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THE IMPACT OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ADOPTION ON VALUE-RELEVANCE OF EARNINGS IN LISTED COMPANIES OF THE PLANTATION SECTOR IN SRI LANKA

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ABSTRACT

This study investigates the impact of International Financial Reporting Standards (IFRS) adoption on value-relevance of earnings in listed companies of the plantation sector in Sri Lanka. The main objective is to identify whether the value of earnings has increased after the adoption of IFRSs in listed companies of the plantation sector in Sri Lanka. In order to investigate the impact of IFRS adoption on the value-relevance of earnings in the listed companies this study used a panel data regression analysis of 144 firms per quarter observations of share prices and earnings per share (EPS) over a period of six years before and after the adoption of IFRSs. In addition to earnings, the size of the firm and its leverage were also considered as moderating variables in explaining the share prices. The results indicate that the value-relevance of earnings had decreased after the adoption of IFRSs.

Keywords: Value-relevance, IFRS adoption, Plantation sector.

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1. INTRODUCTION

Background of the study

Financial reporting means the process of providing information on an organization's financial status to its stakeholders. This information consists of the company's financial performance and financial health during a certain period. From January 1, 2012, Sri Lanka has been adopting International Financial Reporting Standards (IFRS) in line with the global trend in order to adopt a common language for financial reporting.

This study analyzes the impact of International Financial Reporting Standards (IFRS) on the value-relevance of earnings in listed companies of the plantation sector in Sri Lanka. 'Value relevance' is defined according to the context in which it is used. Suadiye (2012) defines it as the ability of information presented in financial statements to capture and summarize the firm's value. Chebaane and Othman (2014) defined value-relevance as the statistical association between financial information and prices or returns. It can be measured by the statistical relations between the information in financial statements and stock market values or returns. In other words, value relevance is the ability of financial information contained in financial statements to explain stock market measures, basically share prices.

Bauman's Review of Fundamental Analysis Research in Accounting (as cited in Henrik Nilsson, 2003, p. 3), identifies four approaches to the study of value-relevance. The first is a fundamental analysis of value-relevance, which means determining the firm's intrinsic value without reference to the price at which a firm's equity is traded in the stock market. The second is a prediction of value-relevance. Information is relevant if it can be used to predict future earnings, dividends or future cash flows. This is the statistical association between information in financial statements and stock prices / returns. The third is an information view of value-relevance. Accounting information is value-relevant if it is used by investors in setting prices. Accounting information is valuable if it causes stock prices to change and has value-relevance if the stock market reacts to its disclosure. This involves the relationship between earnings and their components (earnings and book value) and stock prices. The fourth approach is a measurement view, defined as the ability to capture or summarize information that affects equity value, regardless of its source. Here both price and returns are used as market metrics and the relationship between stock returns and accounting information is analyzed over a long period.

In order to achieve the objective of this research, the relationship between EPS and the reaction of stock prices to the disclosed information (EPS) in the Financial Statements was used. This research does not seek to predict future earnings based on current financial information or to calculate the intrinsic value of stock prices traded. Accordingly, this study used the information view of value-relevance.

According to Chandrapala (2010), earnings, book value and Return on Equity (ROE) have value-relevance for the market value of securities but in Sri Lanka the most relevant variable is earnings per share (EPS). Therefore in this research, EPS is used to measure the variables of the value.

Most importantly, according to CA Sri Lanka (2012), plantation companies in Sri Lanka prepared financial statements based on Sri Lanka Accounting Standards (SLAS) 32 –

Plantations before 01 January 2012 after which they used International Accounting Standards (IAS) 41 – Plantations. The main difference between these two standards was the fair value principle. Instead of the historical cost method used with SLAS 32 used to record the value of biological assets, IAS 41 introduced fair value accounting. This was a significant change that affected the financial information of plantation companies, according to CA Sri Lanka (2012). Then again, a significant change like this may affect the value-relevance of financial information. Even though researchers such as Chandrapala (2013), Weerathunga and Udayakumara (2015), have conducted researches on the impact of IFRS adoption on value-relevance in listed companies of Sri Lanka, they have not specifically analyzed the impact on the plantation sector. Therefore, a research gap can be detected in relation to the plantation sector. On the other hand, the contribution of Agriculture, Forestry and Fishing to GDP is 7.9% (Annual Report of the Central Bank of Sri Lanka, 2015). Even though this shows a lower involvement, 29% of the export income of Sri Lanka is derived from the plantation sector consisting of tea, rubber and rubber-based products, coconut-based products and spices. Moreover 18.6% of the total labour force are engaged in the plantation sector implying the importance of the industry especially for a developing country like Sri Lanka. Thus, the plantation sector plays an important role in the Sri Lankan economy and hence it is important to study the impact of IFRS adoption on value-relevance of earnings in the listed plantation companies in Sri Lanka.

