

**THE IMPACT OF EARNINGS RELATED VARIABLES ON SHARE
PRICE OF LISTED COMPANIES IN SERVICE SECTOR IN
SRI LANKA**



By

**RANKOTH KEERTHI KUMARAGE RUKMI THIVANKA INDIRA DEVI
JAYASINGHE**

**(EU/IS/2012/COM/126)
(COM 1626)**



Project Report
Library - EUSL

A Project Report

**submitted to the faculty of Commerce and Management, Eastern University, Sri
Lanka as a partial fulfillment of the requirement of the Degree of Bachelor of
Commerce Honours in Specialization in Accounting and Finance
[BCOM Hons(Acc &Fin)]**

**Department Of Commerce
Faculty of Commerce and Management
Eastern University, Sri Lanka**

PROCESSED
Main Library, EUSL

ABSTRACT

Over the past many years ago, lot of work has been completed by the researchers trying to understand the relationship between different factors and stock exchange prices. The purpose of this study is to examine the impact of earnings related variables on share price of listed companies in service sector in Sri Lanka. Ten listed service sector companies were selected for a period of ten years starting from 2008 to 2017. Earning per Share (EPS), Dividend per Share (DPS), Return on Equity (ROE) are identified as independent variables and Share Price identified as dependent variable for this study. The study was carried out using the data mentioned in the company's annual financial reports and analysis has done through Descriptive analysis, Correlation analysis and Multiple Regression analysis.

The findings indicated that there is a strong positive relationship between Earning per share and Dividend per share on share price of listed companies in service sector in Sri Lanka. While there is a weak positive relationship between Return on Equity and share price of listed companies in service sector. Finally this research revealed that the Earning per share, Dividend per Share and Return on Equity have statistically significant impact on share price of listed companies in service sector in Sri Lanka. So the decision makers and investors should pay close attention on earnings related variables to protect their investments and earn more benefits through the investment in service sector companies.

Key words: Earning per Share, Dividend per Share, Return on Equity, Market share price.

TABLE OF CONTENTS

ACKNOWLEDGEMENT.....	I
ABSTRACT.....	II
TABLE OF CONTENTS.....	III
LIST OF TABLES.....	VII
LIST OF FIGURES.....	VIII
ABBREVIATIONS.....	IX
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background of the Study.....	1
1.2 Problem Statement.....	4
1.3 Research Question.....	4
1.4 Objective of the Study.....	5
1.5 Significance of the Study.....	5
1.6 Scope of the Study.....	5
1.7 Summary.....	6
CHAPTER TWO: LITERATURE REVIEW.....	6
2.1 Introduction.....	7
2.2 The Service sector in Sri Lanka.....	7
2.3 The Colombo Stock Exchange (CSE) structure and organization.....	8
2.3.1 Vision and Mission of the CSE.....	8
2.3.2 Ownership and Administration.....	9
2.3.3 CSE Technology.....	9
2.3.4 Stock Market Indices.....	10
2.3.4.1 All Share Price Index.....	10
2.3.4.2 Standard and Poor's Sri Lanka 20.....	11
2.3.5 Types of stocks.....	11
2.3.5.1 Common Stock.....	11
2.3.5.2 Preferred Stock.....	12
2.4 Share Price.....	12
2.4.1 Why Share Prices fluctuate.....	13

