CHAPTER V

ANALYSIS OF DATA

5.1.0 INTRODUCTION

PART ONE

5.2.0 APPLICATION OF PERCENTAGES AND DESCRIPTIVE STATISTICS

5.3.0 DISCLOSURE IN SUB-ITEMS AND MAIN ITEMS

5.3.1 Classification of Total Assets
5.3.2 Classification of Long-Term Assets
5.3.3 Classification of Property, Plant, and Equipment
5.3.4 Gross Value and Accumulated Depreciation of Property, Plant & Equipment
5.3.5 Other Information of Property, Plant & Equipment
5.3.6 Classification of Other Long-Term Assets
5.3.7 Long-Term Investments and Etc.
5.3.8 Long-Term Receivables and Amortization of Expenditure
5.3.9 Goodwill Recognized During the Period
5.3.10 Classification of Current Assets
5.3.11 Cash
5.3.12 Marketable Securities
5.3.13 Breakdown of Receivables
5.3.14 Allowance, Aging, and Dependence on Few Customers
5.3.15 Breakdown of Total Inventory
5.3.16 Inventory Valuation and Related Information
5.3.17 Construction Work-in- Progress
5.3.18 Advance, Retention, and Amount Due of Construction Work
5.3.19 Gross and Segregated Values of Current Liabilities
5.3.20 Payables
5.3.21 Other Information of Current Liabilities
5.3.22 Classification of Long-Term Liabilities
5.3.23 Information Relevant to Long-Term Liabilities
5.3.24 Off Balance Sheet Finance and Minority Interest
5.3.25 Classification of Share Capital
5.3.26 Share Capital Information
5.3.27 Information on Reserves and Surplus
5.3.28 Revenue/ Sales
5.3.29 Investment Income
5.3.30 Profit/Loss on Different Activities
5.3.31 Cost of Goods Sold
5.3.78 Other Accounting Related Items
5.3.79 Disclosure Levels of Sub-items

5.4.0 DISCLOSURE OF GROUP ITEM INFORMATION

5.4.1 Balance Sheet Items
5.4.2 Income Statement Items
5.4.3 Cash Flow Items
5.4.4 Measurement and Valuation Items
5.4.5 Value Added Statement
5.4.6 Quantity Accounting Information Items
5.4.7 Historical Information Items
5.4.8 Future Expectation Estimate Items
5.4.9 Human Resource Accounting Items
5.4.10 Social Responsibility Accounting Items
5.4.11 Share Market Information
5.4.12 Management Discussion and Audit Opinion Items
5.4.13 Information on Ratios
5.4.14 Other Accounting Disclosure Items
5.4.15 Relative Disclosure of Group Items

5.5.0 SUMMARY DISCLOSURE

5.5.1 Nonfinancial Statement Disclosure Percentages
5.5.2 Financial Statement Disclosure Percentages
5.5.3 Total Disclosure Score Percentages
5.5.4 Sectarian Disclosure of Accounting Information
5.5.5 Classification of Annual Reports
5.5.6 Disclosure Results in Some Other Studies and in the Sri Lankan Study

5.6.0 CONCLUSION

PART 11

5.7.0 TESTING OF HYPOTHESES

5.7.1 Techniques Applied for Testing Hypotheses
5.7.2 Satisfactory Nature of Accounting Information
5.7.3 Time Variation in Disclosure of Accounting Information
5.7.4 Disclosure and Total Economic Resources
5.7.5 Disclosure and Value Gap of Ordinary Shares
5.7.6 Earnings Margin and Disclosure
5.7.7 Application of Multiple Regression

5.8.0 CONCLUSION
ANALYSIS OF DATA

5.1.0 INTRODUCTION

This chapter empirically examines the disclosure of accounting information practice in annual reports of publicised major listed companies in Sri Lanka. The chapter consists of two parts. In the Part -1, current disclosure practice is examined by applying percentages and descriptive statistics. Five hypotheses relevant to the disclosure are tested in the Part-2.

PART ONE

5.2.0 APPLICATION OF PERCENTAGES AND DESCRIPTIVE STATISTICS

Uniformity among the collected data on disclosure of accounting information may not exist. Therefore, statistical analysis is useful in interpretation of collected data to conclude the facts. Percentages, and descriptive statistics such as maximum value, minimum value, range, mean value, median value, mode value, standard deviation, variance, coefficient of variation, kurtosis, and skewness are applied to current disclosure items of the 1998/99 annual reports. Many researchers have applied percentages and descriptive statistics to examine the disclosure practice in annual reports. The studies of Jawahar Lal\(^1\) and Stanga\(^2\) are two examples for use of the percentages. The studies of Hossain et al.\(^3\) and Wallace et

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\(^1\) Jawahar Lal; Corporate Annual Reports: Theory & Practice; Sterling Publishing Private Ltd.; 1985, pp. 110 – 121.
al., are two examples for using of the descriptive statistics. Percentages are mainly used to examine the level of disclosure of sub-items. A sub-item appearing in the index of disclosure may or may not be applicable to an annual report. For each of the sub-items nonapplicable disclosure percentage, applicable disclosure percentage, and actual disclosure percentage are calculated. The nonapplicable disclosure percentage denotes the percentage of company annual reports for which an item of disclosure is not applicable due to company environment, characteristics, and type of transactions. The applicable disclosure percentage denotes the percentage of company annual reports for which an item of disclosure is applicable due to the above mentioned reasons. The actual disclosure percentage is the number of annual reports disclosing an item as a percentage of the applicable number of annual reports. While calculation of percentages provides relative level of disclosure of information on sub-items, it may not be valuable to understand the main items, group items, and summary disclosure. The descriptive statistics are used to examine the disclosure of main items, group items, and summary disclosure. They are not valuable to study the disclosure practice of sub-items. The maximum value denotes the highest number in a series of numbers. The minimum value is the lowest number in a series of numbers. All the values in the series are between the maximum and minimum numbers. The central value represents the data in the form of a single number. This value is located at the center of data. The collected data of the series are distributed around it. The mode, median, and mean are three popular methods of expressing the central value of a series of numbers. Mode is the value, which occurs most frequently, in a given series of data. Median

4 Wallace, R.S.O., Nasar, Kamal and Mora, Araceli; The Relationship Between the Comprehensiveness of Corporate Annual Reports and Firm Characteristics in Spain; Accounting and Business Research; Vol. 25, No. 97, 1994, p. 30.
is the value, which is located in the middle of data, when they are arranged in an increasing or decreasing order. Mean is calculated by dividing the total value of all data by the number of observations, and it is the arithmetic average. The mode, median, and mean give an idea about the value around which data are distributed. Calculation of the dispersion denotes the extent to which data are scattered around the central value. In this analysis the range, standard deviation, and coefficient of variation are calculated to examine the dispersion of data around the central value. The difference between the lowest and the highest values of a given data is the range. The standard deviation is the positive square root of the average of the squares of the deviations of all the data from arithmetic mean. The standard deviation is most commonly used as a measure of spread and most of the statistical calculations are based on standard deviation.\(^5\) The coefficient of variation is a relative measure of dispersion, which is usually expressed as a percentage. It is calculated by dividing the standard deviation by its mean and multiplying by hundred. This can be used for comparing variability or dispersion among different sets of data or observations. The skewness and kurtosis describe the characteristics of the frequency curve of a distribution of data. Kurtosis explains the shape and hump of the frequency distribution.\(^6\) If the curve is neither flat nor peaked is ‘Meso Kurtic’. The curve, which is more, peaked than a normal curve is known as ‘Lepto Kurtic’. If the curve is flatter than a normal curve it is called ‘Flaty Kurtic’. The skewness explains the right or left tails of the frequency curve and denotes the lack


of symmetry. Any deviation from symmetry is called skewness. It can be positive or negative.

5. 3.0 DISCLOSURE IN SUB-ITEMS AND MAIN ITEMS

The SCHEDULE – F, Current Disclosure Statistics of Main Items and Sub-items, shows percentage disclosure for sub-items and descriptive statistics for main items. Its data were collected from annual reports for the year 1998/99. In the case of one company, an annual report of the year 1997/98 was used. At the time of analysis of data it had not published the annual report for the year 1998/99, and its latest annual report was 1997/98.

5.3.1 CLASSIFICATION OF TOTAL ASSETS

The classification of total assets into two groups as long-term assets and current assets was applicable to all the companies. All of them had assets of these two types. Fifty percent of the companies classified their long-term assets either as long-term assets or by using another terminology such as fixed assets. Ninety-two percent of the companies have classified their current assets under a separate heading. Under classification of total assets the scores of standard disclosure and maximum were 3.4 per each, and the minimum disclosure score was zero. The mean, median, and mode were 2.41, 2.55, and 3.4, respectively. Range was 3.4. While standard deviation was 1.11 coefficient of variation was 0.46. Variance was 1.24. Kurtosis was −0.42 and skewness was −0.68.

5.3.2 CLASSIFICATION OF LONG TERM ASSETS

The classification of long term assets was applicable to all the companies. Ninety-six percent of the companies had assets of property, plant, & equipment, and all of them had disclosed it. While, 92 percent of the companies had other long-term assets only 46 percent of them had disclosed other long-term
assets under a separate heading. The standard disclosure was 3.4. While, the maximum was 3.4 the minimum was 1.7. The mean and median were 2.55 per each. The mode and range were 1.7 per each. The standard deviation, coefficient of variation and variance were respectively 0.87, 0.34 and 0.75. The value of the kurtosis was −2.19. The curve was not skewed.

5.3.3 CLASSIFICATION OF PROPERTY, PLANT & EQUIPMENT

The long-term assets of 96% of the companies were applicable for this classification, and all of them had the classification. Eighty-eight percent of the companies had land and buildings and all of them had distinguished it as freehold or leasehold. The plant and equipment and other categories were applicable to 92% of the companies and all of them had this sub-classification. While, 38% of the companies had assets in the course of construction, 4% of the companies had assets acquired on installment purchase basis. All of them had disclosed the nature of the assets. The standard disclosure score was 2.9. While, the maximum disclosure was 2.9 the minimum disclosure score was 2.18, and the range was 0.72. The value of the mean was 2.79. The median and mode were 2.9 per each. The standard deviation and coefficient of variation were 0.24 and 0.09, respectively. The variance was 0.06. While the kurtosis was 2.51 the skewness was −2.01.

5.3.4 GROSS VALUE AND ACCUMULATED DEPRECIATION OF PROPERTY PLANT AND EQUIPMENT

The opening gross value, opening accumulated depreciation, closing gross value, closing accumulated depreciation, and reconciliation were applicable to 96% of the companies. Their disclosure levels were at 100%, except for the opening accumulated depreciation for which the disclosure was at 96%. The standard disclosure, maximum, median, and mode of this main item were at 2.7 per
each. While the minimum was at 1.62 the mean was at 2.61. The range was 1.08 and the standard deviation was 0.27. The coefficient of variance was 0.1 and the variance was 0.07. The kurtosis was 8.95 and the skewness was −2.99.

5.3.5 OTHER INFORMATION OF PROPERTY PLANT & EQUIPMENT

The resale or revaluation value, capitalized interest, classification, and nature of major capital projects were the sub-items discussed under this main item. The resale or revaluation value was applicable to 96% of the companies and 52% of them had disclosed it. The capitalized interest was applicable only to 4% of the companies and they had 100% disclosure. The classification was applicable to 92% of the companies and they had disclosed it. Nature of major capital project was applicable to 12% of the companies. It was disclosed by all of them. The standard disclosure, maximum, median, and mode values of the other information of property, plant, and equipment were 2.1 per each. While the mean was 1.61 range was 1.05. The standard deviation and the variance were 0.52 and 0.28, respectively. The coefficient of variance was 0.32. The kurtosis and skewness were −2.13 and −0.14, respectively.

5.3.6 CLASSIFICATION OF OTHER LONG TERM ASSETS

The long-term investment was applicable to 88% of the companies and 91% of them had disclosed it. Long term receivable was applicable to 8% of the companies and 50% of them had the disclosure. The goodwill, patents trade marks & etc, and expenditure carried forward, were applicable to 38%, 4%, and 42% of the companies, respectively. All of them had 100% disclosure. The research and development cost is considered as a non-applicable item in the study. There is no possibility of obtaining applicability information of this sub-item from the annual reports. The standard disclosure score, maximum, median, and mode
were two for each. The minimum, and mean were 0.68 and 1.89, respectively. The range was 1.32. Coefficient of variation was 0.18. The standard deviation and variance were 0.34 and 0.12, respectively. While the kurtosis was 9.15, the skewness was −3.17.

5.3.7 LONG TERM INVESTMENT AND ETC.

Under this main item investment in subsidiaries, names of invested companies, other investments, market value of marketable investments, fair value if not presented at fair value, date and name of valuers and foreign investments are discussed. Investments in subsidiaries and associates, and disclosure of company names were applicable to 71% of the companies. All of them had proper disclosure. The other investments, and market value of marketable investments were applicable to 54% of the companies, and they had 100% disclosure. The fair value if not at fair value was applicable to 42% of the companies. Forty percent of them had disclosed this sub-item. The date and name of the valuers was applicable for 29% of the companies. Fifty-seven percent of the companies had disclosed this sub-item. Foreign investments were applicable to 8% of the companies and all of them had the disclosure. The standard disclosure, maximum, median, and mode were 3.1 per each. The mean was 2.8. The range, standard deviation, coefficient of variance, and variance were 1.02, 0.42, 0.15, 0.18, respectively. While kurtosis was −1.01 the skewness was −0.87.

5.3.8 LONG-TERM RECEIVABLES AND AMORTIZATION OF EXPENDITURE

Accounts & notes receivable, receivables from directors, receivables from associate companies, intercompany receivables, amortization methods and rates relevant to expenditure, and reconciliation of unamortized cost were the sub-items discussed under this main item. There were no applicable
companies for receivables from directors, and associate company receivables. Accounts and notes receivable, and intercompany receivables were applicable for 8% of the companies. All of them had proper disclosure. The amortization methods and rates were applicable for 25% of the companies. While 75% of them had disclosed the methods 83% of them had disclosed the rates. The reconciliation of unamortized cost was applicable to 12% of the companies and all of them disclosed it. The standard disclosure, maximum, median, mode, and range were 2.4 per each. The minimum was zero and the mean was 2.1. The standard deviation, coefficient of variance, and variance were 0.85, 0.4, and 0.72, respectively. While the kurtosis was 8 the skewness was –2.83.

5.3.9 GOODWILL RECOGNIZED DURING THE PERIOD

Acquisition of goodwill during the period and the amount of goodwill were discussed under this main item. The applicable percentage was 4%, and the standard and actual disclosure was 2.4.

5.3.10 CLASSIFICATION OF CURRENT ASSETS

The cash, investments, receivables, inventories, construction work, total of current assets were the sub-items discussed under this main item. The sub-items of cash, receivables, and total current assets were applicable for all the companies. While investment was applicable for 33% of the companies inventory was applicable for 79% of the companies. The construction work was applicable for 4% of the companies. While the total current assets had 92% disclosure the other items of applicable companies had 100% disclosure. The standard disclosure, maximum, median, and mode were 3.7 per each. While the minimum was 2.78 the mean was 3.62. The range, standard deviation, coefficient of variation, and
variance were 0.92, 0.26, 0.07, and 0.07, respectively. While the kurtosis was 9.12 the skewness was –3.22.

5.3.11 CASH

The cash in hand and at current accounts was applicable to all the companies and had 100% disclosure. The cash not immediately available was applicable only for 17% of the companies and 75% of them had the disclosure. The standard disclosure, maximum, median, and mode were 3.8 per each. While the minimum was 1.9 the mean was 3.72. The range, standard deviation, coefficient of variation, and variance were 1.9, 0.39, 0.1, and 0.15, respectively. The skewness was –4.9.

5.3.12 MARKETABLE SECURITIES

The sub-items of this main item, cost of securities, and market value were applicable for 33% of the companies. Eighty-eight percent of the applicable companies had disclosed cost of securities. The disclosure percentage of the market value was 63%. The standard disclosure, maximum, median, mode, and range were 3.1 per each. While the minimum was zero the mean was 2.33. The standard deviation, coefficient of variation, and variance were 1.17, 0.5, and 1.37, respectively. The kurtosis was 0.88 and the skewness was –1.32.

5.3.13 BREAKDOWN OF RECEIVABLES

Accounts & notes receivable, receivables from directors/ officers/ employees, intercompany receivables, associate/ related company receivables, prepaid expenses, and other receivables are discussed under this main item. The first was applicable for 96% of the companies. The second was applicable for 29% of the companies. The third and fourth were applicable for 42% of the companies. All applicable companies had 100% disclosure relevant to these four items.
Prepaid and other expenses are applicable for 96% of the companies and the disclosure percentage was 74%.

5.3.14 ALLOWANCE, AGING, AND DEPENDENCE ON FEW CUSTOMERS

Allowance or provision for doubtful debts, aging schedule, and dependence on few customers are discussed under this main item. While 96% of the companies were applicable for allowance for doubtful debts only 39% of them had disclosed it. The aging schedule was applicable for 96% of the companies. Only, 9% of them had disclosed it. The standard disclosure, maximum, and range were 2.6 per each. The value of the minimum, median, and mode was zero. The mean was 0.62. The standard deviation, coefficient of variation, and variance were 0.86, 1.39, and 0.75, respectively. While the kurtosis was 0.19 the skewness was 1.1.

5.3.15 BREAKDOWN OF TOTAL INVENTORY

The classification of inventory was available in 79% of the annual reports. The standard disclosure, maximum, median, mode, and range were 2.9 per each. The minimum was zero. The mean was 2.29. The standard deviation, coefficient of variation, and variance were 1.21, 0.53 and 1.48, respectively. While the kurtosis was 0.42 the skewness was -1.54.

