### IMPACT OF ACCOUNTING VARIABLES ON SHARE PRICE OF SRI LANKA

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#### ABSTRACT

Capital market and behavioral research in Accounting plays most vital role among the Accounting and Finance researchers. This Accounting based Capital Market researchers give the instruction to investors to observe, use accounting information in the financial statements to make investment decision in the stock market and how the impact of the accounting information when determining stock prices of listed companies in the stock market.

The purpose of this study is to examine the Impact of Accounting Information or variables on Share Prices of listed companies in the Colombo Stock Exchange (CSE) in Sri Lanka. Share Price is the dependent variable and dividend yield, dividend payout ratio, earnings per share, price earnings ratio and size of the firm are independent variables of this study.

Key words: Share price, Accounting Information, Stock Market Research

### 1. INTRODCUTION

The stock market is the market in which equities or stocks of publicly held companies issued or traded. Stock market is major financing source for larger firms due to its ability to access to equity capital and investor can gain returns with minimum risk. The stock market can drive faster economic growth by encouraging domestic savings and uplifting the level of the quantity and quality of investments to giving the instruction to distribute limited resources within the society.

Investing in share is not a trouble-free task hence this decision invariably depending on the share price. Share price plays a significant role within the economy and currently it become a major indicator in measuring the economic activities. The share price indicates overall strength and financial health of a company.

There are so many factors influencing when setting the share prices such as Dividend Yield, Dividend Payout Ratio, Price Earnings Ratio, and Earnings per Share, Size of the Bank, Net Asset Value per Share, Lending Interest Rate, Inflation Rate, Gross Domestic Product, Retained Earnings, Financial Leverage and etc.

Understanding about the relationship of various determinants of share price with the share price is more helpful to various parties such as investors, management, and government when their decision making.

Identifying about the determinants of share price is a significant for future forecast of stock performance and provides the base for various parties within the society making appropriate economic policies. Therefore, recognizing the impact of accounting information on share price is key significant point in investing shares.

#### 2. CHAPTER TWO - LITREATUIRE REVIEW

A number of empirical studies have been conducted to find out the Impact of Accounting Information on Share Price in different countries. Different studies carried over different time periods across different markets have given varying results. Some recent studies related to the Impact of Accounting Information on Share Price have been reviewed here.

#### 2.1 Importance of Investing in Shares

One of the major ways of investment that has the potential of yielding considerable returns to the investment is the investment in equity shares. It is also a source of finance for the capital requirements of firms (Bhattarai, 2014). Equity investments offers considerable returns to investors and is considered to be a major source of capital for most large firms (Enow & Brijlal, 2016).

The share market has become an essential market playing a vital role in the economic success by raising capital and sustaining economic growth in most economies across the world. Stock markets are more than a place to trade securities which they operate as a facilitator between savers and users of capital by means of pooling of funds, sharing risk and transferring wealth. Stock markets are essential for economic growth as they ensure the flow of resources to the most productive investment opportunities. The primary benefit of a share market is that it constitutes of a liquid trading and price determining mechanism for a diverse range of financial instruments (Malaolu, Ogbuabor, & Orji, 2013).

#### 2.2 Share price

Share price is one of the pioneering factors which affect the Sri Lankan economy. Share market plays a dominant role in south Asian economies. Especially in the Sri Lankan context, share market price directly affect its economy. Share market price is a dynamic dependent variable which has the ability to change during a short time period according to the Accounting information. The present study seeks to test the factors influencing stock prices of commercial listed companies in the CSE. According to Bhattarai (2014), stock price can change minute by minute due to changes in the buying and selling prices. Due to these changes it becomes difficult to decide as to which market price should be regressed as a

measure of the dependent variable. Therefore, in the present study, the closing price of stock at the end of the financial year of the bank has been taken to represent the market price. The market price is used as the dependent variable in the present study. Share price plays an important role in the development of an economy and it is a leading economic indicator in economic activities (Khan & Amanullah, 2012).

