

IMPACT OF THE LEVEL OF IFRS APPLICATION ON STOCK RETURN: EVIDENCE FROM LISTED MANUFACTURING COMPANIES IN SRI LANKA

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ABSTRACT

Consideration of existing research gap in this area, this research attempts to identify the impact of level of the International Financial Reporting Standards (IFRS) application on stock return in listed manufacturing companies on the Colombo Stock Exchange. Not only this problem, also the past researchers have not paid enough attention to the financial leverage, firm size and government ownership when studying the impact of the stock return. The main objective of this research is to examine the impact of the level of application of IFRS on stock return in Sri Lankan-listed manufacturing companies. In addition to that this study focuses on examining the impact of government ownership, financial leverage and firm size on stock return in Sri Lankan listed manufacturing companies. Population of the investigation is all manufacturing companies in Colombo Stock Exchange during the period of 2017-2021. Entire population is concerned as the sample for the study. Both descriptive and inferential analyses are used to analyze the collected data. According to the findings R square of the regression analysis is 0.22. It is indicating 22% influence on the Level of IFRS Application on Stock Return. Furthermore, it can be concluded that there is a significant impact of level of IFRS on the Stock Return on listed manufacturing companies in Sri Lanka.

Keywords: Government Ownership, Financial Leverage, Firm Size, Level of IFRS Application, Listed Manufacturing Companies

1. INTRODUCTION

Accounting standards are a set of principles and directives that businesses should adhere to while preparing and publishing their financial information on a regular basis. Investors and shareholders are constantly evaluating financial data to make investment decisions. Therefore, it is required by law that all listed firms compile their financial statements in accordance with the specified set of accounting standards. The International Financial Reporting Standards (IFRS) published by the International Accounting Standard Board (IASB), or a local variation of such standards, are required or permitted for use in the financial reporting frameworks of the European Union and more than 120 other nations worldwide. A significant step toward more transparent financial disclosure is the implementation of IFRS. In comparison to national accounting standards, particularly the local standards in

European countries, and the introduction of the IFRS was primarily intended to give more transparent, accurate, comprehensive, and timely financial statements information (Ball R. , 2006).

The corporate sector should embrace IFRS in order to prepare and distribute financial information to stakeholders around the globe. IFRS are a single set of accounting standards. In order to make financial statements comparable and intelligible across national borders, IFRS were created as a single worldwide business language. Financial statements built on accepted universal accounting principles will make it possible for people all over the world to exchange and evaluate financial data in a meaningful way.

Prior to 2012, Sri Lanka used Sri Lankan Accounting Standards (SLAS) for gathering and disclosing financial data. There are still significant discrepancies between SLAS and IFRS, despite the conceptual underpinnings. The adoption of IFRS was delayed to the financial period beginning on or after January 1, 2012.

International Financial Reporting Standards (IFRS) are regarded as a global business language that enables stakeholders to comprehend and contrast international business issues. IFRS is now used as a standard for evaluating business performance regardless of the nation to which a company belongs. It also enables investors to understand the true financial standing of multinational corporations. According to Graham, Peltomäki and Sturludóttir (2015) Integration of the capital market and market liberalization do not always result in increased market efficiency. Understanding changes in the value of companies on the stock market during crash events depends on factors such market risk, market size, volatility, leverage, and profitability (Fauzi, R. and Wahyudi, I., 2016). The capital market is an important force in economic growth. Investor investment activity is a significant influence on the capital market. The capital market places a high value on investor behaviour. Investors regularly invest their funds in stock market transactions. Investors expect a return on their stock purchases in the form of a dividend or capital gain. The return on share is a major component of investors' investment decisions in the stock market since investors primarily consider the return of shares when deciding to invest in shares.

The Sri Lankan stock exchange is called the Colombo Stock Exchange (CSE) CSE makes a significant contribution to Sri Lanka's economic development. As of the end of October 2021, the CSE had 296 listed companies, 15 stock brokerage firms, and a market worth of 4,529.29 billion rupees. Investors, employees, lenders, the government, suppliers, consumers, and the public are among the stakeholders who heavily rely on the company's financial statements. Therefore, it is the responsibility of the accountants, internal auditors, and external auditors to adhere to the IFRS. According to the Companies Act No. 7 of 2007, all corporate organizations in Sri Lanka are required to undergo a statutory audit. The Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 gives the Institute of Chartered Accountants

of Sri Lanka (ICASL) the authority to adopt and publish accounting standards in the official gazette on occasion to maintain consistency and high standards in businesses' financial reporting (Fernando, 2010). This is the primary justification behind ICASL's adoption of IFRS with the International Accounting Standards Board's approval (IASB). In contrast to previous financial reporting standards, which are meant to be more rule-based, IFRS is typically seen as being more principle-based. In general, this can be seen as a benefit because principle-based standards offer more flexibility for various scenarios (Wijesinghe, 2017).

The implementation of IFRS has been a significant issue in current financial reporting settings because some researchers argued that there is a significant relationship between the level of IFRS applications and Stock Returns. But some researchers have identified a non- significant relationship between them. Feprida, Susilawati , and Koerniawan (2014) investigated the comparison of equity differences before and after applying IFRS to the stock return of listed companies on the Indonesia Stock Exchange for four years. Results showed that there is a significant relationship between IFRS adoption on stock return. Espinosa, Maquieira and Díaz (2015) showed a significant relationship between IFRS adoption and stock return of 43 Chilean companies in South America. Escaffre and Sefsaf (2011) investigated a positive significant relationship between IFRS adoption and the Stock Return of banks in the UK, US, Spain, France and Benelux. Also, (Loureiro & Taboada, 2011) showed a positive significant relationship between IFRS adoption and stock return of firms from EU countries. Patro and Gupta (2016) founded negative relationship between IFRS applications and stock return of Asian markets, Klimczak (2011) examined the negative relationship between IFRS applications and stock return.

