PREFACE

In recent times corporate world is looking towards such sources of finance which provide them with the reliable and easy money, as finance raised by companies from external sources in the form of debt and loans from outside financial institutions, banks, money markets etc invites payment of heavy interest on amounts borrowed by them. The external sources of finances are made available to companies on the basis of judging their financial credibility and soundness as whether they are able to repay the amounts of funds borrowed by them.

As a result of the complexities involved and burden of interest payments on borrowed funds from external sources, corporates have started to depend on their own internally generated sources of finance in which retained earnings has emerged as one of the best internal source of funds. For companies retained earnings are the own funds of companies carved out from their after tax profits after deciding the distribution of profits between dividend and retained earnings.

Retained earnings as a source of fund for companies do not involve any burden of interest payment like external sources of finance and are easily available and cheap source of fund available with the companies for financing their businesses. Retained earnings are also called as internal finance or ploughing back of profits or self financing by companies.

The present research tries to study the important or key financial variables which have a bearing on the retained earnings of companies of selected sectors as well as to study the importance of retained earnings as a source of finance for companies and studying the impact of retained earnings on dividend policy of companies. This thesis is divided into six chapters.

Chapter 1 gives the introduction of the concept of retained earnings, its relation with dividend decision, the studies which highlight the importance of retained earnings and other aspects related to retained earnings are presented in this chapter.
Chapter 2 provides a detailed review of literature of earlier studies which have been carried out on retained earnings, dividend decision and dividend policies.

Chapter 3 deals with the research methodology of the study. It gives an account of the objectives of the study, period of study, sample of study, database of study, statistical tools used, and development and testing of hypotheses for the study and limitations of the study.

Chapter 4 gives brief profile of all the sectors selected in the study to have a general overview of the sectors under study.

Chapter 5 presents the analysis and interpretation of secondary data collected for testing the framed hypotheses thereby making meaningful interpretations on the basis of obtained statistical results.

Chapter 6 gives the conclusions and suggestions for the study which are followed by directions for future research.

SOHAIB MASOOD