

Full Length Research Paper

Disclosures and impacts of impairment of non-current assets in the financial statements: A study on listed manufacturing companies in Colombo Stock Exchange (CSE) in Sri Lanka

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Abstract

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Nowadays many accounting standard setters want to move towards the relevance of fair value than reliability of historical value even accounting information has to maintain them in balance. The most percentage of value in financial statements is represented by non-current assets. And also the company act has insisted the implementing impairment test in the companies. Hence importance of impairment of assets has grown. The purpose of this study is to analyze the disclosures of impairment of non-current assets in applying LKAS 36 and their impact by inspecting the 5 years financial reports surveyed during the period from 2008-2012 of listed manufacturing companies in CSE. The disclosure of impairment was analyzed by using descriptive statistics and the impacts were evaluated by inferential statistics of regression and analyzed the relationship by correlation and coefficient between Impairment loss and selected accounting information of Return On Assets(ROA), Return On Capital Employed(ROCE), Net Profit Margin(NPM), Operating Profit Ratio(OPR), and Earning Per Share(EPS). According to the findings 6% of reports disclosed very detailed information about the impairment. Nearly 90% of companies fail to give any reason to the impairment loss, even though they met the significant amount loss. All the companies have disclosed the accounting policies of impairment of assets. The results of analyzing impact of impairment show that, reported impairment losses had a significant impact upon reported profits. Loss making companies were more adversely affected by impairment losses than profitable companies. The sample company's EPS dropped from 0.21 to -1.89 by recording Impairment loss. Hence the impairment loss was often a significant component of the reported overall loss. Future company financial reports on impairment could improve the disclosure to include a clear cause of impairment stated unambiguously in the annual reports with supporting value.

Keywords: Impairment of non-current assets, disclosure, impact.

INTRODUCTION

The objective of general purpose financial statements are to provide financial information about the reporting entity that is useful to existing and potential investors, lenders

and other creditors in making decisions about providing resources to the entity.

The primary role of accounting standard setters is to

define the accounting language that issued by management to communicate with the firm's external stakeholders.

According to Healy et.al (1998) opinion, financial reporting is intended to allow the best-performing firms in the economy to distinguish themselves from the poor performing firms, thus facilitating efficient resource allocation and stewardship decisions by stockholders. New financial accounting standards, therefore, add value if they enable financial statements to effectively communicate differences in firms' economic positions and performance in a timely and credible manner.

Financial statements should present results of realized transactions in a reporting period, and should give true and fair information about the financial position, results of operations, and cash flows. Various events could happen within the reporting period, such as a fall in the market value of assets, physical damage of assets, assets obsolescence, or other events which could result in a decrease in the value of a company's assets. If such events causing impairment of assets occur, the company should decrease the carrying amount to the recoverable amount. If not, the company's assets will be presented in a carrying value which exceeds their true value, which could lead to financial statement users making wrong decisions.

Reliability and relevance are the two key qualitative characteristics for financial statements to be of decision usefulness. In many situations, however, it is hard to look after both sides. Therefore, academicians and the authority, considering the demand and the worldwide trend, make effort to work out suitable accounting standards so that financial statements can provide more relevant and reliable information.

Nowadays many accounting standard setters want to move towards the relevance of fair value than reliability of historical value even accounting information has to maintain them in balance. Because of the most percentage of value in financial statements is represented by non-current assets. And also the company act has insisted the implementing impairment test in the companies. If the companies maintain the impairment process regularly, they can ensure the security and survive of them. Hence importance of impairment of assets has grown. However, there were no rules as to how this should be done until SLAS42 (LKAS 36 – 01/01/2012) was issued in 1998.

International Accounting Standards no.36 (IAS 36), impairment of assets, effective in 1998, is the first such regulation adopted by many countries. The objective of the standard is to ensure that assets are carried at no more than their recoverable amount and to define how the recoverable amount is calculated. Assets to which LKAS 36 applies include long-term assets, long term investment and intangible assets. LLAS 36 also aims to do away with the practice of recognizing long-term assets at a historical-cost basis or a lower of cost or market

basis.

When long-lived assets are impaired (the fair value of the asset is less than book value), the resources of a company have changed in value. Thus, it is considered important to inform external users, such as creditors and investors, of the change in financial information and to provide them with relevant information.

The recent financial crisis has led to a major debate about fair-value accounting.

