

**AN EMPIRICAL INVESTIGATION OF
USERS' PERCEPTION ON
CORPORATE ANNUAL REPORTS IN
SRI LANKA**

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DECLARATION

I certified that the work described in this research was carried out by me under the supervision of Mr. Anil Jayantha, Senior Lecturer Department of Accountancy – University of Sri Jayawardenepura and a report on this has not been submitted in whole or in part to any university or any other institution for another Degree/Diploma.

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APPROVAL OF SUPERVISOR

I certify that the above statement made by the candidate is true and that this research is suitable for submission to the university for the purpose of evaluation.



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LIST OF ABBREVIATIONS

AAA	American Accounting Association
AICPA	American Institute of Certified Public Accountants
CSE	Colombo Stock Exchange
CAR	Corporate Annual Report
CSR	Corporate Social Responsibility
FASB	Financial Accounting Standard Board
GAAP	Generally Accepted Accounting Principles
IFRS	International Financial Reporting Standards
ICASL	Institute of Chartered Accountants of Sri Lanka
IASB	International Accounting Standards Board
SFAC	Statement of Financial Accounting Concepts
SLAS	Sri Lanka Accounting Standards
SPSS	Statistical Package for Social Sciences

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ABSTRACT

The growth of organizations in size, mostly publicly-held corporations has brought demand from external stakeholders for increased financial disclosure. The public's right to know more about organizations that directly and indirectly affect them as a shareholder or not is being increasingly recognized as essential. It is necessary that the users of information be provided adequate, understandable, and dependable financial information from the major corporations in the country.

Financial reporting may be identified as communication of published financial statements and related information from a business enterprise to external users. But different users have different perceptions relating to the use of the information. Corporate annual reports act as a mechanism of discharging accountability and as a means of formal communication between corporate and end users. So, it is useful to identify the users' perception of corporate annual reports using different aspects of annual reports and whether there is any significant difference among the perceptions of various user groups in relation to those aspects.

The objective of this study is to empirically examine the users' perception of corporate annual reports in Sri Lanka. This is an exploratory research and it tested seven hypotheses using the deductive approach. The study targeted the population located in Colombo District and the Top 50 companies ranked by the Lanka Monthly Digest (LMD) magazine. A wide range of nine groups of users of corporate annual reports was identified to cover major users of annual reports in Sri Lanka, which included; partners in audit firms, accountants, executives, employees, bankers, assessors/ tax officers, lecturers/ researchers, financial analysts and stock brokers. The sample was drawn from

the people who know the targeted top 50 companies, who use the annual reports of these top 50 companies and who do transactions with their products. About 204 responses were received from the 250 questionnaires delivered, representing a response rate of 82 percent.

The study revealed that most user groups of the sample use annual reports at least rarely and the information contained in annual reports is insufficient to the users for their own purposes of using them. The balance sheet and the income statement were the most significant and understandable sections of the annual report. All user groups had given priority to obtain information about the company's performance. The most reliable information source is considered to be the annual report. The findings of this study may also indicate that there is a need for more comprehensive studies to identify the similarities and differences in the perception of different users in developing countries such as Sri Lanka concerning corporate annual reports.

Further, with growing economy in Sri Lanka and other developing countries, an annual report is expected to provide a more holistic view of an organization's picture going further than what is statutorily required. The preparers and regulators of annual reports may use the results of this study to convert annual report to a more holistic view. The users may consider the results of this study to extend their analysis and verify such reporting practices. Then quality of information that is available to the external stakeholders may be enhanced and thus, users of annual reports may be better served.

CHAPTER ONE

INTRODUCTION

1.1 Overview

This chapter explains why the research was undertaken and what is to be achieved through the research. It begins with an introduction to the background of undertaking this research and the research problem. Then the objective(s), research question(s) and significance of the study are explained. Finally the scope of this study is explained.

1.2 Background of the Study

Modern business has continuity- a never ending flow of economic activities. Therefore, accounting has grown to meet a social requirement and to guide the business and industry accordingly (Lal, 2005).

As business and society have become more complex over the years, accounting has developed new concepts and techniques to meet the ever increasing needs for financial information. Without such information, many complex economic developments and social and economic programmes might never have been undertaken (Lal, 2005).

1.2.1 Accounting and Financial Reporting

Accounting these days has taken upon itself the task of collecting, analyzing and reporting information at the required points of time to the required levels of authority, in order to facilitate rational decision-making (Maheshwari and Maheshwari, 2005).