5.3.16 INVENTORY VALUATION AND RELATED INFORMATION

Under this main disclosure item, use of LIFO method, and information on writedown were not applicable to any of the annual reports. Resale value of inventory items and inventories at cost or net realizable value were applicable to 83% of the annual reports. While 10% of the annual reports had disclosed the resale value of inventory items 85% of the annual reports had disclosed inventories at cost or net realizable value. Eight percent of the companies
had pledged inventories as security, and had disclosed it in the annual reports. The standard disclosure, maximum, median, and mode were 3.7 per each. The minimum was 2.78 and the mean was 3.62. The range, standard deviation, coefficient of variation, and variance were 0.92, 0.26, 0.07, and 0.07, respectively. While the kurtosis was 9.12 the skewness was –3.22.

5.3.17 CONSTRUCTION WORK IN PROGRESS

This main item was applicable only to 4% of the companies and there was no separate disclosure of work-in-progress or cash received or receivable or gross amount due to customers.

5.3.18 ADVANCE, RETENTION, AND AMOUNT DUE OF CONSTRUCTION WORK

This main item was applicable to 4% of the annual reports. The amount of advance received, amount of retention, and gross amount due from customers was not disclosed by the applicable companies. However, the applicable companies disclosed the gross amount due to customers in the annual report.

5.3.19 GROSS AND SEGREGATED VALUES OF CURRENT LIABILITIES

The bank loans and overdrafts, current portion of long-term liabilities, payables, and total current liabilities are discussed under this main item. The item of bank loans and overdrafts was applicable to 92% of the companies and all of them had disclosed it in the annual report. The current portion of long-term liabilities was applicable to 67% of the companies and all of them had disclosed it in the annual report. The sub-item of payables was applicable to all the annual reports and the disclosure level was at 100%. The total of current liabilities was applicable to all the companies, however only 96% of the companies had disclosed it in the annual report. The standard disclosure, maximum, median, and mode were
3.3 per each. While the minimum was 2.21 the mean was 3.25. The range, standard deviation, coefficient of variation, and variance were 1.09, 0.22, 0.07, and 0.05, respectively. The skewness was –4.9.

5.3.20 PAYABLES

Accounts and notes payable, payables to directors, intercompany payables, associated/related company payables, taxes on income, dividends, accrued expenses, deferred revenue, advances from customers, and other payables are discussed under this main item. Accounts and notes payable was applicable to all the companies and the disclosure were 100%. The payables to directors were not applicable to any of the companies. Inter company payables was applicable to 29% of the companies and the disclosure was 100%. Associated/related company disclosure was applicable to 54% of the companies and the disclosure was at 100%. Taxes on income, dividends, and other payables were applicable to 67% of the annual reports and the disclosure level was at 100%. The accrued expenses were applicable to 96% of the companies and 83% of them had disclosed it. The deferred revenue was applicable to 13% of the annual reports and the disclosure was at 100%. The standard disclosure, maximum, median, and mode were 3.2 per each. While the minimum was 2.56 the mean was 3.11. The range, standard deviation, coefficient of variation, and variance were 0.64, 0.21, 0.07, and 0.04, respectively. The kurtosis was 2.73 and the skewness was –2.06.

5.3.21 OTHER INFORMATION OF CURRENT LIABILITIES

The sub-items of security given, provision, contingent liability, payables on leases, and other information on leases are discussed under this main item. Security given was applicable to 33% of the annual reports and 75% of them had disclosed it. The provision was applicable to 21% of the annual reports and the
disclosure was at 100% level. The contingent liability was applicable to 79% of the annual reports and the disclosure was at 100% level. The payables on leases and other information on leases were applicable to 46% of the annual reports and the disclosure was at 91% for the first sub-item and 55% for the second sub-item. The standard disclosure, maximum, median, mode, and range were 2.4 for each. While the minimum was zero the mean was 2.16. The standard deviation, coefficient of variation, and variance were 0.56, 0.26, and 0.32, respectively. The skewness was –3.14.

5.3.22 CLASSIFICATION OF LONG TERM LIABILITIES

The secured loans/ debentures, unsecured loans/ debentures, intercompany loans, associated/ related company loans, pension fund liability, and deferred taxation are discussed under this main item. The secured loans/debentures was applicable to 58% of the annual reports and the disclosure level was at 93%. Unsecured loans/ debentures, intercompany loans, associated/ related company loans, and deferred taxation were applicable for 46%, 4%, 12%, and 33% of the annual reports, respectively, and all of them had disclosure at 100% level. The pension fund liability was applicable for 71% of the annual reports and the disclosure level was at 94%. The standard disclosure, maximum, median, and mode were 3.8 per each. While the minimum was 1.9 the mean was 3.68. The range, standard deviation, coefficient of variation, and variance were 1.9, 0.42, 0.11, and 0.18 respectively. The skewness was –3.98.

5.3.23 INFORMATION RELEVANT TO LONG-TERM LIABILITIES

The interest rates, repayment terms, covenants and subordination, and amount of unamortised premium are discussed under this main item. The amount of unamortised premium was not applicable to any of the annual reports.
The other 3 sub-items were applicable to 83% of the annual reports. While interest rates had a disclosure of 40% the disclosure of repayment terms was 45%. The disclosure of covenant and subordination was 15%. The standard disclosure, maximum, and range were 2.5 per each. The value of minimum as well as mode was zeros. While the mean was 0.88 the median was 0.43. The standard deviation, coefficient of variation, and variance were 1.03, 1.17, and 1.06, respectively. While the kurtosis was −1.3 the skewness was 0.63.

5.3.24 OFF BALANCE SHEET FINANCE & MINORITY INTEREST

The off-balance sheet financing, and minority interest are discussed under this main item. The off-balance sheet financing was applicable for 25% of the annual reports and 83% of them had disclosed it. The minority interest was applicable for 38% of the annual reports and all of them had disclosed it. The standard disclosure, maximum, median, and mode were 2.2 per each. While the minimum was 1.1 the mean was 2.09. The range, standard deviation, coefficient of variation, and variance were 1.1, 0.35, 0.17, and 0.12, respectively. The skewness was −3.16.

5.3.25 CLASSIFICATION OF SHARE CAPITAL

The ordinary shares, preference shares, other types of shares, total value of share capital, and total value of share capital and reserves are discussed under this main item. The ordinary shares were applicable to all the annual reports and the disclosure was at 100%. The preference shares and other types of shares were applicable to 8% of the annual reports and they had the disclosure at 100% level. The total value of share capital was applicable to all the annual reports and the disclosure was at 96%. The total value of share capital and reserves was applicable to all the annual reports and the disclosure level was at 83%. The
standard disclosure, maximum, median, and mode were four per each. While the minimum was two the mean was 3.77. The range, standard deviation, coefficient of variation, and variance were 2, 0.56, 0.15 and 0.31, respectively. While the kurtosis was 4.07 the skewness was -2.25.

5.3.26 SHARE CAPITAL INFORMATION

The authorized issued and outstanding capital not yet paid in, par value, restriction on dividend and repayment, cumulative preference dividend, and shares reserved for future issue are the sub-items discussed under this main item. The first and third sub-items were applicable for all the annual reports and the disclosure was at 100%. The second sub-item was not applicable for any of the annual reports. The restriction on dividend and repayment was applicable for 8% of the annual reports and all of them had disclosed it. The cumulative preference dividend, and shares reserved for future issue were applicable for 4%, 12% of the annual reports, respectively and all of them had disclosure at 100% level. The standard disclosure and actual disclosure were 3.3 per each. While the kurtosis was -2.19 the skewness was 1.07.

5.3.27 INFORMATION ON RESERVES AND SURPLUS

Under this main item, the total value of reserves was applicable for all the companies and the disclosure was at 100% level. The amount of revaluation surplus, change in revaluation surplus, amount in reserves, change in reserves, amount of retained earnings, change in retained earnings, and restrictions on reserves were 54%, 29%, 83%, 42%, 96%, 25%, and 8%, respectively. All of them had disclosure at 100% level. The amount of share premium was applicable for 63% of the annual reports and the disclosure was at 93%. The change in share premium was applicable only for 12% of the annual reports and the disclosure was
at 67%. The standard disclosure and maximum was 3.9 per each. The minimum was 1.95 and the mean was 3.03. While the median was 3.12 the mode was 2.61. The range, standard deviation, coefficient of variation, and variance were, respectively, 1.95, 0.51, 0.17, and 0.26. The kurtosis was 0.1 and the skewness was –0.43.

5.3.28 REVENUE/ SALES

The sub-item of revenue from exchange of goods was not applicable to any of the annual reports. The sales revenue with classification, sales revenue without classification, contract revenue, interest income, investment income, and other income were applicable for 63%, 37%, 4%, 63%, 58%, and 42% of the annual reports, respectively, and all of them had the disclosure level at 100%. The revenue or loss attributable to foreign transactions was applicable to 37% of the annual reports and the disclosure level was at 89%. The standard disclosure, maximum, median, and mode were 3.1 per each. The minimum was 2.33 and the mean was 3.07. The range, standard deviation, coefficient of variation, and variance were 0.77, 0.16, 0.05 and 0.03, respectively. The skewness was –4.9.

5.3.29 INVESTMENT INCOME

Under this main item the dividends from subsidiaries was applicable to 25% of the annual reports and the disclosure level was at 50%. The dividend from nonsubsidiaries was applicable to 33% of the annual reports with a disclosure level of 63%. The sub-item of interest, royalties, rentals, and commission was applicable to 63% of the annual reports and had the full disclosure. The parent company share of each subsidiary was applicable for 46% of the companies and the disclosure was at 91%. The standard disclosure, maximum, median and mode
were at 2.8 per each. While the minimum was 0.95 the mean was 2.51. The range, standard deviation, coefficient of variation, and variance were 1.85, 0.6, 0.24, and 0.36, respectively. The kurtosis was 1.76. The skewness was −1.79.

5.3.30 PROFIT/LOSS ON DIFFERENT ACTIVITIES
The correction of fundamental errors was not applicable for any of the annual reports. The disposal or change in value of noncurrent assets was applicable for 58% of the annual reports. The nonrecurring activities and extraordinary items were applicable for 8% of the annual reports. All of the applicable annual reports had disclosure of these sub-items at 100% level. The standard disclosure as well as actual disclosure was three.

5.3.31 COST OF GOODS SOLD
The cost of goods or services sold was applicable for 92% of the annual reports and the disclosure was at 63% level. The standard disclosure, maximum, median, mode, and range were 3.6 per each. While the minimum was zero the mean was 2.29. The standard deviation, coefficient of variation, and variance were 1.77, 0.77, and 3.14, respectively. While the kurtosis was −1.8 the skewness was −0.61.

5.3.32 AMOUNT AND BREAKDOWN OF OPERATING EXPENSES
Due to lack of sufficient information in annual reports, the sub-items of advertising and publicity, cost of safety measures, maintenance and repairs, royalties, and rent are considered as nonapplicable items. The audit fee was applicable for all the annual reports and the disclosure was at the level of 100%. The remuneration to top executives was applicable for 92% of the annual reports and no company had disclosed it. The depreciation and depletion was applicable for 92% of the annual reports and all of them had disclosed it. The remuneration to
directors, and interest and financial cost were applicable for 96% of the annual reports, and the disclosure levels were at 96% and 87%, respectively. The any other expense was applicable for 63% of the annual reports, and the disclosure level was 100%. The standard disclosure and maximum were 2.9 per each. The minimum and mean were 1.62 and 2.33, respectively. The value of the median as well as mode was 2.47. The range, standard deviation, coefficient of variation, and variance were 1.28, 0.27, 0.12, and 0.07, respectively. While the kurtosis was 2.19 the skewness was –1.12.

5.3.33 OTHER INFORMATION OF EXPENSES AND DEDUCTIONS

The classification of fixed and variable expenses was applicable to all the companies, however no annual report had disclosed it. The research and development, amortization of intangible assets, and donations were applicable to 4%, 12%, and 54% of the annual reports, respectively and all of them had disclosure at 100% level. The taxes other than income taxes were applicable to 88% of the annual reports, and the disclosure was at 81%. The standard disclosure was 2.7. While the maximum was 2.03 the minimum was zero. The mean, median, mode, and range were 1.41, 1.35, 1.35, 2.03, respectively. While the standard deviation was 0.44 the variance was 0.19. The coefficient of variation was 0.31. While the kurtosis was 3.4 the skewness was –1.29.

5.3.34 APPROPRIATIONS

The goodwill written off, income tax expenses, transfer from or to reserves, interim dividend, and proposed dividend, were applicable for 17%, 83%, 33%, 37%, and 58% of the annual reports, respectively, and they had disclosure at 100% level. The separate statement of accumulated profit or loss was applicable for all the annual reports, however the disclosure level was at 8%. The standard
disclosure, maximum, and range were 2.9 per each. While the minimum was zero
the mean was 1.87. The median and mode were 1.94 and 1.45, respectively. The
standard deviation, coefficient of variation, and variance were 0.72, 0.39, and 0.52,
respectively. While the kurtosis was 2.28 the skewness was –1.32.

5.3.35 CASH FLOW OF OPERATING ACTIVITIES

The cash flows from operating activities and net cash from
operating activities were disclosed in all the annual reports. The standard
disclosure as well as actual disclosure was 3.1.

5.3.36 CASH FLOW OF INVESTING ACTIVITIES

All the annual reports disclosed the cash flows from investing
activities, and net cash used in investing activities. The standard disclosure as well
as actual disclosure was 2.9.

5.3.37 CASH FLOW OF FINANCING ACTIVITIES

All the annual reports disclosed the financing activities, and net
cash used in financing activities. The standard disclosure as well as actual
disclosure was 2.9.

5.3.38 NET EFFECT OF CASH FLOW

The net increase in cash and cash equivalent, cash and cash
equivalent at the beginning of the period, cash and cash equivalent at the end of the
period were disclosed in 96% of the annual reports, and one company did not
disclose the information. While the standard disclosure and maximum disclosure
were 2.8 per each the minimum disclosure was zero.

5.3.39 GENERAL ACCOUNTING POLICIES

The basis of accounting and disclosure of accounting policies in one
place were applicable for all the companies, and the annual reports had disclosed
these two sub-items at 100% level. In Sri Lanka, financial statements are not adjusted for inflation except for the revaluation of land. The statement of no adjustment for inflation is applicable to all the annual reports. However, only 54% of the annual reports had the inflation statement. The standard disclosure, maximum, median, and mode were 3.7 per each. While the minimum was 2.48 the maximum was 3.14. The range, standard deviation, coefficient of variation, and variance were 1.22, 0.62, 0.2, and 0.39, respectively. While the kurtosis was −2.16 the skewness was −0.18.

5.3.40 DEPRECIATION ACCOUNTING POLICY

The depreciation method and basis of calculation were applicable for 96% of the annual reports, and the level of disclosure was 100%. The standard disclosure as well as the actual disclosure was 3.4.

5.3.41 ACCOUNTING POLICY ON REVALUATION OF FIXED ASSETS

The basis used, nature of any indices used, effective date of revaluation, and use of any independent valuer were applicable for 58% of the annual reports, and the disclosure levels were at 36%, 0%, 79%, and 86%, respectively. The standard disclosure, maximum, and range were 3.3 per each. The minimum was zero. The mean, median, and mode were 1.9, 1.91, and 1.65, respectively. The standard deviation, coefficient of variation, and variance were 0.9, 0.47, and 0.81, respectively. While the kurtosis was 0.43 the skewness was −0.34.

5.3.42 ACCOUNTING POLICY ON GOODWILL

The goodwill and its period of amortization were applicable for 46% of the annual reports and the disclosure levels were at 91% and 64%, respectively. The goodwill and fair value adjustment, and valuation of intangible
assets were applicable for 4% and 12% of the annual reports, respectively, and the disclosure was at 100% level. The standard disclosure, maximum, median, mode, and range were 3.3 per each. The minimum was zero and the mean was 2.65. The standard deviation, coefficient of variation, and the variance were 1.07, 0.4, and 1.14, respectively. While the kurtosis was 3.18 the skewness was –1.81.

5.3.43 ACCOUNTING POLICY ON INVESTMENTS

The accounting for associate and other investments, treatment of changes in market value, disclosure of market value of marketable investments are applicable for 54%, 8%, and 58% of the annual reports, and the disclosure was at 100%. The accounting for subsidiaries was applicable for 58% of the annual reports, and the disclosure level was at 93%. The treatment of changes in market value was applicable for 88% of the annual reports and had a disclosure level of 95%. The frequency of revaluation of long-term assets was applicable for 17% of the annual reports, and half of them had disclosed it. The standard disclosure, maximum, median, mode, and range were 3.2 per each. While the minimum was zero the mean was 2.98. The standard deviation, coefficient of variation, and variance were 0.71, 0.24, and 0.5, respectively. The skewness was –3.97.

5.3.44 ACCOUNTING POLICIES ON REVENUE, EXPENSES AND DEDUCTIONS

The annual reports did not have accounting policies on research and development, and advertising and publicity. The taxation, revenue recognition, dividend, and non-operating income and expenses were applicable for all the companies and the disclosure levels were at 96%, 92%, 21%, and 4%, respectively. The leasing income, and contract revenue were applicable for 12% and 4% of the companies, respectively, and the disclosure was at 100%. The standard disclosure was at 3.5. The maximum as well as the range was 2.8. The minimum was zero.
The mean, median, and mode were 1.91, 1.75, and 1.75, respectively. The standard deviation, coefficient of variation, and variance were 0.61, 0.32, and 0.37, respectively. While the kurtosis was 3.34 the skewness was −1.18.