2.5 Determinants of Share Price.....	13
2.5.1 Earning per share	14
2.5.2 Dividend per Share	14
2.5.3 Return on Equity.....	15
2.6 Earnings related Variables	16
2.6.1 Empirical Studies related to Earnings related Variables	17
2.7 Summary	20
CHAPTER THREE: CONCEPTUALIZATION AND OPERATIONALIZATION	21
3.1 Introduction	21
3.2.1 Conceptual framework	21
3.2.2 Conceptualization on Earning per Share	22
3.2.3 Conceptualization on Dividend per Share	23
3.2.4 Conceptualization on Return on Equity.....	23
3.2.5 Conceptualization on Market Share Price	24
3.3 Operationalization of Variables	24
3.4 Summary	25
CHAPTER FOUR: METHODOLOGY.....	26
4.1 Introduction	27
4.2 Study Setting, Design and Method of Survey	27
4.3 Sampling Design	27
4.4 Data and data collection methods.....	28
4.5 Methods of Measurement.....	28
4.6 Method of Data Presentation.....	28
4.7 Methods of data analysis and Evaluation.....	29
4.7.1 Univariate Analysis	29
4.7.2 Bivariate Analysis.....	30
4.7.2.1 Correlation Analaysis.....	30
4.7.2.2 Simple Regression Analysis.....	31
4.7.3 Multivariate Analysis	31
4.7.3.1 Multiple Regression Analysis	31

4.8 Hypotheses Testing	32
4.9 Summary	33
CHAPTER FIVE: DATA PRESENTATION AND ANALYSIS	34
5.1 Introduction	34
5.2 Data Presentation.....	34
5.3 Data Analysis	34
5.3.1 Univariate Analysis	34
5.3.1.1 Descriptive Statistics of the Research Study	35
5.3.1.2 Descriptive Statistics for Dependent Variables	35
5.3.1.3 Descriptive Statistics for Independent Variables.....	36
5.3.2 Bivariate Analysis.....	36
5.3.2.1 Correlation Analysis	39
5.3.2.1.1 Correlation between Earning per Share and Market Share Price	39
5.3.2.1.2 Correlation between Dividend per Share and Market Share Price	40
5.3.2.1.3 Correlation between Return on Equity and Market Share Price	40
5.3.2.1.4 Multicollinearity	41
5.3.2.2 Simple Regression Analysis	42
5.3.2.2.1 Simple Regression Analysis for Earning per Share on Share price	42
5.3.2.2.2 Simple Regression Analysis for Dividend per Share on Share price	43
5.3.2.2.3 Simple Regression Analysis for Return on Equity on Share price.....	43
5.3.3 Multivariate Analysis	44
5.3.3.1 Multiple Regression Analysis	44
5.3.3.1.1 Fixed Effesct Model	45
5.3.3.1.2 Random Effesct Model.....	46
5.3.3.1.3 Hausman Test	46
5.3.3.1.4 Summary Results of the Multiple Regression (Fixed Effect Model).....	47
5.3.4 Hypotheses Testing.....	48
5.3.4.1 Summary of Hypothesis Testing	49
5.4 Summary	49
CHAPTER SIX: DISCUSSION	50
6.1 Introduction	50

6.2 Discussion on Univariate Analysis	50
6.2.1 Discussion on Independent Variable	50
6.2.2 Discussion on Dependent Variable.....	51
6.3 Discussion on Bivariate Analysis.....	51
6.3.1 The Relationship between Earning per Share (EPS) and Share Price.	51
6.3.2 The Relationship between Dividend per Share (DPS) and Share Price	52
6.3.3 The Relationship between Return on Equity (ROE) and Share Price.	52
6.3.4 The Impact of Earning per Share on Share price of Listed Companies in Service Sector in Sri Lanka	53
6.3.5 The Impact of Dividend per Share on Share price of Listed Companies in Service Sector in Sri Lanka	53
6.3.6 The Impact of Return on Equity on Share price of Listed Companies in Service Sector in Sri Lanka	54
6.4 Discussio on Multiple Regression.....	55
6.5 Summary	56
CHAPTER SEVEN: CONCLUSION AND RECOMMENDATIONS	57
7.1 Introduction	57
7.2 Conclusion.....	57
7.2.1 Objective One	57
7.2.2 Objective Two	57
7.2.3 Objective Three	58
7.3 Recommendation.....	58
7.2.3 Objective One	58
7.2.3 Objective Two	59
7.2.3 Objective Three	59
7.4 Suggestions for the further researches	59
7.5 Limitation of the Study	60
7.6 Summary	60
REFERENCES.....	61
APPENDIX I.....	64
APPENDIX II	67