

**IMPACT OF RESEARCH & DEVELOPMENT  
EXPENDITURE ON PERFORMANCE OF SRI LANKAN  
LARGE SCALE ENTERPRISES WITH SPECIAL  
EMPHASIS ON THE FINANCIAL INDICATORS**

K. Mayooran

149026T



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Master of Business Administration

In

Management of Technology

Department of Management of Technology

University of Moratuwa

Sri Lanka

February 2016

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The Dissertation was submitted to the Department of Management of Technology of the University of Moratuwa in partial fulfilment of the requirement for the Degree of Master of Business Administration in Management of Technology.

Department of Management of Technology

University of Moratuwa  
Sri Lanka

February 2016

## DECLARATION

I hereby certify that this dissertation does not incorporate any unacknowledged or previously submitted material for a degree in any University, to the best of my knowledge and it does not contain any material previously published, written or orally communicated by another person except where due reference is made in the text.

.....  
Submitted by

Mayooran Karunanithy

.....  
Date



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This is to certify that the Master's thesis submitted by Mayooran Karunanithy is a record of the candidate's own work carried out by him, under my supervision. In my capacity as supervisor of the candidate's thesis, I certify that the above statements are true to the best of my knowledge.

.....  
Prof. Sarath WSB Dasanayaka

Supervisor

Coordinator MBA in MOT 2014 Batch (University of Moratuwa)

.....  
Date

## **ABSTRACT**

The respective research is conducted, in order to identify the impact or influence of expensed R & D as well as capitalized R & D on the financial performance of the firm, in accordance with the International Financial Reporting Standards. Its necessitate that the R & D expenditures must be accounted in the comprehensive income statement, and none of the intangible assets are considered from the R & D research phases must be accounted as an asset in the statement of financial position.

For the data collection, the total samples size contains of 105 firms with 525 observations, from the audited financial statements of the public listed companies at Colombo Stock Exchange, which are engaged with the R & D activities over the period of last five financial years between 2010/2011 and 2014/2015. Those samples are adopted with the random and stratified sampling techniques as well as the multivariate quantitative technique is selected as the research technique to measure the financial performance of the firm by using the selected accounting based indicators. Such as; Interest cover ratio (ICR), Price-earnings ratio (PER), Capital structure gearing ratio (CSGR), Return on invested capital employed (ROICE), Earnings per share stock (EPSS), Dividend yield ratio (DYR), Return on assets ratio (ROAR), Asset turnover ratio (ATR) and Dividend cover ratio (DCR).

The results could be concluded as; the expensed R & D positively associates with DCR, negatively associates with EPSS, positively associates with CSGR with does not have any substantial impact and negatively associates with ROAR, ROICE, DYR and PER. On the other hand the capitalised R & D has substantial negative association on ROAR, ROICE and EPSS; meanwhile it's positively associates with CSGR but does not have any substantial impact and negatively associates with DYR, DCR and PER.

### **Key words:**

Large scale enterprises, Research and development, Accounting indicators, Financial performance, Sri Lanka

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## LIST OF ABBREVIATIONS

ATR	Asset turnover ratio
BFT	Beverage food and tobacco
BOD	Board of director
BPR	Business process reengineering
CSE	Colombo Stock Exchange
Capitalized R & D <sub>fy</sub>	In percentage capitalized R & D expenditure for the firm f in the year of y
CL	Current liabilities
CP	Chemical and Pharmaceuticals
CSGR	Capital structure gearing ratio
DCR	Dividend cover ratio
DYR	Dividend yield ratio
EBTI	Earing before tax and interest
EBTI <sub>fy</sub>	Earnings before tax and interests for the firm f in the year of y
EEE	Expensed R & D <sub>fy</sub>
Expensed R & D <sub>fy</sub>	In percentage expensed R & D expenditure for the firm f in the year of y
EPSS	Earnings per share stock
FDI	Forging direct investment
GDPS	Gross dividends payable per share
GM	General Manager
GDP	Gross domestic product
HC	Health care
IAS	International Accounting Standard
IASB	International Accounting Standards Board
ICR	Interest cover ratio
IFRS	International Financial Reporting Standard
LA/NPOS	Loss attributable or net profit to ordinary shareholders
LSE	Large scale enterprise
M	Manufacturing
MVS	Market value of a share



NDPOS	Net dividend payable on ordinary shares
NES/S	Number of equity stocks or shares
NP/LAS	Net profit or loss attributable to shareholders
NWV	Net worth value
OP	Oil palms
PCOC	Prior charges on capital
PE	Power & Energy
PEAT	Profit earning after tax
PER	Price-earnings ratio
$R_{fy}$	Revenue earned for the firm f in the year of y
R & D	Research and Development
ROAR	Return on assets ratio
ROICE	Return on invested capital employed
SOP	Standard operating procedure
SOCIR & $D_{fy}$	In percentage comprehensive income statement R & D for the firm f in the year of y
SOFPR & $D_{fy}$	In percentage statement of financial position R & D for the firm f in the year of y
TA	Total assets
TC	Total capital
WANS	Weighted average number of shares