5.3.45 OTHER ACCOUNTING POLICIES

The valuation of inventories, retirement benefits, government grants, foreign currency translation, business combination, and long-term leases are discussed under this main item. The valuation of inventories, retirement benefit, and government grant were applicable for 88%, 88%, and 12% of the companies, respectively, and the disclosure level was 100%. The foreign currency translation was applicable for 83% of the annual reports and 95% of them had disclosed it. The business combination was applicable for 58% of the annual reports with a disclosure level of 93%. The long-term lease was applicable for 58% of the annual reports. Seventy-nine percent of them had disclosed it. The standard disclosure, maximum, median, and mode were three per each. While the minimum was 2.25 the mean was 2.84. The range, standard deviation, coefficient of variation, and variance were 0.75, 0.32, 0.11, and 0.1, respectively. While the kurtosis was 0.16 the skewness was −1.47.

5.3.46 VALUE-ADDED STATEMENT

The value created, retained within the business, and contributions to employees, government, lenders, and capital providers are discussed under the value-added statement. This main item was applicable for all the companies. Forty-six percent of the annual reports had disclosed it. The standard disclosure, maximum, and range were 2.1 per each. The value of minimum, median, and mode was zero. The mean was 0.96. The standard deviation, coefficient of variation, and
variance were 1.07, 1.11, and 1.14, respectively. While the kurtosis was -2.16 the
skewness was 0.18.

5.3.47 QUANTITY INFORMATION OF INVENTORIES

Quantity information of rawmaterials, work-in-progress, and
finished goods were applicable for 67% of the annual reports, and they have not
disclosed it. The standard disclosure was 3.1.

5.3.48 QUANTITY INFORMATION OF PRODUCTION

The productive capacity and breakdown of type of production were
applicable for 75% of the annual reports and 39% and 17% of them had the
disclosure, respectively. Geographical breakdown of production was applicable to
71% of the annual reports, and 12% of them had disclosed it. The standard
disclosure, maximum, and range were three per each. The value of minimum,
median, and mode was zero. The mean was 0.71. The standard deviation,
coefficient of variation, and variance were 1.12, 0.02, and 1.26, respectively. While
the kurtosis was 0.6 the skewness was 1.41.

5.3.49 QUANTITY INFORMATION OF SALES

The share of market in major products, units sold, breakdown of
sales, and growth in units were applicable for 96% of the annual reports, and the
levels of disclosure were at 48%, 26%, 22%, and 9%, respectively. The standard
disclosure, maximum, and range were 3.2 per each. The minimum was zero. The
mean, median, and mode were respectively, 0.83, 0.8, and 0. The standard
deviation, coefficient of variation, and variance were, 1.01, 1.22, and 1.02,
respectively. While the kurtosis was -0.24 the skewness was 0.96.
5.3.50 NON-FINANCIAL INFORMATION OF EMPLOYEES & DIRECTORS

The information of directors was applicable to all the annual reports and all of them had disclosed it. The number of employees, breakdown of employees, number of employees recruited, number of employees left, absenteeism, number of employees trained, and number of research personnel employed were applicable for 92% of the annual reports. The number of employees, breakdown of employees, and number of employees trained had disclosure levels of 57%, 27%, and 9%, respectively. The disclosure level of other sub-items was zero. The standard disclosure as well as maximum was 1.7. The value of minimum as well as mode was 0.22. While the mean was 0.46 the median was 0.33. The range, standard deviation, coefficient of variation, and variance were 1.48, 0.35, 0.76, and 0.12, respectively. While the kurtosis was 6.42 the skewness was 2.24.

5.3.51 INFORMATION OF SHAREHOLDERS

The number of shares outstanding was not applicable to any of the annual reports. The numbers of shareholders and general classification of shareholders were applicable for all the annual reports and the level of disclosure was 100%. The stock option outstanding was applicable for 8% of the annual reports, and all of them had disclosed it. The classification as institutions and individuals, shares held by executive officers, shares held by directors, shares held by other employees, largest shareholders and size of holding, geographical distribution of shareholders were applicable for all the companies, and the levels of disclosure were 38%, 4%, 96%, 4%, 38%, and 38%, respectively. The standard disclosure was two. While the maximum was 1.56 the minimum was 0.52. The mean, median, and mode were 1.08, 1.04, and 1.04, respectively. The range was
1.04. The standard deviation, coefficient of variation, and variance were 0.31, 0.29, and 0.1, respectively. While the kurtosis was –0.81 the skewness was 0.35.

5.3.52 PREVIOUS YEAR FINANCIAL STATEMENTS

The information of the previous year balance sheet, profit and loss account, and cash flow statement is considered under this main item. They were applicable to all the companies and the disclosure was at 100% level. The standard as well as the actual disclosure was 3.9.

5.3.53 HISTORICAL SUMMARY OF PROFITS (10 YEARS)

Under this main item and subsequent main items relevant to historical summary information, 10 years data are taken into consideration. Whenever the disclosed information is for a period less than ten yeas, the actual disclosure score was reduced proportionately. Under the historical summary of profits the sub-items of sales, cost of goods sold, gross/operating profit, and net profit/loss are examined. The sales and net profit/loss were applicable for all the annual reports, and the disclosure levels were 54% and 58%, respectively. The cost of goods sold was applicable for 88% of the annual reports and zero was the level of disclosure. The gross/operating profit was applicable to 96% of the annual reports, and the level of disclosure was at 9%. The standard disclosure, maximum, and range were three per each. The value of the minimum and mode was zero. While the mean was 0.77 the median was 0.75. The standard deviation, coefficient of variation, and variance were 0.82, 1.06, and 0.66, respectively. While the kurtosis was 0.67 the skewness was 0.93.

5.3.54 HISTORICAL SUMMARY OF RETURN PER SHARE (10 YEARS)

The earning per ordinary share, dividend per ordinary share or dividend cover, and rate of growth of earning per share were applicable for all the
annual reports, and the levels of disclosure were 46%, 38%, and 46%, respectively. The standard disclosure, maximum, and range were 3.1 per each. The value of minimum and mode was zero. While the mean was 1.08 the median was 0.53. The standard deviation, coefficient of variation, and variance were 1.22, 1.13, and 1.49. While the kurtosis was –1.24 the skewness was 0.56.

**5.3.55 HISTORICAL INFORMATION OF SHARES (10 YEARS)**

The number of shareholders, number of shares, and price range of shares were applicable to all the annual reports, and the disclosure levels were 0%, 13%, and 25%, respectively. The standard disclosure was 2.6. While the maximum was 1.74 the mean was 0.27. Zero was the value of minimum, median, and mode. The range, standard deviation, coefficient of variation, and variance were 1.74, 0.48, 1.78, and 0.23, respectively. While the kurtosis was 2.31 the skewness was 1.68.

**5.3.56 HISTORICAL SUMMARY OF RATIOS (10 YEARS)**

The assets turnover, return on assets, and return on equity were applicable for all the annual reports, and the disclosure levels were 42%, 46%, and 50%, respectively. The standard disclosure, maximum, and range were 3.1 per each. The value of minimum as well as mode was zeros. While the mean was 1.25 the median was 0.53. The standard deviation, coefficient of variation, and variance were 1.38, 1.1, and 1.9, respectively. While the kurtosis was –1.71 the skewness was 0.42.

**5.3.57 HISTORICAL SUMMARY OF BALANCE SHEET VALUES (10 YEARS)**

The total assets, net worth, long term debts, and any other type were applicable to all the companies, and the disclosure levels were 50%, 54%, 54%, and 50%, respectively. The standard disclosure, maximum, and range were 2.8 per
each. The minimum as well as the mode was zeros. While the mean was 1.24 the median was 1.23. The standard deviation, coefficient of variation, and variance were 1.27, 1.02, and 1.62, respectively. While the kurtosis was -1.84 the skewness was 0.23.

5.3.58 HISTORICAL SUMMARY OF INDEXES (10 YEARS)

Under this main item, sales prices and quantity of sales were applicable for all the annual reports. While production price was applicable for 96% of the annual reports, the rawmaterial was applicable for 92% of the annual reports. The disclosure value of all the sub-items was zero. The standard disclosure score was 2.3.

5.3.59 HISTORICAL SUMMARY OF OTHER ITEMS (10 YEARS)

Under this main item, employees and research and development expenditure were applicable for 96% of the annual reports, and the capital expenditure was applicable for all the companies. The disclosure percentage was zero. The standard disclosure was 1.7.

5.3.60 GENERAL ESTIMATES OF FUTURE EXPECTATIONS

The forecasting assumptions and major factors influencing financial statements were applicable for all the companies, and the levels of disclosure were 18% and 21%, respectively. The standard disclosure, maximum, and range were 2.7 per each. The value of minimum, median, and mode was zero. The mean was 0.51. The standard deviation, coefficient of variation, and variance were 1.04, 2.04, and 1.08, respectively. While the kurtosis was 1.14 the skewness was 1.71.

5.3.61 ESTIMATED SALES

The forecasting of market share, projection of orders, quantitative sales forecast, and descriptive sales forecast were applicable for all the annual
reports, and the disclosure levels were 8%, 0%, 4%, and 8%, respectively. While the standard disclosure was 1.7 the maximum was 0.85. The value of the minimum, median, and mode was zero. The mean was 0.09. The range, standard deviation, coefficient of variation, and variance were 0.85, 0.25, 2.78, and 0.06, respectively. While the kurtosis was 6.49 the skewness was 2.75.

5.3.62 ESTIMATED EXPENDITURE

The research and development, advertising and publicity, interest and capital payment, effect of interest rate or inflation, and capital expenditure were applicable for all the annual reports. The disclosure level of capital expenditure was 13% and the disclosure of other sub-items was at zero level. While the standard disclosure was 1.6 the maximum was 0.32. The value of minimum, median, and mode was zero. The mean was 0.04. The range, standard deviation, coefficient of variation, and variance were 0.32, 0.11, 2.75, and 0.01, respectively. While the kurtosis was 4.21 the skewness was 2.42.

5.3.63 PROJECTED FINANCING AND CASH FLOW

The amount of financing, sources of financing, and cash flow projection were applicable for all the annual reports. While the first and second had a disclosure level of 8% the disclosure level of the third was zero. The standard disclosure was 1.6 and the maximum was 1.07. The value of the minimum, median, and mode was zero. The mean was 0.09. The range, standard deviation, coefficient of variation, and variance were 1.07, 0.3, 3.33, and 0.09, respectively. While the kurtosis was 9.12 the skewness was 3.22.

5.3.64 BENEFIT OF SHARE OWNERSHIP

The profit forecast, rate of return on profits, forecast of earning per share, future dividends, expected share price, and dilution of equity were
applicable for all the annual reports and their disclosure level was zero. The standard disclosure score was 2.3.

5.3.65 EXPENDITURE ON HUMAN RESOURCES

The recruitment and training, remuneration, average compensation per employee, and employee welfare expenditure were applicable for 96% of the annual reports, and the disclosure levels were 4%, 61%, 0%, and 4%, respectively. While the standard disclosure was 2.6 the maximum was 1.3. The minimum was zero. The mean, median, and mode were 0.45, 0.65, and 0.65, respectively. The range, standard deviation, coefficient of variation, and variance were 1.3, 0.41, 0.91, and 0.17, respectively. While the kurtosis was –0.52 the skewness was 0.34.

5.3.66 OTHER FINANCIAL INFORMATION OF HUMAN RESOURCES

The pension and retirement plan, major labor contract, and scheme of issuing shares to employees are discussed under this main item. The major labor contract was not applicable to any of the annual reports. The pension and retirement plan was applicable for 96% of the annual reports, and the disclosure was at 87% level. The scheme of issuing shares to employees was applicable for 13% of the annual reports and the disclosure was at 100% level. The standard disclosure, maximum, median, mode, and range were 2.2 per each. While the minimum was zero the mean was 1.91. The standard deviation, coefficient of variation, and variance were 0.76, 0.4, and 0.57, respectively. The kurtosis was 3.86 and the skewness was –2.35.

5.3.67 SOCIAL RESPONSIBILITY ACCOUNTING

The statement of company social responsibility, quantitative information on environment, qualitative information on environment, and local content of rawmaterial were applicable for all the annual reports, and the disclosure
levels were 38%, 21%, 4%, and 4%, respectively. The standard disclosure, maximum, and range were 2.8 per each. The value of the minimum, median, and mode was zero. The mean was 0.53. The standard deviation, coefficient of variation, and variance were 0.83, 1.57, and 0.69, respectively. While the kurtosis was 1.44 the skewness was 1.55.

5.3.68 SHARE MARKET INFORMATION

The market capitalization at year end, summary of share prices, share price trend behavior, market value per share were applicable for all the annual reports, and the disclosure levels were at 29%, 63%, 33%, and 79%, respectively. The standard disclosure, maximum, and range were 2.6 per each. The minimum was zero. The mean was 1.33. The value of median and mode was 1.3. The standard deviation, coefficient of variation, and variance were 0.89, 0.67, and 0.79, respectively. While the kurtosis was −0.97 the skewness was −0.19.

5.3.69 MANAGEMENT DISCUSSION OF SALES AND PROFITS

Management discussion on sales and profits were applicable for 96% of the annual reports. While all of them had discussions on the net profit only 96% had discussions on the sales. Nine percent of the annual reports had discussion on sales. The standard disclosure and maximum were 2.3 per each. While the minimum was 0.78 the mean was 1.61. The values of median and mode were 1.54 per each. The range, standard deviation, coefficient of variation, and variance were 1.52, 0.32, 0.2, and 0.1, respectively. While the kurtosis was 3.4 the skewness was 0.7.

5.3.70 MANAGEMENT DISCUSSION ON EXPENSES

The management discussion on expenses was applicable for 96% of the annual reports. No discussion on research and development appeared in any of
the annual reports. While 22% had discussions on selling and administrative expenses 35% of the annual reports contained discussions on interest and/or inflation. The standard disclosure was two. The maximum was 1.34. The value of the minimum, median, and mode was zero. The mean was 0.38. The range, standard deviation, coefficient of variation, and variance were 1.34, 0.45, 1.18, and 0.2, respectively. While the kurtosis was −0.44 the skewness was 0.74.

5.3.71 MANAGEMENT DISCUSSION ON ASSETS

The management discussion on inventory was applicable for 67% of the annual reports and no one had any discussion. The sub item accounts receivable was applicable for 96% of the annual reports, and the disclosure level was 9%. The capital expenditure and any other assets were applicable for all the annual reports, and the disclosure levels were 33% and 21%, respectively. The standard disclosure was 1.8. The maximum was 0.9. The value of the minimum, median, and mode was zero. The mean was 0.28. The range, standard deviation, coefficient of variation, and variance were 0.9, 0.35, 1.25, and 0.12, respectively. While the kurtosis was −0.79 the skewness was 0.79.

5.3.72 AUDIT OPINION ON ACCOUNTING INFORMATION

All the annual reports contained audit opinion on financial statements. Eighty-three percent of the companies had unqualified audit opinions. Thirteen percent annual reports had qualified audit opinions. The auditors have disclaimed the expression of opinion relevant to 4% of the companies. The standard as well as the actual disclosure was 3.5.

5.3.73 LIQUIDITY AND LEVERAGE RATIOS

The current ratio, acid test ratio, and equity debt/debt cover ratio were applicable for all the annual reports, and the disclosure levels were 29%, 8%,
and 29%, respectively. The stock turnover ratio was applicable to 67% of the companies and the disclosure level was zero percent. While the standard disclosure was 3.2 the values of the maximum and range were 2.4 per each. Zero was the values of minimum, median, and mode. The mean was 0.59. The standard deviation, coefficient of variation, and variance were 0.79, 1.34, and 0.63, respectively. While the kurtosis was −0.36 the skewness was 0.96.

5.3.74 RATIOS INDICATING EARNING POWER

The net profit/loss to sales and gross profit/loss to sales were applicable for 96% of the annual reports, and the disclosure levels were 4% and 0%, respectively. The sub item of net profit/loss to tangible assets was applicable for all the annual reports, and the disclosure level was 8%. The standard disclosure was three. The values of the maximum and the range were 1.5 per each. The value of the minimum, median, and mode was zero. The mean was 0.15. The standard deviation, coefficient of variation, and variance were 0.41, 2.73, and 0.17, respectively. While the kurtosis was 5.86 the skewness was 2.63.

5.3.75 RATIOS OF RETURN ON CAPITAL

The return on capital employed, return on shareholders’ equity, earning per share, and book value per share were applicable for all the annual reports, and the disclosure levels were 17%, 25%, 75%, and 71%, respectively. The dividend per share, and dividend payout ratio/ dividend cover were applicable for 71% of the annual reports, and the disclosure levels were 71% and 29%, respectively. The standard disclosure, maximum, and range were 3.2 per each. The minimum was zero. The mean, median, and mode were 1.53, 1.63, and 0.54, respectively. The standard deviation, coefficient of variation, and variance were
0.88, 0.58, and 0.78, respectively. While the kurtosis was −0.76 the skewness was −0.11.

5.3.76 GRAPHICAL PRESENTATION OF ACCOUNTING INFORMATION

Under this main item sales and production were applicable for 96% and 88% of the annual reports, and the disclosure levels were 44% and 14%, respectively. The sub-items of net profit and any other information were applicable for all the annual reports, and the disclosure levels were 42% and 58%, respectively. The standard disclosure, maximum, and range were 2.4 per each. The value of the minimum, and mode was zero. The mean was 0.97 and the median was 0.9. The standard deviation, coefficient of variation, and variance were 0.93, 0.96, and 0.86, respectively. While the kurtosis was −0.81 the skewness was 0.1.