Research Issue

The following research questions were framed to determine whether IFRS adoption has improved the value-relevance of earnings in the Sri Lankan plantation sector or not:

1. Does the adoption of IFRS improve the value-relevance of earnings?
2. Are the earnings of large size firms more value-relevant than the earnings of small size firms?
3. Are the earnings of low levered firms more value-relevant than the earnings of high levered firms?

Research Objectives

Main objective of this study is to investigate whether IFRS adoption has improved the value-relevance of earnings in the listed Sri Lankan plantation companies. This will be done by studying the relationship between EPS and share price.

Specific Aims

1. To investigate whether the adoption of IFRS improved the value-relevance of earnings.
2. To investigate whether the earnings of large firms are more value-relevant than the earnings of small firms.
3. To investigate whether the earnings of low levered firms are more value-relevant than the earnings of high levered firms.

Significance of the Study

The significance of the study relates to two fundamental criteria, namely, theoretical significance and practical significance as these research findings will contribute to both

theory and practice.

Theoretical Implications

This research is focused on discovering any association between IFRS adoption and value-relevance of earnings. Over time, researchers such as Chandrapala (2013) have conducted studies on the value-relevance of the financial information prepared according to IFRS. These studies revealed that the accounting numbers of post adoption are value-relevant but there are no previous studies relating specifically to the plantation sector. But in the Sri Lankan context, this research area is still far distant from Sri Lankan researchers and therefore the applicability of the research findings in other countries is questionable as there is no evidence relating to the Sri Lankan context. Furthermore, it is noted that Sri Lanka is a country with an emerging economy with low GDP growth. Moreover, Sri Lanka is still in the initial stage of realizing the importance of adopting IFRS for financial reporting. Finally, there is a research gap in studies of value-relevance for adopting IFRS in Sri Lanka.

Practical Considerations

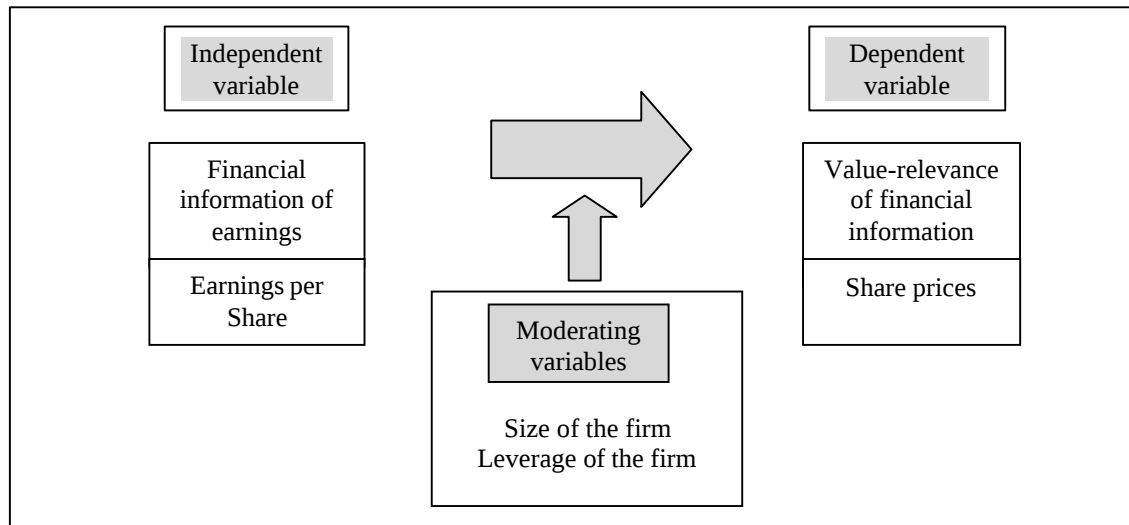
From 01 January 2012, Sri Lanka started adopting International Financial Reporting Standards (IFRS) in line with the global trend in order to adopt a common language for financial reporting process. Sri Lanka adopted International Financial Reporting Standards (IFRS) by issuing Sri Lanka Financial Reporting Standards (SLFRS) and Sri Lanka Accounting Standards (LKAS). Since this is a significant change in the accounting field, it has been noted that, a study of the impact of international harmonization of financial reporting standards is vital for accounting undergraduates.

