



# The Impact of Covid-19 Lockdown on Working Capital Management and Profitability of Firms: A Case Study of Lesley Bakers PVT LTD

Ongayi Wadesango<sup>1</sup>, Victor Jones<sup>2</sup>, Lovemore Sitsha<sup>2</sup>, Newman Wadesango<sup>1\*</sup>

<sup>1</sup>University of Limpopo, Polokwane, South Africa, <sup>2</sup>Department of Business Studies, Midlands State University, Gweru, Zimbabwe.

\*Email: [newman.wadesango@ul.ac.za](mailto:newman.wadesango@ul.ac.za)

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## ABSTRACT

This research study was carried out to analyse the impact of Covid-19 Lockdown towards working capital management and profitability of companies. The main complications faced were loss of market whilst operational costs remained on the same level. Enforcement of lockdown regulations such as curfews and intercity travel bans posed a threat in profit statuses of many firms. A challenge also faced was reduction of workforce to meet World Health Organisation requirements of social distancing and health safety protocols. The researchers applied quantitative descriptive research design to gather data from the baker's employees. Questionnaires were used to collect data. Lesley was driven by the conservative approach techniques whereby it was required to reduce receivables from customers, maintaining high stocks, and timely settlement of liabilities. However, following the covid-19 global pandemic which led to many business operations being ceased and many of the organisation's clients which are in the formal sector to be highly affected resulting in the delaying of amounts due. The sudden increase in debtors would result in cash shortages to fund other operations and pay the current liabilities. Furthermore, the findings indicated slow payment by credit customers meaning that most of the firm's accounts receivable remains outstanding for a long period of time. This is evidenced by high percentages of accounts receivable compared to other current assets of the firm. Government support should be granted to local firms since they are no longer importing materials or exporting products, whilst the firm apply efficient working capital techniques.

**Keywords:** Covid 19 Lockdown, Working Capital, Profitability, Firms

**JEL Classifications:** M41, M42

## 1. INTRODUCTION

Hill (2018) defines working capital "as the surplus of a company's non-fixed assets over short-term liabilities and measures the extent to which it can finance any change in the turnover of other sources of financing." Pike and Bill (2006) referred to working capital "as the sum of the financial resources used by the bargaining unit and the amount invested in the company's current assets, in this sense, financial management determines the framework of the relationship between capital and the company." Neveu (2001) assumes that "working capital is the lifeblood of the organization. Working capital management determines the policies, financing methods,

investment, and control of working capital, as well as working capital decisions and short-term financial resources that will be used to change the types of liquid assets." "To continue operations, it is very important that companies successfully manage their working capital" (Woo et al., 2018). As supported by Naser et al. (2013), "working capital management is a vital and critical part of financial management because it directly affects the profitability and liquidity of the organization and has an ominous impact on the wealth creation of the company." PricewaterhouseCoopers (2018) conducted a study on the working capital performance of 2,600 leading manufacturing companies, and the results showed that, "although management performance varies, the average number

of days has increased by 2.2% compared to On the contrary, the survey also noted a deterioration in the management of working capital since 2010.” In general terms, the survey emphasized that “if these manufacturing companies can effectively manage their working capital, it is estimated that they can be released \$ 100.162 billion in cash”. Furthermore, Singhanian et al. (2017) conducted a study on the management of working capital of manufacturing companies in the Indian context and concluded that “profitability is affected by the management of working capital.” They found that “the longer it takes to recover customer debt, the worse the profitability, and the longer it takes the company to pay off the debt, it is beneficial to profitability.”

However, although it is as important as other financial activities, the management of working capital is sometimes overlooked. According to Sharma (2019), “this is because decision-making that involves working capital is a routine and frequent activity that can easily be invested.” As discussed in (Singhanian et al., 2017), “investment and financing policies more often have a significant impact on profitability.”