5.3.77 SPECIFIC TRANSACTIONS

Under this main item, the sub-items of related party transactions, transactions with government, foreign exchange transactions, and backlog of purchase or sales orders are discussed. The related party transaction was applicable for all the companies and the level of disclosure was 100%. The transaction with government was applicable for 50% of the companies, and had 75% disclosure. The foreign exchange transactions and backlog of purchase/sales orders were applicable for 79% and 92% of the companies, and the disclosure levels were 58% and 5%, respectively. The scores of the standard disclosure and maximum were 2.5 per each. The minimum, mean, median, and mode were 0.63, 1.47, 1.46, 1.88, respectively. The range, standard deviation, coefficient of variation, and variance were 1.87, 0.56, 0.38, and 0.31, respectively. While the kurtosis was −one the skewness was 0.09.
5.3.78 OTHER ACCOUNTING RELATED ITEMS

The statement of financial objectives, economic/industry financial statistics, post balance sheet events, performance budgeting, and declaration of directors as to the veracity of financial statements are discussed here. These sub-items were applicable for all the annual reports. While the disclosure level of performance budgeting was zero that of statement of financial objectives was 4%. The economic/industry financial statistics had a disclosure level of 38%. The disclosure level of post-balance sheet events was 92%. Only 13% of the financial statements had a declaration of directors as to the veracity of financial statements. While the standard disclosure was 2.6 the maximum was 1.56. The minimum was zero. The mean, median, and mode were 0.76, 0.52, and 0.52, respectively. The range was 1.56. The standard deviation, coefficient of variation, and variance were 0.41, 0.54, and 0.16, respectively. While the kurtosis was 0.03 the skewness was 0.75.

5.3.79 DISCLOSURE LEVELS OF SUB-ITEMS

The disclosure levels of sub-items had varied from zero percent to one hundred percent. The TABLE 5 – 1 presents the sub-items at different disclosure levels.

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<thead>
<tr>
<th>TABLE 5 – 1</th>
<th>SUB-ITEMS IN DISCLOSURE LEVELS</th>
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<tbody>
<tr>
<td>Disclosure</td>
<td>NUMBER OF SUB-ITEMS</td>
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<tr>
<td>%</td>
<td>SUB-ITEMS</td>
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<tr>
<td>Non Applicable</td>
<td>18</td>
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<td>0 - 19</td>
<td>80</td>
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<td>20</td>
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<tr>
<td>80 - 100</td>
<td>162</td>
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</tbody>
</table>
Five percent of the sub-items were not applicable for the annual reports. While 24% of the sub-items had a very low level of disclosure of 0 – 19, 47% of the sub-items had a very high level of disclosure between 80 – 100. The disclosure level of 45 items was zero. The disclosure level of 126 items was one hundred. While 37% of the sub-items were below the 40% disclosure level, 63% of the sub-items were above that level. The SCHEDULE – E presents details of disclosure relevant to sub-items.

5.4.0 DISCLOSURE OF GROUP ITEM INFORMATION

The Current Disclosure Levels of Group Items are given in SCHEDULE – G. The Current Disclosure Statistics of Group Items are given in SCHEDULE – I. The main items of accounting information of annual reports are classified under 14 group items of accounting information. The balance sheet, income statement, cash flow statement, measurement & valuation, value added statement, quantity accounting, historical information, future expectation estimates, human resource accounting, social responsibility accounting, share market information, management discussion and audit opinion, ratio information, and other accounting information are the group items of accounting information. The disclosure score of a group item of an annual report is calculated by dividing its actual disclosure by its standard disclosure and converting the result to a percentage. The actual disclosure of a group item is the total value of actual disclosure of its main items. The standard disclosure of a group item is the total value of standard disclosure of its main items. If a main item does not have any sub-item, the two spreadsheet cells relevant to the main item are kept blank to avoid unnecessary aggregation.
5.4.1 BALANCE SHEET ITEMS

The classification of total assets, classification of long-term assets, classification of property plant and equipment, gross carrying amount and accumulated depreciation of property plant and equipment, any other information of property plant and equipment, classification of other long term assets, long term investments and etc., long term investments and amortization of expenditure, goodwill recognized during the period, classification of current assets, cash, marketable securities, breakdown of receivables, other information of receivables, breakdown of total inventory, inventory valuation and other information, construction work in progress, other information of construction works, gross and segregated values of current liabilities, payables, other information of current liabilities, classification of long term liabilities, other information of long term liabilities, off balance sheet financing and minority interest, classification of share capital, other share capital information, information on reserves and surplus are the main items examined under the group item of balance sheet. The disclosure level of balance sheet items was relatively high. While the maximum was 94 the minimum was 76 and the range was 18. The mean was 84 and the median was 82 with a standard deviation of five. The variance was 22 and the coefficient of variation was 0.06. The scores are scattered very close to the mean. The distribution curve was flatly kurtic with a value of $-0.48$. The skewness was positive with a value of 0.29.

5.4.2 INCOME STATEMENT ITEMS

The classification of revenue items, details of investment income, profit or loss on different activities, cost of goods sold, amount and breakdown of operating expenses, other information of expenses and deductions, and
appropriation are the main items classified under the income statement. While the maximum was 89 the minimum was 55 with a range of 34. The mean was 77. The values of median and mode were higher than that of mean. While the median was 80 the mean was 82. The standard deviation was 11 and the variance was 126. The coefficient of variation was 0.15. The dispersion of the income statement disclosure scores was higher than that of the balance sheet disclosure scores. The distribution curve was flatly kurtic with a value of $-1.04$. The distribution was negatively skewed with a value of $-0.63$.

5.4.3 CASH FLOW ITEMS

The operating activities, investing activities, financing activities, and net effect of cash flow are the main items analyzed under the group item of cash flow statement. While the maximum was 100 the minimum was 75 with a mean value of 98 which was very close to the maximum. The values of the median and mode were 100. Eventhough, the range was 25 most of the scores were 100. The distribution curve was lepto kurtic with a value of 9.14. The skewness was negative with a value of $-3.22$. The coefficient of variation was 0.07, which was slightly higher than that of the balance sheet.

5.4.4 MEASUREMENT AND VALUATION ITEMS

The accounting policies used in the preparation of the balance sheet, profit and loss account, and cash flow statement of the annual reports are analyzed under the group item of measurement and valuation. The main items of accounting policies are general, depreciation, revaluation, goodwill, investments, revenue and expenses, and other items. The other items are consisted of valuation of inventories, retirement benefits, government grants, foreign currency translation, business combination, and long-term leases. While the maximum was 92 the
minimum was 66 with a mean of 82 which was equivalent to the median. The mode was 90. The standard deviation was seven and the variance was 52. The range was 26 and the coefficient of variation was 0.09, which was higher than that of the balance sheet. While the kurtosis was –0.49 the skewness was –0.43.

5.4.5 VALUE ADDED STATEMENT

All the companies should have presented the value-added statements in their annual reports. However, only 46% of the annual reports contained the value added statement. The companies, which presented the value added statement had a disclosure score of 100. The disclosure score of other companies was zero. There were only two values in the distribution, hundred and zero.

5.4.6 QUANTITY ACCOUNTING INFORMATION ITEMS

Under the quantity accounting information group item the quantity information of inventories, production, sales, employees, and shareholders are examined. While the maximum was 82 the minimum was eight with a mean of 27. While the median was 26 the mode was 10. Most of the disclosure scores were at a very low level. The range was 74, which shows a very wide gap. The standard deviation was 20 and the coefficient of variation was 0.72. The distribution was highly varied. While the kurtosis was 1.41 the skewness was 1.33.

5.4.7 HISTORICAL INFORMATION ITEMS

The disclosure of historical information consisted of information on previous year financial statements, summary of profits, summary of return per share, shares, ratios, important balance sheet items, indexes, and other items such as employees, capital expenditure, and research and development expenditure. Except for the first main item, previous year financial statement, for all other main
items 10 years data are considered for the full disclosure. There were annual reports containing only 5 years information. While the maximum disclosure was 75 the minimum was 17 with a wide range of 57. The mean, median, and mode were 38, 34, and 17, respectively. While the standard deviation was 21 the coefficient of variation was 0.56. The scores were scattered at a lower level with a wide distribution. While the kurtosis was –1.38 the skewness was 0.45.

5.4.8 FUTURE EXPECTATION ESTIMATE ITEMS

The general estimates, estimated sales, estimated expenditure, projected cash flow, benefit of share ownership, are considered under this group item. The future expectation estimates were applicable for all the companies, however, only 25% of the annual reports contained some disclosure. While the maximum was 46 the minimum was zero with a mean value of seven. The values of the median and mode were zeros. The disclosure of future expectation estimates was at a very low level.

5.4.9 HUMAN RESOURCE ACCOUNTING ITEMS

The expenditure on human resources and other financial information of human resources are the main items discussed under this group heading. While this group item was applicable for 96% of the companies only 91% of them had some disclosure of human resource accounting information. While the maximum disclosure was 73 the minimum was zero. The mean was 49. The values of both median and mode were 59. The standard deviation was 20 and the coefficient of variation was 0.4. While the kurtosis was 2.27 the skewness was –1.63. The disclosure was at a relatively low level.
5.4.10 SOCIAL RESPONSIBILITY ACCOUNTING ITEMS

The social responsibility accounting is considered as applicable for all the companies and only 38% of the companies had some information on this group disclosure item. While the maximum disclosure was 100 the minimum, median, and mode were zeros. The mean value was 19. The standard deviation was 30 and the coefficient of variation was 1.58. While the disclosure was at a very low level the scores were widely dispersed.

5.4.11 SHARE MARKET INFORMATION

The share market information was applicable for all the companies, and 79% of the companies had disclosed this information. While the maximum disclosure was 100 the minimum was zero. The mean was 51. The median and mode had the same value of 50. The disclosure of share market information was better than that of the previously discussed six group items. The standard deviation was 34 and the coefficient of variation was 0.67. While the kurtosis was $-0.97$ the skewness was $-0.19$.

5.4.12 MANAGEMENT DISCUSSION AND AUDIT OPINION ITEMS

The management discussion on sales and profits expenses, assets, and auditors' opinion are considered under this group item. The maximum score was 72 and the minimum was 49 with a range of 23. The mean and median had the same value of 60. The mode was 53. The standard deviation was seven and the coefficient of variance was 0.12. While the kurtosis was $-1.42$ the skewness was 0.25. Disclosure under this group item was better than the disclosure under the previous seven group items.
5.4.13 INFORMATION ON RATIOS

While the ratio information was applicable to all the companies, 92% of them had disclosed it. The liquidity and leverage, earning power, and return on capital are the main ratio items discussed under the group item of information on ratios. While the maximum disclosure was 65 the minimum was zero. The mean was 24. The median and mode had the same value of 17. While the standard deviation was 18 the coefficient of variation was 0.75. The kurtosis was –0.25 and the skewness was 0.71.

5.4.14 OTHER ACCOUNTING DISCLOSURE ITEMS

The main items of graphical presentation of accounting information, specific transactions, and accounting related items are discussed under this group item. The maximum disclosure was 78 and the minimum was 15 with a range of 63. While the mean was 43 the median and mode were 41 and 32, respectively. The standard deviation was 17 and the coefficient of variance was 0.39. While the kurtosis was –0.52 the skewness was 0.26. The disclosure was at an average level. The dispersion of disclosure was better than that of most of the other group items.

5.4.15 RELATIVE DISCLOSURE OF GROUP ITEMS

The TABLE 5 – 2 presents a relative disclosure of group items. For each of the group item, average disclosure and average disclosure percentage in relation to each other were calculated. The disclosure scores of accounting information in the cash flow statement, balance sheet, measurement and valuation, and income statement were at a higher level. The disclosure in value added statement, human resources accounting, share market information, and management discussion & audit opinion was at a lower level than that of the previously mentioned statements.
<table>
<thead>
<tr>
<th>GROUP ITEM</th>
<th>DISCLOSURE %</th>
<th>RELATIVE DISCLOSURE %</th>
<th>SUB TOTALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Balance Sheet</td>
<td>84</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>2. Income Statement</td>
<td>77</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>3. Cash Flow Statement</td>
<td>98</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>4. Measurement &amp;</td>
<td>82</td>
<td>12</td>
<td>48</td>
</tr>
<tr>
<td>5. Value Added Statement</td>
<td>46</td>
<td>07</td>
<td></td>
</tr>
<tr>
<td>6. Quantity Accounting</td>
<td>27</td>
<td>04</td>
<td></td>
</tr>
<tr>
<td>7. Historical Information</td>
<td>38</td>
<td>05</td>
<td></td>
</tr>
<tr>
<td>8. Future Expectation</td>
<td>7</td>
<td>01</td>
<td></td>
</tr>
<tr>
<td>9. Human Resource</td>
<td>49</td>
<td>07</td>
<td></td>
</tr>
<tr>
<td>10. Social Responsibility</td>
<td>19</td>
<td>03</td>
<td></td>
</tr>
<tr>
<td>11. Share Market</td>
<td>51</td>
<td>07</td>
<td></td>
</tr>
<tr>
<td>12. Management</td>
<td>60</td>
<td>09</td>
<td></td>
</tr>
<tr>
<td>13. Ratio Information</td>
<td>24</td>
<td>03</td>
<td></td>
</tr>
<tr>
<td>14. Other Accounting</td>
<td>43</td>
<td>06</td>
<td>52</td>
</tr>
</tbody>
</table>

The future expectation estimates, social responsibility accounting, and ratio information had the lowest level of disclosure. The disclosure of quantity accounting information, historical information, and other accounting information was higher than the lowest level of disclosure. The 48% of the disclosure were in relation to the first four group items, and 51% related to the last ten group items.

**5.5.0 SUMMARY DISCLOSURE**

The Current Disclosure Levels of Summary Disclosure Items are given in Schedule – H. The Current Disclosure Statistics of Summary Disclosure Items are given in SCHEDULE – J. The fourteen disclosure group items are further summarized at two stages. At the first stage non-financial statement disclosure percentages, and financial statement disclosure percentages were calculated. The scores of group disclosure items of value added statement, quantity accounting, historical information, future expectation estimates, human resource accounting, social responsibility accounting, share market information, management discussion and audit opinion, ratio information, and other accounting information were aggregated to calculate the non-financial statement disclosure
percentages. The scores of group disclosure items of balance sheet, income statement, cash flow statement, and measurement & valuation were aggregated to calculate the financial statement disclosure percentages. In order to calculate the percentages, the standard disclosure and actual disclosure of relevant group disclosure items were separately aggregated. Disclosure percentages were calculated by dividing the aggregated actual disclosure score by aggregated standard disclosure score and multiplied by hundred. At the final stage, total disclosure score percentages were calculated. The standard disclosure scores and actual disclosure scores of the non-financial statement disclosure scores and financial statement disclosure scores were separately aggregated and the total disclosure score percentages were calculated by using the same procedure.

**5.5.1 NON-FINANCIAL STATEMENT DISCLOSURE PERCENTAGES**

While the maximum disclosure score was 63 the minimum was 18 with a range of 45. The mean was 34 and the median was 31. The value of mean was greater than that of the median. The standard deviation was 13 and coefficient of variation was 0.38. While the kurtosis was −0.74 the skewness was 0.56. Most of the disclosure scores were at a lower level and they had been widely dispersed. The distribution of scores was flatly kurtic and positively skewed.

**5.5.2 FINANCIAL STATEMENT DISCLOSURE PERCENTAGES**

While the maximum disclosure score was 89 the minimum was 72 with a range of 17. The values of the mean and median were 84, which was relatively high. While the standard deviation was four the coefficient of variance was 0.05. The kurtosis was 1.26 and the skewness was −0.98. The financial statement disclosure was at a higher level. The scores had been dispersed around
and close to the mean value of 82. The distribution curve was lepto kurtic and negatively skewed.

5.5.3 TOTAL DISCLOSURE SCORE PERCENTAGES

The values of the total disclosure had been reduced to the average level of sixties mainly due to the lower disclosure scores of the non-financial statement information. The maximum value of the total disclosure percentages was 76 and the minimum was 48, which was slightly below the 50% level. The range was 28. While the mean was 63 the median was 62. There was no mode value. The standard deviation was seven and the coefficient of variation was 0.11. While the kurtosis was -0.47 the skewness was 0.12. The average disclosure was above the 50% level and very close to the 66% level. The distribution curve was slightly flaty kurtic and slightly positively skewed.

