

Impact of Financial Reporting Quality on Corporate Performance: Evidence from Companies Listed in Colombo Stock Exchange

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ABSTRACT

Introduction - Financial reporting is one of the most important products of accounting system that tries to provide necessary information for users to make decisions on the evaluation of an economic enterprise's profitability and performance. Financial reporting quality can be defined as the faithfulness of the information generated by the financial reporting process. Quality of financial reporting can affect companies' profitability, Liquidity, Efficiency, Stock prices and company performance.

Design/Methodology/Approach - This study aims to examine the impact of financial reporting quality on corporate performance, using Real Earnings method. We can divide Company performance in two main categories called financial performance and Market performance. Financial performance measured by using Return on Assets (ROA) and Return on Equity (ROE) and Market performance measured by using Market Value (MV) and Tobin's Q (TQ). Firm Size, Earnings per Share, Debt to Equity Ratio were used as control variables. For this research collect secondary data from the Annual reports (financial statements) of listed companies in the CSE for the period of 2012-2019.

Findings - The findings of the study were that all the control variables have significant impact on financial performance and market performance. The study concluded further that insignificant relation existed between FRQ and firm performance.

Conclusion - This study has concentrated on the importance of the quality of financial reporting on the performance of the organizations. The manufacturing industry needs to improve the quality of financial reporting. In order to make the investment opportunities attractive, the assurance of a trustworthy financial reporting can only be achieved if the internal control within the organizations is strong enough. Which will eventually avoid from any kind of misstatements and fraudulent financial reporting within an organization.

Key Words: *Financial reporting quality, Return on Equity, Return on Assets, Market Value, Tobin's Q ratio, Firm Size, Earnings per Share, Debt to Equity Ratio*