In general, every organization seeks to create value for their stakeholders from different perspectives. Value can be defined from many angles depending on the stakeholders concerned. Sometimes, a company with a rocketing stock price might not be making much money, but the rising price means that investors are hoping that the company will be profitable in the future, although of course there are no guarantees that the company will fulfill investors' current expectations. Most stakeholders are concerned about the company's profitability and EPS is an appropriate variable for measuring it. Therefore EPS was selected as the measuring variable in this research. The main objective of this study was to find whether there is a relationship between EPS changes and IFRS adoption. This means that this study was designed to check whether adopting IFRSs has helped plantation companies to prepare their financial statements that contain accurate information on financial performance and financial position.

Conceptual model of the study

As long as a firm's earnings can be explained by the variances in share prices, such financial information is value-relevant. This means that the earnings provide information to investors for making decisions.

Figure 1: Conceptual Model



According to Figure 1, financial information regarding the earnings of a company can be considered an independent variable and the value-relevance of such information is the dependent variable. EPS is a proxy variable of earnings while price of shares is a proxy variable of value- relevance.

On the other hand, the earnings of a company are not the only factor that affects the value-relevance of financial information. According to Chandrapala (2013), to strengthen the relationship between EPS and share price, some moderating variables such as book value of equity, earnings, ownership concentration, firm size and cash flows may be applicable. For this research, the size and leverage of the firm were used as moderating variables as shown in Figure1 above (based on the work of Chebaane and Othman, 2014).

Statement of the hypotheses

The following hypotheses were formulated:

Objective 01: To investigate whether the adoption of IFRS improved the value-relevance of earnings.

H0: Adoption of IFRS has not improved the value- relevance of earnings of Sri Lankanlisted companies in the plantation sector.

H1: Adoption of IFRS has improved the value- relevance of earnings of Sri Lankan listed companies in the plantation sector.

Objective 02: To investigate whether the earnings of large size firms are more value-relevant than the earnings of small size firms.

H0: Earnings of big firms are not more value- relevant than earnings of small firms inthe plantation sector.

H1: Earnings of big firms are more value-relevant than earnings of small firms in the plantation sector.

Objective 03: To investigate whether the earnings of low levered firms are more value-relevantthan the earnings of high levered firms.

H0: Earnings of low levered firms are not more value-relevant than earnings in high levered firms in the plantation sector.

H1: Earnings in low levered firms are more value-relevant than earnings in high levered firms in the plantation sector.

Limitations of the Study

The sample consisted of only companies listed in the Colombo Stock Exchange (CSE). However in Sri Lanka, most of the plantation companies come under the small and medium (SME) enterprise category and are not listed. Moreover, only six companies were selected for the sample due to non-availability of information.

This study is limited only to the explanatory power of EPS on share price. But for a better understanding of value-relevance, the explanatory power of Book Value per Share (BVPS), Dividend per Share (DPS), etc. should also be examined.

2. LITERATURE REVIEW Background

As a result of the global requirement to harmonize accounting standards, more than 145 countries including Sri Lanka had adopted IFRS as at 31 December 2015, according to PWC (2015). Researchers throughout the world have conducted studies on the value-relevance of financial information and the impact of adopting IFRS on value-relevance.

Value-relevance as defined by Suadiye (2012) is the ability of information disclosed in financial statements to capture and summarize a firm's value. Chebaane and Othman (2014) also defined value-relevance as the statistical association between financial information and prices or returns. Based on above definitions value-relevance can be defined as the ability of financial information to explain stock market measures, basically share prices.

