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The Journal of ARSYM (JARSYM) is a refereed journal published bi-annually by the Faculty of Business Studies & Finance, Wayamba University of Sri Lanka. The JARSYM aims to disseminate high-quality research findings on various timely topics generated by undergraduate and postgraduate researchers at the Wayamba University of Sri Lanka. Furthermore, it opens up avenues for the undergraduates involved in the industry to share their inventions, state-of-the-art discoveries, and novel ideas. The main philosophy behind the JARSYM is to enhance the research culture within the faculty, thereby within the Wayamba University of Sri Lanka. All research articles submitted are double-blind reviewed before publishing. Views expressed in the research articles are not the views of the Faculty of Business Studies and Finance, Wayamba University of Sri Lanka, or the Editorial Board.

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The Journal of ARSYM (JARSYM) is a refereed bi-annual journal committed to publishing undergraduate research papers of the Faculty of Business Studies and Finance, Wayamba University of Sri Lanka. The JARSYM publishes theoretical and empirical papers spanning all the major research fields in business studies and finance. The JARSYM aims to facilitate and encourage undergraduates by providing a platform to impart and share knowledge in the form of high-quality and unique research papers.

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- Priority is given to novelty, originality, and the extent of contribution that would make to the particular field.

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Impact of Liquidity on Firm's Profitability: Evidence from Listed Manufacturing Companies in Sri Lanka

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ABSTRACT

The major goal of this research is to see the impact of liquidity on a firm's profitability: evidence from listed manufacturing companies in Sri Lanka. A company's main objective is to increase the wealth of its shareholders. Profitability and liquidity are essential to achieving that goal. The management of liquidity significantly impacts a company's ability to expand and be profitable. Since insufficient liquidity can be harmful, liquidity management becomes of the utmost importance. To conduct the study, return on assets, return on equity, and return on sales were used as the dependent variables. The cash position was used as a measure of liquidity in connection to the quick ratio and current ratio, which were used as the independent variables. This research adopts the survey strategy that is available to conduct quantitative research. The investigation used correlation, regression, and descriptive statistics, and the results show a strong correlation between liquidity and profitability among Sri Lanka's listed Manufacturing Companies. To get efficient Performance the best 20 Manufacturing Companies were selected as the sample from 2017 to 2021.

Keywords: *Manufacturing Companies, Liquidity, Profitability, Return on Assets, Return on Equity*

1. INTRODUCTION

All corporate organizations' activities depend heavily on liquidity and financial leverage; therefore, for an entity to operate efficiently and successfully, its financial managers and owners must demonstrate tremendous concern for the results of the firm's performance. Managers are the Company's decision-makers. They have many responsibilities and duties. Working capital is a special responsibility of managers in management. Therefore, executives should be worried about the company's short-term and long-term financial positions, since the short-term is the foundation for long-term operations and survival. Managers are responsible for ensuring the continuous running of the production cycle efficiently and quickly addressing the short-term financial obligations as well as maximizing the level of profit to ensure the company's prosperity.

Liquidity ratios measure a business's ability to meet payment obligations by comparing the cash and near cash with the payment obligations. If the coverage of the latter by the former is insufficient, it indicates that the business might face difficulties in meeting its immediate financial obligations. This can, in turn, affect the company's business operations and profitability. The Liquidity versus

Profitability Principle: There is a trade-off between liquidity and profitability; gaining more of one ordinarily means giving up some of the other.

Profitability and liquidity are the most prominent issues in the corporate finance context. The concept of financial liquidity is not very straightforward, as it has various aspects, although generally, it refers to the current assets and liabilities management. Financial liquidity, together with profitability is the core category of enterprise activities that to function efficiently, the company should treat as equally important. The growth of financial liquidity may negatively influence the company's profitability. If the company is too liquid in the static sense, then it will negatively affect the profitability since some capital will be frozen in current assets. Decisions on either liquidity or profitability are all about planning which is necessary for the efficient working of any organization. The aspect of planning could be viewed from marketing, production, human resource, and financial plans. For the effective running of any business, there has to be a proper flow of funds. This fund is called working capital which is equally defined as the net current assets, or the current assets less the current liabilities (Prasana, 2000).

