



ABSTRACT

An Analysis of Inventory and Trade Receivables in Working Capital Management and Its Impact on Profitability (Case of PT XYZ Indonesia)

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Textile industry especially sewing thread has become a very competitive business. Company with competitive advantage and proper strategy will survive and grow. One of the competitiveness and proper strategies is the ability to provide goods and credit sales to its customers that will impact to company's working capital requirements. Working capital management has its effect on liquidity as well as on profitability of the company. This thesis is to examine the effect of different variables of working capital management including average collection period and inventory turnover in days on company's profitability that is measured as return on assets. The dependent variable, return on assets, is used as a measure of profitability and the relation between working capital management and corporate profitability is investigated for the case of PT XYZ Indonesia as one of sewing thread manufacturers, using financial statement analysis for the period of 2003 – 2008 for descriptive analysis and monthly panel data analysis for period of February 2005 – September 2008 for statistical approaches. The regression results show that high investment in inventories and receivables are associated with lower profitability. The key variables used in the analysis are inventories days, accounts receivables days, accounts payables days, debt ratio and previous period of return on assets. A strong significant relationship between working capital management and profitability has been found in this empirical work using Pearson Correlation Coefficient. An analysis of the liquidity, operational efficiency and profitability of PT. XYZ Indonesia shows variables and practices in the company that have contributed to performance. The sensitivity tests on accounts receivables days and inventory days by reducing the number of days have resulted better profitability of the company.

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