ANALYSIS OF FACTORS THAT INFLUENCE DIVIDEND POLICY IN MANUFACTURING INDUSTRIES
(A CASE STUDY OF PREMIER PAINT PLC)

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BY

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MATRICULATION NUMBER: AAP/2009/00427

ACCOUNTING

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF ORDINARY NATIONAL DIPLOMA (OND) IN ACCOUNTANCY. FACULTY OF BUSINESS AND SOCIAL SCIENCE, ABRAHAM ADESANYA POLYTECHNICS, IJEBU-IGBO, OGUN-STATE.

JANUARY, 2012.

CERTIFICATION

I certify that the work was carried out by Miss Olayinka Moshood Dolapo in School of Management and Business Administration of Abraham Adesanya Polytechnic, Ijebu-Igbo, Ogun State, Nigeria.

_____   _____
Supervisor   Date
Mr. Tayo Okulenu.

DEDICATION

I dedicate this research project to Almighty God for seeing me through my years in ABRAHAM ADESANYA POLYTECHNIC, IJEBU-IGBO, OGUN-STATE.

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ACKNOWLEDGEMENT

All praises and worship are given to Almighty God, it is by His mercy that He made things to come to pass in my life and my studies and my being in Ijebu-Igbo, may His name be praised.

My gratitude goes to my Amiable Supervisor Mr. Tayo Okulenu for taking out of his time, schedule to read through this project and make some necessary correction, my thanks goes to you Sir.

I extend my profound gratitude to my Golden and Sweet Parent Mr. & Mrs. Moshood and to my Lovely Brothers Akinola Adedayo and Olajide Adewale and to my Lovely Sisters Adenike, Adebola and to my younger one's Oluwatobiloba, Irewolemi, Daniel, and to the one who is very special to me who support me financially, physically, in my life and my education Mr. Akinola Adedayo Adebanjo and to her lovely wife Mrs. Ronke Adebanjo, may God bless you richly.

Beside every successful lady firmly stands an appointed man who cares for me so much Adesanya Oluwatosin Adeniyi that deserves special thanks for His incomparable understanding, support and inspiration in every way, may God bless you.

And also when I think of leaving school, I always have a sharp pain in my heart because I will be leaving my dearest friends Oseni, Omoola, Bukky and Ajibola, Idayat and to all course mates Bolarinwa, Jummy, Itunuoluwa, Rukayat, Ayodele, Kafayat, Opeyemi and all the rest and also am very happy to graduate out of school after ups and down I went through.

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CHAPTER ONE

1.0 INTRODUCTION

1.1 BACKGROUND TO THE STUDY

The general survey of the project is focused on dividend policy. It shows the division of earning between payment to stockholders and re-investment in the company. There is a widespread tendency of companies to purse a relatively table dividend policy. Profit of companies' fluctuates considerable with changes in the level of business activities.

Most Companies, including which premier paint Nigeria is one, seek to maintain a target dividend per share. However, dividend increase with a lag offer on increase is earning appears clearly sustained and relatively permanent.

When dividend has been increase tremulous effect made to maintain them at their new level. If earning decline, the existing dividend generally is maintain until is clear that on earning recovery will not take place.

Presumably however, the factors that influence the allocation or determine the extent to which a company will

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pay out dividend instead of relating earnings are the subject matter of this project.

1.2 STATEMENT OF PROBLEMS

There are so many problems about dividend policy most especially among the researcher because individual review at individual viewed at individual policy from different angles. Angles because of this there are so many problems facing dividend policy.

Some of the problems are as follow

1. Some researcher's maintain that stockbrokers are in different to the division of funds between retained earning and dividend (Holding Investment Opportunity Consent/other disagree).

2. Another problem is that there is absence of homogeneity among the investor in Nigeria Company and this may have contributed to the companies.

3. This is also problems of misconceptions and formulating of a dynamic dividends policy problems will be explain in detail in Chapter two of this project.

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1.3 OBJECTIVES OF THE STUDY

At the end of this project one would expect that apart from providing source of information for data use by other project writers who might find it beneficial to them. It will also assist and improve the decision making by the corporate managers in manufacturing industries by inculcating the practice of dividend policy into the corporation.

The purpose of this project is expressed in details

i.   To appraise the extent to which the company (Premier Paints Nigeria Plc) will pay out dividend instead of retaining earnings.

ii.   To appraise the theories on dividend policy.

iii.   To analyze the factors that influence dividend policy.

iv.   To lay emphasis on dividend policy and payment.

v.   To show the variation of dividend by changes in earning.

1.4 SIGNIFICANCE OF THE STUDY

Dividend policy determines the extent of internal financing by a firm and study is significant in the following areas.

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i. To help financial management to decide whether to release corporate earning from the control of the enterprises.

ii. To assist the management in ascertaining and fulfilling the aims of its owners.

1.5 SCOPE AND LIMITATION TO THE STUDY

The scope of the study (dividend policy) is very wide, different corporation and institution e.t.c. to look into dividend policy from all angles.

In the existence of these difficulties, the scope of this study is limited to the dividend policy in manufacturing industries in which Premier Paint Nigeria Plc is a case study.

