

IMPACT OF WORKING CAPITAL VARIABLES ON  
PROFITABILITY OF HOTEL AND TRAVELS  
COMPANIES



SANGEETHA SIVAPALAN

1446



2014

## Abstract

The main focus of the research is to identify the Impact of Working Capital Variables on the Profitability of Companies in Hotel and Travels in Sri Lanka. Profitability which is dependent variable measured by return on assets whereas working capital variables are independent such as inventory conversion period, debtors collection period, creditors deferral period and cash conversion cycle. The study has been considered the sample of 25 companies in listed Hotel and Travels sector of Sri Lanka. The Secondary data has been collected for this study from published annual report of listed Hotel and travels companies for the period of four years from 2009 to 2012.

Find out the relationship between independent and dependent variables by correlation analysis. The correlation between inventory conversion period and profitability is significant negative relationship and the correlation between debtors conversion period, creditors deferral period and profitability are negative relationship. This study also find a positive relationship between cash conversion cycle and profitability. The results of regression analysis show that there is a significant impact of the working capital variables on profitability of companies in Hotel and Travels in Sri Lanka.

Therefore, managers may enhance the profits for their companies by handling correctly the cash conversion cycle and keeping each different component (inventory, accounts receivables and accounts payables) to an optimum level. The management of working capital affects the liquidity and the profitability of the corporate firm and consequently it's net worth (Smith, 1980). So, the results indicate that through proper working capital management of the company can increase its profitability. This study will benefit the Hotels and Travels companies in the management of their working capital in such an efficient manner. So that they can multiply their profitability.

Key words: Working capital, Inventory conversion period, Debtors collection period, Creditors deferral period, Cash conversion cycle and Profitability

# TABLE OF CONTENTS

CONTENTS	PAGE NO
Acknowledgement .....	i
Abstract .....	ii
Table of Contents .....	iii
List of Tables and Figures .....	viii
List of Abbreviation .....	ix
<b>CHAPTER 01: INTRODUCTION .....</b>	<b>01 – 06</b>
1.1. Background of Study .....	01
1.2. Research Problem Statement .....	03
1.3. Research Questions .....	03
1.4. Research Objectives .....	03
1.5. Significance of Study .....	04
1.6. Scope of the Study .....	05
1.7. Limitation of the Study .....	05
1.8. Summary .....	06
<b>CHAPTER 02: LITERATURE REVIEW .....</b>	<b>07 – 28</b>
2.1. Introduction .....	07
2.2. Working Capital .....	07
2.3. Working Capital Management .....	08
2.4. Determinants of Working Capital .....	09
2.4.1. Size of Business .....	10
2.4.2. Nature of Business .....	10
2.4.3. Storage Time or Processing Period .....	10
2.4.4. Credit Period .....	11
2.4.5. Seasonal Requirement .....	11
2.4.6. Potential Growth or Expansion of Business .....	11
2.4.7. Changes in Price Level .....	11
2.4.8. Dividend Policy .....	11
2.4.9. Access to Money Market .....	11

2.4.10. Working Capital Cycle .....	12
2.4.11. Operating Efficiency .....	12
2.5. Concept of Working Capital .....	12
2.5.1. Gross Working Capital .....	12
2.5.2. Net Working Capital .....	13
2.6. Sources of Working Capital .....	13
2.6.1. Long Term Financing .....	13
2.6.2. Short Term Financing .....	13
2.6.3. Spontaneous Financing .....	14
2.7. Kinds of Working Capital .....	14
2.7.1. Permanent or Fixed Working Capital .....	14
2.7.2. Temporary or Variable Working Capital .....	15
2.8. Operating Cycle .....	16
2.8.1. Gross Operating Cycle .....	17
2.8.2. Net Operating Cycle .....	17
2.8.3. Cash Conversion Cycle .....	17
2.8.3.1. Components of Cash Conversion Cycle .....	18
2.8.3.1.1. Days Account Receivables .....	18
2.8.3.1.2. Days Inventory Held .....	19
2.8.3.1.3. Days Account Payables .....	19
2.9. Working Capital Cycle .....	20
2.10. Nature and Importance of Working Capital .....	21
2.11. Concept of Profitability .....	21
2.12. Profitability Ratios .....	22
2.12.1. Profitability in Relation to Sales .....	23
2.12.2. Profitability in relation to Investment .....	23
2.13. Impact of Working Capital Management on Profitability .....	24
2.14. Summary .....	28

