

IFRS Adoption and Value Relevance of Earnings: A Non-Market Model

Habeeb Mohamed Nijam

Department of Accountancy and Finance, Faculty of Management and Commerce,
South Eastern University of Sri Lanka

Abstract

The purpose of this study is to investigate whether the IFRS adoption has significant influence in the information content of current earning in determining and current and future operating cash flow of listed firms in Sri Lanka. The study employs non-market value relevance model whereby the earning that is, profit after taxation is regressed against current and future operating cash flows. The sample comprises 749 firm-year observations from 2010 to 2013 as two years before and two years after the adoption of IFRS. The results indicate that there exists significant relationship between the current earning and current and future operating cash flow of listed firms in Sri Lanka. This indicates that the earning of the firms in Sri Lanka is relevant, despite the lower coefficient of determinations, in determining the current and future operating cash flows. Current earning is more powerful in predicting the future operating cash flows than the operating cash flow of the current year. IFRS adoption has improved the power of current earning in predicting the operating cash flow of the same year. There exists however no evidence to prove that IFRS impacts the power of current earning in determining the future operating cash flow. The study contributes to the existing literature in the area of the effect of adoption of IFRS on value relevance of earning in Sri Lanka.

Keywords: IFRS, Earning, Value Relevance, Operating Cash Flows