

Value Relevance of Accounting Information: A Comparison between Manufacturing Sector and Hotels & Travels Sector in Sri Lanka

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Abstract— The term “value relevance” can be defined as the ability of information disclosed by financial statements to capture and summarize the firm value. Investors and other interest parties of accounting make use of financial statements and disclosures, among other publically obtainable information, to assess the risk and value of firm when taking the investment decisions. This study aims to examine the value relevance of Earning per Share (EPS), Dividend per Share (DPS), Net Asset Value per Share (NAVPS) and Return on Equity (ROE) on stock price of listed manufacturing companies and Hotel & Travel Sector’s companies in Colombo Stock Exchange (CSE). The sample of this study composed of forty companies which are twenty companies from manufacturing sector and twenty companies from Hotel & Travels Sector listed in the CSE, covering the period of five years from 2013/14 to 2017/18. Data were analyzed using regression analysis and E-Views packages. The results revealed that both Earning per Share (EPS) and Dividend per Share (DPS) are significantly impact on stock price of the Manufacturing sector companies. In the Hotels & Travels sector, Earning per Share (EPS) is significantly impact on stock price.

Index Terms— Value Relevance, Stock price, Earnings, Dividends, Net Asset Value.

1 INTRODUCTION

Accounting information refers to the information obtain through financial statements. It provides information about the financial position and performance of an entity that is useful to the stakeholders in making economic decisions.

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 (Irsath, et al., 2015).

Information is relevant if it contributes to the equity investment decisions and it assists investors to assess the performance of the company (Omokhudu & Ibadin, 2015). Even though it is impracticable to directly assess the performance of the company by investors who are intend to invest in particular company, investors can rely on financial information provided by the management if the accounting information is value relevant.

The objective of this study is to identify the impact of value relevance of accounting information on stock price when comparing the Manufacturing sector and hotel & travel sector of CSE. The study on value relevance of accounting information has been done in different countries. As an example in Sri Lanka, there are several researches done by (Vijitha & Nimalathasan, 2014), (Perera & Thrikawala, 2010) (Irsath, et al., 2015) etc. However those different researchers’ research articles provides different findings covering variety of areas in value relevance. This study will attempts to identify the relationship between the Accounting information and stock price.

2 METHODOLOGY

Generally accounting attributes are thought to be relevant because they tend to be statistically associated with stock price. Based on the literature it is evident that the accounting information has a significant impact on the stock price. Previous researchers have studied some important value relevant accounting information in their studies. Most of the studies they have selected EPS, DPS, NAVPS and Cash Flows as the Accounting information.

This study investigates the impact of value relevance of Accounting Information on Stock Price reaction when comparing the Manufacturing sector and the Hotels & Travels sector. As the Accounting information, study uses EPS, DPS, NAVPS and ROE. This is more important to the prospective investors to make better decisions on their investments. Quantitative approach is used in this study. High quality accounting information is a pre-requisite for well-functioning capital markets and economy as a whole and as such should be of importance to investors, companies and accounting standard setters (Hellström, 2005). In achieving the objectives of this study data from the Colombo Stock Exchange, audited annual financial statements of selected listed companies covering the period of 2013/14 to 2017/18 were analyzed. The choice of the period arises by considering the recent economic and political changes that has occurred in Sri Lanka. Moreover a total of 40 companies were selected which are 20 companies from manufacturing sector and another 20 companies from hotels & travels sector of CSE. This study employs the use of panel data. For the analyzing purpose of collected data, E views packages were used.

Based on the discussion in the literature this study hypothesize the following relationships between share price and ac-

counting information.

- H1: Value relevance of accounting information significantly correlated with share price.
- H2: Value relevance of accounting information has the significant impact on share price.

According to the literature review, the Ohlson's price model & Simple linear correlation model has been widely used in the previous researches. This study uses Ohlson's price model as the basic model to examine the value relevance of accounting information. The correlation model will be formulated in the following manner,

$$Y = \beta^0 + \beta x + \varepsilon$$

Here Y is the dependent variable, β^0 is an intercept β is the co-efficient of independent variables and x represents the independent variables while ε represent the error term.

$$P = \beta^0 + \beta_1 \text{EPS} + \beta_2 \text{DPS} + \beta_3 \text{NAVPS} + \beta_4 \text{ROE} + \varepsilon$$

- P = Stock Price per Share
- EPS = Earnings per Share
- DPS = Dividend per Share
- NAVPS = Net Asset Value per Share
- ROE = Return On Equity

3 RESULTS AND FINDINGS

After testing of pre-assumptions of the regression, In manufacturing model analysis results were as follows.