Some of the problems business managers encounter today include the procurement of funds and the meaningful deployment of resources for the generation of maximum returns. The rising cost of capital and scarce funds call for efficient utilization of resources, especially liquid funds. The importance of liquidity requires particular attention. Many researchers believe that the way and manner in which a firm manages its working capital helps to determine its profitability. The inefficient management of working capital is harmful to a company. It does not only reduce profitability and disrupts normal operations of the business; it can ultimately lead to varying degrees of financial crises, excessive and inadequate liquidity, business failure and bankruptcy if unchecked (Nganga, 2012).

The assets required to ensure the payment of debts to persons and organizations that it interacts with over the course of business and production are available to a firm with a high solvency position. In contrast, if a company's financial resources are insufficient to cover its debts, it may lose its solvency and shortly declare bankruptcy. The concept of liquidity has long been a cause of concern for business leaders concerned about the future's uncertainties. The liquidity of an asset refers to how easily it may be traded and converted into money when referring to a business the term "liquidity" refers to a company's ability to satisfy its present obligations. Different ratios, such as ROA and ROI, are commonly used to assess profitability. The liquidity that is efficient Management entails making plans and keeping track of current events. Balancing current assets and current obligations in such a way that avoids the possibility of failing to satisfy short-term deadlines on the one hand and avoids excessive investment on the other. On the other hand, in these assets. This is partly due to the likelihood of running out of money in the future if reduced liquid assets are present Liquidity is defined as having enough of something. To meet your financial responsibilities, you'll need money in the form of cash.

There has no standard or formal rule to determine the best-suited liquidity level for the companies. It depends on the balance sheet situation of the firms (Owolabi & Obida, 2012). However, if firms with low current assets it will be a problem for continuous operations. Instead of low balances, if companies have much more liquidity assets rather than daily requirements, it also badly affected profitability purpose (Horne & Wachowicz, 2000).

Many studies are based on developed countries. In Sri Lanka It is very rare to find a studies on the relationship between liquidity and profitability in listed manufacturing Companies. The researchers examine impact of liquidity on firms' profitability in listed manufacturing company on Colombo Stock Exchange. Though there are many researchers who have conducted studies regarding the impact of liquidity on Firm's Profitability worldwide, this study has identified the research problem as impact of liquidity on firm's profitability. After considering above factors, this study tries to fill this gap by doing research on manufacturing companies in Sri Lanka.

Research Questions

The title of this study is "How liquidity ratio effect Profitability of listed manufacturing Companies in Sri Lanka" In this study tries to determine that,

- What are the main determinants of liquidity of Manufacturing Companies?
- What are the main determinants of the Profitability of Manufacturing Companies?
- How does the Liquidity Ratio impact the Profitability of Manufacturing Companies?
- Is there any relationship between liquidity and profitability of Manufacturing Companies?

Research Objectives

The General objective is to identify the impact of liquidity ratios on the Profitability of listed manufacturing companies in Sri Lanka. Researchers expected to use two types of liquidity ratios for achieving this objective. Current ratio and quick ratio are used for calculating the liquidity position of companies.

The main objectives of the research can be identified as follows.

- To identify the determinants of liquidity of Manufacturing Companies.
- To find out the determinants of the Profitability of Manufacturing Companies.
- To examine the Liquidity Ratio impact on the Profitability of Manufacturing Companies
- To investigate the relationship between liquidity and profitability of Manufacturing Companies.

2. LITERATURE REVIEW

Liquidity plays a significant role in the successful functioning of a business firm. A firm should ensure that it does not suffer from a lack of or excess liquidity to meet its short-term compulsions. A study of liquidity is of major importance to both internal and external analysts because of its close relationship with the day-to-day operations of a business and the dilemma in liquidity management is to achieve the desired trade-off between liquidity and profitability (Rehman et al. 2015).