5.5.4 SECTARIAN DISCLOSURE OF ACCOUNTING INFORMATION

In the TABLE 5 - 3 sectarian disclosure average scores are presented. The average scores of non-financial statement information, financial statement information, and total disclosure are calculated for each of the six groups. The disclosure of nonfinancial statement accounting information had varied between 29 and 50, among the annual reports. There was no such variation in the disclosure of financial statement information in the annual reports, and the variation was only between the scores of 81 and 87. The total disclosure has varied between 60 and 70 and the scores have reduced mainly due to variation in the disclosure of nonfinancial statement accounting information. The sector of footwear, textiles, manufacturing, and oil palm had the lowest disclosure. The highest disclosure was in the bank, finance, insurance, and investment trust sector.
<table>
<thead>
<tr>
<th>BUSINESS SECTOR</th>
<th>NONFINANCIAL STATEMENT</th>
<th>FINANCIAL STATEMENT</th>
<th>TOTAL DISCLOSURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Bank, Finance, Insurance &amp; Investment Trusts</td>
<td>50</td>
<td>83</td>
<td>70</td>
</tr>
<tr>
<td>2. Beverage, Food, Tobacco &amp; etc.</td>
<td>33</td>
<td>84</td>
<td>63</td>
</tr>
<tr>
<td>3. Construction, Engineering, Land &amp; Property</td>
<td>33</td>
<td>84</td>
<td>62</td>
</tr>
<tr>
<td>4. Footwear, Textiles, Manufa. And Oil Palm</td>
<td>29</td>
<td>83</td>
<td>60</td>
</tr>
<tr>
<td>5. Hotels &amp; Travels</td>
<td>35</td>
<td>87</td>
<td>66</td>
</tr>
<tr>
<td>6. Motors, Stores, Supplies, Trading, and Services</td>
<td>32</td>
<td>81</td>
<td>61</td>
</tr>
</tbody>
</table>

5.5.5 CLASSIFICATION OF ANNUAL REPORTS

The TABLE 5 – 4 classifies annual reports on the basis of disclosure percentages of accounting information in nonfinancial statement, financial statement, and total disclosure. Under the nonfinancial statement category 38% of the annual reports were at the disclosure level of 21 – 30 and 25% of the annual reports were at the 41 – 50 disclosure level. Twelve percent of the annual reports were at a very low level of disclosure, 11 – 20. Under the financial statement category 75% of the annual reports were in the 81 – 90 category. The balance 25% of the annual reports was in the 71 – 90 disclosure level. Under the total disclosure category 41% of the annual reports were in the 61 – 70 disclosure level and 38% of the annual reports were in the 51 – 60 level.
TABLE 5 - 4
CLASSIFICATION OF ANNUAL REPORTS ON THE BASIS OF DISCLOSURE

<table>
<thead>
<tr>
<th>DISCLOSURE LEVEL</th>
<th>NONFINANCIAL STATEMENT BASIS</th>
<th>FINANCIAL STATEMENT BASIS</th>
<th>TOTAL DISCLOSURE SCORE BASIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 10</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11 - 20</td>
<td>12%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>21 - 30</td>
<td>38%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31 - 40</td>
<td>13%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>41 - 50</td>
<td>25%</td>
<td></td>
<td>4%</td>
</tr>
<tr>
<td>51 - 60</td>
<td>8%</td>
<td></td>
<td>38%</td>
</tr>
<tr>
<td>61 - 70</td>
<td>4%</td>
<td></td>
<td>41%</td>
</tr>
<tr>
<td>71 - 80</td>
<td></td>
<td>25%</td>
<td>17%</td>
</tr>
<tr>
<td>81 - 90</td>
<td></td>
<td>75%</td>
<td></td>
</tr>
<tr>
<td>91 - 100</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5.5.6 DISCLOSURE RESULTS IN SOME OTHER STUDIES AND IN THE SRI LANKAN STUDY

According to a study on disclosure in annual reports of listed companies in India the mean disclosures for all companies were 42.98 and 55.46 for the years 1965 and 1975, respectively.\(^7\) The standard deviations for all companies were 4.9298 in 1965 and 5.8756 in 1975. In a study carried out on five years annual reports of Nigerian listed companies, the highest overall disclosure was 43.11 per cent in 1984 and the lowest disclosure was 37.55 per cent in 1986. The balance sheet disclosure has varied between 65.21 per cent and 62.01 per cent. The income statement disclosure has varied between 35.21 per cent and 27.11 per cent.

\(^7\) Jawahar Lal, p. 121.
cent. In a disclosure study on annual reports of Swedish companies, the range of aggregate disclosure has varied between 24 per cent and 78 percent. Over 73 per cent of the listed companies had disclosure of 50 per cent and above. In a study conducted on disclosure practice in annual reports of Hong Kong companies, the overall disclosure rate was 78 percent. The disclosure level has ranged from a high level of 96 per cent for the requirement of extraordinary items and prior year adjustments to a low level of 51 per cent for depreciation accounting for fixed assets. This analysis did not include voluntary disclosure items. In the Sri Lankan study, which involves mandatory and voluntary disclosure items, the total disclosure percentage has varied between 77 per cent and 48 percent. The mean disclosure score is 63 per cent.

5.6.0 CONCLUSION

The disclosure levels of sub-items and main items have varied from company to company. A small percentage of sub-items in the compiled index were not applicable to annual reports of Sri Lankan companies. Almost half of the sub-items were at a high disclosure percentage level, and 24% of sub-items were at a very low disclosure level. Main item scores were the aggregated and weighted values of sub-items. The mean values of main disclosure scores have varied between 0.00 and 3.90. Disclosure of group items of balance sheet, cash flow statement, and measurement and valuation was at a higher level. Disclosure of group items of future expectation estimates, social responsibility accounting, and ratio information was at a very low level. In the developed index for the measurement of disclosure, a higher weight has been given to the area of non-

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financial statement information. However, in actual results, non-financial statement information and financial statement information almost had the same weight. There was no considerable difference in disclosure among the different sectors of the companies. The total disclosure among the sectors has varied between 60% and 70%. The disclosure of financial statement accounting information was at a higher level, and the disclosure of non-financial statement information was at a lower level. The level of total disclosure of accounting information in annual reports of publicised major companies listed with the Colombo Stock Exchange of Sri Lanka can be considered as between fifty per cent and sixty-six percent, above the middle level and below the higher level.
PART TWO

5.7.0 TESTING OF HYPOTHESES

The part two of data analysis deals with testing of five hypotheses in order to examine disclosure of accounting information in annual reports of publicised major companies listed with the Colombo Stock Exchange. The first hypothesis is developed to study whether the accounting information supplied in the annual reports, satisfy the information requirement of the users. The business and reporting requirements as well as practices change with the time. The second hypothesis is developed to examine significance of change in the disclosure practice of accounting information in relation to change in size of the company from the financial year 1994/95 to 1998/99. The other three hypotheses are developed to study the relationship between three selected company characteristics and the disclosure practice of accounting information. The total economic resources (proxy was total value of assets), share value gap (the difference between the market value and par of shares), and profit margin are the company characteristics selected as independent variables of the last three hypotheses. Lang and Lundholm\(^{10}\) classified company characteristics into three non-mutually exclusive categories as structure related, market-related, and performance related. The total value of assets is structure-related; share value gap is market-related; and earnings margin is performance-related. The total value of assets represents total economic resources as well as corporate size. Empirical evidence confirms a hypothesized positive relationship between company size and disclosure. Evidence

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\(^{10}\) Wallace, R.S.O., Naser, Kamal and Mora, Araceli; "The Relationship between the Comprehensiveness of Corporate Annual Reports and Firm Characteristics in Spain"; Accounting and Business Research, Vol. 25, No. 97, 1994, p. 44.
has been found in developed countries (Cerf, 1961; Singhvi & Desai, 1971; Stanga, 1974; Buzby, 1975; Belkaoui & Kahl, 1978; Firth, 1979; Courtis, 1979; McNally et al., 1982; Cooke, 1989a, 1989b, 1992; Wallace et al., 1994; Inchausti, 1997) as well as in developing and newly industrialized countries (Chow & Wong-Boren, 1987; Tai et al., 1990; Ahmed & Nicholls, 1994; Hossain et al., 1994; Marston & Robson, 1997).\footnote{Ahmed, K. and Courtis, J.K.; “Association Between Corporate Characteristics and Disclosure Levels in Annual Reports: A Meta Analysis”; British Accounting Review; Vol. 31, 1999, p. 37.} Earnings margin is a specific measure of market success.\footnote{Wallace et al., p. 45.} In this study earnings margin refers to profit/loss after tax divided by sales less turnover tax/GST. The value gap represents the market environment, which is one of the corporate cultures that affect on corporate reporting, similar to audit culture and industry culture.

5.7.1 TECHNIQUES APPLIED FOR TESTING OF HYPOTHESES

The general methodology of this study is discussed in chapter one. For better understanding, the techniques applied in testing the hypotheses are described in this chapter. The weighted mean scores of 120 sample annual reports for the five years are the main type of data representing the universe of listed companies in Sri Lanka. Inferring the characteristics of a universe from the evidence of a sample requires some kind of estimate of the accuracy of the inference. (Statistical Tables are provided in SCHEDULE – K)\footnote{Clover, Vernon and Balsley, Howard; Business Research Methods; Grid Inc., Ohio, USA, 1974, p. 218.} This estimate of accuracy is called in statistical terms “reliability.” Reliability is measured in terms of probability.\footnote{In this study, generally, probability levels of 99 percent and 95 percent are applied. The Student t test is applied to test the first hypothesis; “There is no significant difference between the required accounting information of a share}
market and the disclosure of accounting information by publicised major companies listed with the Colombo Stock Exchange." The test is applied on average disclosure scores of five years of each company. Three types of disclosure scores, i.e. total disclosure, financial statement disclosure, and non-financial statement disclosure are used. Three tests are carried out to test the relationship between the applicable disclosure score (APDS) and the actual disclosure score (ACDS) of each type of disclosure of accounting information, separately. In Student t test two sample means are compared in order to find the difference. The difference can be real or may be due to sampling error. The difference is considered as non-significant if it has occurred due to sampling error. If the difference has occurred not due to sampling error, it is considered as significant. In case of the significant difference, the significant level is determined. If the samples’ means lie beyond two standard deviations, the difference is known as significant at 5% level. If the difference between the two sample means beyond three standard deviations, it is considered as significant at 1% level, the difference is highly significant. This type of testing is called test of significance. The concept of normal is applied in test of significance. When the number of observations in the sample is 30 or less than 30 the sampling distribution becomes more and more "platykurtic" resulting larger and larger standard deviation of the sampling distribution as the individual size decreases. In this study, the sample size is 24. Therefore, the t test is used for the test of significance. The "Table of Student's t-Distribution" is applied. This table provides the distribution of the areas under the small sample curve. The ratio of difference between two sample means is calculated. By comparing the calculated value of t ratio of difference between two sample means, with the values given in the t table, significance, or non-
significance of the difference is predicted. If the calculated t value is higher than the tabulated value given in the t table at the relevant degree of freedom of a level (probability), the difference between the two means is considered as significant at that level. The smaller the difference, the greater the likelihood of two samples means being equal. The larger the difference, the greater the likelihood of two samples means being widely unequal. Firstly, data of Total Applicable Disclosure Scores and Total Actual Disclosure Scores are used. Secondly, data of Financial Statement Applicable Disclosure Scores and Financial Statement Actual Disclosure Scores are used. Thirdly, Non-financial Statement Applicable Disclosure Scores and Non-financial Statement Actual Disclosures are used. The Student t test: Paired Two Sample for Means to test the hypothesis is applied.

“There is no significant improvement in the disclosure practice of accounting information in the annual reports of publicised major companies listed with the Colombo Stock Exchange in relation to increase in the value of total assets between the period of two financial years from 1994/95 to 1998/99” is the second hypothesis. The statistical techniques of correlation coefficient and regression are applied. The correlation coefficient measures the degree by which two or more variables move in association with each other. The change can be in the same direction or opposite directions. The change in asset values is compared with the change in disclosure scores. In addition, the relationships between asset values and disclosure scores are also presented for better understanding of the situation. The main aim of the regression analysis is to establish mathematical relationship between the two variables. This involves establishment of a mathematical equation representing regression of dependent variable on the independent variable. In addition to application of correlation coefficient and
regression, descriptive statistics are also used to examine the changing pattern of disclosure during the five year period. The mean, median, mode, maximum, minimum, range, standard deviation, variance, coefficient of variation, kurtosis, and skewness of the two sets of disclosure scores for the two financial years 1994/95 and 1998/99 are calculated and compared. The correlation coefficients among the total assets, disclosure scores, changes in total assets, and changes in disclosure scores are examined.

"There is no significant positive relationship between the disclosure of accounting information and the total economic resources of publicised major companies listed with the Colombo Stock Exchange" is the third hypothesis to be tested. The value of total assets appearing in the balance sheet is used as a proxy for the total economic resources of a company. Regression analysis is used to test the hypothesis. The testing is carried out at four stages. Firstly, the total disclosure scores of 24 company annual reports for the financial year 1994/95 are tested with their values of total assets. Secondly, the total disclosure scores of 24 company annual reports for the financial year 1998/99 are tested with the relevant values of total assets. Thirdly, the regression analysis is carried out to test the relationship between the total disclosure scores of 120 annual reports of 24 companies for five years with their relevant asset values. In testing data of five years, they are organized into class intervals. Fourthly, the total disclosure scores of 88 annual reports of small companies are tested with their values of total assets.

"There is no significant positive relationship between the disclosure of accounting information and the value gap between the par value and average market value of ordinary shares of publicised major companies listed with the Colombo Stock Exchange" is the fourth hypothesis to be tested. Regression
analysis is used for testing. The value gap is the independent variable and the total disclosure score is the dependent variable. Three tests are conducted. In the first test, the data of value gap and disclosure score are classified into 12 groups. The number of observations is 12. The second test is carried out without any grouping of data. The number of observations is 120. The third test is conducted with the data in which value gap consists of minus and zero figures. The data is not classified into groups. The data consists of 48 observations.

"There is no significant positive relationship between the disclosure of accounting information and the earnings margin of publicised major companies listed with the Colombo Stock Exchange" is the fifth hypothesis to be tested. The relationship between the turnover after turnover tax and accounting profit or loss after tax is considered as the earnings margin. Six annual reports do not have turnover figures. They are excluded from the testing. The sample consists of 114 annual reports. Regression analysis is used for testing the hypothesis. Three tests are carried out with the data. In the first, data are classified into 12 groups. In the second analysis data with negative earnings margins/loss margins are used for testing. Annual reports with profit margins are excluded. Data relevant to 28 annual reports are included in the study. The data of higher earnings margin companies are used for the third test. Annual reports with an earnings margin of more than 10% are included. Thirty-five annual reports are used for testing.

After applying simple regression to test the third, fourth, and fifth hypotheses the multiple regression is applied on the three independent variables and the dependent variable. The subject of multiple regression deals with the situation in which a dependent variable is associated with two or more independent variables simultaneously. The value of total assets (X1), earnings margin (X2), and
share value gap (X3) are the independent variables. The total disclosure score of accounting information (Y) is the dependent variable. Prior to applying the regression, the correlation among the independent variables is calculated. The multiple regression is applied in step-wise.

5.7.2 SATISFACTORY NATURE OF ACCOUNTING INFORMATION

**TABLE 5 - 5
FIVE YEAR AVERAGE DISCLOSURE SCORES**

<table>
<thead>
<tr>
<th>COM.CO</th>
<th>TAPDS</th>
<th>TACDS</th>
<th>FAPDS</th>
<th>FACDS</th>
<th>NAPDS</th>
<th>NACDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 NDB</td>
<td>194</td>
<td>146</td>
<td>117</td>
<td>99</td>
<td>77</td>
<td>47</td>
</tr>
<tr>
<td>1.2 KJH</td>
<td>212</td>
<td>148</td>
<td>129</td>
<td>108</td>
<td>83</td>
<td>40</td>
</tr>
<tr>
<td>1.3 LOLC</td>
<td>196</td>
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<td>117</td>
<td>96</td>
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<td>2.5 CTS</td>
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<td>115</td>
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<td>112</td>
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<td>121</td>
<td>124</td>
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<td>97</td>
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<td>3.9 OR</td>
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<td>112</td>
<td>115</td>
<td>94</td>
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<td>3.10 PDKL</td>
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<td>110</td>
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<td>4.12 ALU</td>
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<td>111</td>
<td>95</td>
<td>84</td>
<td>15</td>
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<tr>
<td>4.13 ACM</td>
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<td>86</td>
<td>84</td>
<td>22</td>
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<td>4.14 LANC</td>
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<td>4.17 TC</td>
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<td>5.18 RH</td>
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<td>134</td>
<td>120</td>
<td>101</td>
<td>82</td>
<td>33</td>
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<tr>
<td>5.19 GAL</td>
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<td>101</td>
<td>108</td>
<td>85</td>
<td>82</td>
<td>16</td>
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<tr>
<td>5.20 AHC</td>
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<td>138</td>
<td>122</td>
<td>100</td>
<td>82</td>
<td>38</td>
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<td>5.21 TL</td>
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<td>114</td>
<td>115</td>
<td>97</td>
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<td>6.22 CFT</td>
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<td>106</td>
<td>119</td>
<td>91</td>
<td>84</td>
<td>15</td>
</tr>
<tr>
<td>6.23 EBC</td>
<td>210</td>
<td>135</td>
<td>126</td>
<td>102</td>
<td>84</td>
<td>32</td>
</tr>
<tr>
<td>6.24 LAM</td>
<td>169</td>
<td>86</td>
<td>99</td>
<td>74</td>
<td>70</td>
<td>13</td>
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<tr>
<td>6.25 HAY</td>
<td>212</td>
<td>165</td>
<td>128</td>
<td>116</td>
<td>84</td>
<td>49</td>
</tr>
<tr>
<td>6.26 GES</td>
<td>204</td>
<td>117</td>
<td>120</td>
<td>98</td>
<td>84</td>
<td>20</td>
</tr>
</tbody>
</table>

Key:

- **COM.CO.** Company Code
- **TAPDS** Total Applicable Disclosure Score
- **TACDS** Total Actual Disclosure Score
- **FAPDS** Financial Statement Applicable Disclosure Score
- **FACDS** Financial Statement Actual Disclosure Score
- **NAPDS** Non-financial Statement Applicable Disclosure Score
- **NACDS** Non-financial Statement Actual Disclosure Score
Accounting information supplied in annual reports has to be useful for the users, if they are to be effective for decision making. Listed companies depend on investors for future requirements of funds. To facilitate collection of funds, companies should provide accounting information to investors, their advisors, and other users. Governments, stock exchanges, and professional accounting organizations have introduced Laws, rules, and regulations on disclosure of accounting information. Users' need company accounting information to make investment and disinvestment decisions. In order to maintain a sound capital market, the accounting information supplied by the listed companies in their annual reports should satisfy requirements of the users.

