

ASSOCIATION BETWEEN EARNINGS PER SHARE AND EARNINGS MANAGEMENT: EVIDENCE FROM MANUFACTURING COMPANIES IN SRI LANKA

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The purpose of this paper was to examine whether Earnings per Share (EPS) is manipulated by Earnings Management (EM) in the context of Sri Lankan listed manufacturing companies. EM is a strategy used by the management of a company to deliberately manipulate its earnings so that figures match a predetermined target. Prior literature asserts that EM is used by managers to alter financial reports to either mislead stakeholders about the underlying economic performance of the company or to influence the contractual outcomes related to financial reporting numbers. In contrast to the current literature, the present study assumed that there is a restricted chance to conduct EM to manipulate EPS.

The research strategy relevant for the current research is a multiple case study. The data of the sample pertained to ten companies from the manufacturing field in Sri Lanka and, it consisted of observation over two time periods i.e. prior to adopting International Financial Reporting Standards (IFRSs) and after the adoption of IFRSs. The nature of this study required both qualitative and quantitative analysis and hence the researchers adopted interpretivism methods and statistical methods while mostly focusing on how people make sense of their own world in their own terms.

This study predicted that, based on the guidance given in Sri Lanka Accounting Standards (LKASs) there is a lower tendency to manipulate EPS. Accordingly, the authors assumed that earnings manipulation is decreased due to the strength of financial reporting procedures laid down by the Institute of Chartered Accountants of Sri Lanka (CASL). The results implied that, in the Sri Lankan context EM is not possible due to the stronger financial reporting standards imposed by CASL and the compulsory independent auditors' intervention to monitor the accuracy of financial statements. Furthermore, the findings indicated that a stronger internal corporate culture and the ethical behavior of the listed manufacturing companies also affect to create lower possibility to occur EM when calculating EPS.