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## TYPES OF INVESTMENT AND CONDITIONAL ACCOUNTING CONSERVATISM IN SRI LANKA

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### ABSTRACT

The purpose of this study is to investigate the effect of types of investment on conditional accounting conservatism in Sri Lanka. Accounting data were obtained from all public listed companies other than financial companies in Sri Lanka for 2006 through 2015. The panel generalized method of moments (GMM) method was used. In this study, the relationship between types of investment and conditional accounting conservatism in Sri Lanka is examined by using the model developed by Basu (1997) and modified by Ball and Shivakumar (2005) and Hämäläinen and Martikainen (2015). The results indicate that there is a more demand for high conservative financial statements to attract foreign portfolio investment than to attract foreign direct investment in Sri Lanka. In domestic investment, as predictive variable is not statistically significant, one can argue that there is no relationship between domestic investment and conditional accounting conservatism in Sri Lanka. This study has two implications. First is theory implication; this study shows new evidence to Sri Lankan literature on showing a more demand for high conservative financial statements to attract foreign portfolio investment than foreign direct investment. Second is policy implication; the result of this study will be useful to policy makers and authoritative accounting bodies in Sri Lanka because the study demonstrates that highly conservative financial reporting is needed to attract foreign direct investment and foreign portfolio investment. Therefore, policy makers could motivate to provide high conservative financial statements and ultimately it can be useful to attract more foreign investments to Sri Lankan economy.

**Keywords:** Accounting quality, foreign investment, emerging economies, conservatism, South Asia