Value-relevance and adoption of IFRS

The value-relevance of accounting information has been studied from many perspectives. One such perspective is the impact of IFRS on value-relevance. Studies by Oliver and Warsame (2016), Oliver, Anderson and Warsame (2015), Espinosa (2015), Umoren and Enang (2015) and Rozainun and Ibrahim (2009) identified a positive impact of IFRS adoption on value-relevance whereas those by Negakis (2013), Padmini & Narasimhan (2012), and Ahmed & Goodwin (2006) identified a negative impact of IFRS adoption on value-relevance. The studies which draw a negative or neutral impact of IFRS on value-relevance is less than those which draw a positive impact. Moreover, the study by Negakis (2013) indicated that the fair value principle introduced by IFRS has a significant effect on the value-relevance of financial information.

Since these studies were done in different parts of the world, there are some inconsistencies in their findings. According to Negakis (2013), there can be several reasons for such inconsistency: the background and context of the country in which the studies were conducted; the economic system, political system, the way rules and regulation are enforced on the system; and socio cultural factors.

Additionally, European countries like Italy and American regions have noticed financial information to be more value-relevant whereas emerging economies such as China, Africa and India have noticed financial information to be less value-relevant. Nigeria, Australia and Canada had been preparing their financial statements as per local accounting standards and adopted IFRS whereas countries such as Italy were using IFRS already when the latest IFRS was introduced.

Positive impact of IFRS adoption on value-relevance

Among the studies which found that IFRS adoption is more value-relevant, a study by

Rozainun and Ibrahim (2009) is important. Their study in the European, American and African context found that book values and earnings under IFRS are value-relevant. Espinosa (2015) and Oliver (2015) have also shown that IFRS has increased the value-relevance of financial information. Similarly, Umoren and Enang (2015) in a study of the Nigerian economy indicated that the equity value and earnings of banks were relatively more value-relevant to share prices under IFRS than under the previous Nigerian SAS. This means that earnings reported by Nigerian commercial banks have become more informative to investors in determining the value-relevance of banks following IFRS adoption.

Financial information prepared under IFRS in Canada exhibited incremental value-relevance in Canadian and US GAAP reports, at least in the short-run according to Oliver, Anderson and Warsame (2015). This has been further emphasized by Oliver and Warsame (2016) with empirical evidence, based on the unique Canadian environment, that accounting information prepared and disclosed under IFRS exhibits higher price and returns value-relevance than accounting information prepared previously under local GAAP.

According to Espinosa (2015), it had also been proved that there was a significant impact on financial ratios under IFRS. His study found a significant increase in financial ratios based on accounting information after adopting IFRS. This means that, in addition to improving the financial accounting information, companies benefited from adopting IFRS by improving their financial indices.

Further, a study by Chebaane and Othman (2014) found that the role of EPS in explaining share prices became observable in the post-adoption period, meaning that EPS recorded under IFRS became more value-relevant than EPS recorded under GAAP.

Negative impact of IFRS adoption on value-relevance

A study by Negakis (2013) showed that IFRS had negative effects on the value-relevance of earnings. In particular, the available information content of both earnings and earnings changes decreased after the introduction of IFRS. This reduction of information on earnings could be attributed to IFRS and, in particular, to the introduction of the fair value principle. Padmini and Narasimhan (2012) had found in their research carried out in India that annual parent-only financial statements are value-relevant. However, wherever quarterly financial statements are available parent-only financial statements are not value-relevant according to their study.

Ahmed and Goodwin (2006) studied the value-relevance of book value and earnings in Australia. They compared the value-relevance of book value and earnings using both Australian Generally Accepted Accounting Principles (AGAAP) and Australian International Financial Reporting Standards (AIFRS) and found that AGAAP book value and earnings are more value-relevant than AIFRS book value and earnings.

Factors affecting value-relevance

According to Suadiye (2012), value-relevance can be measured through the statistical relations between information presented by financial statements and stock market values or returns. In other words, financial information is value-relevant only if such information shows a statistical relationship with share prices.

Further Chebaane and Othman (2014) identified that value-relevance is based, on the one hand, on the explanatory power of the regression of stock price on net income and book value

of equity and, on the explanatory power of the regression of annual return of the net income, on the other hand. This means that financial information is value-relevant if an entity's earnings or book value of equity explains any variance occurring in share prices. On the other hand, a study by Negakis (2013) showed that IFRS had several effects on the value-relevance of earnings.