Fair-value accounting involves reporting assets and liabilities on the balance sheet at fair value and recognizing changes in fair value as gains and losses in the income statement. When market prices are used to determine fair value, fair-value accounting is also called mark-to-market accounting. Critics argue that fair-value accounting has exacerbated the severity of the 2008 financial crisis.

With the move by many accounting standard setters and the IASB in particular towards 'fair value' accounting at the expense of 'historical cost' accounting, impairment of assets has grown in importance. This importance was further increased with the introduction of IFRS 3 which requires goodwill to be impaired rather than amortized, thereby making it mandatory for all listed companies not just in the European but in Eastern to carry out impairment tests on an annual basis. Hence carrying out impairment tests has shifted from being an optional process for listed companies to a mandatory annual practice. This policy has no doubt had many effects on companies with some having to declare large impairment losses which have affected their reported profits or losses and other financial indicators.

Research problem

When a company does the adjustment for impairment loss it will affect the non-current assets value, net profit and disclosure the information about it.

- RQ 1. Whether the surveyed companies have disclosed the principles of making impairment loss of non-current assets.
- RQ2. Whether the accounting of impairment loss reflects a reduction in the value of an assets or it further reflects some other accounting information in implementing LKAS 36.

Objectives

The following objectives are taken for the study;

- To identify the manufacturing companies which are listed in CSE that has been reported impairment of non-current assets degree according to LKAS36.
- To evaluate the impact of impairment loss in financial statements.

- To investigate the effect asset impairment has on the financial statements in terms of key financial indicators.

Significance

Impairment of assets can be explained as a sudden or unexpected decline in an asset's service utility, like factory, vehicle, or property. This might result from physical damage to the asset, changes to the legal code, or obsolescence resulting from technological innovation. It is, however, possible to write off impairment of assets.

There is a great awareness among the researchers to carry out the researches in "impairment of assets". Very little researches on "impairment of assets" are available in Sri Lanka and need to be empowered companies to pay a special attention on LKAS36.

The companies have to maintain the accounting information balancing within reliability of historical value and relevance of fair value. Hence accounting information which is represented in the financial statements should be reliable and relevant. The most percentage of value in financial statements is represented by non-current assets. Their information also balanced within the above.

The establishment of LKAS 36 is to improve the transparency of financial information for the listed companies in Sri Lanka.

- Importance of implement the impairment test in the companies
- SLFRSs are required to recognize impairment losses on assets.LKAS36
- Disclose the relevant information about clear cause of impairment with supporting calculations in the financial statement

This significant level of participation in share ownership encourages the financial market regulators to maintain and improve the essential elements for a successful capital market system, such as the development of high quality accounting standards and transparent disclosure systems (Johnson and Sequeira, 2004).

Literature review

The asset impairment accounting system has been introduced throughout the world since the mid-1990s. However, until Sri Lankan Accounting Standard(SLAS)42 (Lankan Accounting Standard(LKAS)36 – 01/01/2012) was issued in 1998 there were so far no rules as to how this should be done in Sri Lanka. Both the company law development and the development of accounting standards show an early attentiveness in Sri Lanka to the concept of impairment write-downs.

Prior researchers got the evidence that impairments disclose private information to reduce uncertainty about

firm value in the period prior to the GFC. During the global financial crisis (GFC) a significant number of firms, confronted by unprecedented market volatility, substantial declines in profitability, and sustained falls in stock prices, needed to recognize asset impairments. Amir Vanza and et al (2011).

In UK, the absence of authorities guidance was change in 1998 when accounting standard board issued Financial Reporting Standard (FRS) 11 Impairment of Fixed Assets and Good Will. Even in Japan it has been extensively introduced since 2006. The standard of asset impairments was issued at Feb 15, 2006 in China. Anyhow it doesn't permit to reverse asset impairments. (Zhao Chunguang)

Full implementation of LKAS 36 for financial reporting practices of public companies requires integration of entity's financial accounting system with a system of operational and strategic management accounting. The harmonization of accounting standards is also absolutely vital to building long-term global financial stability, creating truly international capital markets and providing full transparency for credit management asserts that investors' need for reliable and relevant financial information has been the key factors of accounting reform in the country.

However, value relevance approach is an instrument to estimate quality of accounting information, which is a prime importance to the well-functioning of the economy. Several prior literatures have found that the value relevance of accounting information has declined in recent years. On the other hand, A number studies also have been carried out in recent years that showed value relevance of accounting information has increased. Qystein and Frode, (2007) Fair-value accounting records assets and liabilities at estimates of their current values. When those estimates are based on observable prices from active markets, they are verifiable.