According to the fixed affect model, Probability value of EPS and DPS is less than 0.05. The probability value of 0.0014 and 0.0147 proves that the model is significant at 5 % confidence levels. So it concluded that there is a statistically significant impact of EPS and DPS on stock price of manufacturing sector companies. Probability value of NAVPS and ROE is greater than 0.05. The probability value of 0.9713 and 0.2446 proves that the model is insignificant at 5 % confidence levels. So it concluded that there is no statistically significant impact of NAVPS and ROE on stock price of manufacturing sector companies.

Furthermore Adjusted R squared value shows that the explanatory power of the model. According to that 90% of dependent variable (SP) is explained by the independent variables of EPS, DPS, NAVPS and ROE. It shows that overall model is significant at 5 % Confidence level. EPS reported a positive significant relationship with the stock price since the beta coefficient of 1.0247. The coefficients of DPS and ROE reported 2.5571 and 26.0381 respectively. Those results reveal that both variables have a positive relationship with the stock price. NAVPS reported a negative and insignificant impact on the stock price since the beta coefficient of -0.0022. The reason for the insignificance of NAVPS could be, the investors may mostly rely on EPS and DPS performance of the company rather than NAVPS.

In the hotel and travel sector according to the fixed affect model, Probability value of EPS is less than 0.05. The probability value of 0.0011 proves that the model is significant at 5 % confidence level. So it concluded that there is a statistically significant impact of EPS on stock price of Hotel & Travel sector companies. Probability value of DPS, NAVPS and ROE is greater than 0.05. The probability value of 0.1289, 0.8002 and 0.7923 proves that the model is insignificant at 5 % confidence

levels. So it concluded that there is no statistically significant impact of DPS, NAVPS and ROE on stock prices of Hotels & Travels sector companies.

Furthermore Adjusted R squared value shows that the explanatory power of the model. According to that 90% of dependent variable (SP) is explained by the independent variables of EPS, DPS, NAVPS and ROE. It shows that overall model is significant at 5% Confidence level. EPS reported a positive significant relationship with the stock price since the beta coefficient of 1.2102. The coefficients of DPS and ROE reported 1.5992 and 5.8112 respectively. Those results reveal that both variables have a positive relationship with the stock price. NAVPS reported a negative and insignificant impact on the stock price since the beta coefficient of -0.0162. The reason for the insignificance of NAVPS could be, the investors may mostly rely on EPS and DPS performance of the company rather than NAVPS.

4 CONCLUSION

According to the results and findings when we compared the two sectors summary is as follows,

Table.01
Comparison of Sectors

Manufacturing Sector (Probability values)	Hotels & Travels Sector (Probability values)
EPS – 0.0014	EPS – 0.0011
DPS – 0.0147	DPS – 0.1289
NAVPS – 0.9713	NAVPS – 0.8002
ROE – 0.2446	ROE – 0.7923

In the manufacturing sector, there is a statistically significant impact of both earnings per share and dividend per share on stock price. There is no statistically significant impact of net asset value per share and return on equity on stock price.

In the Hotels & Travels sector, there is a statistically significant impact of earnings per share on stock price of Hotel & Travel sector companies. There is no statistically significant impact of dividend per share, net asset value per share and return on equity on stock price.

Value relevance studies provide insight into how accounting amounts reflect information that is used by investors. Results of chapter four indicate that, from the four variables tested (EPS, DPS, NAVPS and ROE) in each sector, both EPS and DPS are value relevant in manufacturing sector and merely EPS is value relevant in Hotels & Travels sector. NAVPS and ROE found to be least value relevant with the stock price in both sectors. In both sectors EPS, DPS and NAVPS are significantly correlated with the stock price. These findings were agreed with the previous studies. Irsath, et al. (2015) stated that EPS, DPS and NAVP are significantly impact on stock price.

5 REFERENCES

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