

IMPACT OF IMPAIRMENT LOSS ON PROFITABILITY AND CAPITAL STRUCTURE OF LISTED MANUFACTURING COMPANIES IN SRI LANKA.

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Abstract

This paper investigates the effects of impairment of assets on profitability and capital structure of listed manufacturing companies in CSE in Sri Lanka. The study data have been collected from the financial statements during a five years periods of 2008-2012. The study attempt to find the answer to the question that does impairment of assets affect the profitability and capital structure of the companies?. The study sample consists of 37 companies. Impairment loss is independent variable and profitability and capital structure are dependent variables. The descriptive statistics were used and then Pearson's correlation coefficient was used to identify the relationship between the variables. The regression analysis was used to identify the impact of impairment loss on profitability and capital structure. The study found that impairment of assets was found to have a negative impact on profitability and capital structure. The findings also confirmed that changes by impairment have significant impact on profitability and capital structure in case of listed manufacturing companies in CSE.

Keywords: *impairment of assets, profitability, and capital structure*

1. INTRODUCTION

In the wake of the recent global financial crisis, many companies have been placed under the spotlight and their capital adequacy levels come into question. A need was identified to investigate the impact that assets valuation and capital structure related to maintain the balancing of accounting information within relevant and reliability and whether the companies achieve its

purpose of ensuring the stability in the market. The objective of the financial statement is to provide organized information on the financial performance, asset structure, net income and cash flows of a company, essential for the various users of the document. For this reason the accounting standards attribute great importance to disclosure, in order to provide information which allows users with an adequate

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