The adoption of a different set of accounting standards such as IFRS will change the presentation and the content of financial information in the financial statements. This will lead to a significant change in the company stock return (Yasas & Perera, 2019). Therefore, many studies were conducted around the world to discover the impact of IFRS adoption on the quality of accounting information. Further, in the Sri Lankan context studies have focused on establishing the effects of mandatory IFRS adoption on earning management, accounting quality and financial ratios (Wijesinghe, 2017; Weerathunga and Kumara, 2015; Rajapaksha and Kawshalya, 2021).

But lack of studies has been done on the impact of the level of IFRS application on Stock Return. This research also attempts to identify the impact of the level of IFRS application on stock return in listed manufacturing companies on the Colombo Stock Exchange. With reference to Sri Lanka's IFRS adoption in 2012, the accounting standards were changed from SLAS to LKAS and SLFRS. Those standards are very much identical to IFRS. To address above research gap, the following research question were formulated.

“What Is the Impact of the Level of IFRS Application on Stock Return in Listed Manufacturing Companies in Colombo Stock Exchange?”

Research Questions

The study questions that follow have been raised in order to be investigated based on the research problem mentioned above.

1. Does the level of application of IFRS impact stock return in Sri Lankan listed manufacturing companies?
2. Does the government ownership impact stock return in Sri Lankan listed manufacturing companies?
3. Does the financial leverage impact stock return in Sri Lankan listed manufacturing companies?
4. Does the firm size impact stock return in Sri Lankan listed manufacturing companies?

Research Objectives

Based on the research questions raised above, the following objectives are set for the study.

1. To examine the impact of the level of application of IFRS on stock return in Sri Lankan listed manufacturing companies.
2. To examine the impact of government ownership on stock return in Sri Lankan listed manufacturing companies.
3. To examine the impact of financial leverage on stock return in Sri Lankan listed manufacturing companies.
4. To examine the impact of firm size on stock return in Sri Lankan listed manufacturing companies.

2. LITERATURE REVIEW

2.1 Introduction

The literature review is one of the essential parts of a research study, as it allows and acts as a platform for the researcher. This chapter presents the existing literature with regard to the relationship between IFRS applications and stock return. It explains the prior research, methods used, results, and conclusions.

2.2 Level of IFRS Applications

International Accounting Standards (IAS) was first introduced in 1973 by the Board of the International Accounting Standards Committee. The main reason for such standards' continued use was to accommodate European businesses' needs for

financial reporting. SLFRS refers to the IFRS-compliant Sri Lankan accounting standards. These standards are opposed to the US GAAP. IFRS was developing an appropriate way to deal with the snowballing capital market. The adoption of IFRS increased accounting quality, but GAAP and other locally developed standards failed to meet the requirements for comparable financial statements. It will result in an increase in market liquidity and a corresponding decrease in the company's cost of capital.

2.3 Empirical Evidence

This section reviews findings obtained by the prior research that has examined the impact of the level of IFRS application on stock return and similar fields. This section discusses 2 sub-sections. The first one is an empirical review of IFRS-related studies and the second one is an empirical review of IFRS disclosure-related studies.

2.3.1. Empirical Review on IFRS-related studies.

Wahidorcid and ElKelish (2021) studied the impact of contemporary technology on these relationships across 24 emerging nations during the IFRS 9 pre-adoption announcements, focusing on the relationship between information quality and stock performance. Corporations with poor pre-adoption quality information benefit from IFRS 9 pronouncements. Small businesses and financial institutions, as opposed to huge enterprises and non-financial institutions, exhibit this outcome to a greater degree. While industry type has a moderating influence, modern technology has a large decisive antecedent role.

Lambertides and Mazouz (2013) studied the impact of mandatory IFRS adoption on the informational efficiency, market stability, and price adjustment of underlying stocks in Europe. Researchers observed a decrease in the first-order autocorrelation and the permanent component of the conditional variance indicates that the mandatory IFRS adoption enhances informational efficiency and contributes to the market stability of the underlying stocks. The authors find no evidence that IFRS adoption affects the role old news has in determining the conditional variance of adopting firms. The effects of IFRS adoption on the equity cost of capital are shown to depend on country-specific characteristics. Specifically, IFRS adoption is more likely to increase (decrease) the betas of stocks that are listed in the common (civil) law countries.

Negakis (2013) examined the effects of the introduction of the IFRS on the explanatory power of earnings for stock returns in Greece. Researchers found that the IFRS had several effects on the value relevance of earnings. In particular, the available information content of both earnings and earnings changes decreased after the introduction of the IFRS. The reduction in the information content of earnings for returns (or the information content of book values of equity for stock prices) could be attributed to the IFRS and, in particular, to the introduction of the fair value principle.

Moreover, even after controlling for the existence of asymmetries, the findings of the reduced information content of earnings and earning changes for stock returns persist.