The first hypothesis examines whether the accounting information provided by the listed companies in Sri Lanka satisfies the users' requirements. Applicable disclosure scores represent the users' requirement of accounting information disclosure. Actual disclosure scores represent the accounting information supplied by the listed companies.

The TABLE 5 - 5 presents the five-year average disclosure scores used for the t tests. They are consisted of three groups as total disclosure scores, financial statement disclosure scores, and non-financial statement disclosure scores. Each group is divided again as applicable and actual for testing.

TABLE 5 - 6 provides results of the application of Student t test. Firstly, the Total Applicable Disclosure Scores (TAPDS) and Total Actual Disclosure Scores (TACDS) are used to test the difference between two sample means. The mean values of TAPDS and TACDS are 195.33 and 121.04, respectively, and variances are 357.10 and 348.56, respectively. The Pearson correlation coefficient is positive 0.55. The number of observations used in the
study is 24. While the t critical one-tail is 1.71 the t critical two-tail is 2.07. The t value for the degree of freedom of 23 is 20.43.

### TABLE 5 - 6

**STUDENT ‘t’ STATISTICS FOR APPLICABLE AND ACTUAL DISCLOSURE SCORES**

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>TOTAL D.S.</th>
<th>FIN. STAT. D.S.</th>
<th>N. FIN. STAT. D.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean-APDS</td>
<td>195.33</td>
<td>115.54</td>
<td>82.13</td>
</tr>
<tr>
<td>Mean-ACDS</td>
<td>121.04</td>
<td>94.79</td>
<td>26.29</td>
</tr>
<tr>
<td>Variance-APDS</td>
<td>357.10</td>
<td>60.95</td>
<td>10.64</td>
</tr>
<tr>
<td>Variance-ACDS</td>
<td>348.56</td>
<td>84.17</td>
<td>119.60</td>
</tr>
<tr>
<td>Observations</td>
<td>24</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>Correlation Coeffi.</td>
<td>0.55</td>
<td>0.87</td>
<td>0.11</td>
</tr>
<tr>
<td>‘t’ Stat</td>
<td>20.44</td>
<td>23.07</td>
<td>24.74</td>
</tr>
<tr>
<td>P(T&lt;=t) one-tail</td>
<td>1.51E-16</td>
<td>1.05E-17</td>
<td>2.24E-18</td>
</tr>
<tr>
<td>‘t’ Critical one-tail</td>
<td>1.71</td>
<td>1.71</td>
<td>1.71</td>
</tr>
<tr>
<td>P(T&lt;=t) two-tail</td>
<td>3.01E-16</td>
<td>2.1E-17</td>
<td>4.48E-18</td>
</tr>
<tr>
<td>‘t’ Critical two-tail</td>
<td>2.07</td>
<td>2.07</td>
<td>2.07</td>
</tr>
</tbody>
</table>

The value of t in the t table (tabulated t value) at 23 degrees of freedom is 2.069 at 0.05 critical probability and 3.767 at 0.01 critical probability. Since the computed value is greater than the tabulated value at 0.01% critical probability, there is a high significant difference between the two means. The null hypothesis that “There is no significant difference between the required accounting information of a share market and the disclosure of accounting information by publicised major companies listed with the Colombo Stock Exchange” may be rejected. The alternative hypothesis that, “There is a significant difference between the required accounting information of a share market and the disclosure of accounting information by publicised major companies listed with the Colombo Stock Exchange” may be accepted. Secondly, the Financial Statement Applicable Disclosure Scores (FAPDS) and Financial Statement Actual Disclosure Scores (FACDS) are used to test the difference between their two means. The mean values of FAPDS and FACDS are 115.54 and 94.79, respectively, and variances are 60.95 and 84.17, respectively. The Pearson correlation coefficient is positive 0.87. The t
value is 23.07 and it is highly significant at 0.01 critical probability. The null hypothesis may be rejected and the alternative hypothesis may be accepted. Thirdly, the Non-financial Statement Applicable Disclosure Scores (NAPDS) and Non-financial Statement Actual Disclosure Scores (NACDS) are used to test the difference between their two means. The mean values of NAPDS and NACDS are 82.12 and 26.29, and variances are 10.63 and 119.60, respectively. The Pearson correlation coefficient is positive 0.11. The t value is 24.74 and it is highly significant at 0.01 critical probability. Even in the third test the null hypothesis may be rejected and the alternative hypothesis may be accepted.

5.7.3 TIME VARIATION IN DISCLOSURE OF ACCOUNTING INFORMATION

Examination of the existence of a change in the pattern of the accounting information disclosure is the theme behind the second hypothesis. In certain economic environments changes take place very slowly or there may not be any significant changes. In some economic environments changes have been negative. The economic, social, political, scientific, technical, and cultural environments of the listed companies could affect the level of accounting information disclosure. In this section, effort is being made to examine whether there are changes in the disclosure pattern of accounting information in the annual reports over five year period from 1994/95 to 1998/99, in relation to size of the company. The relationship between the change in disclosure scores, and change in the size of the company between the two financial years is examined.

When a company requires its size to be expanded in order to increase its activities, it has to find new funds. Listed companies obtain their funds

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from the primary market. Required new funds for expansion could be obtained from the share market through new issues and right issues. If the shares of a company are traded at a higher value in the secondary market it is possible for the company to obtain its required funds from the primary market. For this purpose the company has to provide information about the success of the organization to the users of information. The expanding companies, companies in which value of total assets are being increased, should provide more accounting information in annual reports. There has to be a positive relationship between the increase in total assets and the increase in disclosure of accounting information during a period.

The computed correlation coefficient between 94/95 total assets and 94/95 disclosure is 0.54. The computed correlation coefficient between the 98/99 total assets and 98/99 disclosure is 0.59. The tabulated value for 23 degrees of freedom at 0.01 critical probability is 0.53. The computed correlation coefficient values of 0.54 and 0.59 are higher than the tabulated value of 0.53. This shows a significant relationship. However, the value of correlation coefficient between the change in total assets for the period from 1994/95 to 1998/99 and the change in disclosure for the period from 1994/95 to 1998/99 is –0.09. The value is minus and at a very low level, which is very close to zero. It is an insignificant negative correlation. It seems that there is no significant correlation between the change in total assets and the change in disclosure of accounting information in annual reports.

Since the correlation coefficient between the change in value of total assets and the total disclosure of accounting information in annual reports is –0.09 it is not necessary to proceed to apply regression on the data to make conclusions. However, for further examination, the simple regression model is
applied on the change in total asset values and the change in disclosure for the 5-year period.

**TABLE 5-7**

**REGRESSION RESULTS: CHANGE IN ASSETS AND CHANGE IN DISCLOSURE**


<table>
<thead>
<tr>
<th>DEPENDENT VARIABLE</th>
<th>CHANGE DISCLOSURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>INDEPENDENT VARIABLE</td>
<td>CHANGE IN TOTAL ASSETS</td>
</tr>
<tr>
<td>CONSTANT</td>
<td>= 6.21</td>
</tr>
<tr>
<td>COEFFICIENT OF INDEPENDENT VARIABLE</td>
<td>= -8.86334E-05</td>
</tr>
<tr>
<td>T VALUE</td>
<td>= -0.44</td>
</tr>
<tr>
<td>F VALUE</td>
<td>= 0.19</td>
</tr>
<tr>
<td>P VALUE</td>
<td>= 0.66</td>
</tr>
<tr>
<td>R²</td>
<td>= 0.008</td>
</tr>
</tbody>
</table>

\[ Y = 6.21 + (-0.0000886X) \]

In this analysis, the values of changes in total assets are computed in millions of Rupees. In the TABLE 5 - 7 the regression results are given. The ‘degrees of freedom’ is 23. The values of the constant and the coefficient of the independent variable of change in value of assets are 6.21 and \(-8.86334E-05\), respectively. The computed \(t\) value is \(-0.44\), which is less than the tabulated \(t\) value of 2.07 at critical probability of 0.05. The \(P\) value is 0.66. The computed \(F\) value is 0.19, which is lower than the tabulated \(F\) value of 4.3 at 0.05 critical probability. The value of significance \(F\) is 0.66. According to the results, the hypothesis that “There is no significant improvement in the disclosure practice of accounting information in the annual reports of publicised major companies listed with the Colombo Stock Exchange in relation to increase in the value of total assets between the period of two financial years from 1994/95 to 1998/99” may be accepted.
The TABLE 5 - 8 provides descriptive statistics of disclosure scores of the financial years 94/95, 98/99, and the change in disclosure scores between the period of five years from 94/95 to 98/99.

<table>
<thead>
<tr>
<th></th>
<th>DISCLOSURE SCORES 94/95</th>
<th>DISCLOSURE SCORES 98/99</th>
<th>CHANGE IN D.S. 94/95 – 98/99</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL SCORE</td>
<td>1370.24</td>
<td>1515.00</td>
<td>144.76</td>
</tr>
<tr>
<td>MEAN</td>
<td>57.09</td>
<td>63.13</td>
<td>6.04</td>
</tr>
<tr>
<td>MEDIAN</td>
<td>57.00</td>
<td>62.50</td>
<td>7.00</td>
</tr>
<tr>
<td>MODE</td>
<td>58.00</td>
<td>64.00</td>
<td>9.00</td>
</tr>
<tr>
<td>MINIMUM</td>
<td>46.00</td>
<td>48.00</td>
<td>-3.00</td>
</tr>
<tr>
<td>MAXIMUM</td>
<td>75.00</td>
<td>77.00</td>
<td>11.00</td>
</tr>
<tr>
<td>RANGE</td>
<td>29.00</td>
<td>29.00</td>
<td>14.00</td>
</tr>
<tr>
<td>STD.DEVIATION</td>
<td>7.66</td>
<td>7.16</td>
<td>3.89</td>
</tr>
<tr>
<td>COEFF. OF</td>
<td>2.74</td>
<td>2.32</td>
<td>13.16</td>
</tr>
</tbody>
</table>

The total disclosure scores in 94/95 and 98/99 are 1370.24 and 1515.00, respectively. The increase during the 5-year period is 144.76 points, 10.56%. In 94/95 mean value is 57.09. The mean value of 98/99 is 63.13. The increase is 6.04. By 2 points each have increased the minimum as well as maximum values. The standard deviation has been decreased from 7.66 to 7.16. The coefficient of variation has been decreased from 2.74 to 2.32. The mean, median, and mode values of the positive change are 6.03, 7.00, and 9.00, respectively. While the minimum value of the range is -3.00 the maximum is 11.00 with a range value of 14. The descriptive statistics given in the table indicates a considerable increase (10.56%) in disclosure of accounting information in annual reports during the period between the financial years 94/95 and 98/99. However, this increase in disclosure of accounting information cannot be correlated to the increase in total assets.
Results of an Indian study on the relationship between the change in value of assets and change in disclosure had shown positive significant results at 0.25 level. "...the increase in disclosure is positively associated with the growth in size of companies over a period of time."\textsuperscript{15} The Sri Lankan study shows a negative insignificant relationship. However the disclosure during the 5-year period has increased by 144.76 (10.56\%) points. Do the listed companies in Sri Lanka make no special attempt to improve the disclosure of accounting information prior to the issue of new shares? In India, assumptions relevant to the risk factors involved have to be disclosed prior to a new issue. Further examinations have to be carried out.

5.7.4 DISCLOSURE AND TOTAL ECONOMIC RESOURCES

According to the data analysis of the previous section, increase in the disclosure of accounting information cannot be correlated with increase in the value of total assets. In this section, the relationship between the disclosure of accounting information and the total economic resources of listed companies is examined. The value of total assets appearing in the balance sheet of a listed company is considered as the proxy for its total economic resources.

A number of logical reasons can be found to expect a positive correlation between the value of total assets and disclosure of accounting information in annual reports. "Due to possible economies of scale in the production and storage of information, large companies tend to allocate relatively greater amount of resources to the production of information (Stigler, 1961;

\textsuperscript{15} Jawahar, Lal; \textit{Corporate Annual Reports: Theory and Practice}; Sterling Publishers Pvt. Ltd; New Delhi, 1985, p. 139.
The cost involved in gathering, generating, and disseminating data is high. While larger companies could afford such costs, smaller companies may not be able to afford such costs from their resource base. Salamon and Dhaliwal had presented evidence to the effect that the direct cost of complying with the US SEC's 10-K filing requirements is relatively higher for small companies than for large companies. Since an information system is already in existence and a considerable amount of information is already available in the system of large companies, the incremental cost of supplying additional information is likely to be minimal. Smaller companies may be deprived of such low cost information for external reporting. Disclosure in great detail puts small companies in competitive disadvantage with their larger counterparts in the industry. Smaller companies may not possess the strength to face the competition, if they provide more accounting information. "...the management of small firms may believe more strongly that the disclosure of more detail could endanger their competitive position (Singhvi and Desai, 1971; Matz and May, 1978)." Larger companies could easily face the competitors due to their strength in possessing goodwill, reputation, wealth & etc. Larger companies are more vulnerable to the attention of voluntary organizations, trade unions, government departments, financial journalists, and the general public. "Firth suggests that firms which are more visible in the public eye are likely to voluntarily disclose information to enhance their corporate reputation and public image." Political costs may also

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17 Owusu-Ansah, op. cit., p. 611.
18 Wallace et al., op. cit., p. 44.
be significant to large firms. For example Stigler, Peltzman, and Jensen and Meckling have suggested that some citizens may lobby elected officials for nationalization, expropriation, or the breakup of the entity or industry. Political lobbying may also be undertaken to increase the extent of regulation in a particular industry. The managers of politically vulnerable companies may voluntarily select accounting and disclosure policies that may limit the cost of political intervention. They may try to create confidence among the interested parties by disclosing more accounting information in their annual reports than the smaller companies do. Smaller companies may not have such an interest to disclose more accounting information. Wallace et al. has introduced a contradictory idea: “Firms may reduce the likelihood of political action through the disclosure of less detail in their annual reports and accounts.” This may or may not be effective. Larger companies may have a larger shareholder base than the smaller companies. The larger shareholder base may compel their company to provide more accounting information for the shareholders and other users. “...it has been established that increased disclosure by a company reduces its cost of capital (Choi, 1973; Elliott & Jacobson, 1994).” Generally, larger companies obtain their required new capital from the share market. If the company is successful in creating goodwill in the share market, it is cheaper and convenient for the larger companies to obtain funds from the primary market. Smaller companies may try to obtain their required funds from the lending institutions, rather than going to the share market. Larger companies are more familiar with the capital market and more aware of the needs

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21 Wallace et al., op. cit., p.44.
22 Owusu-Ansah, op. cit., p. 611.
of the users of accounting information. Large companies rely more heavily on the securities market for external financing of their operations than smaller companies.\footnote{Salamon, G.L. and Dhaliwal, D.S.; “Company Size and Financial Disclosure Requirements with Evidence from the Segmental Reporting Issue.”; Journal of Business Finance and Accounting; Vol. 7, No. 4, 1980, p. 559.} Large companies are more likely to have extensive disclosure in annual reports than smaller companies. According to Hossain et al.\footnote{Hossain et al., op. cit., p. 337.}, Schipper (1991) and Barry and Brown (1986) had argued that annual reports of large firms are more likely to be scrutinized by financial analysts, than those of smaller firms. Therefore large listed firms have an incentive to voluntarily disclose more information than smaller firms since non-disclosure may be interpreted by investors as bad news and this could adversely affect firm value. “Agency theory predicts that larger firms will disclose more information in their accounts to alleviate the potential for wealth transfers from suppliers of outside capital to managers.”\footnote{idem} In developing countries, large companies possess more modern technology than the small companies. These reasons may lead larger companies to provide more accounting information in their annual reports than the smaller companies do. \textbf{TABLE 5 - 9} shows the relationship between the independent variable, value of total assets and the dependent variable, disclosure of accounting information. One hundred and twenty annual reports of 5 financial years have been used for the test. The values of total assets and related disclosure scores are classified into 9 groups by using the class interval of 3,200. Since there are no frequencies within the group of 22,401 – 25,600, it is combined with the group of 25,601 – 28,800. The first group, 0 – 3,200 consists of the highest aggregate value of assets of 71,699 and the aggregate disclosure score of 5,122. However, it has the
lowest mean value of assets (815) and disclosure score (58). The number of frequencies is 88, which means more than 66% of the annual reports are within the first group. The coefficient of variation of the first group is 114.85%, which means a relatively very high level of standard deviation of asset values. Each of the last three class intervals had only one frequency and they have the highest average disclosure scores of 77 and 75. Frequencies are highly positively skewed.

