

**WORKING CAPITAL MANAGEMENT AND SOLVENCY
MANAGEMENT ON FINANCIAL PERFORMANCE:
EMPIRICAL EVIDENCE FROM CAPITAL GOODS SECTOR IN
COLOMBO STOCK EXCHANGE**

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Abstract

The study aims to examine the working capital management and solvency management on the financial performance of Sri Lankan capital goods sector companies listed on the Colombo Stock Exchange, for a period of 9 years from 2013 to 2021. The size of the company was used as a control variable. The study employs Return on Assets (ROA) and Earnings Per Share (EPS) to measure financial performance. Current ratio (CR) Inventory turnover ratio (ITR) and total debts to total assets were used as proxies for liquidity, Inventory management and solvency management, while the logarithm of total assets was used to measure the size. Correlation and multiple regression analyses have been applied to analyze the data. The results show a statistically significant impact of working capital management and solvency management on financial performance, while the detailed results of the hypotheses indicate that liquidity has an insignificant reverse impact on financial performance. Further, there is a significant positive impact of size on performance and a significant negative impact of solvency on performance. The study suggests in light of the results, increasing investments in companies' assets by focusing on internal financing, such that large-sized companies with low leverage will have a good performance.

Keywords: *Working Capital Management, Liquidity, Inventory Management, Solvency, Performance, Size, Capital goods sector Companies,*