Rubanov and Nnadi (2018) investigated how the adoption of IFRS affected the performance of UK investing closed-end trust funds that held domestic stock. The findings of this study indicate that, on average, neither anomalous returns nor durable performance are produced by UK investment trusts. The implementation of IFRS has, on average, a diminishing impact on the excess returns produced by UK investment trusts, according to this paper's empirical research, which also supports the efficient market hypothesis.

Researchers have made an effort to offer solutions for the use of IFRS in accordance with the studies listed above. Frequently, effects of IFRS adoption on financial statement data and its usefulness, effects of IFRS on the performance of the firms, introduction of the IFRS on the explanatory power of earnings for stock returns, relationship between information quality and stock returns during the IFRS 9 pre-adoption announcements in order to familiarize with the new standards, and developing awareness programs have been identified as recommendations of the past researchers for the application of the new standards.

According to the Roush and Grant (2015) found that IFRS adoption led to a reduction in earnings management practices in companies. Similarly, Chen (2017) found that IFRS disclosure reduces the level of earnings management in emerging market economies. Hu et al. (2017) found that IFRS disclosure enhances the ability of financial analysts to predict future earnings and cash flows. Similarly, Li et al. (2018) found that IFRS disclosure improves the accuracy of analysts' earnings forecasts. Christensen et al. (2013) examined the impact of IFRS adoption on the comparability of financial statements across countries. They found that IFRS adoption led to a significant improvement in the comparability of financial statements across countries.

Several studies have also examined the impact of IFRS disclosure on capital markets. For example, Guenther et al. (2015) found that IFRS disclosure improves the information environment of firms, leading to more efficient stock prices. Similarly, Bao et al. (2016) found that IFRS adoption enhances the informativeness of stock prices in emerging market economies. The empirical studies demonstrate the importance of IFRS disclosure in improving financial reporting quality, reducing earnings management practices, enhancing the ability of financial analysts to predict future earnings and cash flows, improving the information environment of firms, and leading to more efficient stock prices.

3. RESEARCH METHODOLOGY

3.1. Introduction

The purpose of this research is to analyze how the level of IFRS application affects the stock return of companies that have adopted IFRS standards. To achieve this objective, we employed a quantitative research methodology that involved the use of secondary data sources to gather financial and stock return data for a sample of companies. This section outlines the research design, data collection methods, and data analysis techniques used in this study. It also describes the sampling strategy, data sources, and measurement scales used in the research.

3.2. Conceptualization

Conceptualization is the process of taking a construct or concept and refining it by giving it a conceptual or theoretical definition. The conceptualization shows the relationship between variables and concepts. Figure 1 conceptualizes the study's independent, dependent, and controlling factors.

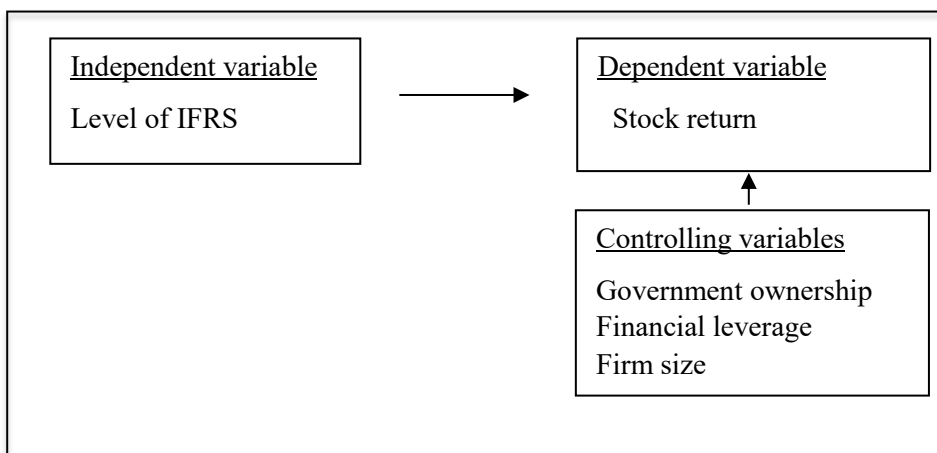


Figure I - Conceptual Framework

Source: Developed by researchers based on empirical findings

3.3. Operationalization

Operationalization is the process of tying a conceptual definition to one or more operational definitions in order to make it more exact. These are typically numerical representations of empirical or observable reality. The operationalization framework is also a thorough illustration of the conceptual framework's condensed variables. It provides information about each variable's indicator, measurement, and reference.

Table 1 – Operationalization of Variables

Variable	Indicator	Measurement	Citation
Independent Variable	Level of IFRS	Developing a score card and checking the application level of selected particular IFRS standards based on it, (SLFRS 9, SLFRS 13, SLFRS 15, and SLFRS 16) and new amendments was used before the effective date or on the effective date. Then using the scale and compare it with the annual reports of the listed manufacturing companies.	(IASB 2010)
Dependent Variable	Stock return	$SR = \frac{\text{Current year ordinary share Price} - \text{Previous year ordinary share price}}{\text{Previous year ordinary share price}}$	Sharif, (Jogiyanto, Purohit 2013) and Pillai 2015
Controlling variable	Firm Size	$FS = \text{The market value of share} * \text{Total number of shares}$	(Harshapriya 2016)
	Financial Leverage	$FL = \frac{\text{Total Debt}}{\text{Total Assets}}$	
	Government Ownership	$GO = \frac{\text{The number of government shares}}{\text{Total number of shares outstanding of the firm}}$	(Hasan et al. 2020)

Source: Developed by researchers

3.3.1 Level of IFRS Measurement Scorecard

To find the level of IFRS identify the following variables as independent variables. Under that found three indicators for each variable. Each indicator will get marks between 0 to 1 and the total number of marks will count as an independent variable marks.

