



**A STUDY OF WORKING CAPITAL MANAGEMENT
COMPONENTS AND THEIR EFFECT ON FIRM'S
PROFITABILITY**

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List of abbreviations

GOP	Gross Operating Profit
CCC	Cash Conversion Cycle
AR	Account Receivable
AP	Account Payable
INV	Inventory

Abstract

CHAPTER 1: INTRODUCTION

This study investigates the working capital management components and its contribution towards profitability of the firms listed in Bursa Malaysia. A sample of 80 firms is used which consists industrial firm, construction, plantation and consumer firm from 2010 to 2014. The random effect regression models were used in this analysis. This study use gross operating income as a tool to measure the profitability of the firm. The result from this study indicates the following: (1) there exist significant negative relationships between number of days account receivable and profitability. This negative relationship suggest that managers can increase the profitability of the firm by reducing the credit period granted to their customers; (2) there is an exist significant negative relationship between number of days of inventory with the profitability of the firm. Therefore the firms need to reduce the inventory period up to the optimal in order to increase the profitability of the firm. (3) There is a very little positive relationship between number of days account payable and profitability and indicates that increase in firm number of days account payable will increase the profitability of the firm. (4) There is negative relationship between cash conversion cycle and profitability. The negative relationship suggests that managers can increase the profitability of the firm by reducing the cash conversion cycle.

This paper investigates the relationship of working policy management components the firm's profitability and uses a sample data from the firm listed in Malaysia Stock Exchange (Bursa Malaysia) by ignoring the NAQS industries (electricity and water, banking and finance, insurance, rental and other services) because of the distinct nature of their operation.