#### 2.3 Methodology and Findings of Previous Researches

Adam & Tweneboah (2008), examined the role of macroeconomic variables on stock price movements in Ghana. They used the databank stock index to represent the Ghana Stock Market and Inward foreign direct investments, Treasury bill rate, Consumer price index and Exchange rate as macroeconomic variables. They analyzed both long run and short run dynamic relationships between the stock market index and the economic variables with quarterly data for the above variables from 1991 to 2006 using Johansen's multivariate cointegration between macroeconomic variables identified and stock prices in Ghana indicating a long run relationship. The results of this revealed that the interest rate is the key determinant of the share price movements in Ghana.

Junjie Wang & Gang fu (2013) examined the relationship between Accounting information and the stock price reactions of listed company They developed the two hypotheses. To analyze the data, they used E View Statistic software. Sixty listed companies of non-loss in shenghai stock market were selected as the sample of the research. Primary data collection was based on the stock market reports and the annual reports. In the study they identified stock price as the dependent variable while the earning per share, Quick ratio, Inventory turnover, Liquidity ratio and the profit margin as the independent variables. Correlation and regression analysis were used to find the relationship and as the result is profitability, earning per share and rate of return are the most significant factors.

Osundinia, Ademol, Jayeoba and Olajumoke (2016) examined the impact of Accounting information on stock price volatility on selected quoted manufacturing companies in Nigeria for a period of ten years (2005 - 2014). They developed four hypotheses on the study. They also used the E view software to analyze the descriptive data. But the thing is they only selected data of five companies while Junjie Wang & Gang Fu (2013) selected sixty listed companies. Both of them collected data from stock market and annual reports. They identified Earning per share, Dividend per share, Book value of share and Price earning share as the significant factors which determined the share price. Finding was that the price

earnings ratio has no significant impact on share price. But Earning per share, Book value per share and Dividend per share show significant impacts on share price. Junjie Wang & Gang Fu (2013) also mentioned Earning per share has significant impact on share price.

Khan S. H. (2009), investigated determinants of share price movements in Bangladesh: Dividends and Retained Earnings. This study was done to study determinants of market share price and to examine their functional relationships with the market price of common stocks trades in Dhaka Stock Exchange, an emerging capital market of Bangladesh. For that 96 listed companies in Dhaka Stock Exchange for the period of 2000 to 2006 selected as the sample. Dependent variable of the study was Price of Stock and independent variables were Dividend per share, Retained Earnings, Price Earnings Ratio, Share Price of the previous year. They used secondary data sources. Using statistical software SPSS, the paper presented some descriptive statistics, model specification, multicollinearity and goodness of fit. The results of this study evidence that dividends, retained earnings and other determinants have a dynamic relationship with market share price. Findings also suggest that the overall impact of dividend on stock prices is comparatively better that that of retained earnings and that expected dividends play an important role in the determination of stock prices whatever determinants like lagged price earnings ratio or lagged price are considered. Oseni (2009), examined the extent to which some information factors or market indices affect the stock price. They used the regression model for the variables of stock prices, earnings per share, gross domestic production, lending interest rate and foreign exchange rate after testing multicollinearity among the independent variables. All the variables have a positive correlation to share prices with the exception of lending interest rate and foreign exchange rate.

Malhotra & Tandon (2013), attempted to determine the factors that influence stock prices in the context of National Stock Exchange (NSE) 100 companies. The objective of this study was to review the existing literature by examining the empirical relationship between stock prices and company specific intrinsic factors such as book value per share, dividend per share, earning per share, price earnings ratio, dividend yield, dividend pay-out, size in terms of sale and net worth. A sample of 95 companies was selected for the period 2007-2012 and using linear regression model, the results indicate that firms' book value, earning per share and price earnings ratio are having a significant positive association with firm's stock price while dividend yield is having a significant inverse association with the market price of the firm's stock.

Stephn & Okoro (2014), examined by a mean of robust analysis, factor that determines stock price movements in Nigeria for the period of 2001-2011. Data were sourced from the financial statements of 99 listed firms in the Nigeria Stock Exchange (NSE). The analysis of the data sourced was done with the Ordinary Least Square (OLS) method. The results suggested that earnings per share, book value per share and dividend cover serve as factors of determination of share prices. The results of the study consequently recommended that the government and policy makers in Nigeria should implement stricter rules, backed up by strict legislations that will enhance the information reported in the financial statements of the firms listed on the Nigeria Stock Exchange as well as compelling listed firms to adopt IFRS.