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Table 2 - Level of IFRS measurement

	Objective
OB1	Application of international Accounting standards
OB2	Application of consistent accounting policies
OB3	Provides international comparison and easy analysis
	Scope
Scope1	General purpose financial statements and other financial reporting
Scope2	Application for both individual and consolidated financial statements
Scope3	Providing financial information to stakeholders
	Recognition
Recog1	Items recognized in a financial position that meets the definition of assets, liabilities and equity
Recog2	Items recognized in the statement of financial performance which meets the definition of income & expenses
Recog3	Initial recognition and subsequent recognition of assets & liabilities
	Measurement
Measue1	Faithful representation through correct measurement basis
Measue2	Disclosure of measurement basis
Measue3	Identifying characteristics of assets & liabilities
	New amendments
NewAmd1	Disclosure of new amendments in IFRS under accounting policies
NewAmd2	Providing restated financials due to amendments to maintain comparability of annual financials
NewAmd3	Disclosure on the first-time application of new standards such as IFRS 17

Source – Developed by Researchers

3.4. Population and Sampling

3.4.1. Population

To find whether the IFRS convergence in Sri Lanka was able to improve the quality of accounting information, secondary data was obtained from the listed entities in

CSE. The study addresses the impact of the level of IFRS application on stock return from listed manufacturing companies in the Colombo Stock Exchange. Therefore, the population is all manufacturing companies in Colombo Stock Exchange from 2017 to 2021.

3.4.2. Sample

The sample is a subset of the population selected to represent the population as a whole. To obtain a more accurate and better result, this study uses all population as a sample. There were 288 companies listed in CSE representing 19 Global Industry Classification Standards (GICS) sector groupings as of 31 October 2021. This can be considered as the total population for this research. Among sector, manufacturing sector 25 companies were selected for this study as the sample. The main reason to select the manufacturing sector was the lack of literature in the Sri Lankan context.

3.5. Data Collection

There are two types of data collection methods. This study used secondary data and the data collected that is mainly based on five years' annual reports of manufacturing companies published by CSE from 2017 to 2021. In addition to that other relevant data was collected from journal articles, books and websites.

3.6. Method of Analysis of Data

This study used panel data analysis. A data set comprising both time series and cross-sectional elements is known as a data panel or longitudinal data (Brooks, 2008). EViews is used for this panel data analysis. To measure descriptive statistics, correlation and regression analysis is to be used.

3.6.1 Descriptive Analysis

Descriptive analysis is the simplest form of analyzing data and does not deal with causes or relationships. These statistics include measures such as mean, standard deviation, maximum and minimum statistics. The arithmetic mean and standard deviation are the most commonly used measures for measuring the level and variation of the variables.

3.6.2 Correlation Analysis

Correlation is carried out to find out the strength of the relationship between variables. For the study, it is used to identify the strength or weakness of the relationship between the level of IFRS, stock return, government ownership, financial leverage and firm size of listed manufacturing companies in Sri Lanka. The Pearson correlation coefficient from -1 to +1 is used to explore the degree of relationship between these variables. The decision criteria regarding correlation analysis are given in the table below.

Table 3 - Decision Rule for Correlation

Correlation Coefficient	Relationship between variables
+1	Perfect positive relationship
+0.88 to +0.99	Strong positive relationship
+0.4 to +0.79	Moderate positive relationship
+0.1 to +0.39	Weak positive relationship
0	No relationship
-0.1 to -0.39	Weak negative relationship
-0.4 to -0.79	Moderate negative relationship
-0.8 to -0.99	Strong positive relationship
-1	Perfect Negative relationship

Source – Developed by Researchers

3.6.3 Normality

In the classical normal linear regression model, the error term is assumed to be in a normal distribution (Gujrati, 2004). The normality of the residuals can be observed using the Jarque-Bera test. Data does not need to be perfectly normally distributed for the tests to be reliable.

H_0 = Residuals are normally distributed

H_1 = Residuals are not normally distributed

Under the null hypothesis that the error term is in the normal distribution in the model, the hypothesis can be rejected if the p-value calculated for the Jarque-Bera test statistics is less than 5% significance; otherwise, do not reject the null hypothesis.

3.6.3 Regression Analysis

Models with fixed effects or random effects are typically used to estimate panel data models. In contrast to the fixed effects model, the individual-specific impact is a random variable that is unrelated to the explanatory factors in the model. To decide which of these models is best, the Hausman test can be used.

H_0 = Random- effect Model is appropriate

H_1 = Fixed- effect Model is appropriate

Under the null hypothesis that the random effect model, the hypothesis can be rejected if the computed p-value for Hausman test statistics is smaller than 5% significance;

otherwise, do not reject the null hypothesis. The panel regression model is given below.

$$SR_{it} = \beta_0 - \beta_{Ob_{it}} + \beta_{Sc_{it}} + \beta_{Rg_{it}} + \beta_{Ms_{it}} + \beta_{Na_{it}} + \beta_{FL_{it}} + \beta_{FZ_{it}} + \beta_{GO_{it}} + e_{it}$$

3.7. Research Hypothesis

To evaluate the truth of a hypothesis, conduct a hypotheses test. The output of each hypotheses test has a Sig. value which measures the probability of such results occurring by random chance. When the p-value is large (i.e., greater than 5%), as a result of accepting the alternative hypotheses.