In view of the economic value concept, independently of any legal aspect, companies should periodically assess their assets' impairment. (Reistem; Lander, 2004; Martins, 2008). From a valuation perspective, the aim of impairment is to adapt the book value to the asset's ability to produce future benefits, i.e. asset valuation is practiced through the fair value ((Riedl et al, 2004).Perhaps the negative aspect is the fact that impairment practices raise significant disclosure challenges, as they imprint some degree of subjectivity on financial statements, considering that they demand judgments and estimates (Riedl et al, 2004).

Over the last three decades, the world economy and capital markets have become increasingly globalized and integrated. In this respect, the benefits of having one set of high-quality globally recognized financial reporting standards are significant. Since convergence and harmonization of national Generally Accepted Accounting Principles with International Financial Reporting Standards (IFRS) promises "transparent, comparable and

consistent financial information” to guide investors in making “optimal investment decisions” (Jacob and Madu, 2004). The harmonization of accounting standards is also absolutely vital to building long-term global financial stability, creating truly international capital markets and providing full transparency for credit management (Hansen, 2003).

One of the important regulatory requirements of financial reporting is that the carrying amounts of assets which are disclosed in financial statements should not exceed their recoverable amounts. If the carrying amount exceeds the amount which can be recovered, either by use or sale of the asset, then the carrying amount should be decreased. This means that assets are carried at no more than their recoverable amount. A decrease of the carrying amount to represent the recoverable amounts results in impairment of assets; that is, in impairment loss.

Hypothesis

- H1: Most of the Manufacturing companies listed on the CSE, implement the requirement of LKAS 36 on the external reporting.
- H2: Impairment loss has an impact on the financial statement information

Data collection

In order to meet the objectives of the study, the secondary data were collected from Annual reports of the companies. The data representing the period of 2008 to 2012 were extracted from the company's Annual reports for the analysis.

Sample

The Colombo Stock Exchange (CSE) has 288 companies representing 20 business sectors as of 2013. To collect our data we have selected the CSE which have all relevant data about the listed companies.

In this study, out of 20 business sectors, Sri Lankan manufacturing companies listed in Colombo Stock Exchange are selected to examine their level of disclosure about asset impairment information in the annual reports. The manufacturing sector is chosen because of the importance role it plays in the Sri Lankan economy and equity market. Out of 37 manufacturing companies, 16 companies did the impairment of non-current assets and disclose the amount in the financial statement among the research period.

The period covered the companies' most recently published financial statements, from 2008 to 2012, based on availability of annual reports from CSE and home

web pages of companies.

Once the published financial statements were obtained, we read the content of each report and established which companies had disclosed an impairment charge in accordance with LKAS36.

This was done by reading the profit and loss account, balance sheet, cash flow statement and accompanying notes to the financial statements. Once the process of checking the annual reports was complete, a sample of 16 companies of manufacturing sector were found to have charged an impairment loss.

METHODOLOGY

The following tools are used to analyse the data.

Correlation analysis

Correlation analysis is the statistical tool that can be used to describe the degree to which one variable is linearly related to another. In order to carry out the research techniques that correlation analysis are being used to find out the relation between the variables. The value of this co-efficient is calculated by the following formula.

$$\frac{n \sum x_i y_i - \sum x_i \sum y_i}{\sqrt{n \sum x_i^2 - (\sum x_i)^2} \sqrt{n \sum y_i^2 - (\sum y_i)^2}}$$

The technique is used to find out the relationship among the variables and their strength. Therefore, two variables such as independent variables and dependent variables are taken in this study.

- Independent variable → impairment loss
- Dependent variable → accounting information (Return On Assets (ROA), Return On Capital Employed (ROCE), Net Profit Margin (NPM), Operating Profit Ratio (OPR), Earning Per Share (EPS).)

Regression analysis

In general, regression analysis describes the mathematical equation, that “best fit” the value recorded for the two variables. While nonlinear equations may be used for this purpose, the researcher limits the discussion to regression equation of the linear (Strength line) type.

The purpose of this analysis is to predict or estimate what a dependent variable will be for a given values of independent variable.