Enow & Brijlal (2016), investigated the determinants of share prices using fourteen companies listed on the Johannesburg Stock Exchange from 2009-2013, using a multiple regression analysis. The results revealed that dividend per share, earnings per share and price earnings ratio accounts for 57.8% of share price movements. Furthermore, earnings per share and price earnings are significantly positively correlated to share prices although dividend per share was not. This finding imply that managers can create value for their shareholders by increasing dividend per share, earnings per share and price earnings.

#### 2.4 Local researches related to the study

Menike & Prabath (2014), investigated 'The Impact of Accounting Variables on Stock Price: Evidence from the Colombo Stock Exchange (CSE), Sri Lanka.' This study examined the impact of dividend per share, earnings per share and book value per share of a stock price on a sample of 100 companies listed on the CSE from 2008 to 2012. They used a single and multiple regression model and the results reveal that EPS, DPS, BVPS were positive and had a significant impact on the stock price in the CSE. Geetha & Swaaminathan (2015), attempted to analyse the influencing factors which affects the movements of stock price either upward or downwards. For company specific factors, Earnings per share, Book value, Price earnings ratio and dividend yield have been chosen to compare the performance of stock price movements in the market. A sample of four automobiles and IT industries have been chosen as a sample for the period of five years. All the independent variables have a significant relationship with the market price per share. But the dividend per share doesn't have positive or negative effect towards the market price. Perera and Thrikawala (2010), investigated the factors that determine the s. hare price based on the Colombo Stock Exchange. Sri Lanka. They have tested selected accounting information such as Earning per Share (EPS), Return on Equity (ROE) and Earning Yield (EY). The results indicated there is positive between on Earning per share and Market price. Therefore, it is also evidence of the relationship between accounting variables and stock return.

All the above studies provide author a solid base and gave idea regarding determinants of share price. Consequently, from the review of literature on share price determinants, it can be observed that most of the studies have used either time series or cross section data. There have also been attempts to identify the share price determinants using panel data. They also help to understand the results and conclusions of those researches already conducted on the same area for different countries and environments from different aspects researches.

#### **3. RESEARCH METHODOLOGY**

#### **3.1. Introduction**

This chapter describes the research method used in order to achieve the objectives of the study. Specifically, it describes the research design, conceptual framework of the research, population and sample of the study, sources of data, data analysis and methodology employed.

#### **3.2 Research Design**

This study adopted descriptive and causal comparative research design. The descriptive research design was used to obtain information that describes what exists with respect to the variables tested. Causal-comparative research design, like correlational research, seeks to identify associations among variables. This research is a descriptive study where the data gather from the published annual reports of listed companies at Colombo Stock Exchange (CSE). This study employs quantitative methods through analysis of the annual reports using various models and ratios to provide quantitative data to the study.

#### **3.3 Conceptual Framework**

The conceptual framework is designed to understand the factor that may affect the market price per share. In view of theory and major empirical evidences, it is expected that the market price per share may be influenced by dividend payout ratio, dividend yield, earnings per share, price earnings ratio and size of the firm. The conceptual framework, developed to test the effect of these variables on the share price of listed companies in Sri Lanka is represented in following figure.



The independent variables are assumed to affect the dependent variable, share price. The independent variables are selected depending upon prior theoretical and empirical studies.

#### **3.4 Hypotheses**

#### Hypothesis 01

H0: There is no significant relationship between dividend yield and share price.

H1: There is a significant relationship between dividend yield and share price.

#### Hypothesis 02

H0: There is no significant relationship between dividend payout ratio and share price

H1: There is a significant relationship between dividend payout ratio and share price.

#### Hypothesis 03

H0: There is no significant relationship between earnings per share and share price.

H1: There is a significant relationship between earnings per share and share price.

#### Hypothesis 04

H0: There is no significant relationship between price earnings ratio and share price.

H1: There is a significant relationship between price earnings ratio and share price.

#### Hypothesis 05

H0: There is no significant relationship between the size and share price.

H1: There is a significant relationship between the size and share price.