## CHAPTER 03:

### CONCEPTUALIZATION AND OPERATIONALIZATION ..... 29 – 33

3.1. Introduction.....	29
3.2. Conceptualization .....	29
3.2.1. Working Capital Variables .....	30
3.2.1.1. Debtors Collection Period.....	30
3.2.1.2. Inventory Conversion Period.....	31
3.2.1.3. Creditors (Payables) Deferral Period.....	31
3.2.1.4. Cash Conversion Cycle.....	31
3.2.2. Profitability.....	32
3.3. Operationalization.....	32
3.4. Summary.....	33

### CHAPTER 04: RESEARCH METHODOLOGY ..... 34 - 42

4.1. Introduction.....	34
4.2. Study Setting, Study Design and Method of Survey.....	34
4.3. Research Sample.....	35
4.4. Data Collection Techniques.....	36
4.5. Method of Measurements .....	37
4.5.1. Method of Measuring the Working Capital Management.....	37
4.5.2. Method of Measuring the Profitability .....	39
4.6. Data Presentation.....	40
4.7. Data Analysis.....	40
4.7.1. Trend Analysis.....	40
4.7.2. Descriptive Statistical Analysis .....	40
4.7.3. Correlation Analysis.....	40
4.7.4. Regression Analysis.....	41
4.8. Summary.....	42

**CHAPTER 05: DATA PRESENTATION AND ANALYSIS** ..... 43 – 55

5.1. Introduction.....	43
5.2. Working Capital Variables.....	43
5.2.1. Inventory Conversion Period (ICP).....	44
5.2.2. Debtors Collection Period (DCP).....	45
5.2.3. Creditors Deferral Period (CDP).....	46
5.2.4. Cash Conversion Cycle (CCC).....	47
5.3. Profitability.....	48
5.3.1 Return on Assets (ROA).....	48
5.4. Relationship between Working Capital Management and Profitability.....	49
5.4.1. Correlation Analysis.....	49
5.4.2. Regression Analysis.....	51
5.4.2.1. Impact of Working Capital Management on ROA.....	51
5.4.2.2. Impact of Working Capital Management (CCC) on ROA.....	53
5.5. Impact of Working Capital Management on Profitability.....	55
5.6. Summary.....	55

**CHAPTER 06: DISCUSSION** ..... 56 - 61

6.1. Introduction.....	56
6.2. Working Capital Variables.....	56
6.2.1. Inventory Conversion Period (ICP).....	56
6.2.2. Debtors Collection Period (DCP).....	57
6.2.3. Creditors Deferral Period (CDP).....	57
6.2.4. Cash Conversion Cycle (CCC).....	57
6.3. Profitability.....	58
6.4. Relationship between Working Capital Variables and Profitability.....	58
6.4.1. Inventory Conversion Period (ICP) and Profitability.....	58
6.4.2. Debtors Collection Period (DCP) and Profitability.....	59
6.4.3. Creditor Deferral Period (CDP) and Profitability.....	60
6.4.4. Cash Conversion Cycle (CCC) and Profitability.....	60
6.5. Summary.....	61

**CHAPTER 07: CONCLUSION AND RECOMMENDATION ..... 62 – 64**

7.1. Introduction..... 62

7.2. Conclusions and Recommendations..... 62

7.3. Suggestions for Further Research..... 64

References..... x

Appendix 01: Collected Data of Financial Information of Companies  
in Hotel and Travels in Sri Lanka..... xiii

Appendix 02: Survey Data..... xviii