A STUDY ON THE RELATIONSHIP BETWEEN UTILIZATION OF NON-CURRENT ASSETS AND PROFITABILITY OF SRI LANKAN COMPANIES

15 JUL 2015

By

SENTHILINGAM KOKULAN

REGISTRATION NUMBER: EU/IS/2008/COM/123

A Project Report

submitted to the faculty of Commerce and Management, Eastern University, Sri Lanka as a partial fulfillment of the requirements of the Degree of Bachelor of Commerce Specialization in Accounting and Finance

Discipline of Accounting and Finance

Department of commerce

Faculty of Commerce and Management

Eastern University, Sri Lanka

August 2014

Abstract

In recent years, extensive studies have been undertaken concerning to examine the relationship between firm profitability and other factors such as capital structure, working capital management, and risk. However researches on the relationship between non-current asset utilization and profitability have not been made. This study attempted to give some knowledge about the relationship between non-current assets utilization and profitability in Sri Lankan companies. The major problem behind this study was "what is the relationship between non-current assets utilization and firm profitability". Listed companies in Colombo Stock Exchange have been studied in four business sectors. Return on capital employed (ROCE) was the measure of profitability and the assets turnover ratio was the measure of utilization of non-current assets in this study. Relevant financial figures for analyzing non-current assets utilization and profitability extracted from the past five (2009 – 2013) year financial reports of the selected 30 companies. Correlation analysis was made to find out the relationship between independent and dependent variables.

A strong positive relationship (0.526) was found between the utilization of non-current assets and profitability of the firm. While considering each sectors all the selected industries (manufacturing - 0.681, motor - 0.586 and hotel & travels – 0.594) other than the service sector, shown a strong positive relationship between the variables while the service sector companies shown a weak positive (0.06) relationship between the variables. As the intangible assets were in an insignificant level, the utilization of total non-current assets and utilization of tangible non-current assets were approximately similar.

Researcher

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