

Impact of Historical Cost and Fair Value on Selected Financial Ratios: A Study in Listed Plantation Companies under Colombo Stock Exchange (CSE).

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Abstract

The main focus of this study is to identify impact of historical cost and fair value on selected financial ratios of selected listed plantation companies in Colombo Stock Exchange (CSE) from the financial year 2009/10 to 2014/15. International financial reporting standard (IFRS) very clearly states that biological assets which mean living plants and animals must be carried at fair value. Also IFRS suggests that agricultural assets must be carried at their net fair value when they were harvested. After the adoption of international financial reporting standard in Sri Lanka, many corporate specially listed plantation companies started to adopt the fair value as a measurement for historical cost base from the financial year 2012/2013. There are several measurement techniques are available such as historical cost, current cost, fair value and present value. This study covers three financial years (2009/10 to 2011/12) under the historical cost base measurement as well as three financial years (2012/13 to 2014/15) under the fair value base measurement. Descriptive statistics and inferential statistics of this study confirmed that there is mean differences in the financial ratios under the historical cost and fair value measurement however there is no significant mean differences in the financial ratios under the historical cost and fair value measurement.

Keywords: *Historical cost, fair value, financial ratios and plantation companies*

1. Introduction

Financial reporting is one of the major functions of the financial accounting. Here financial statement plays a vital important role in the decision making. Generally management of the company has responsibility to prepare the financial statement. Every stake holders of the company pays key concern on financial statement especially shareholders have key interest on the company's financial statement. Financial statement of the company is prepared based on the accounting standards and accounting policies. Sri Lanka adopted international financial reporting standards from 1st January 2012. Management of the company may able to do the earnings management and earnings manipulation on the financial statement according to their personal benefits/ interest. Due to that there is huge problem in the financial reporting which is one of the contemporary issues in the financial reporting. Measurement plays a vital role in the earnings management and earnings manipulation on the financial statement. Specially according to international/ Sri Lanka financial reporting standards suggest some measurement techniques for some specific area here some management has possibility to use measurement for earnings management and earnings manipulation on the financial statement. There are 20 listed plantation companies in Sri Lanka which major companies adopted international financial reporting standards from 1st January 2012. IFRS very clearly states that biological assets which mean living plants and animals must be carried at fair value. Also IFRS suggested that agricultural assets must be carried at their net fair value when they were harvested. After the adoption of international financial reporting and international accounting in Sri Lanka, many corporate specially listed plantation companies started to adopt the fair value as a measurement for historical cost base from 2012/2013 financial year. There are several measurement techniques are available such as historical cost, current cost, fair value and present value. Mainly Sri Lankan companies were more familiar with historical host as measurement in the financial reporting for a long period of time. Generally historical cost and fair value measurement is the major measurement base in the financial reporting. Historical cost means that assets are recorded at the amount of cash or cash equivalents paid or the fair value of consideration given to acquire them at the time of their acquisition. Liabilities