ANALYSING THE LIQUIDITY AND PROFITABILITY STATEMENT OF ABC LTD COMPANY

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ABSTRACT:

Management of short term assets and liabilities place vital role in generating profit in business sector. Researchers around the world have done lot of work on how to maintain working capital in an optimal level. Comparing this, the objective of this study used to examine the impact of different components if working capital management on profitability of the company. The findings of the study showed that there is statistically significant relationship between working capital management and profitability of the company. This study also reveals that current ratio and current liabilities' and to total assets has the , most significant impact on profitability.

KEYWORD: Working capital management, profitability

1.INTRODUCTION

In the current perspective of the competitive market short-term assets and liabilities are important components of total assets and need to be analyzed carefully at the side of long-term assets and liabilities. Management of this short-term assets and liabilities are subject to investigate warily from the time because working capital management plays a vital function for the firm's profitability and risk as well as its value

Objectives of the study

The main objectives of the study is to know the liquidity and profitability statement of the company for past 5 years.

Advantages

- Regular supply of raw material and continuous production.
- Solvency of the business by providing uninterrupted of production
- Exploitation of favorable market conditions.
- Quick and regular return on investment.

Benefits

- Increase in profitability from efficient management of capital.
- Provides a line of credit facility.
- Manage impact of rising commodities prices.
- More cost-effective processes.

Scope of the study

A good manufacturing company has some basic capital for producing the goods required before it starts selling them. It has to take care of production expenses, administration expenses as well as selling expenses. Moreover, since business is usually done on credit, there is a time lag between the date of sale and date of receipt of revenues.

2.RESEARCH METHODOLOGY

Tools used for analysis

Ratio analysis

Limitation of the study

- Time factor is the most crucial one. The study was conducted within a short period
- Data collected for 5years which is limited.
- Due to busy work schedule. detailed discussions were not possible
- The data which is used in this project are taken from the annual reports, published at the end of year.
- The study is limited to the period of 5 years.

3.REVIEW OF LITERATURE

- **Eljelly (2004)** Identified the Nation between profitability and liquidity who was examined, as measured by current ratio and cash gap (cash conversion cycle) on a sample of joint stock firms in Saudi Arabia. The study found that the cash conversion cycle was of more importance as a measure of liquidity than the current ratio that affects profitability. The size variable was found to have significant effect on profitability at the industry level. The results were stable and lud important implications for liquidity management in various Saudi firms. First, it was clear that there was negative relationship between profitability wd liquidity indicators such as current ratio and cash gap in the Saudi saple examined. Second, the study also revealed that there was great variation among industries with respect to the significant measure of liquidity

- **Mohamad and Saad (2010)** Used Bloomberg's database of 172 listed companies randomly selected from Bursa Malaysia main board for five year period from 2003 to 2007. Applying correlation and multiple regression analysis, they found that current assets to total asset ratio shows positive significant relationship with Tobin Q. ROA and ROI. Cash conversion cycle,current asset to current liabilities ratio and current liabilities to total assets ratio illustrate negative significant relations with Tobin Q. ROA and ROK

- **Joshi Lalitkumar and GhoshSudipta (2012)** study the working capital performance of Cipla Ltd during the period 2004-05 to 2008-09. Financial ratios have been applied in measuring the working capital performance, and statistical as well as econometric techniques have been used. It was observed that the selected ratios show satisfactory performance, and significant negative relationship between liquidity and profitability is found to exist.

4. FINDING OF THE STUDY

Tools used – Ratio analysis

CURRENT RATIO

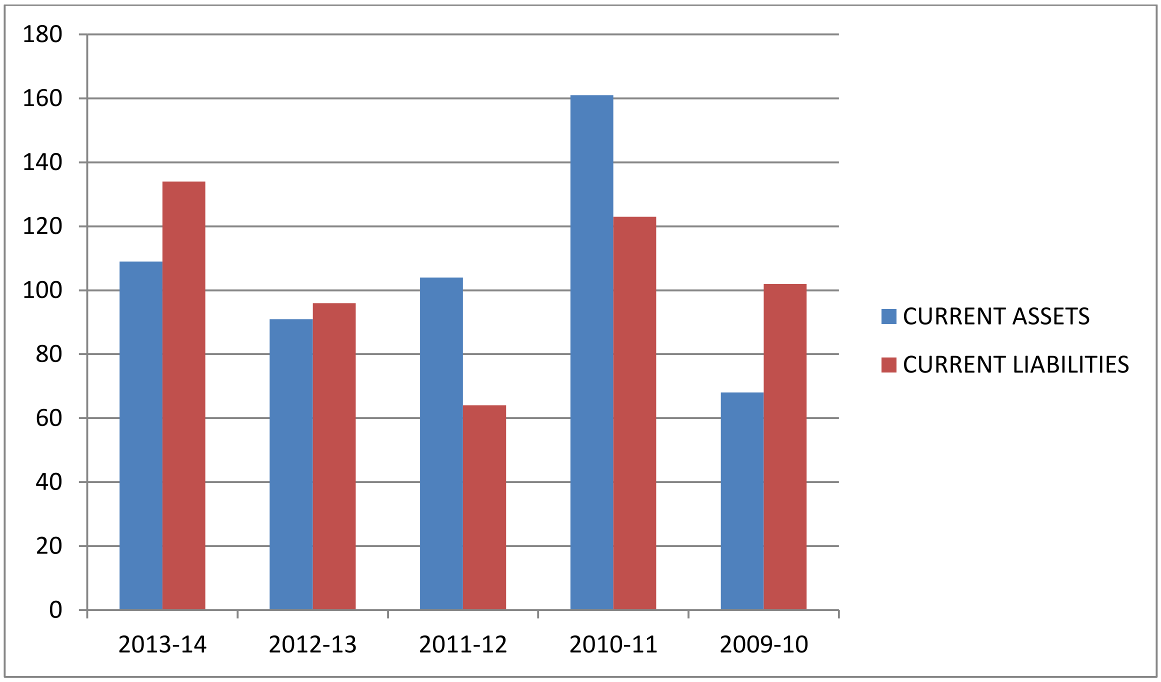
The **current ratio** is calculated by dividing **current** assets by **current** liabilities.

	YEAR	CURRENT ASSETS	CURRENT LIABILITIES
1	2015	68	102
2	2016	161	123
3	2017	104	64
4	2018	91	96
5	2019	109	134
TOTAL		532	520

INTERPRETATION:

The above chart represent the current ratio of ABC LTD company for the past 5 years. On an average company's working capital ratio is good. The relationship between current assets and current liabilities is good. Average current assets is 532cr and current liabilities is 520cr so current assets is more than current liabilities. Average current ratio is 1.023 which should not be less than 1. This much ratio is enough to release fund from bank to meet day to day operations

Note: All the values are INR CRORES



Conclusion

Liquidity is an attribute that signifies the capacity to meet financial obligations of the company when required. The importance of liquidity to meet the day to day operations and urgent payment to suppliers. A firm should maintain adequate level of working capital to meet the day to day operations and maintain business operations. The effective management of working capital requires both medium-term planning and immediate reactions to the fast changes taking in the present business environment. The effectiveness of working capital depends on all current assets and current liabilities. From the study current ratio of ABC LTD for the past 5 years projected that the company covers its average cost of production by 6 times.