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Value Relevance of Accounting Information and Stock Market Prices: A Study of Listed Companies in CSE, Sri Lanka

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In recent times, the relation between accounting information and stock market value has been an internationally popular subject of research. Value relevance is a measure of investor perception of the reliability of corporate financial accounting information.

This study investigates the value relevance of accounting information and stock market prices on listed companies in Colombo Stock Exchange (CSE) Sri Lanka. The study has identified 24 companies listed in the CSE for the period from year 2006/2007 to 2010/2011. The changes in Earning Per Share (EPS) and changes in Net Asset Value Per Share (NAVPS) are the independent variables and changes in Share Price as dependent variable for this study. The present study used the correlation coefficient and linear regression to measure the value relevance between share prices and two core accounting variables.

The study found that only 9.3% of changes in share price can be explained by changes in defined accounting variables. On the other hand, considered individually there is a negative correlation between share price and NAVPS of the sample company. The researchers also found that there is 30% relationship between share price and EPS and found that there is a negative relationship between EPS and NAVPS. According to the present study, investors tend to focus on information other than the corporate financial accounting information, such as short term capital gains and tend to be speculative or irrational for unusual events.