The motivation behind working capital administration is to compact with the organization’s current accounts to accomplish an ideal harmony among productivity and hazard. To upgrade benefit, Hill and Sartoris (2019) recommend diminishing time respect outlays (the chance expense of the buoy), credit hardships due to the incapacity to meet repayments, interchange expenditures of stirring money inside and amongst various nations, and troubles on unfamiliar trade changes. Vshnani (2017) clarified that proficient liquidity the executives comprise positioning and monitoring current wealth and current obligations in such a manner that clears out the danger of weakness to meet due momentary obligations and preserves a tactical remoteness from exorbitant interest in these resources. Amplification of an association’s profitability is an impact of working capital administration, yet in addition the opposite causality is conceivable when an association is profitable, has more money to put resources into working capital (Shimbun, 2020; Back, 2018). According to the point of view of potential indigeneity issue, the investigation of Seth et al. (2020) is likely among the first that assesses the effect of a few exogenous factors on working capital productivity hence, on firms’ presentation: premium inclusion, influence, net fixed resource proportion, and resource turnover proportion. Li (2019) said that outcomes on the impacts of working capital shows that present moment financial choices ought to perceive working capital as a deciding variable of financial execution.

The connection among benefit and working capital administration was analyzed, as estimated by current percentage and cash hole (cash conversion sequence) for an instance of firms in Saudi Arabia exploiting affiliation and deterioration examination. An investigation tracked down that the money change cycle was regularly utilized for overseeing working capital administration than proportion examination that influences benefit. The outcomes were steady and had significant ramifications for working capital supervision in various companies. Right off the bat, plainly there was a converse connection among benefit and working capital administration markers like Return on Investment (ROI) and

money hole (CCC) in the Saudi example analyzed. Besides, the investigation additionally exposed that there was an inconceivable variety between companies regarding the critical working capital administration.

Deloof, (2020) examined that many organisations had a lot of money put into Working Capital. It can subsequently be anticipated that the methodologies in which working capital is administered might fundamentally affect productivity of those firms. Employing linking and reversion tests it is tracked down a giant adverse connection among networking pay and the amount of change times for debt claims, inventories and records payable of Belgian companies. In light of these conclusions Deloof (2020), proposed the directors possibly will make an incentive for their investors by bringing down the quantity of change days for debt claims and inventories.

Shin and Soenen (2018) featured that productive Working Capital Management (WCM) was vital for creation of an incentive for the investors. The manner in which working capital was overseen fundamentally affected both productivity and liquidity (Soenen, 2018; Filbeck & Lee, 2000). Smith and Begemann (2017), accentuated that the entities with traditional working capital theory pooled that efficiency and liquidness encompassed purposes of working capital management. This article by (Begemann, 2017) assessed the relationship among customary and elective working capital measures and profit from speculation (ROI), the issue being researched was to signify whether the more as of late created elective working capital ideas showed further developed relationship with profit from venture to that of conventional working capital proportions or not. Results showed that there were no huge contrasts among the years concerning the free factors. The realistic test results showed that a conservative working capital impact the share of current liabilities divided by reserves, shown a greatest connection with profit from speculation.

Lesley Bakers is located in Marondera whilst Bakers Inn and Lobels are centred in Harare posing significant competition due to m6arkets. The bakery is well known for producing bread, cookies, cakes and other confectioneries. Amongst firms that had challenges, Proton was amongst those which had challenges in management since their day-to-day operational costs had abnormally shifted, the firms were facing operational slowdowns due to demanding health requirements during lockdown, linked to the lack of balance among production processes and meeting market expectations with this the researcher aims to understand strategies used in managing working capital using the baking industry as the case of study.

Rules for organizations to work were set by the World Health Organization (WHO). Just fundamental administrations were permitted to offer types of assistance following set rules. In his introductory statements at a media preparation on COVID-19, the WHO Director-General expressed that “despite the fact that individuals of all exchanges of life are influenced by COVID-19 lockdowns, the world’s least fortunate and weakest individuals are particularly, in danger. This is valid for firms in food handling area from one side of the planet to the other, in metropolitan or

distant regions” (Ghebreyesus, 2020). Considering this foundation and the WHO Director-General’s remarks, prompts the scientist to complete the study on Lesley Bakers the executives of working capital during lockdown and how could they appreciated financial advantages from doing as such.