Furthermore, Chandrapala (2013) identified giving a true and fair view of the company's operations and financial position as the main purpose of financial statements. If there is no relationship between the firm's value and numbers in the financial statements, such statements have no value-relevance. Here, firm value had been understood to be depicted by share prices. And also, a research study by Beisland and Knivsfla (2015) suggested that the effects of IFRS adoption on value-relevance may be highly sensitive to a firm's characteristics such as size. While this study relied on observations from Africa only, the findings suggested that the effect of IFRS adoption may differ between that country and the rest of the IFRS universe, depending on the quality of the domestic GAAP used prior to IFRS adoption. The results revealed the benefits and costs of IFRS adoption in general and of intangible asset recognition and fair value accounting in particular.

Book value of equity, earnings, ownership concentration, firm size and cash flows can be listed as factors affecting the value-relevance of financial information as identified by Chandrapala (2013). These factors can explain the variance in share prices which is directly related to value-relevance.

Sector-wise impact of IFRS adoption on value-relevance

Chandrapala (2013) examined the effect of ownership concentration and firm size on the value-relevance of earnings and book value in firms listed in the Colombo Stock Exchange from 2005 to 2009. His study sample consisted of firms in every sector of the economy but the sector-wise impact of IFRS adoption on value-relevance had not been discussed.

Srinivasan and Narasimhan (2012) examined the value-relevance of cash flows in India using a sample of 4,954 listed companies in the Bombay Stock Exchange (BSE). In this study also, the entire economy was analysed but the sector-wise impact of IFRS adoption on value-relevance was not discussed.

Chebaane and Othman (2014) examined the effect of the mandatory adoption of International Financial Reporting Standards on the value-relevance of earnings and the book value of equity using a sample of 10,838 listed companies in African and Asian emerging economies. This sample consisted of firms from six economic sectors, namely, industrial, utility, transportation, bank saving loans, insurance and other financial. These sectors accounted for the highest percentage of the GDP of each country but the researchers had not discussed the sector-wise impact of IFRS adoption on value-relevance.

Impact of IFRS adoption on value-relevance in the plantation sector in Sri Lanka

Earlier plantation companies had used SLAS 32, but with the adoption of IFRS, IAS 41 was required to be applied. The main difference is that this standard applies fair value for the measurement. Even though prior studies done on the impact of IFRS adoption on value-relevance in Sri Lankan companies by researchers such as Chandrapala (2013), Weerathunga and Udayakumara (2015), there were no research studies carried out analysing the impact in the plantation sector.

3. METHODOLOGY

Sampling design

All the listed companies in the plantation sector in Sri Lanka as at 15 July 2016 are included in the population of the study. Of the population six companies were selected on the basis of availability of information and financial information analyzed over three consecutive years before adoption of IFRS and three consecutive years after adoption of IFRS. As a result, the sample consists of 144 firm /quarter observations.

This sample was selected on the basis of the availability of financial statements for the financial years from 2009/2010 to 2014/2015. Thus, it does not include companies closed down after adoption of IFRS, companies whose financial year ends as at 31 December, companies whose financial year end was changed from 31 December to 31 March within the period of observation. And companies that were incorporated after the adoption of IFRS.

Selection of the plantation sector as the study area

Instead of the historical cost method used under SLAS 32 to record the value of biological assets, IAS 41 introduced fair value accounting. This was a significant change that affected the financial information of the companies in the plantation sector as per CA Sri Lanka (2012). Then again, a significant change like this may affect the value-relevance of financial information. Even though research studies on the impact of IFRS adoption on value-relevance in Sri Lankan companies had been carried out by researchers such as Chandrapala (2013), Weerathunga and Udayakumara (2015), they had not analyzed the impact in the plantation sector. Therefore, a research gap can be observed.

Collection of Data

This study used secondary sources of data regarding earnings, size (total assets) and financial leverage, obtained from the CSE website (www.cse.lk). The price data was obtained from the CSE Data Library, 2015.