1.6 DEFINITION OF TERMS

This is stage where meaning of the key terms in the project is being explained for better understanding of the readers.

The key terms are as follow

RETAINED
REGAINED EARNING
DIVIDEND PER SHARES
EARNING PER SHARES

RETAINED: The Constitution shows the cash flow that accrue to shareholders, lexically dividend is a periodically payment of interest on shares of profit to shareholders after deducting taxes from earning.

RETAINED EARNING: These are earning left for re-investment in the company retained earning are of the most significant sources of funds for financing corporate growth. The amount left after dividends have been paid to the stockholders form the profit (f) (After tax refers to as the retained earnings).

DIVIDEND PER SHARE: This is rate of individual pay per share; it is the ratio of dividend to outstanding share that is dividend per share.

EARNING PER SHARE: The profitability of a company is often measured the calculation of its earning per share. Earning re taken as being the profit after charging preference dividend taxation and mostly minority interest it is calculated thus

Earning per share= Earning after taxes
              Outstanding Shares

CHAPTER TWO

2.0 REVIEW OF LITERATURE

2.1 OPINION OF VARIOUS SCHOOLS OF THOUGHTS
ON DIVIDEND POLICY

DIVIDEND POLICY

Many researchers have realized dividend policy from different perspective. Many theories were propounded and there is needed to analyses some relevant theories underlying dividend policy. Although researchers on the subject matter are neither conclusion nor exhaustive but within scope at this project only six theories will be viewed.

The first indication of a controversy in scholarly circles, about the dividend policy in Nigeria Company through the work of UZOAGA and ALOZIENWA. The study examines 13 companies over a four years (1979-1989) period and tried as one of its objective to highlight the pattern of dividend policy pursued by the sample firms. Starting from the classic work by John Linter, UZOAGA and ALOZIENWA (1992) proceed to identify and describe the conventional factors, which are normally expected to guide each company's dividend policy the claim to have "checked" for

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these factors against their data but "found very little evidence" that these traditional actors could adequately explain the unprecedented rate of dividend declared by the firms.

According to UZOAGA and LOZIEWA (1992) they finally concluded that all classical forces way to determine dividend policy seems to have given way to fear and resentment induces dividend policy.

The conclusion appear on the face of it, to confirm the widely view that these was a clear upward in the level of dividend paid by the affected companies.

The second indication of controversy in scholar circles came through SOYEDE the study of UZOAGA and ALEOZIEWA. SOYODE make the point that the extent to which the classical factors which have contributed to the change in policy". Finally Soyede find the following;

A). That a substantial higher dividend payment ration 1 any one year cannot really be taken as a sufficient evidence of a sustained payment.

b). That there was no clear evidence at a general upward movement in the level of dividend payment

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c) That in any case a situation of excess liquidity which could be rationally expected to result from the infusion of new for making higher dividend payment.

The third indication comes through INANGA (2000) Inanga's contribution similar lines before Uzoaga and Aloziewa paper were published. But this alternative data gave support to the Uzoaga and Aloziewa finding of a general upward trend in the level of dividend distribution by the affected companies. Furthermore, Inaga found that "dramatic" changes in the policy could not have ben indicated by a corresponding improvement in earning performance.

Thus, the capital issues commission's pricing policy were responsible Inaga's view, for the inevitable abandonment of all The traditional determination of dividend policy that are considerable under normal circumstances.

The fourth theory is based of the RESIDUAL THEORY. It assumes perfect market conditions and that availability of a lot of variable investment opportunities in some project where surplus funds could be paid as dividend. In other words, it is based on the assumption that extend finance is not available and the primary determination of the amount

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of earning a company should distribute will be invested currently at this disposal.

The residual theory further treat dividend as a passive decision determine by a company's selection of investment. The consequence of this is that and dividend payment is passive decisions determine by a company's selection of investment and will tend to fluctuate from one year to another according to the availability of new investment.

The fifth theory is based on bird in the hand MYPONGORDOW and JOHN LINTER (1976) were the propounds of this theory. They argue that (cost of retaining earning) increase as the dividend payment than income from the capital gain which should result for retaining earning they say in effect that value a dollar of expected dividend more highly than a dollar of expected capital gain because the dividend hold component DL/PO Is less risk than the G component in the total expect return equation, $KS=D2/PO\ tg$.

Finally the sixth theory is based on the fact that because of different personal tax rates on dividend and capital gains, investors should require personal tax on dividend yield stock, other things held constant (ceteris paribus) well

fargo banks has developed and trade market model for determine require rate of return which included dividend yield as market risk.

This model is called the security market place mode, it is based on the promised that an investor require rate of return not only in the market risks. But also to stock yield under security market place the greater the dividend yield, the greater the return capital gains.

2.2 CONFLICTS THEORIES ON DIVIDEND POLICY

They are controversies about dividend policy among the research because individuals viewed dividend policy from different angles. Based on this, test of dividend theory is most correct.

Starting with residual theory, the theory did not give recognition to how stock holders felt about receiving dividends. If the shareholders is only concern with achieving the highest return on their investment either in the form of corporate retain earning remaining in the business or as current dividend policy out, these is no issue, but if stockholders have a preference for current

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fund for example over retained earning then the theory is incomplete.

