THE IMPACT OF ACCOUNTING VARIABLES ON EQUITY PRICE

K.KABEER

REGISTRATION NO: SEU /IS/ 07/MG/072

INDEX NO: MG 0603

This Dissertation submitted to the Department of Accountancy and Finance, Faculty of Management & Commerce of South Eastern University of Sri Lanka in partial fulfillment of the requirement for the award of the Degree of Bachelor of Business Administration (BBA) (Specialization in Accounting)

DEPARTMENT OF ACCOUNTANCY AND FINANCE
FACULTY OF MANAGEMENT AND COMMERCE
SOUTH EASTERN UNIVERSITY OF SRI LANKA
OLUVIL

2013

ABSTRACT

This study compares the incremental value relevance of net assets, earnings and dividends to investigate their relationship with equity price in Colombo Stock Exchange (CSE) from 2002 to 2011, in previous many studies As the Ohlson (1995) model empirically fits in many markets that seem to have informational efficiency in developed countries, therefore The S&P SL 20 (standard & poor's Sri Lanka 20) best performances companies have been selected to the sample representing in the Sri Lankan share market. The S&P SL20 currently represent 54% of the total Sri Lanka share market. Moreover, this study is motivated by reformulating the Ohlson (1995) model for explaining the equity price with the incremental relevance of accounting variables this is the major objective of this study and the research question is also raised with the informational role of such accounting variables.

Previous studies indicate that the fundamental analysis of utilizing accounting variables for explaining the equity price become possible in an informational efficient market. If the market is inefficient or having weak for efficiency, there is no significant consideration on accounting variables for explaining the equity price as Ohlson (1995) indicates. The results for the entire time span reveal All independent variables (net assets,earnings and dividends) have incrementally positive significant value relevance for explaining the equity price at the 1% level. However, the year-wise and sector-wise incremental results reveal that there is inconsistency among the variables for explaining the contemporaneous equity price. This implies that net assets, earnings and dividends have no incremental sufficient relevance for explaining the equity price in the Sri Lankan stock market.

The results of dividends reveal a positive significant incremental relevance, beyond earnings. This is inconsistent with the assumption of Ohlson (1995) that current earnings can be the proxy for future earnings, since this study reveals that dividends, instead of current earnings, act as the proxy for future earnings.

The results implies inconsistently between multiple regression and single linear regression analysis, However, the results are consistent for multiple and single effect, thus indicating that Sri Lankan stock market is possibly of weak form efficiency, as indicated by Abeyratna and Power (1995) and Samarakoon (1998