Value relevance of accounting information on share price: Evidence from consumer services companies listed on the Colombo Stock Exchange

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Abstract

The concept of value relevance of accounting information is based on the idea that information generated by a firm's accounting system affects its value since accounting information is an essential consideration in decision-making of the firm's stakeholders. Though this area has been widely studied, there exists a need for further studies due to inconsistent findings appeared in those past studies and a limited volume of studies considering accounting information such as price-to-earnings and dividend yield. Hence, this study aims at examining the value relevance of accounting information, specifically earnings per share, book value per share, dividend yield, and price-to-earnings. The sample of the study is all the companies (a total of 38 companies) listed on the consumer services sector of the Colombo Stock Exchange for a period of 5 years from 2014 to 2019. The published financial statements as available in the annual reports of these companies are used to obtain the accounting information. The accounting information of the selected companies is then regressed against their share price on the first day after publishing the annual report. The results reveal that earnings per share and book value per share have positive effects, whereas dividend yield has a negative effect on the share price. However, price-to-earnings was found to exhibit no impact on the share price. In terms of the extent of value relevance, earnings per share show the highest value relevance, followed by book value per share and dividend yield. Accordingly, the results imply that earnings per share, book value per share, and dividend yield are value relevant accounting information for the companies listed on the consumer services sector. Thus, the investors should alert on these value relevant factors when trading shares of the consumer services companies.