While some researchers maintain that stockholders are in-different to the division of funds between retained earning and dividends (holding investment opportunities constant) other disagree.

Well fargo bank position in the reverse of the Gordon linter position namely that since dividend are taxed at high rate than capital gain investors require rates of return on high dividend yield stock, thus, a firm, should have low dividend yield to maximize to minimize its cost of capital maximize its value. This position is represented by the securities market place (SMP) model.

Gordon Linter and security market plane model theories contradictory advice to capital managers. Gordon linter say "set a high payment and the security market plane advocates say set low payment. The only way to decide logically which theory is to believe and examine the empirical test which has been conducted and then attempt to choose among two theories by the academics researchers.

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The empirical tests have been in attempt to determine the true relationship between dividend yields and require return within the scope of study. Academic researcher studies from capital asset pricing model (CAPM).

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Academic researcher studies (CAPM) perspective, this studies hypothesis that require return are a function of both market risk as measured by data and dividend yield, it so a stock require return could be express as follows;

$KL = RF + bi (KM-RF) = A, (DI-DM)$ where, Di is the dividend yield stock

Dm is the dividend yield of an average stock

A is the dividend impact co-efficient

Researcher have tested this equation this by regressing historical values RF-KM (DI and Dm against historical values KI, if the co-efficient of AI is zero, dividend yield would not affect required a higher return on stock and vise versa if AI were negative.

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The capital asset pricing model (CAPM) base on empirical test have not led to definite conclusion as to which dividend theory is most correct.

2.3 MISCONCEPTIONS ABOUT DIVIDEND POLICY

Uzoaga and Alozienwa, Inanaga and Sayode perception. they must be recognized in scholarly circles for their early in trying to analyses the recognition in scholary circle for their work in trying to analyze the vital problems of dividend policy formulation in Nigeria. Their contribution provides a useful starting peril in the debate which must now ensure and which would inevitably extend to convert the activities of companies. The objectives here are to correct some of the misconception and to present some suggestion which may improve the understanding of the bogery of "fear and resentment" which Uzoaga and Alozienwa emphaisi on.

The first misconception is (Inaga 2000) the claim that dividend must necessarily be paid out of cash resources. This does not have to be so the difference in the computation of cash and operating profit should

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demonstrate this, hence, if the company does not have enough cash it can be overdraft for the payment of dividend provided it has distributable earning arising from the current of past years operation.

The second misconception (Inaga 20000 is the suggest that companies which had to reached the limit of authorized capital complied with the decree by an offer for sale where as companies which had not reached the limit made offers for subscription.

Moreover, Soyede (1999) in his comment queried the optimally of individual policy that called for a large proportion of earning to be paid out in dividends rather being reinvested for further expansion without holding brief for the dividend policy for companies to payout all earnings in dividend and to finance expansion by borrowings.

Presumably however D.O Odife, postulate that the above studies that market is free and fair and the prices are freely determined. In Nigeria, the capital issues commission now securities and exchange are regulated.

Another postulate is that the absence of homogeneity among the investors in Nigeria companies may have

contributed o the differential perception of dividend policy called hardly have any additional informative value.

Additional relevant factor is the accounting policies of companies since most companies operating in Nigeria would have to be consolidated in he group accounts.

2.4 FORMULATING A DYNAMIC DIVIDEND POLICY

According to Dayo J. Akinola (1996) of the corporate banking department Guff Bank of Nigeria Limited Lagos, postulate a dynamic dividend policy he analyses that in making a choice of dividend policy to be followed by company should endeavour to formulate and establish a dividend policy that will maximize shareholders wealth.

In theory, he said "the optimal dividend payment should be dedicated in conformity as against capital gains and its demand as awareness of the shareholders behaviour and attitude to dividends and capital though an empirical study.

He further analyzed that in formulating a dividend policy for any company the best policy is not the one that puts that company in a state of financial pandemonium and

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epilepsy but the state of financial DIVIDEND POLICY (DDP) that provides satisfactory answers to the following questions with particular reference to relevant company.

THAT IS

i. Are there distributive profits?

ii. How much should be deader?

iii. Will it actually be paid without impairing the liquidity position going concern status of the company?

iv. When will it be paid in cash?

v. Will the amount declare raise market value of the company?

vi. Will it increase the tax burden of equity shareholders?

vii. Does the amount declared conform to the government fiscal and monetary policies for the year of declaration?

viii. It increases the amount to?

ix. Will it no fuel inflation.

According to him, a dynamic dividend policy does not only ask question, but it also answers vis-a-visa in a specific company. The features of the dynamic dividend policy is different from the existing policies that is, stable dividend for share policy, constant dividend-payment-ratio,

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a compromise policy and they are gather together by providing answers to the questions raised by it.

A dynamic policy as its postulate by Dayo A Akinola (1996) "is a kind of scientific dividend policy that ensures that a company real dividend and not actually be paid without impairing the liquidity position and origin-concern posture the payment date is concern without any intention to delude the shareholders. It has undergone a legal and statutory procedure.

