



## CHALLENGES AND BARRIERS OF ADOPTING FAIR VALUE ACCOUNTING FOR REAL ESTATE VALUATION IN PUBLIC LISTED COMPANIES - SRI LANKA



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**Abstract:** Sri Lanka adopted IFRS with effect from 1<sup>st</sup> January 2012. With IFRS gaining rapid acceptance across the globe with over a 100 countries adopting it, Sri Lanka too is now in line with the global trend in enabling a common language for financial reporting processes following the adoption of IFRS. The Adoption of IFRS is a major breakthrough for companies in Sri Lanka as they will have a common, high quality and internationally accepted set of accounting and financial reporting standards and is also seen as a way forward to bring in 'more credibility' to financial reporting in the country. However, there are challenges and barriers to Sri Lanka in the process of adopting IFRS. Hence, this research was aimed to analyze Challenges and Barriers of Adopting Fair Value Accounting for Real Estate Assets Valuation in Sri Lanka Public Listed Companies. To accomplish this purpose, three objectives were developed and to achieve the objectives eighteen (18) hypotheses were developed and tested. The first objective was to find out the major determinant factors of adopting FVA for Real Estate Valuation. That was basically achieved through a solid literature review related to the problem statement. Accordingly five firms based characteristics and three behavioral factors of managers for of adopting FVA for Real Estate Valuation were identified. Second objective was tested to identify the relationship between firms based characteristics and behavioral factors of managers for of adopting FVA for Real Estate Valuation. Accordingly fifteen hypotheses were developed on firms based characteristics in terms of Firm Size, Leverage, Profitability, Amount of Real Estate and Extent of Expertise for Fair Value Accounting. The results obtained for all fifteen hypotheses were significant. Thus, the proposed link between firms based characteristics and behavioral factors of managers for adopting FVA for Real Estate Valuation was fully supported. Third objective was to identify the relationship between behavioural factors of managers and adoptability of FVA for Real Estate Valuation in PLCs' in Sri Lanka. As per that, Attitudes, Subjective Norms, and Perceived Behavioural Control were considered as behavioural factors of managers as suggested in literature chapter. Three hypotheses were tested and all of them were significant to confirm the proposed link between behavioural factors of managers and adoptability of FVA for Real Estate Valuation in

**W.H.T Gunawardhana, Kennedy D. Gunawardane- CHALLENGES AND BARRIERS OF ADOPTING FAIR VALUE ACCOUNTING FOR REAL ESTATE VALUATION IN PUBLIC LISTED COMPANIES - SRI LANKA**

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*PLCs' in Sri Lanka. The results obtained for second and third objectives, confirmed the barriers and challenges of adopting FVA for Real Estate Valuation in Sri Lankan context. Perceived Control is the most influencing factor, followed by Subjective Norms and Attitudes .As far as exogenous factors : firms based characteristics and endogenous factors: behavioral factors of managers for adopting FVA for Real Estate Valuation are concerned; Extent of Expertise for Fair Value Accounting has the most significant influence on Attitudes of managers. Level of Leverage of company determines the Perceived Control of managers in the process of Fair Value adoptability. At the same time, Firm Size has a significant impact on Subjective Norms of managers in the process respectively.*

**Key words:** IFRS-FVA, Real Estate Valuation, Public Listed Companies in Sri Lanka, Firm Based Characteristics, Managers' Behavioral Factors.