The liquidity ratio is the ability of a company to meet its short-term obligations. This ratio is important because failure to pay obligations can lead to bankruptcy of the company. Liquidity ratios can show signs of cash flow problems and future business failures. The liquidity ratio also provides very useful information for the acquirer when assessing the target company, namely how much liquidity is post-acquisition. If after the acquisition the company requires liquid funds, the company will be relatively safer if it has a high liquidity ratio. For creditors, the liquidity ratio can be used to see the prospect of the company's ability to pay short-term loans, with a large liquidity ratio, the company can convince creditors to get short-term loans, and for shareholders, the liquidity ratio can be used to see the prospects of dividends in the future. Ratios that can be used to measure this ratio are the Current Ratio, Quick Ratio, and Working Capital Ratio.

The profitability ratio is a ratio to measure the effectiveness of management as a whole which is indicated by the size of the level of profit obtained in relation to sales and investment, (Nurdin & Abdani, 2020). The better profitability ratio describes the high ability of a company to gain profits. The company's ability to generate profits can attract investors to invest their funds to expand their business, otherwise, a low level of profitability will cause investors to withdraw their funds. The ratios that can be used to measure this ratio are Net Profit Margin, Gross Profit Margin, Return Equity, Return on Investment, and Return on Assets. A profitability ratio shows how well a company utilizes its assets to produce profit and value for shareholders. Profitability ratios indicate a company's ability to generate earnings against cost during a given period. The ratios reveal how well a company is making use of its assets to generate a profit. Return on assets (ROA) is a profitability ratio that provides how much profit a company can generate from its assets.

Qasim & Ramiz (2011) examined the relationship between the liquidity ratio and profitability. The study is conducted between the years 2004 and 2009 and later than collecting data about the financial positions as a result of annual activities and the related ratios of 26 enterprises per year that are traded in Pakistan. Wang (2002) investigated the relationship between liquidity and operating performance and using the sample firms for a period of 17 years it was found that liquidity management would improve the firm's worth and its operating performance. They examined the association between profitability and the information system taking the sample. Performance was measured by return on assets and the author found that the information system did not enhance the performance of the firm (Zhang, 2011). A study had been done to investigate the

impact of working capital management on the profitability and market valuation of Pakistani firms. The author found that there was a positive relationship between total debt to total assets and profitability but a negative relationship between cash conversion cycle and profitability (ROA). (Alam *et al.*, 2011). Ayaz (2021) examined the relationship between capital structure and performance. The sample period was 15 years. Statistical analytical tools had been applied. The author concluded that there is a negative relationship between capital structure and performance.

The current ratio reveals in what way total assets connected to total current liabilities are extensively employed to assess the liquidity of a company in fulfilment of the company's short-term liabilities. This ratio indicates how many times the current assets cover current liabilities. The current ratio is a balance-sheet financial performance measure of company liquidity.

Return on equity is concerned with the total shares, additional paid-in capital if present, and earnings retained if present. According to him, it calculates the value the company gains from investments made by stockholders. The earnings can be allocated to investors or maintained in the company. Net income after tax, however, does mark their return. The return on equity is after-tax net income divided by the equity of the investor.

Owolabi & Obida (2012) a company's net profit in the form of a percent of the total assets accessible to the company for use is described by Return on Assets. Therefore, the return on assets is the profits before any payment to those who supplied the company with funds. Many businesses that went bankrupt showed profit and were profitable during the time of bankruptcy and many unprofitable businesses not on the verge of bankruptcy are supported by this practice.

The results of some empirical studies concluded that liquidity had a negative impact on company profitability while some studies affirmed the positive relationship between the two variables. In a different dimension, some researchers argue that the relationship between liquidity and profitability might be both positive and negative. Abuzar and Eljelly (2004) investigated the relationship between profitability and liquidity in a sample of joint stock companies in Saudi Arabia. Liquidity was measured by the current ratio and cash conversion cycle. The study found a significant negative relationship between the firm's profitability and its liquidity level, as measured by the current ratio. This relationship is more evident in firms with high current ratios and longer cash conversion cycles.