Furthermore, a typical dividend policy ensures that the dividend declare will help to stabilize or raise the market capitalization of the firm by extension of the shareholders wealth and that the amount declare conforms with the fiscal and monetary policies of the government for the year of dividend declaration and will not fuel inflation in anyway. It also build more goodwill for the company and pre-emptive right of the existing shareholder.

2.5 APPRAISAL OF THE DIVIDEND POLICY

Many researchers have done a great deal of work on dividend policy in which little if none is left in done but for

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modification, I will base on my own-test of analysis on Gordon Linter's theory.

In Gordon Linter's view, he says that a possible capital gain the bush is risk than a dividend in the hands. So investors require a large total return in the hands. So investors require a large total return is as the capital gains yield component e.g. increase in the other words more tat one percent of additional is required. In other worlds more than one percent of additional is required to offset a one-percent reduction of dividend yield.

For clarification, my judgments on the level of achievement or knowledge on earlier researcher on dividends policy is that investors do have some preferences between dividends and retain earnings.

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CHAPTER THREE

3.0 RESEARCH METHODOLOGY

Research methodology can be described as a way which information can be gotten. Actually researchers are normally or mostly made orally. It can be conducted using two main sources of information which are primary and secondary data source.

PRIMARY DATA: According to Happer's any data that an investigator collect himself is termed primary data because he knows the conditions which it will collect. He is aware of any limitations sit may certain. It covers fact which one know has not been previous published.

SECONDARY DATA- this is the utilization of the data are developed for some purpose other than the present problem on hand. Secondary data sources consulted in the companies are records. The company audit financially report and insurance registers that are kept in the financial report are usually in the form of published data in Premier Paint Nigeria P.L.C

In this project form the case study (Premier Paint Nigeria PLC) both primary data and secondary data will be used.

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The primary data were obtained from interviews conducted with the company's official while the secondary data were extracted from the company's record.

The method of analysis to be used in this are based on correlation & progression analysis. A regression mode is a statistical mode what certain assumption and for hypothesis about a depended relationship between one available called the independent variable while correlation means on inter relationship.

3.1 RESEARCH POPULATION AND SAMPLE DESIGN

In the collection of data concerning the problems at hand, the sample decisions of better understanding of this chapter are:

Population: This is the set of the observation that is taken for the purpose of obtaining the information needed. The population of interest is made up of 13 years of dividend payment of the company (Premier Paint Nigeria) to the shareholders. The period covers 1997 to 1995 but due to some circumstance which enhance the informative needed.

hat will cover the period of 20 years. A sample size was taken.

A period of 10 years was chosen because of the availability of information need and also because of the good performance of the company in the face of economic difficulties, the ever turbulent economic and political environment in which if funds itself.

3.2 RESEARCH APPROACH

The research approach is a design or plan explain the decision on the choice of instrument or methods to be used in explaining the inter relationship between dividend and earning.

The reason for selecting these method in earning and change in dividend as a result of change in earning and to show the percentage of the variation available for the analysis are numerous although the least square technique among the various method of regression analysis.

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On the other hand, methods of graphical analysis are another method of showing the relationship between depending independent variable for each unit in data set.

It's conventional to place that value of the independent variable along the horizontal axis and value of the dependent variable along the vertical axis, however within the scope of this research least square technique simultaneous equation will be used to estimate the values of the parameters in the equation.

The least square method is

$$NX + BEXt = EYi$$

$$XEX + BEXt = Ex$$

Independent variable : N is the dependent variable, X and B are parameter of the equation presumable. However, the rank correlation donated by

R is measured by $R = 1 = 6ES$

$$N (n2 - 1)$$

Where d=difference between the pairs of ranked values

N=number of pairs of ranking and the product menant correlation donated by r is measured;

R-NEXY-EXEY

NEX - (EX)2- (EX)2XNEY - (EY)2

3.3 FORMULATION OF THE MODEL

Models are representation of reality and they play a very important role in research project. Models provide economic description and explanation of operation of the system that they represent by experimenting model, one can differ how changes in various operation of the system with effect to performance system

Model enables us to carry out experiment more effectively then on the system itself which may be impossible or too costly

ADVANTAGES OF MODELS

Models have the following advantages over verbal description of problems.

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i.   It describes a problem more precisely
ii.   It provides some logical and systematic approach to the problems
iii. It indicates the limitation and scope of the problems
iv.   It tends to make the entire structure of the problem more comprehensive
v.   If facilities dealing entirely with the problem
vi.   It helps in finding avenues for new research and important in the system.

DISADVANTAGES OF MODEL

i.   Models are only attempts in understanding on operation and are never absolute in anymore.

ii.   The validity of any model with regards to the operation of a system depends on the validity and characteristics of the data used.

TYPES OF MODELS

1. Iconic models
2. Analogue models
3. Symbolic models

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4. Simulation models
5. Heuristic models
6. Mathematic models

1) **Iconic Models:-** These are obtained by enlarging or reducing the size of the model. Examples are photographs, maps, model engine of aircraft, e.t.c

Advantages Of Iconic Models

1. They are specific and concrete
2. Easy to conduct
3. They can be study more than the read system

Disadvantages Of Iconic Models

1. Different to manipulate for experimental purposes
2. It cannot be used to study the changes in the operation of a system.
3. It is not easy to make any modification or improvement in those models.