Methods of Data Analysis

The value-relevance is based on the explanatory power of the regression of stock price on factors such as EPS, book value per equity (BVPS), size of the firm, leverage and cash flows. These associations introduced by Ohlson (1995) are known as the Ohlson's Price Model. If there is a link between share prices and accounting variables, such information is said to be value-relevant. This study uses the Ohlson's Price Model, which was widely used in prior value-relevance research studies by Chebaane and Othman (2014) and Chandrapala (2013) to explain the relationship between EPS or BVPS and share prices. Since main objective of this study was to examine the impact of IFRS adoption on the value-relevance of earnings, the above equation is modified as follows.

$$P_{it} = \alpha_0 + \alpha E_{it} + \alpha S_{it} + \alpha L_{it} + e_{it} \quad (1)$$

where,

P = Market Price of Common Stock

E = Earnings per Share

S = Size of the firm

L = Leverage of the firm

i = company

t = time (year)

This study used the coefficient of determination (R^2) as the unit to measure the value-

relevance of earnings. This regression model was used for the total sample and sub samples of leverage and firm size. Information available as at 31 March 2012 was used as the criterion for classifying the sample into two size-based sub samples and leverage based on them. The rationale for the creation of such sub-samples is the impact of size and leverage on the earnings of a firm.

Firms with a total asset value, which is less than the median total asset value [in the sector] of all the listed firms in the plantation sector are designated as small firms and those with a total asset value greater than the median are designated as large firms. The firms with a leverage ratio less than median in the sector are considered as low leverage firms while the firms with a leverage ratio higher than median are considered high leverage firms for the purpose of this study

4. FINDINGS AND DISCUSSION Value-relevance of Earnings: All Firms

Table 1 presents the results of panel data regression of price on earnings, total assets and leverage of the sample. The sample consists of 144 firm /quarter observations of listed companies in the plantation sector of Sri Lanka in both pre-adoption and post-adoption periods.

Table 1: Regression Analysis of all firm

	Regression Coefficients			Coefficient of Determination (R ²)
	EPS	Total Assets	Leverage	
Pre-adoption	6.4488 (0.000)	51.9246 (0.000)	-49.8220 (0.008)	0.5510
Post-adoption	1.8009 (0.001)	27.7701 (0.005)	-21.3115 (0.012)	0.4411

** p-values are reported in parenthesis

Source: Authors' analysis based on CSE secondary data

The explanatory power (R²) of earnings in the pre-adoption period is 0.5510 and 0.4411 in the post-adoption period. These results show a decrease in the explanatory power (R²) in the post-adoption period indicating that the value-relevance of earnings in the plantation sector had decreased after the adoption of IFRSs. These findings are further confirmed by the research findings of Negakis (2013), Padmini and Narasimhan (2012) and Ahmed and Goodwin (2006), which show that the value-relevance of earnings had decreased after the adoption of IFRSs. However, the findings contradict those of Rozainun and Ibrahim (2009), Espinosa and Oliver (2015, Umoren and Enang (2015), who found that the value-relevance of earnings had increased after the adoption of IFRSs. Even though the value-relevance of earnings decreased after the adoption of IFRSs, EPS is a significant variable in explaining the share price in both periods (p<0.05). In addition to EPS, total assets and leverage are also significant in explaining the share prices in both periods.

Value-relevance of Earnings: Large Firms vs. Small Firms

Table 2 presents the results of panel data regression of price on earnings, total assets and leverage. The sample consists of 144 firm/quarter observations in both pre-adoption period and post-adoption periods. Out of these 144 firm/quarter observations, 72 are classified as large firms and the other 72 as small firms.

Table 2: Regression Analysis of large and small size firms

		Regression Coefficients			Coefficient of Determination (R ²)
		EPS	Total Assets	Leverage	
Large Size Firms	Pre-adoption	2.7741 (0.103)	178.8386 (0.000)	-10.5453 (0.846)	0.4082
	Post-adoption	1.5289 (0.008)	-8.6549 (0.594)	-5.0203 (0.613)	0.3903
Small Size Firms	Pre-adoption	4.7530 (0.018)	51.7910 (0.021)	-68.9904 (0.005)	0.3716
	Post-adoption	-.2850 (0.747)	42.7244 (0.001)	-18.6100 (0.121)	0.3389

