

VALUE RELEVANCE OF ACCOUNTING INFORMATION IN DETERMINING SHARE PRICES IN COLOMBO STOCK MARKET

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ABSTRACT

The field of studies on value relevance of accounting information in determining share prices has been developed throughout the time period and various researchers identified contradict findings relevant to this topic. Bank finance and insurance sector in CSE is selected to conduct the study since it is one of the most important sectors in CSE. Since there are less number of researches had been addressed to study on value relevance of accounting information with relevant to licensed commercial banks this study was developed to address to fulfill that research gap.

With the use of secondary data the study was carried out as a population study for five year period from year 2007 to 2011. Two major objectives of the study were achieved by using statistical techniques such as correlation analysis and regression analysis.

Research findings were emphasized that the Interest Margin, ROE and ROI are the ratios that has a statistically significant strength of relationship with share prices where all the other ratios (accounting information) are not exhibit a significant strength of relationship. Apart from that the overall regression model is also statistically significant with having approximately 40% explanatory power on variance of share prices in CSE.

Suggestions for future researches such as expanding the study in to other trading sectors in CSE are also included in this study. Additionally it is possible and appropriate to continue this study by using fresh data to identify the trends in the field.

Key words: Accounting information, Value relevance, Share prices, Licensed Commercial Banks