2) **ANALOGUE MODELS**: In this type of model, set properties is used to represent other set properties, when the problems are solve the solution is re-interpreted in term of original system for instance graph as distance on a

graph is used to represent wide variety or variable. They are easier to manipulate than iconic model. However, they are less specific & less concrete.

3) SYMBOLIC MODELS:- Under these models, letter, numbers and other types of mathematical symbol are used to represent variable and relationship between. These are some kind of mathematical equation or inequalities reflecting the structure of the system they represent.

Advantages Of Symbolic Models

1. They are most abstract and most general
2. They yield more accurate result under manipulations

4). SIMULATION MODELS:- These represent the behaviour of a real system. They are used where there is no suitable mathematical system. They are used where there is no suitable mathematical model. Where he mathematical model is causing serious disruption as in the case of the training of plate are implications of simulations. model in the management context is act on the behaviour of people and object.

5) HEURISTIC MODELS:- Are models use in set of initiative rules which managers hope will produce at least a

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workable solution and a better solution than method currently being used. For instance, a delivery van driver may be instructed to plan the deliveries to the nearest customer whom you have not yet visited". This will certainly gives a "good" solution early at the end of the day back to the depot. The driver has no way of knowing whether route gives optimum time and distance and any improvement can come only through testing other in heuristic approaches.

6). MATHEMATICAL MODELS:- They are the one which tries to show time working of real world by means of mathematical symbol, equation and formulae. Mathematical models are the types of models the following models will be used.

REGRESSION MODEL

The two Variable Model

Regression Model:- it is common to associate economic with regression models and analysis. The fact is econometrics has a wide scope than regression analysis. An econometrics has a wider scope which may be called a

REGRESSION MODEL since the regression earns a dependent relation in this project, the independent variable is "EARNING" while the dependent variable is "DIVIDEND". Earning is represented by X1 while dividend is denoted by Y1 therefore, the regression model is YT= X + BXt. The model is in a form of well specified equation in which all variables have well defined statistical properties, the analysis can be extended to the multi variable case in which have there will; be a relationship between one variable and many model is called MULTIPLE REGRESSION.

THE TWO VARIABLE MODELS:- the simplest of all economic model to the two variable or sample linear model, it is usually involve two variable X1 and Y1 i.e. Yt=tb x t-el where YI is the independent variable (earning) i.e. is the stochastic or error term X and B are the regressive parameter. The method least square will be a unique pair of estimate of X and B than to satisfy the relationship between Yi of W. the method of least square relies on the objectivity of a particular researchers motion of where the line should be located on a located on a scattered diagram.

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The ordinary least square method is a technique for fitting the test straight line that is the sample Xi and Yi observation.

The following are the assumption of ordinary least square method.

1. Error term is assumed to be normally distributed
2. It has zero expected value
3. It has no constant variable
4. The stochastic are uncorrected or unrelated to one another.
5. That the explanatory variable assure for value in respected sampling invariable however if

$$Yt = Xtb\ Xt\ tei\ _____\ equation\ (1)$$

$$Yi = ytei\ _____ equation\ (2)$$

$$El - yi\text{-}y_____\ equation\ (3)$$

Where Yi is the value of Yi in the data y is the estimated or associated regression or predicted value of Yi

$$But\ Y + X + B\ XT\ _____\ equation\ (4)$$

$$El = Yi\ (2+BXt\ _____ equation\ (5)$$

The principle of least square suggest that the values of X and B should be such that the sum of squared residual is Eei should be as small as possible

Therefore from equation (e)

$$EeiZ = E (Yi-2BXi) \underline{\hspace{3cm}} \text{equation (7)}$$

Differentiate equation (7) with the respect to X and B and equate to Zero

$$Dee12 + 2e (Yi-2-B \times 1) \underline{\hspace{3cm}} \text{equation (8)}$$

$$D \times C$$

$$Dee12 + 2e (Yi-XC-B \times 1 \underline{\hspace{3cm}} \text{equation (8)}$$

$$D \times C$$

If N is the number of observation then the equation (8) hence the least square method equation is

$$N \times C = BCE \times 1 - EY1 \underline{\hspace{3cm}} \text{equation (10)}$$

$$XCE \times 1+ B \times 12 = Ex 1Yi \underline{\hspace{3cm}} \text{equation (11)}$$

To solve for the parameter and multiply equation (10) by EXI equation (11) by n using the simultaneous equation method

$N \times C + BC (E \times 1)2 = EXi\ EXL$ _____ equation (12)

$N \times C + BC\ E \times 1 = NEY \times 1$ _____ equation (13)

Subtract equation (12 from 13)

$Bcn\ Ex\ 12 - Bc (E \times 1) 2 - NY1 \times 1 EYI\ E \times 1$

$Bcn\ Ex\ 12 - Bc\ E \times 1\ 2 - NEY\ 1X\ 1\ EYI\ E \times 1$

Therefore $Bc = NEY\ 1\ x1\ Eyi\ Ex\ 1$

$Ne \times 12 - (E \times 1)$ _____ equation (10) recall

from equation 9(10) $N \times N + Bn\ E \times I - Eyi$ __ equation (10)

$N \times C = EYI - Bce \times 1$

$Xc = \dfrac{EYI - BE\ E \times 1}{N}$

$Xc = \dfrac{EYI - Bc\ E \times 1}{N\quad n}$

Therefore $Xc = Y - Bcx$ _____ equation (15)

After the estimation of the parameter A and B and the determination of the least square regression line.

