

The Effect of Liquidity on Profitability Reference to The Listed Entities in the Colombo Stock Exchange

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ABSTRACT

Introduction - Liquidity & profitability plays a material role in success in business operations but two concepts are opposed to each other. Further, two concepts are salient in deciding the firm growth, survival, and future too. The main purpose of the study is to find out the effect of liquidity on profitability reference to the listed entities in the Colombo Stock Exchange (CSE).

Design/ Methodology/ Approach - The study is based on a quantitative approach. The data was collected from annual reports available in the CSE website relevant to 17 sectors excluding banks, insurance, and diversified financials over a 5-year period. Descriptive statistics, correlation analysis, regression analysis and hypothesis testing were used as tools and analysis.

Findings - The findings of the study are quick ratio and cash ratio shows a positive impact with Return on Equity (ROE) and Return on Assets (ROA). Whereas, the current ratio, shows a negative impact with ROE and the current ratio is insignificant in ROA. According to the sector analysis there is a negative impact between liquidity and profitability.

Conclusion - The current study examined that, there is a positive relationship between liquidity and profitability reference to the listed entities in the Colombo Stock Exchange. It means when liquidity increases the profitability increases. However, finding optimum level in liquidity in maximizing the profitability is suggested as further research area.

Keywords: *Liquidity, Profitability, Firm size, CSE, Sector Analysis*