### 3.5 Population and Sample of the Study

In the present study considered the 295 companies listed in CSE which is representing 20 business sectors. From that population selected 60 companies as the sample of the research using random sampling techniques. For that sample collected data for the period of 2011 - 2016.

As previous researchers' explanations, normally the companies in Bank, Finance & Insurance sector have not been disclosed the all information regarding capital reserves. Because of that, in the present study excluded the companies in Bank, Finance & Insurance sector from the sample.

After that the study arranged all the listed companies, sector wise and founded market capitalization of individual companies. Then selected 25 percent companies, which have highest market capitalization, from each business sector as the sample.

#### **3.6 Data Analysis**

After organizing the data, descriptive statistics, multiple regression and correlation models planned to use for finding out the strength and direction of relationships. For analyzing data the present study used the software of E-Views.

#### **Multiple regression**

Multiple linear regression attempts to model the relationship between two or more explanatory variables and a response variable by fitting a linear equation to observed data. Every value of the independent variable is associated with a value of the dependent variable.

Following the previous studies, this study planned to investigate that the relationship of dividend payout ratio, dividend yield, earnings per share, price earnings ratio and size of the firm with the share price. To achieve this objective a multiple regression model is specified as:

 $SP_{it} = \beta_0 + \beta_1 DY_{it} + \beta_2 DPR_{it} + \beta_3 EPS_{it} + \beta_4 PER_{it} + \beta_5 Log(SIZE_{it}) + \epsilon_{it}$ 

Where:

#### **Correlation Model**

Correlation is a statistical measure that indicates the extent to which two variables fluctuate together. A positive correlation indicates the extent to which those variables increase or decrease in parallel. A negative correlation indicates the extent to which one variable increases as the other decreases.

#### 4. DATA ANALYSIS AND RESULT

This chapter deals with data analysis and interpretation of results from the regression analysis is done as well as the results of analysis of the share prices. Regression was conducted on the data from sixty companies for the same time period. Regression estimation was done by the researcher using the E-views 8. The section analyses and discusses assumptions in regression, regression results, testing of hypothesis set in this research, descriptive statistics and correlation analysis.

One assumption of the error term in the regression model is normality. From this assumption check whether the data set has been distributed normally or not. According to this assumption research data set should be distributed normally. Otherwise, this assumption will be neglected.

To check the normality of the data set we can get the histogram of normality test using E-Views.



Figure 4.1 : Normality test for the Overall Model

From the figure 4.1 shows that the data of the overall model has been not being normally distributed. According to this graph we can see there are more outliers in this study. In a normally distributed data set, the value of the skewness should be ranged from -1 to +1. In this Skewness=0.604498. The requirement of skewness has been met in this study. Also in a normally distributed data set, the kurtosis value should be nearly to 3. But in this study Kurtosis=6.751680. So, the requirement of Kurtosis value has not been met in this study. Furthermore, for testing the normality of the overall model we can check the probability

value. In that test, if the probability < 5% that indicated there is a non-normality available in the model. In the present study Probability=0.000000. The Probability value < 5%. So, this requirement also has not met in this study. According to all of these requirements, we can conclude that this data set has not been normally distributed.

Due to the non-normality of the data set converted the overall model into logarithm. Therefore, overall model, has been converted as follows.

# $Log(SP_{it}) = \beta_0 + \beta_1 Log(DY_{it}) + \beta_2 Log(DPR_{it}) + \beta_3 Log(EPS_{it}) + \beta_4 Log(PER_{it}) + \beta_5$ $Log(SIZE_{it}) + \beta_6 Log(SP_{i(t-1)}) + \varepsilon_{it}$



Figure 4.2 : Normality test for the Overall Model (After converting into log values)

From the figure 4.2 shows that the data of the overall model has been normally distributed after converting the model into log values. According to this graph can be seen there are less outliers in this study. Now Skewness=0.124782. The requirement of skewness has been met in this study. Now Kurtosis=3.438232. So, the requirement of Kurtosis value has been met in this study. In the present study Probability=0.222066. The Probability value>5%. So, this requirement also met in this study. According to all of these requirements, It can be conclude that this data set has been normally distributed after converting the model into log values.

#### 4.2 Descriptive Statistics

Descriptive statistical analysis can describe statistical data' structure and overall performance, but it cannot describe the internal law of statistical data. Descriptive statistical analysis is the first step in statistical analysis.