To know how good is fitted line to the sample observation are to be estimated. The better the explanation of the variations in dividend (YI by changes in explanatory variable earning (x).

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CHAPTER FOUR

4.0 DIVIDEND POLICIES

A finance manger's objectives for the company's dividend policy are to maximize owner wealth while providing adequate financing for the company. The various types of dividend policies are:

1. STABLE DIVIDEND PER SHARE POLICIES
2. CONSTANT DIVIDEND PER-OUT RATIO
3. A COMPROMISE POLICY
4. RESIDUAL DIVIDEND POLICY

1. STABLE DIVIDEND PER-SHARE POLICY:- Play companies use a stable dividend policy in which Premier Paint Nigeria Plc is one, since it is looked upon favorable investors dividend stability implies a low risk company, even in a year when the company shows a loss rather than profit the dividend should be maintained to avoid negative correlations to current and prospective investor some shareholders rely on the receipt of stable dividend for income. A stable dividend is also necessary for a company to be placed in list securities which financial institute invests.

2. **CONSTANT DIVIDEND PAY-OUT RATIO:-** Dividend for share are share with this policy a constant percentage of earning is paid out dividend because net income varies dividend paid will also use the approach. The problem with the policy is that if a company's profit drop dramatically for there is a loss, the dividend pay will be sharply curtained or non-existence. This policy will meet stockholder that do not want variability in there dividend receipt.

3. **A COMPROMISE POLICY:-** A compromise policies of stable dividend per share is a must and a percentage amount of dividend is for a company to pay a low amount per share plus a percentage increasement is good year while this policy afford flexibility.

4. It also creates uncertainty in the mind of investors as to the amount of dividend they are likely to receive stock holders generally do not like such uncertainty.

5. **RESIDUAL DIVIDEND POLICY:-** When a company's investment opportunities are not stable management may went to consider a fluctuating dividend of investment opportunities in a particular year. Dividends paid represent the residual amount from learning after the company's investment is fulfilled.

Corporation has employed three general approaches putting the residual dividend policy into practice 2

= dividend policy in year 1

= investment in year that is financed from equity sources retained earning and stock sales)

‾ = earning in year 1

T= dividend pay-out ration in year 1

Where QT == DT/ET

he three appropriates are as follows.

. Pure residual dividend policy

2. Fixed dividend policy

3. Smoothed residual dividend policy

1. PURE RESIDUAL DIVIDEND POLICY: In this approach, the company will set the dividend paid each year so that, it equity investment (It) equals to exceed earning (ET) than dividend will be Zero and it is less that ET, the dividend will be DT-ET

2. FIXED DIVIDEND PAY OUT RATION:- Dividend under this approach equal to constant proportional (GT) of yearly earning. Then it can be expressed as DT = Qt x ET

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SMOOTH RESIDUAL DIVIDEND POLICY:- under this approach naira dividend have stable pattern. Dividend over the long run equal earnings minus equity investment.

4.1. FACTORS INFLUENCING DIVIDEND POLICY

As a guide to financial managers responsible for dividends the following are the analysis of the major economic and financial factors influencing dividend policy in premier paint Nigeria Plc Manufacturing Industries.

1. LEGAL RULES
2. LIQUIDITY POSITION
3. NEEDS TO REPAY DEBT
4. RESTRICTION IN DEBT CONTRACT
5. RATES OF ASSETS EXPANSION
6. PROFIT RATE
7. STABILITY OF EARNING
8. ACCESS TO THE CAPITAL MARKETS
9. CONTROL
10. TAX ON IMPROPER ACCUMULATION EARNING

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LEGAL RULES:- Although state and court decision overnment dividend policy are complicated their essential nature can be stated briefly. The legal uses provides that dividend must be paid from earning from the current years earning or from past years as reflected in the balance sheet account "certain earning"

State laws emphasis three rules

i. The net profit rules provide that dividend can be paid form the past and present earning.

ii. The capital impairment rules protect creditors by forbidding the payment or dividend from capital (paying dividend from capital would distribute the investment in a company rather than it earning.

iii. The insolvency rules provide that corporation cannot pay dividend while insolvent (insolvency is here defied in the bankruptcy since as liabilities exceeding assets and to pay dividend under such conditions would mean giving shareholders funds that rightfully belong to the creditors/ legal rules are significant in that they provided the frame work within their boundaries. However financial and economic factors have major influence on policy.

2. LIQUIDITY POSITION:- Generally the first concern of the financial analysis is liquidity, is the company able to

neet its maturing obligation premier paint Nigeria Plc. In 1995 has debt totally N64, 221 that must be paid within the following year. The profit holds as retaining earning (which show up on the right hand side of the balance sheet) are preceding have already invested in plant and equipment inventories and other assets, they are met held at cash.