Ajanthan (2013) studied the relationship between liquidity and profitability. The studies revealed that there is a positive relationship between the cash ratio and profitability. Bhunia *et al.* (2011) found that the cash ratio of Tata Steel Ltd is positively associated with profitability, the cash ratio of Lloyds Steel Ltd is positively associated with profitability, the cash ratio of Kalyani Steels Ltd is positively associated with profitability and the cash ratio of JSW Steel Ltd is negatively associated with profitability.

Ashogbon (2019) explored the relationship between liquidity and profitability of Nairobi securities exchange's listed non-financial companies. They covered 39 entities and collected data from 29 annual reports covered from 2009 to 2013. They used correlation to find out the relationship between liquidity and profitability. Return on assets was a profitability indicator and the Current ratio, quick ratio, and absolute liquid ratio were liquidity indicators. The study concluded a significant positive relationship between profitability and liquidity.

The literature review covers the relationship between liquidity ratios and the profitability of firms. It tried to make it through by covering different reviewing studies of different countries about different sectors and industries at different periods. The results of the studies are not consistent and there is no established theory that can be accepted or rejected by these researchers. The review also resulted that the impact of liquidity ratios on profitability could vary according to the firm and research technique.

3. METHODOLOGY

Sampling design is a definite plan for obtaining a sample from a given population. It refers to the technique or the procedure the researcher would adopt in selecting items for the sample (Kothari, 2004). This study targeted the listed manufacturing companies on Colombo Stock Exchange (CSE), Sri Lanka. The study was composed of twenty-one manufacturing companies from the manufacturing sector of CSE for the period of five years from 2017-2021. In CSE, 283 companies are listed under the 20 sectors. Among them, 20 companies are listed under the manufacturing sector. This Population is 31 companies, 20 manufacturing companies were selected to gather the secondary data. Those companies were selected based on the market capitalization. Then removed some listed companies from this order which are not published annual reports for the period of 2017-2021. Then assigned the random numbers for this order and selected 21 companies from that list by applying the random selection method.

This study focused primarily on the liquidity and profitability variables in Sri Lanka's listed manufacturing firms. According to this research topic, data are collected from the firm's annual reports; financial statement of 20 companies in Sri Lanka manufacturing companies for the period of five years from 2017-2021. The secondary data which is essential to identify the literature related to the research will be collected through various published and unpublished research, journals, books, and newspaper articles.

This study focused on identifying the behavior of liquidity and profitability variables. Liquidity was used as the independent variable and profitability was practiced as the dependent variable. Current ratio and quick ratio were used to measure the liquidity position of each company and Return on Assets (ROA) Return on Equity (ROE) and Return on Sales (ROS) were used for calculating the profitability level of the firm.

$$P = \beta_0 + \beta_1 LR + \epsilon \dots \dots \dots$$

P=Profitability

L=Liquidity

These three models are used to analyze the relationship between liquidity and profitability.

$$ROA = \beta_0 + \beta_1 CR + \beta_2 QR + \epsilon \quad (I)$$

$$ROE = \beta_0 + \beta_1 CR + \beta_2 QR + \epsilon \quad (II)$$

$$ROS = \beta_0 + \beta_1 CR + \beta_2 QR + \epsilon \quad (III)$$

Where β_0 is constant, β_1, β_2 are coefficients of variables, ϵ is the error term.

Hypotheses of the study

H1: There is a relationship between liquidity and Profitability.

H2: There is a significant impact of liquidity on Profitability.

H2a: There is a significant impact of liquidity on Return on Assets.

H2b: There is a significant impact of liquidity on Return on Equity.

H2c: There is a significant impact of liquidity on Return on Sales.

Conceptual Framework

Conceptualization is the ability to introduce or formulate an idea or Concept. The following Concept or Variables are used to describe the impact of liquidity Characteristics on Profitability.