Therefore, this can be symbolically presented as follows:

If p – value < 0.05 then, accept H₀

If p – value > 0.05 then, reject H₀

The hypotheses of this study are based on the level of IFRS directly affecting the stock return of the listed manufacturing companies in Sri Lanka. The hypothesis testing is done by forming the Alternative Hypothesis (H₁) which shows the assumptions about how the independent variables, dependent variable and controlling variables in this study are related.

H₁: There is an impact of the level of application of IFRS on stock return after controlling the effects of firm financial leverage, government ownership & firm size.

H₂: There is a significant impact on stock return after controlling the effects of firm financial leverage, government ownership & firm size

H₃: There is a significant impact of scope on stock return after controlling the effects of firm financial leverage, government ownership & firm size

H₄: There is a significant impact of recognition on stock return after controlling the effects of firm financial leverage, government ownership & firm size

H₅: There is a significant impact of measurement on stock return after controlling the effects of firm financial leverage, government ownership & firm size

H₆: There is a significant impact of new amendments on stock return after controlling the effects of firm financial leverage, government ownership & firm size

04. RESULTS AND DISCUSSION

4.1 Introduction

A study has been conducted to examine the impact of the level of IFRS application on the stock return of the listed manufacturing companies in Sri Lanka. The researcher collected referring annually financial information of companies in listed

manufacturing within five years (2017 to 2021). To test the stationary of data EViews software was used.

4.2 Descriptive Statistics Analysis

Table 4.1 presents descriptive statistics of all variable. It shows the mean, standard deviation, and variance of the variable of the study. Table 5.1 gives an indication of how wide-ranging analysis was carried out on each variable. The table includes a summary of several variables such as mean, maximum and standard deviation.

Table 4 - Descriptive Statistic Analysis of the level of IFRS application

	Mean	Median	Std. Dev.	Skewness	Kurtosis
S. Return	0.133	0.032	0.469	2.440	7.696
Objective	2.923	2.980	0.088	-0.940	2.991
SCOPE	2.930	2.900	0.056	-0.073	2.127
RECOG	2.959	3.000	0.057	-1.088	3.095
MEASURE	2.929	2.980	0.083	-1.045	3.383
New Amd	2.266	2.000	0.460	0.964	1.955
Fin. Lev.	0.134	0.080	0.191	2.974	3.486
FIRM_SIZE	1.80E+10	3.97E+09	2.57E+10	1.414	3.680
Gov.Own	0.001	0.000	0.009	2.112	3.837

Source: Survey Data 2017-2021

In this study, the dependent variable is the stock return (SR). The independent variables are objective (Ob), scope (Sc), recognition (Rg), measure (Ms) and new amendments (NA) and the control variables are finance leverage (FL), firm size (FZ) and government ownership (GO). It was done according to the method, with all statistical and logical tests run and 125 data points from manufacturing firms covering the period from 2017 to 2021. Here's a summary of descriptive statistics.

The stock return of manufacturing companies in Sri Lanka shows that the average SR for sample periods is about 0.133. The highest SR was 2.720 and the lowest was -0.415. The standard deviation was 0.469. This shows that Sri Lankan manufacturing companies are doing well.

The objective of IFRS in manufacturing companies in Sri Lanka shows that the average Ob for sample periods is about 2.923. For the sample periods, the median value of Ob was 2.980. This shows that manufacturing companies in Sri Lanka are doing well. The highest Ob was 3 and the lowest was 2.690. The standard deviation was 0.088. The Ob's values for Skewness and Kurtosis were -0.940 and 2.991, which are both less than 3 and less than 10. So, these values showed that Ob values are spread out in a normal distribution.

The scope of IFRS in manufacturing companies in Sri Lanka shows that the average Sc for sample periods is about 2.930. For the sample periods, the median value of Sc

was 2.900. This shows that manufacturing companies in Sri Lanka are doing well. The highest Sc was 3 and the lowest was 2.8. The standard deviation was 0.056. The Sc's values for Skewness and Kurtosis were -0.073 and 2.127, which are both less than 3 and less than 10. So, these values showed that Sc values are spread out in a normal distribution. The adoption of IFRS by Sri Lankan manufacturing enterprises reveals that the average Rg during the study periods is roughly 2.959. For the sample periods, the median value of Rg was 3. This shows that manufacturing companies in Sri Lanka are doing well. The highest Rg was 3 and the lowest was 2.8. The standard deviation was 0.057. The Rg's values for Skewness and Kurtosis were -1.088 and 3.095, which are both less than 3 and less than 10. So, these values showed that Rg values are spread out in a normal distribution. The measure of IFRS in manufacturing companies in Sri Lanka shows that the average Ms for sample periods is about 2.929. For the sample periods, the median value of Ms was 2.980. This shows that manufacturing companies in Sri Lanka are doing well. The highest Ms was 3 and the lowest was 2.7. The standard deviation was 0.083. The Ms's values for Skewness and Kurtosis were -1.045 and 3.383, which are both less than 3 and less than 10. So, these values showed that Ms values are spread out in a normal distribution.