### 1.1. Research Objectives

- To assess working capital management approaches that are applicable during the lockdown.
- To explore the impact brought by the lockdown on managing working capital.
- To evaluate the relationship of working capital management and profitability of a firm.
- To review the response to Covid-19 lockdown through managing working capital.

## 2. LITERATURE REVIEW

### 2.1. Objectives and Purpose of Working Capital Management

The reason for working capital is “to guarantee that the interest in fixed resources is used successfully and proficiently. In case deals are expanding and limit usage is being expanded, extra interest in current resources will be required. A potential exemption might be a fixed resource, for example, PCs where innovation might diminish the need because of the effect of innovation on proficiency and usefulness” (Boot et al., 2020; Kaur, 2010). The capacity of working capital could be demonstrated by thinking about a business’ working cycle. “Working capital funds, the everyday (present moment) tasks of the business from a money pool or repository of liquidity” (Craven et al., 2020). “There are cash outpourings when a business arranges and gets stock or some other contribution to the assembling interaction. In case expenses are not paid quickly as they are caused or paid during the assembling cycle a gathering is made. Money inflows as money deals, assortment of records receivable, transient borrowings from banks or other outside sources as required, inside organization moves, auxiliary profits or credit reimbursements, continues from long haul monetary exchanges or value issues and the liquidation of attractive protections, part of the way or completely offset the money outpourings.” Assuming the yield is sold using a loan, money due or borrowers are made (Brigham et al., 2019). “One model is the situation of over-exchanging that happens when an organization retains working capital quicker than clients pay their solicitations. In this kind of circumstance, a generally effective organization can become illiquid” (Anonymous 2018).

As such, “working capital is “the oil” (Craven et al., 2020) that keeps the tasks of the business element running. From the writing it is obvious that functioning capital courses through a business element simultaneous with the business’ working cycle).” “An ordinary working cycle displays that cash inflows and surges are neither immediate nor synchronized” (Singhania et al., 2018). “Overall this is the case since distributions for factor inputs don’t agree with their conveyance, and, installment for factor yields corresponds neither with the culmination of factor yields nor with their deal and conveyance. Best case scenario, installments

and receipts are inclined toward the degree that installments and receipts are deficient as financing necessity is made” (Hill, 2018).

### 2.2. Working Capital Management Techniques (Approaches) that are Applicable During Lockdown

For an organization, “it can utilize a couple of alternatives/arrangements when considering the danger return perspective while dealing with its functioning capital for the most part, Working Capital Management approach comprises of three principle bunches including aggressive, conservative, and moderate strategy” (Tandoh, 2020; Padachi, 2019). Functional expenses for Lesley Bakers were high since the organization needed to supply bread from one side of the country to the other.

#### 2.2.1. Aggressive strategy

As portrayed by Tandoh (2020), “the aggressive strategy is required to have higher danger and better yields and is described by an undeniable degree of receivables and liabilities, just as a lower level of stocks, and transient ventures. The firm need to surface great encounter where temporary assets are exploited to a tremendously severe level to fund current and unexpectedly fixed resources.”

#### 2.2.2. Conservative approach

“The primary reason for the conservative approach is to dispose of entirely the customer indebtedness hazard” as said by (Zimon, 2020), “diminishing receivables from clients, keeping up with high stocks, and opportune repayment of liabilities are normal highlights of this system.” Tijan (2016) added on saying “moderate procedures are because of the way that current proportion is high and obligation proportion is low.” Ideas made by Tijan, (2016) were that “a firm should attempt to gather cash from clients quicker, take care of bills as quickly as time permits and limit hole among starting and the time cash is gathered from clients during season of emergency for example the pandemic lockdowns or not. Traditionalist methodology is connected to bring down hazard and lower returns, as perpetual or long haul sources are costlier and firm likes to have more money on hands.” Fixed and a piece of current resources are financed by long haul or lasting assets. “Partaking surplus money at off-top period subsequently the requirement to contribute the inactive or overabundance money to procure returns” Wadesango et al. (2021).