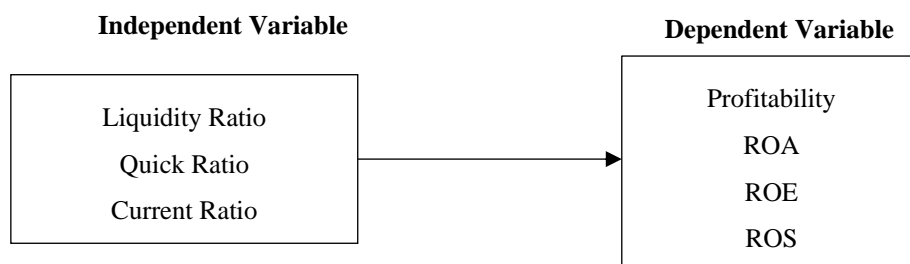


Figure 01. Conceptual framework

Sources: developed by authors (2022)

Table 1: Independent Variable (Liquidity Ratios and their' calculations)

Ratio	Symbol	Method
Current Ratio	CR	Current Assets / Current Liabilities
Quick Ratio	QR	(Current Assets - Inventory) / Current Liabilities

Dependent Variable

The dependent variable (\hat{Y}) is the variable that is affected by the independent variable. The dependent variable in this study is the value of the company. Return on Assets and Return on Equity (ROA&ROE) are the explanatory variables used as a proxy for measuring the performance of manufacturing firms listed on the Ghana stock exchange. Return on Asset (ROA) is a tool used to

measure how effectively a company earns income from its assets. Therefore, high values of ROA indicate that companies are making efficient use of the second variable, Return on Equity (ROE) is a tool that strategically measures the capability of a company to generate returns on shareholders' equity. Ang and Bekaert (2006) argue that a higher ratio of Return on Equity (ROE) determines the returns on shareholders' investment and the growth of the business. Furthermore, ROE is a key performance ratio that shows the fact about a company's ability to generate enough return to compensate for the risk taken. This is calculated as the net operating income divided by the shareholder's equity.

Table 2: Dependent Variable

Profitability Ratios and their' dimensions		
Ratio	Symbol	Method
Return on Assets	ROA	Net profit before tax and interest/ Average total assets* 100
Return on Equity	ROE	(Net profit after tax – Preference dividends)/ Average total equity *100
Return on Sales	ROS	Net profit/ gross sales * 100

4. RESULTS AND DISCUSSION

The collected data from secondary sources are presented and analyzed in this section. Particularly, descriptive analysis, correlation analysis, and regression analysis were to be employed in order to reach the objectives of the study.

Descriptive statistics

Descriptive statistics that are displayed in table 3 show clear and precise information relating to the company's activities (Quick ratio, Current Ratio, Return on Assets, Return on Equity, and Return on Sales). These are all determined use in E-Views. As a whole, this provides information for the selected industry. By handling these statistics can be got a basic idea of the behavior of the industry.

Table 3: Descriptive Statistics

	ROA	ROE	ROS	CR	QR
Mean	0.1347	0.1820	0.1512	2.4883	1.8062
Median	0.0867	0.1420	0.1054	1.5575	0.8712
Maximum	0.8027	1.0900	1.0000	19.783	19.783
Minimum	-0.0396	-0.1000	-0.6183	0.0527	-0.2477
Std.Dev	0.1530	0.1706	0.2028	3.3931	3.1005
Observation	100	100	100	100	100

The descriptive statistics show that over the period under study, the criteria used for measuring profitability including Return on Equity, Return on Assets, and Return on Sales averaged 0.13, 0.18, and 0.15 respectively. The mean value of the Current ratio was 2.49 and the Quick ratio was 1.81 value.

The standard deviation is based on the distance from the mean of the Quick ratio. It measured how concentrated the Quick ratio is around the mean and the more

concentrated the smaller the Standard deviation. Furthermore, the large standard deviation means the variation is large. The top management should pay high attention to this risky situation. Due to this risky situation, the new investors will be limited to attract to the firm and some existing investors in the firm always will try to leave the firm. The maximum Quick ratio value represents 19.7. The minimum quick ratio shows 0.052. The table 3 shows that the current level of the Quick ratio does not harm the manufacturing industry in Sri Lanka.