Simple regression is used to find out relationship between impairment loss and accounting information which begins with a set of data values and determines a “best fit” equation of the company.

$$Y = a + bx$$

Where

Y – Dependent Variable

Table 1. Calculations of Ratios

Ratio	
Return On Assets(ROA)	= Net profit / Total Assets
Return On Capital Employed (ROCE)	= Earnings before interest and tax/ Total Assets
Net Profit Margin(NPM)	= Net Profit / Sales
Operating Profit Ratio(OPR)	=Earnings before interest and tax/ Sales
Earnings Per Share(EPS)	=Net Profit/Share Issue

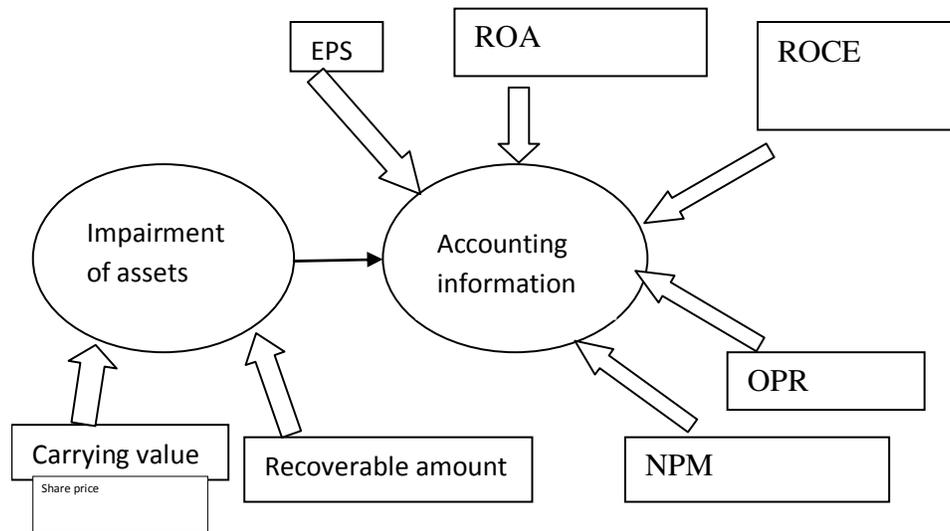


Figure 1. Provide legend

Table 2. Operationalization

Concept	Variable	Indicator	Measurement
Impairment of assets	Impairment Loss	Financial statements	Rupees
Accounting information	investment profitability	EPS	=Net profit/no of shares
		ROA	= Net profit / Total Assets
		ROCE	= Earnings before interest and tax/ Total Assets
		NPM	= Net Profit / Sales
		OPR	=Earnings before interest and tax/ Sales

a – Y intercept of the equation

b – Slope of the equation

x – Independent Variable.

The disclosure of impairment was analyzed by using descriptive statistics.

Mode of analysis

The following ratios are taken to measure the accounting information of the sample listed companies which are given Table 1.

Conceptualization

According to relevant researches, the operational concept of the research is shown below. (Figure 1) We estimate regression coefficients for each category of asset, for each impairment decision variable (Table 3)

Data presentation and analysis

Disclosure of Additional Information on Significant Impairment of Assets as set out under accounting

Table 3. Regression coefficients for each category of asset, for each impairment decision variable

	Concepts	Variables
Independent variable	Impairment of assets	Impairment loss
Dependent variables	Accounting information	EPS ROA ROCE NPM OPR

Table 4. Percentage of Manufacturing Companies Which Disclosed Scope and method of Impairment of Assets in CSE in the Period 2008-2012 (sample 37)

Scope and method	Year				
	2008	2009	2010	2011	2012
Disclosure of accounting policy for asset impairment	86%	95%	100%	100%	100%
Impairment losses recognized in the income statement, cash flow and financial position	44%	31%	44%	56%	50%
Nature of assets	31%	25%	38%	44%	50%
Include an indicators of impairment loss	0%	0%	6%	13%	6%
Disclosure the measurement method	0%	0%	0%	6%	0%

Table 5. Percentage of Manufacturing Companies which Disclosed Impairment of classes of Assets in the Colombo Stock Exchange in the Period 2008-2012. (Sample 16)

Assets	Year				
	2008	2009	2010	2011	2012
Property Plant and Equipment (Not mention the classes of Assets)	13%	13%	6%	19%	6%
Plant and machinery	6%	0%	19%	25%	25%
Motor vehicle	6%	6%	0%	0%	0%
Tools and equipment	6%	6%	0%	6%	6%
Computer and software	0%	0%	0%	6%	6%
Good Will	13%	6%	6%	0%	0%
Investment	6%	6%	13%	6%	13%
Segment intangible	0%	0%	6%	6%	6%
Capital Work in Progress	0%	0%	6%	0%	0%
Total companies which disclose the classes of assets	50%	37%	56%	69%	62%
Un disclose the impairment amount	50%	63%	44%	31%	38%

standard, companies should disclose additional information for each significant impairment. In this research the percentage of manufacturing companies in CSE which disclosed information on significant impairments in the period 2008-2012 was examined. Results are presented in the following Table 4.

