

A STUDY ON THE RELATIONSHIP BETWEEN WORKING CAPITAL RELATED VARIABLES AND PROFITABILITY OF THE MANUFACTURING SECTOR IN SRILANKA

by

JUTHARSINI YOGARAJA

REGISTRATION NUMBER: EU/IS/2009/COM/38

INDEX NO: COM1058

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 & Finance)



Department of Commerce

Faculty of Commerce and Management

Eastern University, Sri Lanka

ABSTRACT

This research is aimed at analyzing the relationship between Working Capital Management practices and profitability of manufacturing firms in Sri Lanka. The working capital management is measured by using four dimensions. Such as, Debtors collection period, Inventory collection period, Payable collection period, Cash conversion cycle. Profitability is measured by using two dimensions. Such as, Return on Assets, Return on equity. This study consists of sample of 20 companies in listed in Colombo stock exchange. Secondary data were collected for this study. Secondary data collected from annual report of company. Excel and SPSS package are used for data analysis and presentation. Moreover managers can create profits for their firms by handling correctly the cash conversion cycle and keeping each different component (accounts receivable, account payable, inventory) to an optimum level. This study attempted to give some knowledge about the analysis of working capital & profitability of selected manufacturing companies in Sri Lanka. The results depict that, there is a weak negative relationship between the Cash Conversion Cycle, Inventory Conversion Period, Payable Collection Period and the Profitability ratios (determine return on asset, return on equity) of the Manufacturing companies in Sri Lanka.

Keywords: Debtors collection period, Inventory collection period, Payable collection period, Cash conversion cycle, Return on Assets, Return on equity

TABLE OF CONTENTS

Acknowledgement.....	i
Abstract.....	ii
Table of Contents.....	iii-v
List of Tables.....	vi
List of Figures.....	vii
1. Chapter One	
1.1. Background of the Study.....	1
1.2. Problem Statement	4
1.3. Research Questions	5
1.4. Objectives of the Study	5
1.5. Significance of the study.....	5
1.6. Scope of The Study	6
1.7. Summary	7
2. Chapter Two	
2.1. Chapter Introduction.....	8
2.2. Review of the variable.....	8
2.2.1 Definition of working capital	9
2.2.2 The main components of working capital	10
2.2.3 Concepts of working capital	13
2.2.4 Determinants of working capital	15
2.2.5 Kinds of working capital	19
2.2.6 Financing of working capital.....	20
2.2.7 Characteristics of working capital	20
2.2.8 Relationship between working capital related variables and profitability	23
2.3. Profitability.....	25
2.4. Chapter Summary.....	27

3. Chapter Three	
3.1. Conceptualization.....	28
3.2. Working capital management.....	29
3.2.1 Profitability.....	31
3.3. Operationalization.....	32
3.4. Summary.....	33
4. Chapter Four	
4.1. Introduction.....	34
4.2. Study setting, Design and method of survey.....	34
4.2.1 study setting.....	34
4.2.2 study design.....	34-35
4.2.3 Method of survey.....	35
4.3. Sampling.....	35
4.4. Data Collection.....	35
4.5. Method of measurement.....	37
4.5.1 Methods of measuring the profitability.....	37
4.5.2 Methods of measuring the working capital.....	38
4.6. Method of Data Analysis and evaluation.....	38
4.6.1 Ratio Analysis.....	38
4.6.2 Descriptive statistical Analysis.....	38
4.6.3 Correlation analysis.....	38
4.7. Summary.....	39
Chapter Five	
5.1. Introduction.....	40
5.2. Data Presentation.....	40
5.3. Descriptive statistics for research variables.....	40
5.3.1 Descriptive statistics for independent variables.....	44
5.4. Correlation Analysis.....	44
5.4.1 Correlation analysis between Dependent and Independent variables.....	47-53
5.5. Summary.....	54

6. Chapter Six	
6.1. Introduction	55
6.2. Discussion on the variable.....	55
6.3. Return on Asset and return on equity	55
6.4. Working capital management.....	56
6.4.1 Inventory collection period.....	56
6.4.2 Debtors collection period	57
6.4.3 Accounts payable period	57
6.4.4 Cash conversion period	58
6.5. Chapter Summary	59
7. Chapter Seven	
7.1. Introduction	60
7.2. Conclusion.....	60
7.3. Recommendations	61
7.4. Limitations of the study.....	62
7.5. Future research	63
7.6. Summary	64
References.....	viii-xii
Appendix.....	xiii-xx