When we consider the Current Ratio, its average values are 2.49. When considering the mean and stand deviation of the dividend quick ratio, there are has a gap between the mean and standard deviation of 2.49 and 3.39 respectively. The standard deviation values of the liquidity measures were found to be higher than the profitability measures. Thus, it reveals the high volatility of liquidity measures used than profitability measures in the study.

When Considering ROA in table 3, the mean value of ROA is 13.4% in manufacturing companies in Sri Lanka. It is an overall average value considering 20 sampling manufacturing companies in Sri Lanka. However, the maximum and minimum values of ROA are 0.80% and -0.039% respectively.

Correlation Analysis

Table 4: Correlation Analysis

Correlation Probability	ROA	ROE	ROS	CR	QR
ROA	1.0000				
ROE	0.8167	1.0000			
ROS	0.0753	-0.0158	1.0000		
CR	0.2097	0.1509	-0.1643	1.0000	
QR	0.0363	0.1338	0.1022	0.9865	1.0000
	0.0128	0.0599	0.0800	0.0000	

It is a more important technique that can be used to identify the association between two variables. In this study, correlation analysis is carried out to evaluate the relationship between Liquidity and Profitability. Liquidity is measured by the Current ratio, Quick ratio, and Profitability is measured by ROA, ROE, and ROS. Correlation analysis is used to study practical cases. Here, the researcher can't manipulate individual variables. Marketers use it to measure the effectiveness of advertising. Researchers measure the increase/decrease in sales due to a specific marketing campaign. In statistics, correlation refers to the fact that there is a link between various events. One of the tools to infer whether such a link exists is correlation analysis. Practical simplicity is undoubtedly one of its main advantages.

Table 04 shows the correlation results among independent and dependent variables. The objective of the correlation analysis is to find out the relationships between independent and dependent variables. The correlation value between CR and ROA is 0.209. It indicates that there is a significant and weak positive relationship between CR and ROA. The correlation value between CR and ROE

is 0.150 and it indicates a significant and weak positive relationship between the above CR and ROE. The correlation value between CR and ROS is -0.164 and it indicates an insignificant and weak negative relationship between the above CR and ROS. The correlation value between QR and ROA is 0.248 moderate positive correlation & which indicates a significant & positive relationship between QR & ROA. The correlation value between QR and ROE is 0.188 moderate positive correlation & which indicates a significant & positive relationship between QR and ROE. Another one is the Correlation value between QR and ROS is a -0.175-week negative correlation & which indicates an insignificant relationship between QR and ROS.

Regression Analysis

Regression analysis is an important and more advanced statistical technique to identify the effect of the given variables. Regression analysis is a reliable method of identifying which variables have an impact on a topic of interest. The process of performing a regression allows you to confidently determine which factors matter most, which factors can be ignored, and how these factors influence each other. Regression analysis is the statistical method used to determine the structure of a relationship between two variables (single linear regression) or three or more variables (multiple regression). Regression analysis refers to a method of mathematically sorting out which variables may have an impact. The importance of regression analysis for a small business is that it helps determine which factors matter most, which it can ignore, and how those factors interact with each other.

Table 5: Regression Analysis with ROA

Variable	Coefficient	St. Error	T - Statistic	Prob.
C	0.1445	0.0221	6.5345	0.0000
CR	-0.0592	0.0264	-2.2412	0.0273
QR	0.0762	0.0289	2.6343	0.0098
R - squared	0.1078			
Adjusted R- Squared	0.0894			

According to the findings of the model summary of the linear regression model given in Table 5, the adjusted R squared is 8%. Adjusted R squared is useful in describing the variation in the dependent variable over the R square considering the predictors of the model. The R-squared value of 10% represents a low correlation. But it can include sampling errors. Adjusted R square provides the absolute impact of independent variables on the dependent variables. Therefore, the conclusions will be derived using the adjusted R-squared value. Accordingly, an adjusted R squared of 8% represents that independent variables QR and CR account only for 8% variance in ROA. Therefore, there is a weak positive relationship between QR and CR with ROA.

