

EFFECTIVE OF WORKING CAPITAL MANAGEMENT ON THE PROFITABILITY OF SRI LANKAN SMALL AND MEDIUM SIZED ENTERPRISES

Dhanushka Yasithamal dhanushkayasithamal@gmail.com

Department of Accountancy, University of Kelaniya

Abstract

The Working Capital Management has its effect on liquidity as well on Profitability of the small and medium sized enterprises (SMEs) in Sri Lanka. As noted by Gentry (1988), the working capital is the connection, although sometimes neglected, between short-term financial management and strategic financial management decisions. Management of working capital deals with the problems that arise in managing the current assets, the current liabilities and inter-relationship that exists between them (Sinha, 2012). Working capital is an important part of finance having a decisive influence on the liquidity, which is regarded as the lifeblood of a business plays a pivotal role in keeping the wheels of a business (Kumar, 2012).

An attempt has been made in this paper to study the working capital components and impact of working capital management on profitability of small and medium enterprises sized (SMEs) in Sri Lanka. This study is based on secondary data. The data required for this study have been extracted from the annual reports SMEs. The study covers mainly the following aspects of working capital analysis Component of Working Capital, Financing of Working Capital, Working Capital Impact on Profitability. Statistical techniques namely coefficient of correlation and multiple regressions are used for analyzing the data. The main purpose of this study is to provide empirical evidence about the effects of working capital management (WCM) on the profitability of Sri Lankan small and medium sized enterprises. The empirical findings provide evidence that there is a negative linear relationship between the profitability, measured by the return on-assets ratio (ROA), and the working capital management (WCM).

Key words: small and medium sized enterprises, working capital management, return on assets ratio, profit.