#### Table 4.2: Summary of Descriptive Statistics

	SP	DY	DPR	EPS	PER	SIZE
Mean	90.22128	0.038833	0.508631	7.532167	13.00290	23.13594
Median	70.00000	0.034293	0.418079	5.320000	11.11448	23.13734
Maximum	299.0000	0.122581	1.600000	24.87000	34.89956	25.49894
Minimum	2.000000	0.000000	-0.169829	-5.000000	-8.000000	20.89292
Std. Dev.	80.21046	0.025243	0.358842	7.038139	7.827161	0.924985
Skewness	0.925713	0.788239	0.889488	0.662316	0.507079	0.182961
Kurtosis	2.832637	3.235541	3.222586	2.405608	2.877559	2.758800
Jarque-Bera	51.83678	38.11147	48.21452	31.61924	15.65264	2.881156
Probability	0.000000	0.000000	0.000000	0.000000	0.000399	0.236791
Sum	32479.66	13.97975	183.1071	2711.580	4681.045	8328.940
Sum Sq. Dev.	2309705.	0.228758	46.22764	17783.21	21993.94	307.1597
Observations	360	360	360	360	360	360

The table 4.2 illustrates the summary of the descriptive statistics of the dependent and independent variables computed from the data collected through annual reports.

Maximum and the minimum in the descriptive statistics show the maximum and minimum value of the particular 360 observations. Mean column shows the arithmetic mean across the observations. It is the most widely used measures of central tendency. It is commonly called the average. The mean is sensitive to extremely large or small values. Standard deviation measures the spread of a set of observations. The larger the standard deviation is, the more spread out the observations and smaller the standard deviation is, the lowest spread out the observations. Skewness measures the degree and direction of asymmetry. A symmetric distribution, such as a normal distribution has a skewness of 0, and a distribution that is skewed to the left, e.g. when the mean is less than the median, has a negative skewness. Kurtosis is a measure of the heaviness of the tails of a distributions may have high positive or negative kurtosis values, while nearly normal distributions had kurtosis values close to 0. Kurtosis is positive if the tails are "heavier" than for a normal distribution and negative if the tails are "lighter" than for a normal distribution.

Share Price stood on average of 90.22128 which fluctuates from a minimum of 2.000000 and a maximum of 299.0000. The dispersion around the mean indicated by the value of the

standard deviation can be seen to be given by 80.21046. The skewness 0.925713 is positive, the data series for this variable indicates a symmetric or normal data distribution as the series relatively maintains normality by being normally skewed. In the same way, in relation to kurtosis 2.832637, share price is normally distributed. The probability value 0.000000 also indicates the share price is not normally distributed.

### 4.3 Regression Analysis

As stated in the chapter 03, research methodology the regression model is,

SPit =  $\beta 0 + \beta 1DYit + \beta 2DPRit + \beta 3EPSit + \beta 4PERit + \beta 5 Log(SIZEit) + \varepsilon it$ 

As the test the above equation and from the results of that equation revealed that the data set is not normally distributed due to non-normality of the data set converted the model into logarithm as follows.

 $Log(SPit) = \beta 0 + \beta 1 Log(DYit) + \beta 2 Log(DPRit) + \beta 3 Log(EPSit) + \beta 4 Log(PERit) + \beta 5 Log(SIZEit) + \epsilon it$ 

Dependent Variable: LOG(SP) Method: Panel Least Squares Date: 25/10/2018 Time: 15:06 Sample (adjusted): 2012 2016 Periods included: 5 Cross-sections included: 60 Total panel (unbalanced) observations: 284

Variable	Coefficient	Std. Error	t-Statistic	Prob.
С	-2.011720	1.343824	-1.497012	0.1358
LOG(DY)	-0.031407	0.036897	-0.851218	0.3956
LOG(DPR)	-0.073662	0.036267	-2.031071	0.0435
LOG(EPS)	0.261815	0.037107	7.055655	0.0000
LOG(PER)	0.345960	0.056408	6.133175	0.0000
SIZE	0.150593	0.057826	2.604230	0.0098

Effects Specification

Cross-section fixed (dummy variables)						
R-squared	0.978811	Mean dependent var	3.969750			
Adjusted R-squared	0.972493	S.D. dependent var	1.193703			
S.E. of regression	0.197977	Akaike info criterion	-0.201022			
Sum squared resid	8.544493	Schwarz criterion	0.646980			

Log likelihood	94.54505	Hannan-Quinn criter.	0.138959
F-statistic	154.9297	Durbin-Watson stat	2.147683
Prob(F-statistic)	0.000000		

According to the results of the present study finally the regression line can be specified as follows.