Presumably, however even if a company has a record of earning, it may not be able to pay cash dividend because its liquidity position indeed a growing firm, even a very profitable one like Premier Paint Nigeria P.L.C typically ha a pressory need for funds. For example in 1995 the balance sheet of premier Paint PLC shows the only N1,840,664 since cash have been retained to pay bills, is clear that premier paint Nigeria PLC cash position precludes a dividend of even N1,840,664.

3.   NEED TO REPAY DEBTS:- This is another factors that influence dividend policy when a company has sold debt to finance expansion or substitute for another form of financing. It is faced with two alternative but premier paint Nigeria PLC make sure that debt one is fully paid.

4.   RESTRICTION IN DEBT CONTRACTS:- Another factors that influence dividend policy in premier paint

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below a specified amount similarly preferred stock
agreement generally state that no cash dividend can be
paid on the common stock until all accrued preferred
dividend have been paid.

5. RATE OF ASSET EXPANSION

In spite of the containing economic difficulties in which
Premier Paint Nigeria PLC operate. It has been able to
achieve impressive result over 1994 figure by N10,859,634
million want to over 1994 figure of N8,023,855 million by
N2,835,799 million.

However, the more rapid rate at which the company is
growing to greater is need for financing assets expansion
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externally, natural source of the present shareholder who already know the company. But it earning are paid out as dividend and are subject to high personal Income tax rate only a portion of them will be available for investment.

6. PROFIT RATE

This is another essential factor that influences the dividend policy in premier paint Nigeria Ltd PLC. The rate of turn on assets determine the relative attractive of paying out earning is the form of dividend to stockholders (who will use them else where) or using them in the present enterprise.

7. STABILITY OF EARNING

A company that has relatively stable earning like that of premier paint Plc is often able to predict approximately what future earning are will be the company will pay a higher percentage of its earning tan a company with fluctuating earning. The unstable company is not certain that is subsequent years the hope for earning will be realized so ti is likely to retain a high will be easier to maintain it earning fall off in the future.

8. ACCESS TO CAPITAL MARKET

Premier Paint Nig PLC as large well established company with a record of profitable and stability at earning has easy

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access to capital market and other form of essential training, a small, newer venture some company however is riskier for potential investor. It is the ability to raise equity or a debt fund from capital market is restricted and it must retain more to finance its operation Premier Paint Nigeria Plc will have a high dividend rate as well as established company than a row or small company.

9. CONTROL

Another important variable is the effect of alternative source of financing on the control situation in the company. As a matter of policy some corporation expand only to the extend of their internal earning.

This policy defend on the ground that raising funds by selling additional common stock dilutes the control of the dominant group in that company. At the same time, selling debt increase the risks of fluctuating earning to the present owner of the company. Control reduces the dividend pay out but Premier Paint Nigeria PLC did not rely only on internal finance hence its dividend pay out increases.

10. TAX ON IMPROPERLY ACCUMULATED EARNING

Finally this is the last influence dividend policy in Premier Paint Nigeria P.L.C in order to prevent wealthy stock holder from using the company as an "incorporate pocket book"

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by which they can avoid high personal income tax rates, tax regulation applicable to companies provide for a special surtax on improperly accumulated income.

However, section 531 of the Revenue of 1984 places the burden at proof on the internal revenue service (IRS) to justify penalty rates for accommodation of earning. That is, earning retention justified unless into internal Revenue services (IRS) can prove otherwise.

4.2 DIVIDEND PAYMENT PROCEDURE:

The management of Premier Paint PLC conveys to stakeholders sometime by an exploit statement in the annual report and sometimes will be maintained it at all possible.

Furthermore, management conveys its belief that earning will be sufficient to maintain dividend.

Under other condition, the company's cash flow and very high regular dividend on the average. However, it a high dividend pays out to dispose of funds not necessary for reinvestment. In such case, the director can set a relatively low regular dividend low enough that is can be maintain even in low profit year or in years when a considerable amount of reinvestment is needed and

supplement it with an extra dividend in years when excess funds are available.

The actual payment procedure is of some importance and the following are some outline of the payment sequence in Premier Paint Plc

1) DECLARATION DATE

The Director meets on Friday 19th and declare the regular dividend on the date they issue a statement similar to the following on Friday 19th April, 1997 the director of premier paint PLC met and declare the regular quarterly dividend of 40 kobo per ordering shareholder of record on May 18th and payment to be made on time 2nd 1992.

2) HOLDERS OF RECORD DATE

On May 19th, the record date, the company closes it stock of data. If premier paint PLC is notified of the sale and transfer of some stock before April 20th the owner receives to dividend. If notification is received on or after April 20th, the old stock holder gets the dividend.

EX-DIVIDEND DATES

Suppose Golden flexed trading company buys 4221,698 shares from Premier Paint P.L.C on April 19th will company be notified of the transfer in time to list her as to now owner and there pay her the dividend to a volt disagreement the brokage business has up to convention of declaring that the dividend remains with stock until four days prior to the holder of record date on fourth day before the record date, the right to the dividend on longer goes with the shares.

The date when the right to dividend leaves the stock is called the EX DIVIDEND DATE. In this case ex dividend date is four days prior to April 19th therefore be Golden flexed trading company is to receive the dividend, she ought to have buy to stock by April with one may a stable dividend policy that maximize adult value for a corporation. Basically these have been no truly conclusive to the question must be regarded policy. So any answer to the question must be regarded as tentative on logical growth, however, there is reason to believe that a stable dividend policy does lead to higher stock prices.

