market such as CSE. This study employs an extended model of (Ohlson,1995) price regression which is consistent with (Omran and Tahat, 2020), to investigate the value relevance of financial reporting information. It explains market price per share (MPPS), earnings per share (EPS), book value per share (BVPS), assets growth (AG) and changes in financial leverage (LEV). The sample period covers from the year 2015 to 2019 where all the listed companies in CSE. Moreover, study uses a panel regression model for estimation. The results of the study contribute to measure the impact of value relevance of financial information to the investors in Colombo Stock Exchange with recent changes to information disclosures by Sri Lanka Accounting Standards, Integrated Reporting and Sustainability Reporting practices etc. Findings of this study will provide insights to the regulators of capital markets, standard setters, accounting practitioners as well as the investors of emerging markets with similar market context.

Keywords: Assets Growth, Book Value Per Share, Colombo Stock Exchange, Earnings Per Share, Financial Information, Financial Leverage, Market Price Per Share, Value Relevance.