

VALUE RELEVANCE OF ACCOUNTING INFORMATION AND STOCK PRICE REACTION OF LISTED COMPANIES-EMPIRICAL EVIDENCE FROM THE COLOMBO STOCK EXCHANGE SRILANKA

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ABSTRACT: This study examines the impact of value relevance of accounting information on stock price of the listed manufacturing and beverage food and tobacco companies in the Colombo stock exchange (CSE), Sri Lanka. Numbers of empirical studies have been undertaken by the different countries to identify the factors that affect the stock price. Past literature reveals that movements of stock price depend on internal and external factors. Among the internal factors, firm specific factors such as earning per share (EPS), dividend per share (DPS) and Net Asset Value per share (NAVPS) affect the determining of stock price. The sample of this study composed of twenty two companies listed in the CSE and period of 5 five years from 2010 to 2014. The required data and information for the study were gathered from published annual reports and website of listed companies in CSE from 2010 to 2014. Descriptive, Correlation and Regression statistics were used for this purpose for the study. The results revealed that earning per share (EPS), dividend per share and net assets value per share (NAVPS) significantly impact on stock price. Further EPS, DPS, NAVPS are significantly correlated with stock price. Outcome of the study would be beneficial to the practitioners, academicians, policy makers and others.

Keywords: stock price, earnings per share, dividend per share, net asset value per share

INTRODUCTION

The main objective of accounting information through financial statements is to provide information about the financial position and performance of an entity that is useful to the stakeholders in making economic decisions. Investors are among the most important users of such information. Since it is concluded that if financial statements meet investors need, it will also meet most of the needs of other users. High quality accounting information is a necessary for well functioning capital market and the economy as a whole. Hence, it should be of considerable importance to investors. A basic attribute of accounting quality is value relevance that is the relevance of accounting information for equity valuation. Value relevance is being defined as the ability of information disclosed by financial statements to capture and summarize firm value. Value relevance can be measured through the statistical relations between information presented by financial statements and stock market values or returns (Suadiye, 2012). In stock market, many factors can change the stock price, such as financial policy, monetary policy, industrial policy, foreign trade policy and other macro-economic factors, financial information, investors' expectation, market supervision and other internal factors. In those factors, financial information is the main that most investors can use usually, because financial information is the specific information which can decide whether investors invest the company's stock or not. For financial reporting to be effective, accounting information should be completed as relevant and reliable (Hendricks, 1976). Investors (owners) are considered to be the most important

user of accounting data and it is therefore crucial to examine the value relevance of accounting data. Around the world, research on value relevance of accounting data is motivated partly because listed companies use these data to communicate with investors and the public. However studies conducted in advanced and developed countries have made the impression that the financial statements of the companies are losing their value relevance (Sharma et al. 2012).

This study empirically analyzes the value relevance of accounting information and stock price reaction of listed companies with a few accounting information indexes such as Earning per share, Dividend per share, Net asset value per share. The results, based on 22 listed companies under Colombo Stock Exchange (CSE) over a period of 5 years from 2010 to 2014.

METHODOLOGY

This research attempts to identify the relationship between value relevance of accounting information and stock price. In order to meet the objectives of the study, all the data used in this study such as stock price, earning per share, dividend per share and net asset value per share are drawn from the financial statements of companies which are available in the CSE's website. The manufacturing and beverage food and tobacco companies registered under the CSE are considered as the area of this study. Eleven companies from manufacturing sector and another eleven companies from food beverage and Tobacco have been selected for the research purpose. To analyze the data Quantitative Approach method was used such as Descriptive Statistics Regression Analysis, and Correlation Coefficient of Determination.

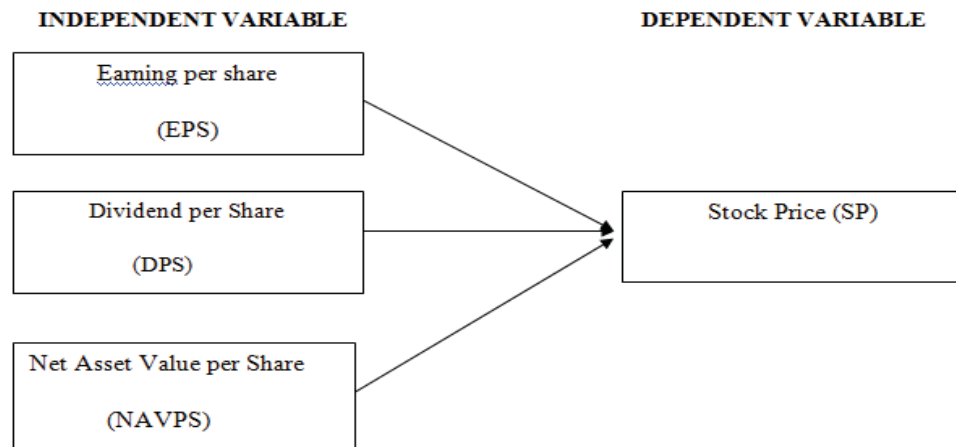


Figure1: Conceptual Framework

RESULTS AND DISCUSSION

Correlation coefficient of Stock price and EPS is 0.855 which describes the strong positive relationship between stock price (dependent variable) and earnings per share (independent variable) which means, if EPS increased by 1, Stock price also increased by 0.855. The significant level is 0.000. It is less than 0.01 alpha values. The result let the null hypothesis to be rejected hence concluding that there is strong positive relationship between EPS and Stock price. This result is consistent with Dongwei Su (2002) found that Firms with strong EPS will enjoy upwards pressure on the prices, which is the similar finding of the positive relationship between the stock price and the EPS in the CSE.

The result of correlation analysis of Stock price and DPS shows the significant positive coefficient of correlation 0.852, with p -value of 0.000. It describes the strong positive relationship between stock price (Dependent variable) and dividend per share (independent variable). It means that if DPS increased by 1, stock price also increased by 0.852. The p -value is 0.000 which is less than 0.01 alpha values. The result gives strength position off the model since it is at a 0.000 significant level. Therefore researcher rejects the null hypothesis and accepts the H13.

Correlation coefficient of Stock price and NAVPS is 0.877 which describes the strong positive relationship between stock price (dependent variable) and net asset value per share (independent variable) which means, if NAVPS increased by 1, Stock price also increased by 0.877. The significant level is 0.000. It is less than 0.01 alpha values. Based on that conclusion can be made that there is a strong positive correlation between NAVPS and Stock price at 1% significance level. Therefore researcher rejects the null hypothesis but accepts the H14.

With reference to the regression analysis, value relevance of accounting information has a significant impact on stock price. According to that Adjusted R square is 0.804. It means that there is 80.4 % of the impact of the independent variable on the dependent variable. It indicates that value relevance of accounting information has 80.4% impact on the stock price. Also significant value is 0.000 which is lower than 0.05 ($p < 0.05$). Hence the researcher rejects the null hypothesis (H01) and accepts H11. Therefore it reveals that Value relevance of accounting information significantly impacts on the stock price. Perera and Thrikawala (2010), also found that the positive relationship between stock price and accounting variable which consist of the current study.

The findings of this study reveal that significant relationship was found between value relevance of accounting information and stock price of the share of at the overall level.

CONCLUSION

Statistically earnings per share, dividend per share and net asset value per share are individually and jointly have the positive significant relationship with stock price. Therefore these three variables are identified as value relevant variables in Sri Lanka.

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