** p-values are reported in parenthesis

Source: Author's analysis based on CSE secondary data

The explanatory power (R²) of earnings in the pre-adoption period is 0.4082 and 0.3903 in the post-adoption period. These results show a decrease of explanatory power (R²) in the post-adoption period indicating that the value-relevance of earnings of the large firms in the plantation sector has decreased after the adoption of IFRSs. Only the total assets are significant in explaining the share prices of large firms in the pre-adoption period whereas EPS becomes significant in explaining share prices in the post-adoption period. Small firms also show the same results indicating that the value-relevance of earnings in the plantation sector has decreased after the adoption of IFRSs. The explanatory power (R²) of the earnings is 0.3716 in the pre-adoption period and 0.3389 in the post-adoption period. EPS, total assets and leverage are significant in explaining share prices in the pre-adoption period while only the total assets are significant in explaining share prices in the post-adoption period.

When the explanatory power (R²) of small firms as well as large firms in the pre-adoption period is compared, it is apparent that large firms depict a higher explanatory power with an R² value of 0.4082 and small firms an R² equal to 0.3716. Also, in the post-adoption period, the explanatory power (R²) of small firms is 0.3389 and of large firms 0.3903. With this information, it can be concluded that, in both pre-adoption period and post-adoption periods, large firms show higher value-relevance in earnings information in the plantation sector of Sri Lanka compared to small firms.

Value-relevance of Earnings: High Levered Firms vs. Low Levered Firms

Table 3 presents the results of the panel data regression of price on earnings, total assets and leverage. The sample consists of 144 firm/quarter observations in both pre-adoption period and post-adoption periods. Of these firm/quarter observations, 72 are classified as high levered firms and the other 72 as low levered firms.

Table 3: Regression Analysis of high levered and low levered firms

		Regression Coefficients			Coefficient of Determination (R^2)
		EPS	Total Assets	Leverage	
High Levered Firms	Pre-adoption	.9484 (0.074)	64.3341 (0.006)	-.1041 (0.992)	0.3091
	Post-adoption	.2626 (0.192)	8.5028 (0.042)	-5.4521 (0.083)	0.2703
Low Levered Firms	Pre-adoption	5.3760 (0.022)	71.2623 (0.004)	-132.2749 (0.014)	0.5010
	Post-adoption	4.8318 (0.000)	-2.5115 (0.863)	-5.5620 (0.830)	0.3994

** p-values are reported in parenthesis

Source: Author's analysis is based on CSE secondary data

In high levered firms, the explanatory power (R^2) of earnings in the pre-adoption period is 0.3091 and 0.2703 in the post-adoption period showing a decrease of explanatory power (R^2) in the post-adoption period indicating that the value-relevance of earnings in the plantation sector has decreased after the adoption of IFRSs. Only the total assets are significant for explaining share prices in both periods.

In low levered firms, the explanatory power (R^2) of earnings in the pre-adoption period is 0.5010 and 0.3994 in the post-adoption period showing a decrease of explanatory power (R^2) in the post-adoption period indicating that the value-relevance of earnings in the plantation sector has decreased after the adoption of IFRSs. EPS, total assets and leverage are significant in the pre-adoption period but only EPS is significant for explaining share prices in the post-adoption period.

Considering the explanatory power (R^2) of earnings in the pre-adoption period, it is clear that low levered firms have a much higher explanatory power than high levered firms with R^2 values of 0.3091 in high levered firms and 0.5010 in low levered firms. Even though the explanatory power decreases in the post-adoption period owing to IFRS adoption, it is evident that the same position exists in that period too; low levered firms having a higher R^2 value of 0.3994 compared to high levered firms where R^2 is 0.2703. Therefore, it can be concluded that financial information in low levered firms is more value-relevant than in high levered firms.

5. CONCLUSION

This study investigated the impact of international financial reporting standards adoption on the value-relevance of earnings in listed companies of the plantation sector in Sri Lanka. The main objective was to find out whether the value of earnings has increased after the adoption of IFRSs. Results show that the adoption of IFRSs has not increased the value-relevance of earnings and that firms with low leverage have more value-relevance in earnings than high levered firms. Meanwhile, large firms show a higher value-relevance of earnings than small firms. However, this study is limited to the plantation sector and only examined the effect of IFRS adoption on earnings but accounting figures other than earnings, such as cash flow from operations and bookvalue per equity should be considered in further research.

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