The research evidences an increase in the number of companies which disclosed additional information on significant impairments. In 2012 100% of companies disclosed the accounting policy for asset impairment while in 2008, 2009, 2010 and 2011 that percentage was 86%, 95%, 100% and 100% respectively. However it can also be observed that the quality of the information

provided is unsatisfactory and the companies did not disclose all the information required under accounting regulations. For example, only 06% of companies disclose all the required information based on standard. i.e. Richard Peries company in 2011. Other companies did not disclose all the degree of information regarding LKAS 36.

Disclosure of impairment of assets

The research into disclosure of impairment of non-current assets is based on the investigation of the percentage of

Table 6. Percentage of Impairment loss among the Classes of Assets in the manufacturing companies in the Period 2008-2012

	PPE (general)	Plant and Machinery	Motor Vehicle	Tools and Equipment	Computer and software	Good Will	Invest ment	Segment intangible	Capital Work in Progress
2008	43%	13%	8%	3%	0%	20%	14%	0%	0%
2009	10%	0%	4%	8%	0%	22%	56%	0%	0%
2010	2%	47%	0%	0%	0%	2%	27%	22%	1%
2011	7%	79%	0%	0%	0%	0%	2%	11%	0%
2012	0%	57%	0%	5%	1%	0%	19%	18%	0%

Table 7. Percentage of total impairment loss for non-current assets and total assets

Year	Non-current assets	Total assets
2008	1.97%	0.52%
2009	1.27%	0.81%
2010	1.02%	0.40%
2011	0.89%	0.35%
2012	2.01%	1.03%

companies which disclosed impairment of assets in their financial statements. An overview of the percentage of manufacturing companies which disclosed impairment of classes of non-current assets in the period 2008-2012 is given in the following table 5.

Based on the research results, we can see that there was an increase in the number of manufacturing companies in the Sri Lanka which disclosed impairment of assets in the period 2008-2012.

The research also showed that 50% of companies did not disclose the impairment amount but disclose the impairment policy of non-current assets in 2008, 63% in 2009, 44% in 2010, 31% in 2011 and 38% in 2012.

An additional result of the research is the observation that, 13% of companies in 2008 and 2009, and 6% of companies in 2010 and 2012, and 19% of companies in 2011, made inadequate disclosure of impairment of assets. These companies did not disclose impairment of assets divided into classes of assets, as required under LKAS 36.

Structure of Impaired Loss

The structure of impairment loss can be determined as the participation of impairment loss of a class of assets in the total impairment loss. The structure of impairment loss for the period 2008-2012 is presented in the following figure.

Impairment of plant machinery and investments has the highest growth and the highest participation in total impairment loss. In 2008 43% of PPE without any classification of assets were impaired, in 2009 56% of investment, and in 2010 47%, 2011 79% and 2012 57% of plant and machinery were impaired. Because of the

Information Technology development and new trend in marketing system book value of Property Plant and Equipment, investment, and machinery were impaired. Impairment loss for all classes of assets except intangible assets also increased in the observed period. The impairment loss of computer and software and capital work in progress are relatively low.

The structure of impairment loss in 2008, showed that the impairment loss mostly arose from Property Plant and Equipment and Goodwill. This would happen because of company act 2007 and awareness of impairment of assets. After that general impairment of assets decrease and mention the classes of assets impairment increase.

And also, it can be noticed that loss from impairment of Plant and machinery has more participation in the total impairment loss, for the following year. (Table 7)

It can be observed that impairment loss increased annually in the period 2008- 2012. In 2008 only 0.52% of the value of total assets was impaired, in 2009 that percentage was .81%, and in 2012 it was 1.03%.

Figure 2 shows that the trend of impairment loss of non-current assets increased annually in the period of 2008-2012.