## $$\begin{split} Log(SP_{it}) &= -2.011720 - \ 0.031407 Log(DY_{it}) - \ 0.073662 Log(DPR_{it}) + \ 0.261815 Log(EPS_{it}) \\ &+ \ 0.345960 Log(PER_{it}) + \ 0.150593 Log(SIZE_{it}) + \ \epsilon_{it} \end{split}$$

#### **4.4 Correlation Analyze**

Correlation refers to a technique used to measure the relationship between two or more variables. When two things are correlated, it means that they vary together. Positive correlation means that high scores on one are associated with high scores on the other, and that low scores on one are associated with low scores on the other. Negative correlation, on the other hand, means that high scores on the first thing are associated with low scores on the second. Negative correlation also means that low scores on the first are associated with high scores on the second.

	SP	DY	DPR	EPS	PER	SIZE
SP	1.000000	-0.328296	0.024309	0.723883	0.214507	0.117692
DY	-0.328296	1.000000	0.208472	-0.078087	-0.352038	-0.148187
DPR	0.024309	0.208472	1.000000	-0.124468	0.367419	-0.129131
EPS	0.723883	-0.078087	-0.124468	1.000000	-0.047860	0.117567
PER	0.214507	-0.352038	0.367419	-0.047860	1.000000	0.040644
SIZE	0.117692	-0.148187	-0.129131	0.117567	0.040644	1.000000

According to the results in table correlation between the share price and dividend yield is -0.328296. From that concluded there is a moderate negative linear relationship between share price and dividend yield. The correlation between share price and dividend payout ratio is 0.024309. From that concluded there is a weak positive linear relationship between share price and dividend payout ratio. The correlation between share price and earnings per share is 0.723883. From that concluded there is a strong positive linear relationship between share price and earnings per share. The correlation between share price and price earnings ratio is 0.214507. From that concluded there is a weak positive linear relationship between share price and price earnings ratio. The correlation between share price and size (total assets) is 0.117692. From that concluded there is a weak positive linear relationship between share price and size.

#### 4.4 Hypothesis Testing

#### **Hypothesis No.1**

H0: There is no significant relationship between dividend yield and share price.

H1: There is a significant relationship between dividend yield and share price.

The results of the fixed effect model revealed that the p value of dividend yield=0.3956. So, p value>5%. Therefore, the null hypothesis do not reject and reject the alternative hypothesis. Therefore, it can be concluded there is no significant relationship between dividend yield and share price. Furthermore, the results indicated that there is a negative relationship between share price and dividend yield. That means share price and dividend yield move to the opposite directions.

### **Hypothesis No.2**

H0: There is no significant relationship between dividend payout ratio and share price

H1: There is a significant relationship between dividend payout ratio and share price.

The results of the fixed effect model revealed that the p value of dividend payout ratio=0.0435. So, p value<5%. Therefore, the null hypothesis to be rejected and accept the alternative hypothesis. Therefore, it can be concluded there is a significant relationship between dividend payout ratio and share price. Furthermore, the results indicated that there is a negative relationship between share price and dividend payout ratio. That means share price and dividend payout ratio move to the opposite directions.

### **Hypothesis No.3**

H0: There is no significant relationship between earnings per share and share price.

H1: There is a significant relationship between earnings per share and share price.

The results of the fixed effect model revealed that the p value of earnings per share=0.0000. So, p value<5%. Therefore, the null hypothesis to be rejected and accept the alternative hypothesis. Therefore, it can be concluded there is a significant relationship between earnings per share and share price. Furthermore, the results indicated that there is a positive relationship between share price and earnings per share. That means share price and earnings per share moves to the same direction.