The average Na for sample periods is shown by the new IFRS amendments in Sri Lankan manufacturing enterprises to be approximately 2.266. The median value of Na during the sample periods was 2. This demonstrates the success of Sri Lankan manufacturers. The maximum Na was 3 and the minimum Na was 1.9. 0.46 was the standard deviation. Skewness and Kurtosis' Na's values were 0.964 and 1.955, respectively, which are both less than 3 and under 10. Therefore, these results demonstrated that Ms Values follow a normal distribution. The control variable of finance leverage of manufacturing companies in Sri Lanka shows that the average FL for sample periods is about 0.134. For the sample periods, the median value of FL was 0.080. This shows that manufacturing companies in Sri Lanka are doing well. The highest FL was 1.049 and the lowest was 0.000. The standard deviation was 0.191. The FL's values for Skewness and Kurtosis were 2.974 and 3.486, which are both less than 3 and less than 10. So, these values showed that FL values are spread out in a normal distribution. The control variable of firm size of manufacturing companies in Sri Lanka shows that the average FZ for sample periods is about 18,000,000,000. For the sample periods, the median value of FZ was 3,970,000,000. This shows that manufacturing companies in Sri Lanka are doing well. The highest FZ was 91,500,000,000 and the lowest was 111,000,000. The standard deviation was 25,700,000,000. The FZ's values for Skewness and Kurtosis were 1.414 and 3.680, which are both less than 3 and less than 10. So, these values showed that FZ values are spread out in a normal distribution. In this study most; company does not have government ownership, hence this control variable will withdraw in further study. Out of 25 companies only 3 companies had government ownership.

4.3 Correlation Analysis

The Pearson correlation has a value between -1 and +1, with negative integers denoting a negative correlation. A positive correlation is indicated by positive numbers. (as one variable increases, the other variable decreases).

Table 5 - Correlation Analysis

Correlation								
Probability	Stc. Return	Objective	Scope	Recogn.	Measure	New Amd.	Fin. Liv	F.Size
Stc. Return	1							
Obj	----- -0.169 0.060	1.000						
Scope	0.049*	-0.455*	1.000					
Rec.	0.000	0.000	-----					
Measure	0.143* 0.011	-0.121 0.178	0.400* 0.000	1.000 -----				
New Amd.	-0.055* 0.044	-0.090 0.320	0.425* 0.000	0.501* 0.000	1.000 -----			
Fin. Liv	-0.126 0.061	0.283* 0.001	-0.023 0.801	0.240* 0.007	0.326* 0.000	1.000 -----		
F.Size	0.043* 0.035	0.132 0.143	-0.039 0.668	-0.005 0.956	-0.287* 0.001	0.183* 0.041	1.000 -----	
	0.046* 0.010	-0.119 0.188	0.444* 0.000	0.290* 0.001	0.378* 0.000	0.160 0.075	0.104 0.247	1.000 -----

Source: Survey Data 2017-2021

According to the above Pearson correlation table 5, shows the relationship between the independent variable and the dependent variable. The scope level of IFRS has a 0.049 correlations point and the significance level (p-value) is 0.000. It refers to there is weak positive and statistically significant (0.00< 0.05) relationship between scope and Stock Return.

4.4 Hausman Test

Table 6 - Hausman test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Period random	25.65044	5	0.0001

Source: Survey Data 2017-2021

The value that is assigned to the p in the data set is 0.0001. The fact that P-Value is less than 0.05 and it indicates that the fixed effect method, rather than the

random effect method, is the one that should be utilized. Hence, H1 was accepted while H0 was rejected.

H₀ = Random- effect Model is appropriate - Rejected

H₁ = Fixed- effect Model is appropriate - Accepted

4.5 Regression Analysis

The findings of the regression analysis are presented in the form of a linear regression with each dependent variable being fitted to a fixed-effect model. The Hausman test was used to select the most suitable model from among those available for every single dependent variable.

Table 7 - Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Objective	-0.93819	0.535076	-1.75338	0.0822
Scope	-0.76617	0.951148	-0.80552	0.0222
Recog	1.887031	0.833777	2.263233	0.0255
Measure	-0.73231	0.629904	-1.16257	0.0475
New_Amd	-0.09371	0.09771	-0.95906	0.0396
Fin_Leverage	0.12036	0.224711	0.535623	0.5933
Firm_Size	1.10E-12	1.76E-12	0.626333	0.5324
C	1.857832	3.80444	0.488333	0.6263
Period fixed (dummy variables)				
R-squared	0.221982	Mean dependent var		0.132639
Adjusted R-squared	0.146246	S.D. dependent var		0.469132
S.E. of regression	0.433472	Akaike info criterion		1.257095
Sum squared resid	21.23248	Schwarz criterion		1.528613
Log likelihood	-66.5685	Hannan-Quinn criter.		1.367399
F-statistic	2.930983	Durbin-Watson stat		1.785874
Prob(F-statistic)	0.001926			

Source: Survey Data 2017-2021

According to the 4.4 table coefficients value of level of IFRS variables which are objective, scope, recognize, measure and new amendments are -0.938, -0.766, 1.887, -0.7323 and -0.0937 respectively. Expect recognize variable others have negative coefficient impact with dependent variable and recognize variable has positive coefficient value.

P value of coefficient values are 0.08, 0.02, 0.02, 0.04, and 0.03 respectively. Except objective other variables have significant impact on stock return. R square value is

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0.22 and it denoted that independent variable describes dependent variable from 22%and somewhat this model adequate. Also probability value of the above model is 0.001 and it denotes that this model is significantly impact. Based on the above results regression model can develop as follows.

$$SR_{it} = 1.85 - 0.938Ob_{it} - 0.766Sc_{it} + 1.887Rg_{it} - 0.7323Ms_{it} - 0.0937Na_{it} + 0.120 FL_{it} + 0.0000000011FZ_{it} + e_{it}$$

As per the explanation in earlier government ownership should have remove from control variable due to the missing values. Listed manufacturing companies do not have government ownership. Out 25 companies only three companies had government ownership.