| TABLE 5 – 9 |
| ASSET SIZE AND DISCLOSURE SCORES FOR FIVE YEARS |
| VALUE OF TOTAL ASSETS | DISCLOSURE SCORES |
| ASSET SIZE | AGGR | MEAN | STD | CO.V. | FR | AGGR | MEAN | STD | CO.V |
| 0   -3200 | 71699 | 815 | 935 | 114.85 | 88 | 5122 | 58.21 | 6.26 | 10.75 |
| 3201-6400 | 67821 | 4844 | 762 | 15.73 | 14 | 923 | 65.93 | 5.95 | 9.03 |
| 6401-9600 | 63606 | 7988 | 830 | 10.39 | 8 | 536 | 67.00 | 9.89 | 14.75 |
| 9601-12800 | 31455 | 10485 | 769 | 7.34 | 3 | 218 | 72.67 | 2.89 | 3.97 |
| 12801-16000 | 27962 | 13981 | 122 | 0.87 | 2 | 145 | 72.50 | 2.12 | 2.93 |
| 16001-19200 | 33481 | 16741 | 28.99 | 0.17 | 2 | 143 | 71.50 | 4.95 | 6.92 |
| 19201-2400 | 20150 | 20150 | 1 | 77 | 77 |
| 22401-28800 | 26581 | 26581 | 1 | 75 | 75 |
| 28801-32000 | 31823 | 31823 | 1 | 77 | 77 |

The regression analysis is carried out on the asset mean values (independent variable) and disclosure score mean values (dependent variable). The TABLE 5 - 10 shows the regression results of the data relevant to annual reports of 5 years along with the regression results of the two sets of independent and dependent variables relevant to the financial years 1994/95 and 1998/99. All
regression results relevant to the third hypothesis are incorporated in the

TABLE 5-10
REGRESSION RESULTS: TOTAL ASSETS AND DISCLOSURE SCORES

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>1994/95/96</th>
<th>1998/99</th>
<th>5 YEARS-120</th>
<th>5 YEARS-88</th>
</tr>
</thead>
<tbody>
<tr>
<td>Correlation Coefficient</td>
<td>0.539</td>
<td>0.59</td>
<td>0.87</td>
<td>0.27</td>
</tr>
<tr>
<td>R Square</td>
<td>0.29</td>
<td>0.35</td>
<td>0.75</td>
<td>0.07</td>
</tr>
<tr>
<td>Adjusted R square</td>
<td>0.26</td>
<td>0.32</td>
<td>0.72</td>
<td>-0.03</td>
</tr>
<tr>
<td>Standard Error</td>
<td>6.59</td>
<td>5.89</td>
<td>3.21</td>
<td>3.62</td>
</tr>
<tr>
<td>F Value</td>
<td>9.00</td>
<td>12.00</td>
<td>21.83</td>
<td>0.70</td>
</tr>
<tr>
<td>Coefficient of Intercept</td>
<td>54.39</td>
<td>60.64</td>
<td>62.98</td>
<td>57.41</td>
</tr>
<tr>
<td>Coefficient of Assets</td>
<td>0.00129</td>
<td>0.00059</td>
<td>0.00052</td>
<td>0.00098</td>
</tr>
<tr>
<td>Standard Error of Assets</td>
<td>0.00043</td>
<td>0.00017</td>
<td>0.00011</td>
<td>0.00118</td>
</tr>
<tr>
<td>T Stat</td>
<td>3.00</td>
<td>3.46</td>
<td>4.67</td>
<td>0.83</td>
</tr>
<tr>
<td>P Value</td>
<td>0.0065</td>
<td>0.0022</td>
<td>0.0022</td>
<td>0.4260</td>
</tr>
<tr>
<td>Number of Observations</td>
<td>24</td>
<td>24</td>
<td>9</td>
<td>11</td>
</tr>
</tbody>
</table>

Y = 54.39 + 0.00129X  
Y = 62.98 + 0.00052X  
Y = 60.64 + 0.00059X  
Y = 57.41 + 0.00098X

While the column 2 provides regression results of 24 annual reports for the financial year 1994/95 the column 3 provides the regression results of 24 annual reports for the financial year 1998/99. The regression results given in the column 4 are relevant to the 120 company annual reports of five years.
The information given in column 5 is relevant to 88 annual reports of 5 years. In these annual reports, the value of total assets of a company is less than 3,100 million. Thus, they are classified as small company annual reports. They are in the first asset group of 0 – 3,100.

In 1994/95, the number of observations is 24 and the ‘degrees of freedom’ is 23. The computed correlation coefficient is 0.539, which is greater than the tabulated correlation coefficient of 0.537 at critical probability of 0.01. The correlation between the size of the assets and the disclosure of accounting information is positive and significant. The coefficient of determination ($R^2$) of 0.29 indicates that 29% of the variation of disclosure is explained by the value of total assets for the year 1994/95. The F value is 9.00 and it is significant at 0.01 critical probability (The tabulated F value at 0.01 critical probability is 7.3). The coefficients of intercept and independent variable of value of total assets are 54.39 and 0.00129, respectively. The computed t value is 3.00, which is higher than the tabulated t value of 2.81 at critical probability of 0.01. Thus, the null hypothesis that “There is no significant positive relationship between the disclosure of accounting information and the total economic resources of publicised major companies listed with the Colombo Stock Exchange” may be rejected relevant to the 1994/95 data. The alternative hypothesis that “There is a significant positive relationship between the disclosure of accounting information and the total economic resources of publicised major companies listed with the Colombo Stock Exchange may be validated.

In the financial year 1998/99, the structure of data is similar to that of the financial year 1994/95. The ‘degrees of freedom’ is 23. The correlation coefficient ($r$) is 0.59, which is higher than that of the year 1994/95. The
relationship is positive and significant. The value of $R^2$ indicates that 35% of the variation in disclosure is explained by the total value of assets. The $F$ value of 12 is significant ($12 > 7.9$) at 0.01 critical probability. The coefficients of the intercept and assets are 60.64 and 0.00059, respectively. The $t$ value is 3.46, which is higher than that of the year 1994/95. Thus, in relation to the year 1998/99 the null hypothesis is rejected and the alternative hypothesis may be accepted.

In relation to 120 annual reports of the 5-year period, from 1994/95 to 1998/99, the ‘degrees of freedom’ is 8. The computed correlation coefficient between the independent variable of the value of total assets and the dependent variable of disclosure is 0.87. This is greater than the tabulated correlation coefficient of 0.765 at 0.01 critical probability. The correlation position of the five year period data is relatively higher than that of the first year and the last year of the period. The $R^2$ is 0.75. Seventy-five per cent of the variation in disclosure is explained by the total value of assets. The $F$ value is 21.83, which is higher than the tabulated $F$ value of 11.3 to be significant at the 0.01 critical probability. While the coefficient of intercept is 62.98 the coefficient of the independent variable of value of total assets is 0.00052. The computed $t$ value is 4.67. The tabulated $t$ value to be significant at 0.01 critical probability is 3.36. Thus, according to the analysis of data the null hypothesis may be rejected and the alternative hypothesis may be accepted.

There are 88 company annual reports in the first asset group of 0 – 3100. The last asset group is 28,801 - 32,000. In relation to the size of the group values, the first group may be insignificant. However, the first group consists of 88 annual reports. It is 73.33% of the sample annual reports. They are annual reports of small companies. In order to have a better perspective their relationship between
disclosure and total economic resources is separately examined. The annual reports are classified into 11 groups, and each group consists of 8 annual reports. The 'degrees of freedom' is 10. The regression result is given in the column 5 of the TABLE 5 – 10. The computed correlation coefficient is 0.27. At 0.01 critical probability the tabulated critical probability is 0.708. The computed correlation coefficient is less than the tabulated correlation coefficient. The correlation between the independent variable of value of total assets and the dependent variable of disclosure is positive, but not significantly positive. The R² is 0.07, which is negligible. The F value is 0.70. The required F value to be significant at 0.05 probability is 5.00. The t value is 0.83. The required t value for 10 degrees of freedom at critical probability of 0.20 is 1.372, which is higher than the computed t value of 0.83. The relationship between the independent variable of total economic resources and the dependent variable of disclosure in small company annual reports is not significantly positive even at the critical probability level of 0.20. In addition to this procedure, the 88 mean values of total assets and disclosure scores are tested without grouping. The degree of freedom is 87. The computed values of correlation coefficient, F value, and t value are 0.15, 1.90, 1.38, respectively. The tabulated values of correlation coefficient, F value, and t value are 0.217, 4.0, and, 2.00 at critical probability of 0.05. All the computed values are lower than the tabulated values. The relationship between the independent variable and the dependent variable is not significant. It seems that in relation to small companies the null hypothesis that "there is no significant positive relationship between the disclosure of accounting information and the total economic resources of publicised major companies listed with the Colombo Stock Exchange" is confirmed.
Almost all the studies, which used value of total assets as an independent variable or as a proxy of an independent variable, have found a significant positive relationship between the independent variable of assets and the disclosure in annual reports. According to Ahmed and Courtis\textsuperscript{26} the research articles on disclosure examined by them have reported a consistent significant positive association between corporate size and disclosure levels. The study on Sri Lankan listed company annual reports also confirms this relationship in relation to all the companies in the sample. However, relevant to the small companies of the Colombo Stock Exchange a positive association between the total economic resources and the disclosure of accounting information in annual reports does not exist.

Small companies may not be interested in improving the disclosure. They may be providing accounting information just to satisfy the mandatory disclosure requirements. They may be collecting required funds by using bank financing and other methods rather than issuing new shares to the public. Their voluntary disclosure may be at a lower level. Further examination is required on the disclosure practice of small companies of the Colombo Stock Exchange.

5.7.5 DISCLOSURE AND VALUE GAP OF ORDINARY SHARES

Among the reviewed literature, the value gap between the par value and the market value of ordinary shares has not been used as an independent variable to test its influence on the disclosure in annual reports. However, the probability may exist for a significant positive relationship between the value gap of ordinary shares and the disclosure of accounting information. The main objective of listed companies is to find and create a market to obtain permanent

\textsuperscript{26} Ahmed and Courtis, op. cit., p. 37.
capital for their long-term expansions. When the share price of a company is at a higher level the management of the company would provide more information about company performance and position in order to further improve the share price in the market. The increase in market share price may reduce the capital formation cost and even may lead to a higher capital formation profit of share premium. The actors in the share market are more interested in companies with relatively higher share prices. They have more confidence in them. Even the financial journalists prefer to write more on high share price companies. The users of accounting information would insist on more information of such companies.

The increase in share price may increase the supply of accounting information through the annual reports. The decrease in share price may reduce the supply of accounting information. The companies with very low share prices, in which market value is lower than the par value, may not be interested in disclosing more information in their annual reports. Such companies may not have a significant positive relationship between the market share prices and the disclosure of accounting information in annual reports.

Forty-four out of 120 annual reports are with the negative value gaps and four annual reports have zero value gaps. The market values of their ordinary shares are equal to or less than the par values. Among the sample companies par value of an ordinary share is Rs.10.

The TABLE 5 – 11 presents summary information of the share value gap and the disclosure of accounting information. The number of frequencies in a group is approximately ten. In six groups the mean gap values are less than ten, and they have varied between -6.65 and 8.33.
TABLE 5-11
SHARE VALUE GAP AND TOTAL DISCLOSURE SCORES

<table>
<thead>
<tr>
<th>GROUPS</th>
<th>TOTAL GAP</th>
<th>MEAN GAP</th>
<th>TOTAL SCORE</th>
<th>MEAN SCORE</th>
</tr>
</thead>
<tbody>
<tr>
<td>(7.50) - (5.88)</td>
<td>-66.50</td>
<td>-6.65</td>
<td>581</td>
<td>58.10</td>
</tr>
<tr>
<td>(5.87) - (5.00)</td>
<td>-52.00</td>
<td>-5.20</td>
<td>579</td>
<td>57.90</td>
</tr>
<tr>
<td>(4.99) - (3.50)</td>
<td>-38.75</td>
<td>-4.31</td>
<td>527</td>
<td>58.56</td>
</tr>
<tr>
<td>(3.49) - (1.50)</td>
<td>-22.00</td>
<td>-2.20</td>
<td>558</td>
<td>55.80</td>
</tr>
<tr>
<td>(1.49) - (1.00)</td>
<td>-3.75</td>
<td>-0.38</td>
<td>558</td>
<td>55.80</td>
</tr>
<tr>
<td>1.01 - 18.50</td>
<td>83.25</td>
<td>8.33</td>
<td>664</td>
<td>60.36</td>
</tr>
<tr>
<td>18.51-35.25</td>
<td>269.00</td>
<td>26.90</td>
<td>571</td>
<td>57.10</td>
</tr>
<tr>
<td>35.26-61.00</td>
<td>454.25</td>
<td>45.43</td>
<td>598</td>
<td>59.80</td>
</tr>
<tr>
<td>62.00-92.00</td>
<td>805.00</td>
<td>80.50</td>
<td>628</td>
<td>62.80</td>
</tr>
<tr>
<td>93.00-148.00</td>
<td>1257.25</td>
<td>125.73</td>
<td>658</td>
<td>65.80</td>
</tr>
<tr>
<td>149.00-205.00</td>
<td>1899.25</td>
<td>189.93</td>
<td>720</td>
<td>72.00</td>
</tr>
<tr>
<td>206.00-521.00</td>
<td>3578.00</td>
<td>357.80</td>
<td>674</td>
<td>67.40</td>
</tr>
</tbody>
</table>

Among the subsequent six groups the mean gap values have varied between 26.90 and 357.80. The market values of some shares are more than 35 times of the par value. While the minimum average disclosure score is 55.80 the maximum average disclosure score is 72.00.

Three tests are carried out with the data. The test 1 column of the TABLE 5-12 shows the results of regression analysis applied on the dependent variable of average disclosure scores and the independent variable of average share value gaps of the 12 groups. The computed correlation coefficient is 0.82, which is higher than the tabulated correlation coefficient of 0.68 at 0.01 critical probability.
TABLE 5 - 12
REGRESSION RESULTS: DISCLOSURE AND SHARE VALUE GAP

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>TEST 1</th>
<th>TEST 2</th>
<th>TEST 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Correlation Coefficient</td>
<td>0.82</td>
<td>0.43</td>
<td>0.08</td>
</tr>
<tr>
<td>R Square</td>
<td>0.68</td>
<td>0.18</td>
<td>0.007</td>
</tr>
<tr>
<td>F value</td>
<td>20.82</td>
<td>26.60</td>
<td>0.30</td>
</tr>
<tr>
<td>Coefficient of Intercept</td>
<td>58.38</td>
<td>58.89</td>
<td>56.44</td>
</tr>
<tr>
<td>Coefficient of Value Gap</td>
<td>0.038</td>
<td>0.030</td>
<td>-0.24</td>
</tr>
<tr>
<td>T value of Value Gap</td>
<td>4.56</td>
<td>5.16</td>
<td>-0.55</td>
</tr>
<tr>
<td>Number of Observations</td>
<td>12</td>
<td>120</td>
<td>48</td>
</tr>
</tbody>
</table>

Y = 58.38 + 0.038X  
Y = 58.89 + 0.030X  
Y = 56.44 + (-0.24X)

The value of $R^2$ is 0.67. Sixty-seven per cent of the variation in disclosure is explained by the value gap of shares. The computed F value is 20.82, which is higher than the tabulated F value of 9.7 at 0.01 critical probability. The coefficient of the intercept is 58.38 and the coefficient of the independent variable of value gap of shares is 0.038. The computed t value of the independent variable is 4.56, which is higher than the tabulated t value of 3.11 at 0.01 critical probability. Thus, the relationship between the value gap of shares and the disclosure scores of accounting information is positive and statistically significant. The null hypothesis that, "There is no significant positive relationship between the disclosure of accounting information and the value gap between the par value and average market value of ordinary shares of publicised major companies listed with the Colombo Stock Exchange" may be rejected. The alternative hypothesis that "There is a significant positive relationship b-between the disclosure of accounting information and the value gap between the par value and average market value of
ordinary shares of publicised major companies listed with the Colombo Stock Exchange” may be accepted.

The regression test applied in the second test is on disclosure and value gap data of 120 annual reports without any grouping. The ‘degree of freedom’ is 119. The results of the regression analysis are shown in the test 2 column of the Table 5 - 12. The computed correlation coefficient, R square, F value, and t value are 0.42, 0.18, 26.60, and 5.16, respectively. The tabulated correlation coefficient, F value, and t value are 0.25, 7.1, and 2.66 at 0.01 critical probability, respectively. The null hypothesis may be rejected and the alternative hypothesis may be accepted.

The third regression test is carried out on disclosure scores and value gap of shares of 48 company annual reports in which market values of shares are equivalent or less than the par values of shares. In this regression analysis the ‘degrees of freedom’ is 47. The computed correlation coefficient, F value, and t value are 0.08, 0.30, and –0.54. The tabulated correlation coefficient, F value, and t value are 0.28, 4.1, and 2.02 at 0.05 critical probability. The computed values are lower than the tabulated values. The coefficient of the independent variable of the value gap of shares is not positive. The value of its coefficient is –0.24. The relationship between the disclosure scores and the value gap of shares is not positive and not statistically significant. In relation to the annual reports of companies in which market values of shares are either equal to or lower than the par values of shares the null hypothesis may be accepted.

Among the review of literature or any other sources referred, the value gap of shares has not been used as a characteristic of companies to test the relationship with disclosure. According to Hawkins “...it should be noted that the
research to date has reached mixed conclusions on the relationship between accounting information, stock prices and investment returns. In the Sri Lankan study a significant positive relationship has been discovered between the value gap of shares represented in 120 annual reports of the sample companies and the disclosure of accounting information in annual reports. However, this relationship does not exist in relation to the shares of annual reports of which the value gap is either zero or less than zero.

When the market value of a share is less than the par value, the company will have to request for subscription for shares from the public at a discount or at a loss. Such companies may not be interested in collecting funds by using share market facilities. They may be collecting required funds from banks and other financial institutions at a higher cost. Since, such companies are not interested in collecting funds from the general public, they may be providing less accounting information in their annual report.