#### **Hypothesis No.4**

H0: There is no significant relationship between price earnings ratio and share price.

H1: There is a significant relationship between price earnings ratio and share price.

The results of the fixed effect model revealed that the p value of the price earnings ratio=0.0000. So, p value<5%. Therefore, the null hypothesis to be rejected and accept the alternative hypothesis. Therefore, it can be concluded there is a significant relationship between price earnings ratio and share price. Furthermore, the results indicated that there is a positive relationship between share price and price earnings ratio. That means share price and price earnings ratio moves to the same direction.

#### **Hypothesis No.5**

H0: There is no significant relationship between the size and share price.

H1: There is a significant relationship between the size and share price

The results of the fixed effect model revealed that the p value of size (total assets) =0.0098. So, p value<5%. Therefore, the null hypothesis to be rejected and accept the alternative hypothesis. Therefore, it can be concluded there is a significant relationship between size and share price. Furthermore, the results indicated that there is a positive relationship between share price and size. That means share price and size moves to the same direction.

#### 4.5 Discussion

The present study revealed that dividend yield has a negative relationship with share price. This result basically means that with the influence of other variable held constant, as firm's dividend yield will have a negative impact on share price. The result is supported by the findings of Bhattarai (2014), Malhotra & Tandon (2013), Naveed & Ramzan (2013). Also, according to the present study dividend yield is an insignificant variable. The present study revealed that the dividend payout ratio has a negative relationship with share price. This result basically means that with the influence of other variable held constant, as firm's dividend payout ratio will have a negative impact on share price. The result is supported by the findings of Bhattarai (2014). Also, according to the present study dividend payout ratio is a significant variable.

The present study revealed that earnings per share has a positive relationship with share price. This result basically means that with the influence of other variable held constant, as firm's earnings per share will have a positive impact on share price. The result is supported by the findings of Bhattarai (2014), Malhotra & Tandon (2013), Enow & Brijlal (2016), Sukhija (2014), Rahman, Uddin, & Hossain (2013). Also, according to the present study earnings per share is a significant variable. The result is supported by the findings of Geetha & Swaaminathan (2015), Enow & Brijlal (2016), Sirinivasam (2012), Sukhija (2014), Rahman, Uddin, & Hossain (2013).

The present study revealed that the price earnings ratio has a positive relationship with share price. This result basically means that with the influence of other variable held constant, as firm's price earnings ratio will have a positive impact on share price. The result is supported by the findings of Bhattarai (2014), Malhotra & Tandon (2013), Khan & Amanullah (2012), Enow & Brijlal (2016), Sukhija (2014), Rahman, Uddin, & Hossain (2013). Also, according to the present study price earnings ratio is a significant variable. The result is supported by the findings of Geetha & Swaaminathan (2015), Enow & Brijlal (2016), Sirinivasam (2012), Sukhija (2014). But, Rahman, Uddin, & Hossain (2013) founded that the price earnings ratio is insignificant. The present study revealed that size (total assets) has a positive relationship with share price. This result basically means that with the influence of other variable held constant, as the firm's size will have a positive impact on share price. The result is supported by the findings of Bhattarai (2014), Naveed & Ramzan (2013). Also, according to the present

study size is a significant variable. The result is supported by the findings of Sirinivasam (2012).

#### 5. CONCLUSION, RECCOMENDATIONS & LIMITATIONS

The present study conducted to find out the Impact of Accounting Information on Share Price of Sri Lanka. The problem of this research is, "What is the impact of accounting variables on share of Sri Lanka?" Objectives of this research are, Find out different accounting information affected by the share price and find out the relationship of these accounting variables with the share price of Sri Lanka. In view of theory and major empirical evidences, this study was selected share price as the dependent variable and dividend yield, dividend payout ratio, earnings per share, price earnings ratio and size of the firm (total assets) as the independent variables. This study adopted descriptive and causal comparative research design. There were five hypotheses for the independent variables. In the present study considered the 295 companies listed in CSE which is representing 20 business sectors as at 31/03/2018. From that population selected 60 companies as the sample of the research using random sampling techniques. From that sample collected data for the period of 2011 - 2016. The present study has been done based on the secondary data collected from the data library of the CSE and other research materials on share prices and independent variables. The "Annual Reports and Accounts" of these companies was getting from the CSE. Other secondary data and information was gotten from textbooks, Journals, the internet, newspapers, etc. By collecting raw data the relevant calculations were done using Excel worksheet. The study was used the panel data and multiple regression model, correlation model and descriptive statistics were used for finding out the results of this study.