4.6 Normality Test

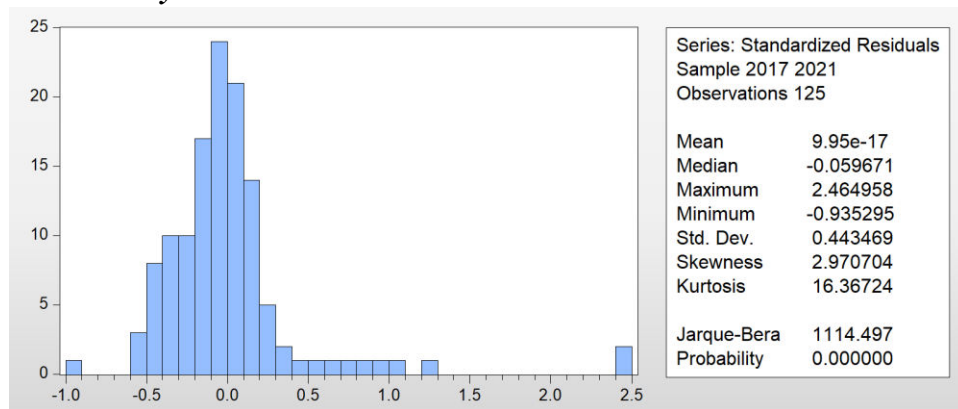


Figure II - Normality Test

Source: Survey Data 2017-2021

It is necessary to determine whether the data set is regularly distributed before running the regression analysis. The skewness value of the data set was less than 3 and under that assumption data set was normally distributed. But kurtosis value is higher than 10 and it not supported to the normality test. Jarque-Bera test is another test that can conduct for test the normality of data set. According to the probability value of Jarque-Bera is 0.000 and less than 0.05. This denotes that this data set was not normally distributed. H1 hypothesis was accepted.

H₀ = Residuals are normally distributed -Rejected

H₁ = Residuals are not normally distributed – Accepted

4.7 Hypothesis Testing

Table 8 - Hypothesis Testing

Hypothesis	Justification	Decision
H ₁ : There is an impact of level of application of IFRS on stock return after controlling the effects of firm financial leverage, government ownership & firm size	P = 0.000 (P<0.05)	Accepted
H ₂ : There is significance impact of objective on stock return after controlling the effects of firm financial leverage, government ownership & firm size	P = 0.08 (P<0.05)	Rejected
H ₃ : There is significance impact of scope on stock return after controlling the effects of firm financial leverage, government ownership & firm size	P = 0.02 (P>0.05)	Accepted
H ₄ : There is significance impact of recognition on stock return after controlling the effects of firm financial leverage, government ownership & firm size	P = 0.02 (P<0.05)	Accepted
H ₅ : There is significance impact of measurement on stock return after controlling the effects of firm financial leverage, government ownership & firm size	P = 0.04 (P<0.05)	Accepted
H ₆ : There is significance impact of new amendments on stock return after controlling the effects of firm financial leverage, government ownership & firm size	P = 0.03 (P<0.05)	Accepted

Source: Survey Data 2017-2021

5. CONCLUSION

5.1 Summary

The purpose of this study is to ascertain how the level of IFRS implementation affects the stock return of Sri Lanka's publicly traded industrial enterprises. The degree of IFRS use and stock return has not been the subject of many researches. In light of it, this study was created using a deductive research approach. The variables used in this study were picked carefully to fulfill its goals. Stock return was employed as a dependent variable to gauge the influence of the level of IFRS implementation, such. For this study, the level of IFRS implementation was employed as an independent variable. In order to effectively fulfill its goals, this study included control variables such as firm size, financial leverage, and government ownership. However, government ownership should have been removed from the list due to a lack of

information. According to that, 20 manufacturing companies listed on the CSE between 2016/2017 and 2020/2021 served as the sample for this study. Data was primarily gathered from the aforementioned companies' annual reports. Data was primarily gathered from the aforementioned companies' annual reports. In order to analyze purpose, this study mostly used descriptive analysis and regression analysis. Based on those findings, the overall model was assessed, and a previously constructed hypothesis was tested in order to meet the study's objectives.

This section contains conclusions and recommendations for the study on the impact of the level of IFRS application on stock return of the listed manufacturing companies in Sri Lanka. In this study, all the findings obtained through EViews were discussed by comparing them to the findings of previous studies to identify the relationship. The results of descriptive statistics, correlation, and multiple regression analysis were discussed and examined.

5.3 Finding of the study

Finding of the study have been made by considering the results of this study to address the research questions. This study has considered manufacturing company in Sri Lanka for the period of 2015-2021 for the purpose of this study. Correlation and multiple regression analysis were used to determine the relationship. Hypotheses were tested using the results of multiple regression analysis and correlation results of the investigation of the extent of IFRS application on stock returns of Sri Lanka's listed manufacturing enterprises.

