The Impact of International Financial Reporting Standards adoption on Accounting Quality: Evidence From Sri Lanka.

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Thesis submitted in partial fulfillment of the requirements for the Master of Science in Financial Mathematics

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DECLARATION OF THE CANDIDATE

I declare that this is my own work and this thesis does not incorporate without acknowledgement any material previously submitted for a Degree or Diploma in any University or other institute of higher learning and to the best of my knowledge and belief it does not contain any material previously published or written by another person except where the acknowledgement is made in the text

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Signature   Date

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CERTIFICATION

I hereby recommend that the thesis titled "The Impact of International Financial Reporting Standards adoption on Accounting Quality: Evidence From Sri Lanka" prepared by Mr. P.R. Weerathunga under my supervision be accepted for the submission of the Degree of Master of Science in Financial Mathematics.

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DEDICATION

To my loving parents

Dear teachers

and all of my friends

without whom non of my success would be possible.

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ABSTRACT

This study examines whether the application of International Financial Reporting Standards (IFRS/SLFRS) is associated with higher accounting quality for Sri Lankan firms using a sample of 157 firms listed Colombo Stock Exchange (CSE). The companies listed on CSE were mandated to adopt IFRS/SLFRS in preparation of their financial statements with effect from 01st of January 2012. Prior to the adoption of IFRS/ SLFRS Sri Lankan firms reported under Sri Lankan Accounting Standards (SLAS). Thus, this study compares several measures of accounting quality for Sri Lankan firms under two reporting regime to identify the improvement of accounting quality in post IFRS/SLFRS adoption. Following prior studies, this study uses eight individual measures of accounting quality relating to earnings smoothing, managing towards earnings targets, timely loss recognition and value relevance. Firms are said to have improved accounting quality if they display lower levels of earnings smoothing, less management towards earnings targets, more timely loss recognition and higher levels of value relevance. The results of this indicate that in general, accounting quality of SL firms improved after mandatory IFRS/ SLFRS adoption in terms of displaying less management towards earnings targets and more timeliness of loss recognition. However, there is no evidence that accounting quality has been improved with regards to reducing earnings smoothing and improving value relevance. In addition, the results of this study revealed that earning smoothing has increased significantly following mandatory adoption of IFRS/ SLFRS. Further, the value relevance of accounting numbers is very low under IFRS/ SLFRS.

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LIST OF ABBREVIATIONS

Abbreviation	Description
BVPS	Book Value Per Share
CSE	Colombo Stock Exchange
DAS	Domestics Accounting Standards
EU	European Union
FASB	Financial Accounting Standards Board
FRRP	Financial Reporting Review Panel
FSA	Financial Service Authority
GAAP	General Accepted Accounting Principles
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IASCF	International Accounting Standards Committee Foundation
IFRS	International Financial Reporting Standards
LKAS	Sri Lankan Accounting Standards
MVPS	Market Value Per Share
NI	Net Income
NIPS	Net Income Per Share
OCF	Operating Cash Flows
ROA	Return on Assets
SEC	Security Exchange Commission
SL	Sri Lankan
SLFRS	Sri Lankan Financial Reporting Standards
UK	United Kingdom
US	United State