Firstly tested the key linear regression assumptions in the model. All of that assumptions are proved by this study.

From the figure 4.3 shows that the data of the overall model has been normally distributed after converting the model into log values. According to this graph can be seen there are less outliers in this study. Now Skewness=0.124782. The requirement of skewness has been met in this study. Now Kurtosis=3.438232. So, the requirement of Kurtosis value has been met in this study. In the present study Probability=0.222066. The Probability value>5%. So, this

requirement also met in this study. According to all of these requirements, can be concluded that this data set has been normally distributed after converting the model into log values.

The R-Square, which is also a measure of the overall fitness of the model indicates that the model is capable of explaining about 97.9% of the variability in the share price. This means that the model explains about 97.9% of the systematic variation in the dependent variable. That is, about 2.1% of the variations in the market price of the sample are accounted for by other factors not captured by the model. This result is complemented by the adjusted R-square of about 97.2%, which in essence is the proportion of the total variance that is explained by the model.

Similarly, findings from the F-Statistics which is a proof of the validity of the estimated model, indicates that, the F is about 154.9297and a p-value or F (sig) that is equal to 0.000, this invariably suggests clearly that simultaneously the independent variables are significantly associated with the dependent variable. That is, they strongly determine the behavior of the market values of share prices.

The results show that the probability value of dividend yield is 0.3956. Therefore, concluded that there is an insignificant relationship between share price and dividend yield. Coefficient of dividend yield is -0.031407 indicates, there is a negative relationship between share price and dividend yield. The probability value of dividend payout ratio is 0.0435. Therefore, concluded that there is a significant relationship between share price and dividend payout ratio. Coefficient of dividend payout ratio is -0.073662 indicates, there is a negative relationship between share price and dividend payout ratio. The probability value of earnings per share is 0.0000. Therefore, concluded that there is a significant relationship between share price and earnings per share. Coefficient of earnings per share is 0.261815 indicates, there is a positive relationship between share price and earnings per share. The probability value of the price earnings ratio is 0.0000. Therefore, concluded that there is a significant relationship between share price and price earnings ratio. Coefficient of the price earnings ratio is 0.345960 indicates, there is a positive relationship between share price and price earnings ratio. The probability value of size (Total Assets) is 0.0098. Therefore, concluded that there is a significant relationship between share price and size of the firm. Coefficient of size is 0.150593 indicates, there is a positive relationship between share price and size.

Then performed the correlation analysis. The correlation between share price and dividend yield is -0.328296. From that concluded there is a moderate negative linear relationship

between share price and dividend yield. The correlation between share price and dividend payout ratio is 0.024309. From that concluded there is a weak positive linear relationship between share price and dividend payout ratio. The correlation between share price and earnings per share is 0.723883. From that concluded there is a strong positive linear relationship between share price and earnings per share. The correlation between share price and price earnings ratio is 0.214507. From that concluded there is a weak positive linear relationship between share price and price earnings ratio. The correlation between share price and size (total assets) is 0.117692. From that concluded there is a weak positive linear relationship between share price and size.

#### **5.2 Recommendations**

In considering the results of this study, recommended the investors to use earnings per share, price earnings ratio and size of the firm (total assets) as the first variables and dividend payout ratio and dividend yield after that in predicting future trends in share price in the capital market and making productive investment decisions. Investors should not only pay attention to the accounting information of dividend yield, dividend payout ratio, earnings per share, price earnings ratio and size of the firm, but also to the book value of the share, dividend cover, return on assets, return on equity. This can assure investors of more secure investments.

### **5.3 Suggestions for Further Researchers**

The present study limited to 60 companies, for five years and based on five independent variables. For possible further research suggested that the present study can be extended to cover longer time periods, more firms and more independent variables.

This study focused on the linear relationships and possible further researches could be extended to include non-linear relationships between the variables. Also, other multivariate statistical forecasting models could be employed to verify the results.

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