ACCOUNTING VARIABLES AND SHARE PRICES OF LISTED COMPANIES IN COLOMBO STOCK EXCHANGE

LIBRARY
28 NOV 2019
EASTERN UNIVERSITY, SRI LANKA.

BY

SUTHAKARAN RISHANTHAN

REG NO: EU/IS/2013/COM/107

INDEX NO: COM 1757

FCM2287
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

DEPARTMENT OF COMMERCE

FACULTY OF COMMERCE AND MANAGEMENT

EASTERN UNIVERSITY, SRI LANKA

2019

PROCESSED
MAIN LIBRARY, EUSL

ABSTRACT

The main objective of the study was to identify the relationship between Accounting variables and the Share Price and to examine combine impact of accounting variables on Share Price of listed companies in Colombo Stock Exchange, Sri Lanka for a period of seven years (2012-2018).

This study relied on secondary data extracted from the annual reports of the listed companies in Colombo Stock Exchange. Out of 298 listed companies, 40 listed companies were selected from eight sectors. Altogether 280 annual reports were observed for the stated period. The data collected for this study were analyzed using Correlation and fixed effect (panel data regression) with the help of Stata 15 software.

The results of this study confirmed that Earning Per Share, Net Asset Per Share, Dividend Per Share and Capital Employed Per Share are positively related with the share price. Further, variation in share price could be explained by encompassed all independent variables in fixed effects. The Hausman test confirmed the results of the fixed effect regression analysis. It was concluded that accounting variables influence the share prices of listed companies in Sri Lanka.

Key word: Earning Per Share, Net Asset Per Share, Dividend Per Share, Capital Employed Per Share, Share Price and Colombo Stock Exchange

TABLE OF CONTENTS

Acknowledgement..... I

Abstract..... II

Abbreviation..... III

Table of Contents..... IV

List of Tables..... VII

List of Figures..... VIII

CHAPTER 01- INTRODUCTION..... 1-6

1.1 Background of the Study..... 1

1.2 Statement of the Problem..... 2

1.3 Research Questions..... 3

1.4 Objectives of the Study..... 4

1.5 Significance of the Study..... 4

1.6 Scope of the Study..... 5

1.7 Summary..... 6

CHAPTER 02- LITERATURE REVIEW..... 7-13

2.1 Introduction..... 7

2.2 Theoretical Background of the Studies..... 7

2.2.1 Random Walk theory..... 7

2.2.2 Value Investing Theory..... 8

2.3 Past Literatures..... 8

2.4 Summary..... 13

CHAPTER 03- CONCEPTUALIZATION..... 14-19

3.1 Introduction..... 14

3.2 Conceptualization..... 14

3.3 Definition of Key Concepts and Variables..... 15
3.3.1 Earning Per Share..... 15
3.3.2 Net Asset Per Share..... 16
3.3.3 Capital Employed Per Share..... 16
3.3.4 Dividend Per Share..... 16
3.3.5 Share Price..... 17
3.4 Formulation of Hypotheses..... 17
3.5 Operationalization..... 18
3.6 Summary..... 19
CHAPTER 04- METHODOLOGY..... 20-25
4.1 Introduction..... 20
4.2 Study Design..... 20
4.3 Sampling..... 21
4.4 Data Collection..... 22
4.5 Methods of Data Analysis and Evaluation..... 22
4.5.1 Panel Data..... 22
4.5.2 Correlation..... 23
4.5.3 Fixed Effect Regression..... 23
4.5.4 Random Effect Regression..... 23
4.6 Model..... 24
4.7 Summary..... 24
CHAPTER 05- DATA PRESENTATION AND ANALYSIS..... 25-32
5.1 Introduction..... 25
5.2 Descriptive Statistics..... 25
5.3 Harris-Tzavalis Unit Root Tests..... 26
5.4 Correlation..... 26
5.5 Regression..... 27
5.6 Hausman Fixed, Random test..... 31

5.7 Summary..... 32
CHAPTER 06- DISCUSSION..... 33-36
6.1 Introduction..... 33
6.2 Discussion on the Research Variables..... 33
6.2.1 Earning Per Share..... 33
6.2.2 Net Asset Per share..... 34
6.2.3 Capital Employed Per Share..... 34
6.2.4 Dividend Per Share..... 34
6.3 Discussion on the Research Findings..... 35
6.4 Summary..... 36
CHAPTER 07- CONCLUSIONS AND RECOMMENDATIONS... 37-39
7.1 Conclusion..... 37
7.2 Recommendations..... 38
7.3 Limitations of the Study..... 38
7.4 Suggestions for Future Studies..... 38
References..... 40
Appendix –Output of Analysis..... 43