On the other hand, if a company's investment opportunities fluctuate from year to year, should it not

retain earning during some year in order to take the advantage of opportunities when they appear and measure dividend when good internal investment opportunities are score.

This living of reasoning leads to a recommendation for a fluctuating payout for companies whose investment opportunities are instable.

However, the logic of the argument recommendation is diminished by recognizing that is possible o maintain is a reasonable stable dividend using outside financing including debt, to smooth out the different between the funds needed for investment and the amount of money provide by retaining earning.

4.3 HYPOTHESIS FOR THE STUDY

Hypothesis can also be called significance testing and guesses about the result of answer to a problem. It is also statement of expected conclusion of a particular study. Moreover, a hypothesis is some testable brief or opinion and hypothesis testing is the process by which the brief is tested by statistical means.

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The hypothesis for the study is simply based on whether any relationship between dividends and earning is and if there is response to dividend if earning increase.

There is only little possible result when a hypothesis is tested.

- ❖ We accept a true hypothesis ___ a correct decision
- ❖ We reject a true hypothesis ___ a correct decision

To test this hypothesis, two statistical techniques shall be used, they are as follows:

1. Least square method analysis
2. The rank coefficient of correlation by spear man fettered line is of the best fit and only if the lines passes through the centre of the point of average (WY) or centre of gravity. To do this, the following hypothesis are set up;

Dividend is related to earning if regression line through the centre. The hypotheses is known as the NULL Hypothesis (HO) which means that there is an assumption that there is a contradiction between the supposed dividend and the earning and that any difference can be ascribe soley to random factors.

The alternative hypothesis: designated H1 is that dividend is not related to earning and the regression did not pass through the centre.

These hypotheses can be shown like this

H_0 – dividend is related to earning.

H_1 – dividend is not related to earning.

The Null Hypothesis is the one to be tested. It is found not to be true. Hi is accepted invariable, however, the rank of the strength of correlation gives and indicate the strength of the linear relationship between two variable.

Movement in one variable may be cause movement in some direction in the other hand variable. This is known as positive negative correlation. To know this the following hypothesis is set up.

Dividend moves in the same way with earning this alternative hypothesis means that r=1 add it is perfect negative correlation where dividend decrease linearly as earning increase.

The hypothesis can be simply shown

$H_0 : r = +1$

$H_1 : r = +1$

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CHAPTER FIVE

5.0 SUMMARY AND CONCLUSION

5.1 SUMMARY OF THE STUDY

This project has offered and empirical analysis of the manufacturing companies dividend policy.

In Nigeria manufacturing company's dividend whether to release corporate earning from the control of the enterprise. This is because dividend policy may affect such areas as the financial structure the follow of funds, corporate liquidity, stock prices and investment satisfaction; it is cleanly on important aspect of financial management.

Under the theoretical model, dividends are simply a residual after investment need have been merit it the policy is following and if investor are in different of receiving their capital gains. Shareholders are better off than that are under any other possible dividend policy. However the financial manager simply does not have all the information assumed in the theory and judgment must be exercised.

As a guide to financial manger responsible for dividend policy the following is a summary of the major economics and financial factors influencing dividend policy.

i.   Rate of growth and profit
ii.   Control
iii. Stability of earning
iv.   Maintained of target dividend
v.   Age and size of company
vi.   Cash positions
vii. Need to repay debts
viii. Tax position of the corporation
ix.   Tax on improper accumulation dividend

Some of the factors listed had to a higher dividend payout and some to lower payout. It is impossible to provide a formula that can be used to establish the proper dividend payout for a given situation. This is a test enquiring the exercise of judgment but the consideration summarized above provided a check list for guiding dividend decision. However, the studies show those dividend are more stable than earning in view of investor observed preference for stable dividend and of the probability than a cut in make

good sense, stock purchases have significant merit over dividends and also have demerit.

Finally, the empirical studies influence different statistic techniques which show the relationship between dividend and earning that is to say the extent to which premier paint Nigeria plc will payout dividend instead of retaining earning.

5.2 CONCLUSION

The Project has been said before offered emperical analysis of the manufacturing company's dividend policy in Nigeria which premier paint is a case study. The analysis has been made on expert test of conventional mode of dividend payment which has been tested and confirm in many other studies using data from the adequate industrial companies.

Although, some recent Nigeria studies have rejected the conventional models in a favour of several exploration the most important finding of this study is in the fact that the Linter type conventional mode is in favour of several exploration the most important finding of this study is in·

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the fact that well under element of corporation especially manufacturing industries. It is necessary for all corporations to adopt dividend policy strategy and in cube it in the overall company strategy since it is the nuclear of any corporation.

Having examine what a dividend policy means and also having going through the factors that influence dividend policy and having considered a statistical to see the extend to which Premier Paint Nig. P.L.C will payout instead of retaining earning.

One will notice from the statistical and three extend to which dividend is being paid ten years is very high that is to say premier paint Nigeria plc paid more dividend than retaining earning.

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