Analysis of profitability and investment information among companies

Profitability is the net result of a number of policies and decisions. Four profitability ratios have been used in this study to compare the profits earned by the companies. Table 8 contains the ratio of this group.

The above table shows that during the impairment period how their profitability and performance were. Impairment loss was found to have a significant impact

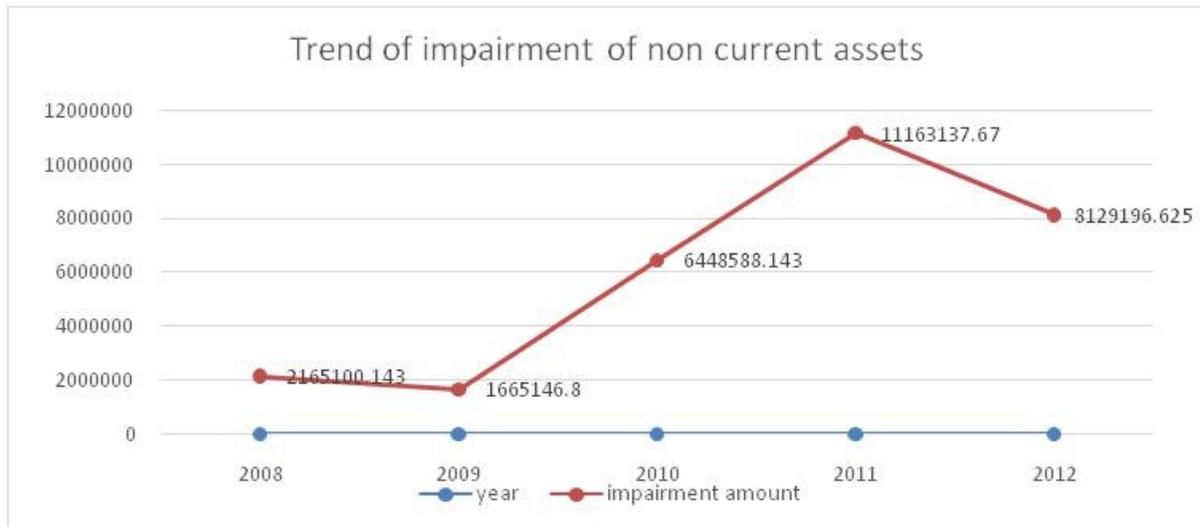


Figure 2. The following graph shows the trend of total impairment of non-current assets in each year

Table 8. Average Profitability and performance ratios of Listed Manufacturing Companies in Sri Lanka during the period of 2008-2012

Name of the Companies	OPR=Operating Profit/sales	NPM=Net Profit/Sales	EPS	ROCE=Operating Profit /TA	ROA=net profit / TA
Blue Diamonds Jewellery Worldwide PLC.	-221%	-313%	-0.24	-7%	-10%
Bogala Graphite Lanka PLC	1%	-4%	0.45	1%	-4%
Central Industries PLC	10%	6%	8.00	15%	9%
Ceylon Grain Elevators PLC	3%	1%	1.96	6%	3%
Dankotuwa Porcelain PLC	2%	-1%	-0.42	3%	-1%
Dipped Products PLC	31%	31%	6.98	12%	12%
Kelani cables PLC	8%	4%	11.95	11%	5%
Kelani Tyres PLC	74%	72%	1.40	21%	20%
Lanka Walltile PLC	16%	14%	2.87	7%	6%
Laxapana Batteries PLC	22%	-16%	-0.84	16%	-11%
Orient Garments PLC	6%	3%	1.57	13%	6%
Printcare PLC	10%	2%	1.48	11%	3%
Richard Pieris Exports PLC	5%	2%	1.28	4%	1%
Sierra cables PLC	16%	13%	0.19	7%	6%
Singer Industries(Ceylon)PLC	8%	8%	11.34	5%	5%
The Swadeshi Industrial works PLC	6%	2%	4.64	14%	5%

Source: Calculated from the figures available in the income statements, balance sheets and cash flow statements of the companies concerned

upon reported profits. Loss making companies were found to be more adversely affected by impairment loss than profit making companies with the impairment loss often a significant cause of the reported overall loss. Blue Diamonds Jewellery Worldwide PLC which earned loss during the period highly effected by impairment loss but ensure the growth and stability for future. At 2010 the company earned operating loss Rs14, 198,940 impairment amount of plant and machinery was Rs 3,108,283. Impairment loss on operating loss was 22%, on EPS was 17%.

