

# AN EMPIRICAL STUDY ON LIQUIDITY AND PROFITABILITY OF LISTED COMPANIES ON COLOMBO STOCK EXCHANGE IN SRI LANKA

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## ABSTRACT

Managing liquidity in a firm must balance the risk and return. The efficient liquidity management involves planning and controlling the current assets & current liabilities in such a manner that eliminates the risk of liquidity. This study focuses to find out the significant relationship between liquidity and profitability and to find out the impact of liquidity on profitability in the listed companies in Sri Lanka. 45 listed companies were taken as a sample in Sri Lanka. Data were collected from the annual report of all 45 listed companies during the study period from 2013 to 2017. Initially Descriptive analysis was carried out in order to identify the missing data and normality of the data then correlation and multiple regression analysis were carried out by using the SPSS version 20. Findings showed that Current ratio, quick ratio and Liquidity ratio has a significant relationship with Return on assets (ROA) at 1% significant level. And liquidity of the firm has a significant relationship with profitability of the firm since  $p=0.000$   $r=0.512$ . Moreover, liquidity has a significant impact on profitability of the firm ( $p$  value is 0.0000 and  $R^2$  is 0.262). Further, findings showed that most of the Sri Lankan listed manufacturing companies and food & beverage firms are maintaining liquidity in a sufficient level.

**Keywords:** Liquidity, Profitability, Current ratio, quick ratio, Liquidity ratio