

Impact of IFRS Adoption on Financial Ratios: Evidence from Listed Manufacturing Companies in Sri Lanka

Rajapaksha, R. A. S.¹ and Kaushalya, M. D. P.²

With the emerging trend of developing global businesses around the world instead of setting up businesses restricted to one geographical boundary, the need of having a common set of financial reporting standards became much needed to enable the users of financial statements to make consistent decisions. In response to this, International Accounting Standard Board (IASB) introduced International Financial Reporting Standards (IFRS) which led Sri Lanka also to adopt IFRS compatible Sri Lanka Financial Reporting Standards in 2012. Accordingly, This study investigates the impact of IFRS adoption upon the key financial ratios of listed manufacturing sector companies in Sri Lanka. The data were collected for the period of eight years from 2008/2009 to 2015/2016 by using annual reports published on the Colombo Stock Exchange (CSE). The total sample period is divided into two-part as pre-IFRS & post IFRS adoption periods for comparison. The ratios which are selected for the analysis were current ratio, earning per share, debt to equity ratio & return on equity ratio. The findings of the study suggested that there is a significant difference between the ratios that were current and earning per share, calculated as per previous local accounting standards and as per IFRS. The impact was not found to be significant for the debt-equity ratio and return on equity ratio. The IFRS adoption is more likely to exhibit a favorable impact on financial statements. This study adds new knowledge to the existing literature of IFRS adoption since the data used are more recent than most IFRS studies around the world and the study focuses on the content of developing countries while most of the other studies have been carried out in the context of developed countries.

Keywords: *Financial ratios, IFRS adoption, Listed manufacturing companies, Colombo Stock Exchange*

¹ Department of Accountancy, Faculty of Commerce and Management Studies, University of Kelaniya, Sri Lanka [ashenr@kln.ac.lk]

² Department of Accountancy, Faculty of Commerce and Management Studies, University of Kelaniya, Sri Lanka [pubuduk@kln.ac.lk]