Table 9 presents selected descriptive statistics of the sample companies. The independent variable impairment loss and dependent variables OPR, NPM, EPS, ROCE, and ROA indicate that standard deviation is small to dependent variables and both the kurtosis and skewness come close to zero.

Impairment loss amount in rupees, accounting information are in divided ratios. There for before and after the impairment charges accounting information are undergone for the correlation analysis. The table 10 shows the analysis.

Table 9. Output of the descriptive statistics

	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
Impairment Loss	93000	59160000	6503426.78	11255972.505	3.459	13.922
OPR	-2.21	.76	.0833	.44559	-3.819	21.002
NPM	-3.13	.73	-.0028	.58490	-4.510	24.688
EPS	-8.80	30.72	3.5753	7.09484	2.248	7.118
ROCE	-.10	.29	.0880	.07929	.190	1.214
ROA	-.28	.25	.0436	.09565	-1.097	3.951

Table 10. Correlations

		Impairment Loss	OPR	NPM	EPS	ROCE	ROA	OPRBI	NPMBI	EPSBI	ROCEBI	ROABI
Impairment Loss	Pearson Correlation	1	.105	-.036	-.146	.135	-.222	.180	.004	.004	.293	-.075
Independent variable	Sig. (2-tailed)		.541	.836	.443	.431	.194	.294	.983	.982	.083	.664
OPR	Pearson Correlation		1	.912**	.181	.646**	.383*	.983**	.936**	.179	.611**	.453**
Operating Profit Ratio	Sig. (2-tailed)			.000	.338	.000	.021	.000	.000	.297	.000	.005
NPM	Pearson Correlation			1	.217	.432**	.582**	.831**	.995**	.204	.334*	.583**
Net Profit Margin	Sig. (2-tailed)				.249	.009	.000	.000	.000	.234	.046	.000
EPS	Pearson Correlation				1	.345	.452	.159	.216	.990**	.247	.463**
Earnings Per Share	Sig. (2-tailed)					.062	.012	.401	.252	.000	.189	.010
ROCE	Pearson Correlation					1	.444**	.712**	.486**	.290	.975**	.577**
Return On Capital Employed	Sig. (2-tailed)						.007	.000	.003	.087	.000	.000
ROA	Pearson Correlation						1	.325	.587**	.387*	.272	.977**
Return On Assets	Sig. (2-tailed)							.053	.000	.020	.108	.000
OPRNI	Pearson Correlation							1	.871**	.168	.705**	.426**
Operating Profit Ratio No Impairment loss	Sig. (2-tailed)								.000	.328	.000	.010
NPMBI	Pearson Correlation								1	.208	.398*	.605**
Net Profit Margin No Impairment loss	Sig. (2-tailed)									.223	.016	.000
EPSNI	Pearson Correlation									1	.232	.404*
Earnings Per Share No Impairment loss	Sig. (2-tailed)										.174	.014
ROCENI	Pearson Correlation										1	.437**
Return On Capital Employed No Impairment loss	Sig. (2-tailed)											.008
ROANI	Pearson Correlation											1
Return On Assets No Impairment loss	Sig. (2-tailed)											

**Correlation is significant at the 0.01 level (2-tailed).

*Correlation is significant at the 0.05 level (2-tailed).

Table 11. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1 OPR	.105 ^a	.011	-.018	.44959
2 NPM	.036 ^a	.001	-.028	.59306
3 EPS	.146 ^a	.021	-.014	7.14348
4 ROCE	.135 ^a	.018	-.011	.07971
5 ROA	.222 ^a	.049	.021	.09464

a. Predictors: (Constant), Impairment Loss

Table 12. Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Dependent variable
		B	Std. Error	Beta			
1	(Constant)	.056	.087		.647	.522	OPR
	Impairment Loss	4.168E-009	.000	.105	.617	.541	
2	(Constant)	.009	.115		.081	.936	NPM
	Impairment Loss	-1.859E-009	.000	-.036	-.209	.836	
3	(Constant)	4.172	1.512		2.758	.010	EPS
	Impairment Loss	-8.426E-008	.000	-.146	-.779	.443	
4	(Constant)	.082	.015		5.314	.000	ROCE
	Impairment Loss	9.535E-010	.000	.135	.797	.431	
5	(Constant)	.056	.018		3.056	.004	ROA
	Impairment Loss	-1.884E-009	.000	-.222	-1.325	.194	

The results of the correlation analysis in table 02 shows that the impairment loss is not significantly correlated with OPR, NPM, EPS, ROCE, Roast the measures of firm performance. It means companies are still not properly practiced LKAS36. Therefore

Companies should pay an attention on the standard.

