

**THE RELATIONSHIP BETWEEN WORKING CAPITAL
RELATED VARIABLES AND PROFITABILITY OF FOOD,
BEVERAGE AND TOBACCO COMPANIES IN SRI LANKA**

By

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ABSTRACT

Working capital management plays a vital role in the success of business because of its effect on profitability and liquidity. The purpose of this study is to examine the relationship between working capital related variables and profitability of Food, Beverage and Tobacco companies in Sri Lanka. The study used secondary data collected from 20 companies covering the period from 2010 to 2014. The various components for measuring the working capital related variables include the Cash Conversion Cycle, Inventory Conversion Period, Average Collection Period and Average Payment Period. And also profitability includes Return on Asset and Return on Equity. Descriptive Statistics, Pearson's Correlation are used for analyzing this research. All these tests are used so as to correlate the theories contributed by the literature by several authors with the statistical results. The results depict that, there is a weak negative relationship between the Cash Conversion Cycle, Inventory Conversion Period, Average Collection Period and the Profitability ratios (determine return on asset, return on equity) of the food beverage and tobacco companies in Sri Lanka. This indicates that, above working capital variables are increases it would tend to reduce the profitability of the company. Nevertheless there is a weak positive relationship between the Average payment period and profitability. This indicates that, if the average payment period increases then profitability of the firm also increases. According to the research findings, managers can create a positive value for stockholders by decreasing Cash conversion cycle, Inventory conversion period, Average collection period and increasing Average payment period to the optimum possible level.

Key words: Average Collection Period, Cash Conversion Cycle, Inventory Conversion Period, Average Payment Period, Profitability

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