5.7.6 EARNINGS MARGIN AND DISCLOSURE

Researchers of disclosure studies, Cerf (1961), Singhvi (1968), Singhvi & Desai (1971), Wallace and Naser (1995), Inchausti (1997), Owusu-Ansah (1998) have used profitability or earnings margin as a company characteristic which is capable of influencing the extent of disclosure in annual reports of companies. As Land and Lundholm say, disclosure may be related to variability of a firm’s performance, if performance serves as a proxy for information asymmetric between investors and managers. In this study, earnings margin is considered as the ratio of profit or loss after tax to sales after turnover tax

and defense levy. This is a measure of the performance efficiency of the management. Singhvi and Desai has argued that higher profit (earnings) margin motivates management to provide more information because it increases investor confidence, which in turn, increases management compensation.\textsuperscript{29} Companies with a higher earnings margin are more likely to signal their super performance to the market by disclosing more information in the annual reports.\textsuperscript{30} If the earnings margin is positive and high contribution proportion towards profit is significant. The company can easily face the rising cost of material, labor, and overhead and can challenge the competitors even by reducing the selling prices. If the earning margin of a company were higher than that of the industry the investors and other users of accounting information would be more interested in the company. If the earning margin of a company is negative or relatively at a low level, the situation will be completely reversed. If the earning margin of a company is negative or low, it may not be able to face the competitors. Users of accounting information are more interested in high level earning margin companies and less interested in negative and low level earnings margin companies. Inchausti (1997) has stated that management, when in possession of ‘good news’ are more likely to disclose more detail information to the stock market than that provided by ‘bad news’ companies, to avoid undervaluation of their shares.\textsuperscript{31} Thus, the companies with higher earnings margin would try to provide more accounting information in their annual reports. The disclosure of accounting information by companies with lower and negative earnings margins could be at a lower level.\textsuperscript{32} The disclosure of

\textsuperscript{29} Wallace et al., \textit{op. cit.}, p. 45-46.
\textsuperscript{30} Ahmed et al., \textit{op. cit.}, p. 38.
\textsuperscript{31} Owusu-Ansah, \textit{op. cit.}, 616.
\textsuperscript{32} According to Owusu-Ansah (1998, p. 616) unprofitable companies will also be inclined to release more information in defense of poor performance.
accounting information in annual reports may vary with the level of earnings
margin of listed companies.

**TABLE 5 - 13**

**EARNINGS MARGIN AND DISCLOSURE**

<table>
<thead>
<tr>
<th>GROUPS</th>
<th>IND.VAR.:EARNINGS MARGIN</th>
<th>DEP. VARIABLE: DISCLOSURE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MEAN</td>
<td>STD</td>
</tr>
<tr>
<td>(3.60) -</td>
<td>-1.83</td>
<td>1.09</td>
</tr>
<tr>
<td>(0.67)-(0.07)</td>
<td>-0.29</td>
<td>0.24</td>
</tr>
<tr>
<td>(0.08)-(0.02)</td>
<td>-0.03</td>
<td>0.01</td>
</tr>
<tr>
<td>(0.02) - 0.02</td>
<td>0.01</td>
<td>0.01</td>
</tr>
<tr>
<td>0.03 - 0.04</td>
<td>0.04</td>
<td>0.00</td>
</tr>
<tr>
<td>0.05 - 0.07</td>
<td>0.06</td>
<td>0.01</td>
</tr>
<tr>
<td>0.08 - 0.09</td>
<td>0.08</td>
<td>0.01</td>
</tr>
<tr>
<td>0.10 - 0.11</td>
<td>0.10</td>
<td>0.00</td>
</tr>
<tr>
<td>0.12 - 0.16</td>
<td>0.14</td>
<td>0.01</td>
</tr>
<tr>
<td>0.17 - 0.24</td>
<td>0.21</td>
<td>0.02</td>
</tr>
<tr>
<td>0.25 - 0.45</td>
<td>0.35</td>
<td>0.06</td>
</tr>
<tr>
<td>0.46 - 0.78</td>
<td>0.66</td>
<td>0.14</td>
</tr>
</tbody>
</table>

The TABLE 5 - 13 shows the summary information of the earnings margin and disclosure of accounting information by listed companies for the period of five years from 1994/95 to 1998/99. The data are classified into 12 groups. The earnings margins of 114 listed company annual reports have varied between –3.60 and 0.78. The highest mean value of earnings margins is 0.66, and the lowest value is –1.83. The coefficient of variation has varied between –81.68 and 82.39. The highest disclosure mean is 69.43 of the earnings margin group of 0.10 – 0.11. The lowest disclosure mean is 52.20 of the earnings margin group of (0.67 – 0.07).

The TABLE 5 - 14 presents the regression results of the relationship between the independent variable of earnings margin and dependent variable of the disclosure of accounting information scores. The test 1 column presents regression results of data relevant to 114 annual reports. They are classified into 12 groups. The degree of freedom is 11. The computed correlation coefficient 0.22 is lower than the tabulated correlation of 0.55 at the critical probability of 0.05. The
coefficient of determination is 0.05, which indicates that 5 percent of the variation in disclosure is explained by earnings margin.

**TABLE 5 – 14**

**REGRESSION RESULTS: EARNINGS MARGIN AND DISCLOSURE**

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>TEST 1</th>
<th>TEST 2</th>
<th>TEST 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Correlation Coefficient</td>
<td>0.22</td>
<td>0.24</td>
<td>0.51</td>
</tr>
<tr>
<td>R Square</td>
<td>0.05</td>
<td>0.06</td>
<td>0.26</td>
</tr>
<tr>
<td>F Value</td>
<td>0.51</td>
<td>1.54</td>
<td>11.90</td>
</tr>
<tr>
<td>Intercept</td>
<td>61.37</td>
<td>54.81</td>
<td>70.27</td>
</tr>
<tr>
<td>Coefficient of Earnings Margin</td>
<td>2.04</td>
<td>-1.31</td>
<td>-19.52</td>
</tr>
<tr>
<td>T Value</td>
<td>0.71</td>
<td>-1.24</td>
<td>-3.45</td>
</tr>
<tr>
<td>No. of Observations</td>
<td>12</td>
<td>28</td>
<td>35</td>
</tr>
</tbody>
</table>

Y = 61.37 + 2.04X  \quad Y = 54.81 + (-1.31X)  \quad Y = 70.27 + (-19.52X)

The computed F value is 0.51 and the tabulated F value at critical probability of 0.05 is 4.8. The computed value is lower than the tabulated value. The intercept is 61.37 and coefficient of the independent variable of earnings margin is 2.04. The computed t value is 0.71 and the tabulated t value is 2.20 at critical probability of 0.05. The computed value is lower than the tabulated value. Thus, the relationship between the earnings margin and disclosure score of accounting information is positive but not statistically significant. The null hypothesis that “There is no significant positive relationship between the disclosure of accounting information and the earnings margin of publicised major companies listed with the Colombo Stock Exchange” may be accepted.

The test 1 incorporates annual reports consisted of profit margins as well as loss margins. The regression results of 28 loss margin annual reports and their disclosure are presented in the test 2 column. The R Square of 0.06 indicates that 6 per cent of the variation in disclosure is explained by the loss margin
(earnings margin). The coefficient of intercept is 54.81. The coefficient of the independent variable is -1.31. The computed regression coefficient, F value, and t value are 0.24, 1.54, and -1.24, respectively. The tabulated regression coefficient, F value, and t value are 0.38, 4.2, and 2.05 at critical probability of 0.05. The computed values are lower than the tabulated values. Thus, the null hypothesis may be accepted in relation to the 28 loss margin annual reports of the sample.

The test 3 column presents regression results of the relationship between higher earning margins (profit margin of more than 10%) and the disclosure of accounting information. Thirty-five annual reports are involved in the study. The value of R square is 0.26. Twenty-six per cent of the variation in disclosure is explained by higher profit margin (earnings margin). The coefficient of intercept is 70.27. The coefficient of the independent variable is -19.52. The computed regression coefficient, F value, and t value are 0.51, 11.90, and -3.45, respectively. The tabulated regression coefficient, F value, and t value are 0.45, 7.6, and 2.75, respectively. The relationship between the higher profit margin (earnings margin) and the disclosure of accounting information is statistically significant, but negative. In relation to the higher profit margin annual reports the null hypothesis may be rejected and the alternative hypothesis that “There is a significant relationship between the disclosure of accounting information and the higher earnings margin of publicised major companies listed with the Colombo Stock Exchange” may be accepted.

The results of the Sri Lankan study can be examined in relation to a number of studies undertaken relevant to companies in other countries. In the study carried out by Wallace et al. (1994), the firm characteristics of earnings was found
not to be associated significantly with the index of comprehensive disclosure.\textsuperscript{33} Owusu-Ansah (1994) discovered a positive relationship between the company characteristic of profitability and the disclosure in annual reports.\textsuperscript{34} Singhvi (1968), and Singhvi and Desai (1971) have found similar results. McNally et al. (1982), Lau (1992), Raffournier (1995) found no such relationship in their studies. Belkaoui and Kahl (1978), Wallace and Naser (1995) have also reported a significant negative association between profitability and disclosure level in studies.\textsuperscript{35} In the study relevant to the annual reports listed in the Colombo Stock Exchange, conflicting results have been discovered. In relation to the annual reports with an earnings margin of more than 10\%, a significant negative relationship between the disclosure of accounting information and the earnings margin exists. However, in relation to all the annual reports of the sample companies, and the zero and negative earnings margin annual reports, a significant positive relationship between the disclosure and earnings margin does not exist. As Lang and Lundholm says that the influence of a company’s profitability level can be positive, neutral, or negative depending on its performance.\textsuperscript{36} It seems that performance of a company could effect in creating a positive or negative or neutral relationship between the earnings margin and disclosure of accounting information. Further studies are required to be carried out to form an opinion on this relationship.

5.7.7 APPLICATION OF MULTIPLE REGRESSION

Prior to application of the multiple regression analysis, autocorrelation coefficients among the independent variables of total assets,

\textsuperscript{33} Wallace et al., \textit{op. cit.}, p. 50.
\textsuperscript{34} Owusu-Ansah, \textit{op. cit.}, p. 625.
\textsuperscript{35} Ahmed and Courtis, \textit{op. cit.}, p. 38.
\textsuperscript{36} Lang and Lundholm, \textit{op. cit.}, p. 250.
earnings margin, and value gap are computed. They are as follows. The computed correlation coefficient between the X1 (total assets) and X2 (earnings margin) is 0.7. The tabulated correlation coefficient at critical probability of 0.05 is 0.195. The relationship is not significant. The computed correlation coefficients between X1 (total assets) and X3 (value gap) is 0.31; and between X2 (earnings margin) and X3 (value gap) is 0.29. Since the tabulated correlation coefficient is 0.254 at critical probability of 0.01, their relationships are significant.

The table 5 - 15 shows the results of step-wise applied multiple regression. The results of the three tests carried out relevant to the multiple regression are given. The test 1 in column two provides information of the relationship between the independent variable X1 (total assets) and the dependent variable Y (disclosure) without involving the independent variables X2 (earnings margin) and X3 (value gap). The test 2 provides information on the effect of two independent variables of X1 (total assets) and X2 (earnings margin) on the dependent variable of Y (disclosure) without involving the independent variable X3 (value gap). The third test gives results of the effect of all three independent variables of X1 (total assets), X2 (earnings margin), and X3 (value gap) on the dependent variable Y (disclosure). The multiple correlation between the independent variables and the dependent variable has increased from 0.59 to 0.63 and then to 0.65. The R square has increased from 0.35 to 0.39 and then to 0.43. In the test 1, 35 per cent of the variation of Y (disclosure) is explained by the independent variable of X1 (total assets). The variation has increased to 39 per cent by 0.04 when the independent variable X2 (earnings margin) was introduced in the test 2.
TABLE 5 - 15
RESULTS OF MULTIPLE REGRESSION

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>TEST 1</th>
<th>TEST 2</th>
<th>TEST 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent Variable</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Independent Variables</td>
<td>X1</td>
<td>X1, X2</td>
<td>X1, X2, X3</td>
</tr>
<tr>
<td>Multiple Correlation</td>
<td>0.59</td>
<td>0.63</td>
<td>0.65</td>
</tr>
<tr>
<td>R Square</td>
<td>0.35</td>
<td>0.39</td>
<td>0.43</td>
</tr>
<tr>
<td>F value</td>
<td>59.35</td>
<td>36.21</td>
<td>27.24</td>
</tr>
<tr>
<td>Intercept</td>
<td>58.70</td>
<td>58.84</td>
<td>58.13</td>
</tr>
<tr>
<td>Coefficient: X1</td>
<td>0.0009</td>
<td>0.0009</td>
<td>0.0008</td>
</tr>
<tr>
<td>Coefficient: X2</td>
<td>2.61</td>
<td>1.89</td>
<td></td>
</tr>
<tr>
<td>Coefficient: X3</td>
<td></td>
<td>0.01</td>
<td></td>
</tr>
<tr>
<td>T Value of X1</td>
<td>7.70</td>
<td>8.15</td>
<td>6.96</td>
</tr>
<tr>
<td>T Value of X2</td>
<td>2.98</td>
<td>2.09</td>
<td></td>
</tr>
<tr>
<td>T Value of X3</td>
<td></td>
<td>2.46</td>
<td></td>
</tr>
</tbody>
</table>

\[ Y = 58.70 + 0.0009X1 \quad Y = 58.84 + 0.0009X1 + 2.61X2 \]

\[ Y = 58.13 + 0.0008X1 + 1.89X2 + 0.01X3 \]

There is a positive increase in the variation. In the test 3 all three independent variables X1 (total assets), X2 (earnings margin), and X3 (value gap) are combined together affecting variation of the independent variable Y (disclosure). Forty-three per cent of the variation in the independent variable Y (disclosure) is explained by the three independent variables. From test 2 to test 3 the coefficient of determination has increased from 0.39 to 0.43, by 0.04 points. The computed F values of 59.35, 36.21, and 27.24 are higher than the tabulated F values of 7.1, 5.0, and 4.0, respectively at 0.01 critical probability. The relationship is significant. In the test 1 the computed t value is 7.70 and the tabulated t value is 2.66 at 0.01 critical probability. In the test 2 computed t values of X1 (total assets) and X2 (earnings margin) are respectively 8.14 and 2.98 respectively. The tabulated t value is 2.66 at 0.01 critical probability. In the test 3 the computed t values of the independent variables X1 (total assets), X2 (earnings margin), and X3 (value gap) are 6.96, 2.09, and 2.46, respectively. The tabulated t value for X1 (total assets) at 0.01 critical probability is 2.66, and the relationship between the Y
(disclosure) and X1 (total assets) is highly significant (6.96 > 2.66). The tabulated t
value of X2 (earnings margin) at 0.05 critical probability is 2.00, and the
relationship between the Y (disclosure) and X2 (earnings margin) is marginally
significant (2.09 > 2.00). The tabulated t value of X3 (value gap) at 0.05 critical
probability is 2.00, and the relationship between the Y (disclosure) and X3 (value
gap) is significant (2.46 > 2.00). In summary, the first (Y & X1) is highly
significant; the second (Y & X2) is marginally significant; and the third (Y & X3)
is just significant.

5.8.0 CONCLUSION

In the part two of chapter five, five null hypotheses have been tested
on the data collected relevant to the disclosure of accounting information in annual
reports of companies listed with the Colombo Stock Exchange. The main objective
is to study the disclosure of accounting information in annual reports for the latest
five financial years ending 31 March 1999. The Student t test has been applied for
the first hypothesis. The simple regression has been applied for other four
hypotheses. Coefficients of correlation have been calculated incorporating
independent and dependent variables. In addition, for testing of the last three
hypotheses the multiple regression has been used. Summary results of the testing
of hypotheses (excluding multiple regression results) are given in TABLE 5 - 16.

**TABLE 5 - 16**

**SUMMARY RESULTS OF TESTING NULL HYPOTHESES**

<table>
<thead>
<tr>
<th>RESULTS</th>
<th>TRUE</th>
<th>FALSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accepted</td>
<td>No Error $H_{02}$ $H_{05}$</td>
<td>Error ~ 1</td>
</tr>
<tr>
<td>Rejected</td>
<td>Error ~ 2</td>
<td>No Error $H_{01}$ $H_{03}$ $H_{04}$</td>
</tr>
</tbody>
</table>
In relation to 100% of sample data, the second and fifth null hypotheses have been confirmed; the first, third, and fourth null hypotheses have been rejected. In relation to segmental data, contradictory results have been found. A significant difference between the requirement of accounting disclosure and the practice of accounting disclosure has been found. The level of disclosure practice has increased during the period of five years. However, there is no significant positive relationship between the increase in level of disclosure and the increase in assets. A significant positive relationship exists between the company economic resources and the disclosure of accounting information. However, relevant to the small companies, this significant positive relationship does not exist. A significant positive relationship exists between the value gap of listed company shares and the disclosure of accounting information. However, this significant positive relationship does not exist relevant to the company shares with the negative value gap. There is no significant positive relationship between the earnings margin and the disclosure of accounting information. However, in relation to the higher profit margin annual reports a significant negative relationship exists. In relation to the correlation, significant as well as some insignificant coefficients have been discovered. In relation to the multiple regression analysis, it has been found that independent variables of total economic resources, value gap of shares, and earnings margin have a significant positive relationship with the disclosure of accounting information. The relationship between the total economic resources and the disclosure is highly significant. The relationship between the value gap and the disclosure is significant. The relationship between the earnings margin and the disclosure is marginally significant. (Refer pages from 387 to 396 for graphical presentation of independent and dependent variables of hypotheses).