Based on the results of Table 5, shows that there is a significant relationship between CR and QR in the ROA based on the P-value. There are 0.02 and 0.009 respectively.

Table 6: Regression Analysis with ROE

Variable	Coefficient	St. Error	T - Statistic	Prob.
C	0.1990	0.0250	7.9576	0.0000
CR	-0.0665	0.0299	-2.2228	0.0285
QR	0.0822	0.0327	2.5105	0.0137
R - squared	0.0824			
Adjusted R-Squared	0.0635			

Table 6 represented Adjusted Squared is 6%. The R-squared value of 8% represents a low correlation. Accordingly, an adjusted R squared of 6% represents that independent variables QR and CR account only for 8% variance in ROE. Therefore, there is a weak positive relationship between QR and CR with ROE.

Based on the results of Table 6, shows that there is a significant relationship between CR and QR in the ROA based on the P-value. There are 0.028 and 0.013 respectively.

Table 7: Regression Analysis with ROS

Variable	Coefficient	St. Error	T - Statistic	Prob.
C	0.1609	0.0304	5.2787	0.0000
CR	0.0205	0.0364	0.5626	0.5749
QR	-0.0336	0.0399	-0.8434	0.4011
R - squared	0.0341			
Adjusted R- Squared	0.0141			

Table 7 shows adjusted R squared 1.4% and R squared represented 3%. It is a low Correlation. Accordingly, an adjusted R squared of 1.4% represents that independent variables QR and CR account only for a 3% variance in ROS. Therefore, there is a weak positive relationship between QR and CR with ROS.

Based on the results of table 7, a unit change in CR and QR can change ROS by 16% as given the constant beta value. However, when it is considered the individual significance of each factor, there CR and QR have an insignificant impact on ROS since it has a p-value greater than a 95% confidence interval.

5. CONCLUSION

Liquidity management is a very important part of financial management decisions. The expected achievements can be carried out if the firms manage the interrelationship between liquidity and profitability. This study examined the relationship between liquidity and profitability in manufacturing companies in Sri Lanka. The study covered 20 listed manufacturing firms over the period of the past five years from 2017 to 2021 and the major findings of the study are summarized below,

There has a significant relationship Current ratio and the Quick Ratio with the Return on Assets and Return on Equity. But there has no significant relationship between the Current Ratio and Quick ratios with the Return on Sales. Generally, manufacturing companies hold a higher amount of inventory levels. We know

the reason for the difference between the Quick ratio & Current ratio is the Inventory level in any business. Therefore, there is a considerable difference between the Current ratio & Quick ratio in listed manufacturing companies in Sri Lanka. Due to this difference, the current ratio and Quick ratio are significant with ROA & ROE but the Current ratio and quick ratio are not significant with ROS.

The researcher provides the conclusion about the impact of liquidity ratios on profitability, only by using published annual reports. The accuracy of the data included in the financial statements may be high. But cannot be trusted worthy hundred percent of the transparency and correctness of the rupee values in the transactions. The auditors also checked the sample of transactions. Hence the actual situation might be changed from the financial statements. Therefore, the validity can be limited for this reason. Liquidity level is not only one factor affecting to determine the profitability of manufacturing companies. Seasonal changes, price levels, or competitors' activities can be influenced by the profitability level. But this study focuses only on the impact of liquidity position. This is also can be mentioned as the limitation for this one.

The study should be expanded by further developing the framework used in this study and testing more aspects of this area. By doing so, it can provide a solid understanding of such issues. The population of the study should be expanded toward listed companies in all industries. It will be useful to select the most representative sample. The expansion of the population will contribute to reducing potential sampling or non-sampling errors such as response errors, measurement errors, population definition errors, data analyzing errors, etc. The study should not be limited to one data source only as used annual reports in this research. It is better to depend on primary data as it is more powerful because they are gathered for a specific study purpose.

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