The regression analysis was performed to recognize the impact of impairment loss on firm performance. The results of the analysis are given in Table 11.

Dependent variables: OPR, NPM, EPS, ROCE, ROA

The specification of the impairment loss in the model revealed the ability to predict performance. R2 Value of 0.011, 0.001, 0.021, 0.018 and 0.049 which are in the models denote that 01.1%, 00.1%, 02.1%, 01.8% and 04.9% of the observed variability in performance can be explained by the differences in both the independent variable impairment loss. Remaining 98.9%, 99.9%, 97.9%, 98.2% and 95.1% of the variance in performance is related to other variable which is not explained, because they are not depicted in the model. R2 values of that 01.1%, 00.1%, 02.1%, 01.8% and 04.9% indicate that there may be number of variables which can have an impact on performance that need to be studied. Hence

this area is indicated as a scope for future research.

The results of the regression analysis in Table 12 show that the coefficient for all variables.

The results of the regression analysis in table 09 show that the coefficient for impairment loss and other variables of OPR, NPM, EPS, ROCE and ROA. ROCE is not significant.

Limitation

Secondary data for the study were drawn from audit accounts (i.e., income statements, balance sheets, cash flow and notes) of the concerned companies; therefore, these data may be considered reliable for the purpose of the study. Necessary checking and cross checking were done while scanning information and data from the secondary sources. All these efforts were made in order to generate validity data for the present study. Hence researcher satisfied content validity.

This research provides useful insights into the extent of asset impairment disclosure in annual reports of the Sri Lankan listed manufacturing companies and factors that influence companies to make the disclosure decision, however there are a number of limitations.

First, this research only focuses on five year's disclo-

sure information of Sri Lankan listed manufacturing companies, which may not represent the full picture of companies' disclosure practices.

Second, the study only uses one major avenue of company disclosure, namely corporate annual reports. There are various other forms of information channels, such as press releases, interim reports, company web sites, through which a company can make disclosures. Although companies' annual reports are important as an information medium (and most cited in similar studies), the fact that it is not the only venue for company disclosure limits generalisability of the findings.

FINDINGS AND CONCLUSION

Based on the investigation of financial statements of companies in the CSE in the period 2008-2012, an increase in the number of companies which disclosed impairment of assets and in the amount of impairment loss can be recognized. In 2011 56% of companies disclosed impairment of assets, which is significantly higher than the 31% of companies in 2009. An absolute and relative increase in impairment loss can also be noticed in the observed period. The ratio of impairment loss and total assets which could be impaired showed an increase, from 0.52% in 2008 to 1.03% in 2012. This increase in impairment loss is expected, when business conditions in Sri Lanka are taken into consideration. Further, the research showed that Plant and machinery and investments have the highest rate of impairment, and that consequently loss from impairment.

The research revealed that disclosures on the estimation of impairment losses of non-current assets and principles of their making are relatively poor quality. Most of the companies have presented in their financial statements only the general principles of accounting for the subject matter. Approximately 6 percent of the companies surveyed disclose detailed data that are sufficient to properly interpret and evaluate the reliability of the information presented in the financial statement.

Most impairers – but not all – specify impairment losses both on class of assets and as an expense item. In the details, however, there is a great variety in the presentation of the impairment loss, in the techniques of recording the impairment loss in the accounts, and in the applied terminology. There are a number of examples of confusing impairment accounting. The deficiencies of tangible assets impairment accounting are more conspicuous than those of goodwill impairment accounting. It seems that the company boards, their auditors and the review panel would have to make more effort to ensure that the provisions of the present standard – or its sibling LKAS 36 after the transition to a new accounting regime – are actually followed.

Research on the effect of impairment loss on accounting information showed the insignificant impact.

When testing the H1 6% of manufacturing companies (ie. One) only implement the requirement of LKAS 36 on the external reporting not most of the manufacturing companies.

In Sri Lankan manufacturing companies' impairment loss amount of financial statements did not directly impact on financial information because there are not significantly correlated. So that hypotheses one and two are rejected.

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