



Lupane State University
Building Communities through Knowledge

Faculty of Commerce

Department of Accounting and Finance

**EFFECTS OF WORKING CAPITAL MANAGEMENT ON THE
PROFITABILITY OF RETAIL COMPANIES LISTED ON THE
ZIMBABWE STOCK EXCHANGE.**

BY

REJOYCE MUSENYI

L0141218U

SUPERVISOR: MR K. MAVENGERE

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ABSTRACT

The primary motive of the research was to observe and to inspect the extent to which working capital management affects the profitability of retail corporations in Zimbabwe. The study was delimited to sole focus on retail companies that are listed on the Zimbabwe Stock Exchange (ZSE), namely; OK Zimbabwe Ltd, AXIA Ltd, Truworths and Edgars Stores Ltd. In the research, working capital management was regarded as an umbrella practice which comprises four major components namely; Accounts Receivable Period (ARP), Accounts Payable Period (APP), Inventory Holding Period (IHP) and the Cash Conversion Cycle (CCC). The researcher used Return on Asset (ROA) as a representative of profitability. The identified problem which gave the researcher an impetus to execute the research was realization of the fact that the cost of doing business has been increasing resulting in diminishing profitability of organizations in the retail mainly being steered by liquidity challenges. The research was conducted primarily with the use of secondary data. In pursuit of attaining the objectives of the research, the researcher calculated the ROA values for each of the organisation for the period 2012 to 2016 by way of dividing a firm's net income by its total assets. More so, the researcher used prescribed formulae to compute ARP, APP, IHP and CCC for each of the four retail companies for all the five year periods that were bracketed in the research's delimitations. With the use of Pearson Product Moment Correlation Coefficient (PMCC) model, the researcher examined the nexus between each working capital component and ROA. It was noted that the negative relationship between profitability and the IHP, CCC, ARP and APP does not entail a negative correlation between working capital management and profitability since short periods are a positive phenomenon according to working capital management ideals. It was therefore concluded, *a posteriori*, that the interconnection between working capital management and profitability is positive.