5.3.1 Relationship between levels of IFRS application on stock return of the listed manufacturing companies in Sri Lanka

In order to ascertain the impact of the level of IFRS application on the stock returns of the listed manufacturing businesses in Sri Lanka, this is examined using the findings of a correlation study. Correlation analysis was used to determine the link between each pair of variables in the research model. The relationship between the extent of IFRS application and stock returns of Sri Lanka's listed manufacturing companies is discussed in this part in accordance with the research's purpose. The effect of each chosen variable can be determined at least seven years afterwards. Taking the independent factors and dependent variables independently

According to Pearson correlation, the relationship between IFRS's independent and dependent variables has a -0.169 correlation point and a 0.060 significance level. Objective and Stock Return have a weak negative and non-significant ($0.06 > 0.05$) association. According to IFRS, the correlation between independent and dependent variables is 0.049 and significance is 0.000. Scope and Stock Return have a weak positive association. IFRS recognition level has a 0.143 correlation and a 0.011 significance level. There's a weak positive and statistically significant link between recognition and stock return. IFRS independent variable and dependent variable

measure correlation is -0.055 and significance is 0.044. It means that measure and Stock Return have a weak negative and statistically significant association. According to Pearson correlation, the new IFRS amendments have a -0.126 correlation and a 0.061 significance level. New amendments have a weak negative and non-significant ($0.06 > 0.05$) association with Stock Return. Leverage and firm size have a strong association (0.043 and 0.046, respectively). 0.035 and 0.010 are significant.

(Yasas & Perera, 2019), data were analyzed using multiple regression method. results showed that value relevance of accounting information has not significantly improved in the post-IFRS period than the pre-IFRS period. (Espinosa C. , Maquieira, Diaz, & Abarca, 2015) showed significant relationship between IFRS adoption and stock return of 43 Chilean companies in South America. This result implies that IFRS 9 announcements have a positive impact on corporations with low pre-adoption quality information.

5.3.2 Impact of impact of level of IFRS application on stock return of the listed manufacturing companies in Sri Lanka

R square = 1.00, which represents the ability of the independent variables to explain the dependent variables. This signifies that the independent variable in the chosen sector fully accounts for the dependent variable's fluctuation. The adjusted R square shows how well a new variable will explain the dependent variable when it is included in the model.

When taking into account the level of IFRS and the government's holding of this sector's stocks, the insignificant value is greater than 0.05 ($p > 0.05$). The alternative theory is disproved as a result. It is determined that the detrimental impact is statistically insignificant.

This outcome supports prior research that was discovered to have favorable and significant impacts (Kargn, 2013). Furthermore, it was established by Beuselinck, Cao, Deloof, and Xia (2012) that government ownership significantly increased firm value and stock returns throughout the financial crisis. Leverage has changed more favorably and liquidity has decreased for non-voluntary IFRS disclosers. The impact of IFRS on the performance of UK investing closed-end trust funds with domestic equity was studied by (Nnadi and Rubanov, 2018). The findings of this study indicate that, on average, neither anomalous returns nor durable performance are produced by UK investment trusts. Return on equity and the debt equity ratio were not found to be significantly impacted. The adoption of IFRS is more likely to have a positive effect on financial statements. (Rajapaksha and Kawshalya,2021; RAS,2021) According to the study's findings, there is a big discrepancy between the ratios that were calculated using the old local accounting standards and the IFRS and earning per share. The debt-to-equity ratio and return on equity ratio did not find the effect to be very

substantial. Adoption of IFRS is more likely to have a positive effect on financial statements.

5.4 Implications

Some implications can be put forward on the information gathered from this study based on the level of IFRS application on listed manufacturing companies of Sri Lanka.

To acquire a comprehensive picture of financial statements, regulatory entities like the Chartered Accountants of Sri Lanka should compare Sri Lanka's current accounting standards to worldwide accounting standards and swiftly apply any necessary adjustments because when analyzing investment options through financial accounts, investors are more interested with stock return. In order to obtain an accurate image of the company from the financial statements in the annual report, it is crucial that IFRS standards be applied correctly.

Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) is the legal entity in Sri Lanka to monitor compliance with Sri Lankan accounting and auditing standards. For undergraduates, other students and specially accounting professionals who study accounting as a subject for their academic work, CA Sri Lanka must provide ongoing seminars and workshops. The target group should be informed about accounting standards and their updates.

There is lack of published studies that have examined the issue of the IFRS application on stock return in Sri Lanka. This study can be used as an aid to better understanding of IFRS application on stock return in Sri Lanka.

To improve performance as a ROA and ROE, policymakers must be knowledgeable about this manufacturing sector. Otherwise, they won't be able to earn a higher return on their investment. If so, before deciding to invest based on the results of the IFRS application on stock return in Sri Lanka, investors would like to know the profitability in the prior year.

5.5 Limitations and Future Research Direction

This research might be constrained, much like many other empirical investigations. In contrast to the primary data the researchers gather, this study's reliance on secondary data proved problematic for the data's accuracy. The absence of sample observation is the primary drawback of this study. Additionally, this study only takes into account one field. The CSE consists of 20 sections. The GDP, growth rate, and other economic variables all influence stock return in Sri Lanka. The study's sample size might be to blame for this restriction. Unfortunately, there is a seven-year limit on the amount of samples that can be collected by researchers. There was no more data than this time window, and any data beyond it was an incomplete set.

Do more precise research since you need to tighten up some restrictions. Daily data series will be used in future research to improve the accuracy of empirical study findings. Additionally, this study spans the years 2017 through 2021. The time limit can be increased in subsequent studies to cover a larger time span and produce conclusive results. According to some experts, it is more accurate to use daily data for pertinent empirical studies. Future researchers might also try to broaden their investigation into additional CSE industry sectors.

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