#### 2.2.3. Moderate strategy

“Moderate strategy is meaning to diminish the disservices of conservative and aggressive techniques and to expand their benefits” (Gallinger and Healey, 2019). “The moderate systems are grouped into two procedures in this way, a moderate-forceful technique dependent on the standards of the traditionalist methodology and a moderate-traditionalist planned by the forceful procedure” (Zimon, 2020; Paulo, 2018; Payne, 2019). “Information on a methodology a firm applies appears to rely upon liquidity status since keeping up with satisfactory liquidity can be the way in to an organization’s long haul financial achievement” Wadesango et al. (2019). This implies that a firm’s system has a significant influence on the base liquidity necessity. Chang et al. (2019) states that, “because of the equivocalness in the business climate, organizations ought to keep a base liquidity necessity to have the option to be flexible in the midst of emergency so they can defeat their issues.”

### 3. RESEARCH METHODOLOGY

Graphic exploration was picked to give some understanding of what working capital administration rehearses are executed in Lesley Bakers pvt (Ltd). Distinct exploration was utilized by the specialist since it empowers the analyst to gather exact data and it gives an unmistakable image of the issue under examination, as indicated by (Mouton and Marais, 2019). As described by Cesswell, (2018), “research approach are plans and procedures for research that has to be in broad assumptions to detailed methods of data collection”. Abawi (2017), postulated that “qualitative approach is one in which the researcher often makes knowledge claims based on primary constructive perspective.” Henceforth the researchers carried a quantitative research approach since it permits effective analysis of the impact of working capital management. The sample size was constituted by 30 respondents from a population of 30. Questionnaires were picked by the researcher since they permit respondents to have sufficient chance to react to the inquiries at their own time and speed.

### 4. RESULTS

#### 4.1. To Explore the Impact Brought by the Lockdown on Managing Working Capital

##### 4.1.1. Correlation between covid-19 and working capital management

Table 1 show that both COVID-19 Lockdown effect and WCM rating are significant as seen by their P-values of 0.000 for the Shapiro-Wilk test of normality which are  $>0.05$ , hence both variables are not normally distributed. Since they are not normally distributed the researcher will use Spearman rho correlation to evaluate their relationship.

Table 2 shows a small to moderate strength negative significant correlation between the effects of COVID-19 lockdown and Rating of WCM Techniques of Proton Bakers as seen by a correlation coefficient of  $-0.132$  and a P-value of 0.042 at the

**Table 1: Tests of Normality**

Tests of normality	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
COVID-19 lockdown affected WCM	0.503	30	0.000	0.452	30	0.000
Rating of WCM Techniques of Proton Bakers	0.278	30	0.000	0.799	30	0.000

**Table 2: Results of Shapiro-Wilk test of normality for COVID-19 Lockdown effect and WCM rating**

Correlations		COVID-19 lockdown affected WCM	Rating of WCM Techniques of Proton Bakers
Spearman's rho	COVID-19 lockdown affected WCM	Correlation Coefficient	$-0.132$
		Sig. (2-tailed)	0.042
		n	30
Rating of WCM Techniques of Proton Bakers	COVID-19 lockdown affected WCM	Correlation Coefficient	1.000
		Sig. (2-tailed)	0.042
		n	30

95% confidence interval. This means COVID-19 lockdown negatively impacted working capital management with a factor of 0.132.

#### 4.2. Measuring the Effectiveness of WCM at Lesley Bakers Pvt Ltd.

This part deals with the analysis of secondary data obtained from Proton Bakers Pvt Ltd., specifically the analysis pertaining financial statement for period ended 2019–2020. The analysis focuses on measuring the effectiveness of WCM and measurement used mainly was ratios related to the topic to see their trends of performance and also comparing them with the standards. Specifically, profitability ratios, liquidity ratios, turn over ratios and cash conversion cycle were given much more attention while analysing the data.

##### 4.2.1. Analysis of accounts receivables position at Lesley Pvt Ltd.

This section tries to analyze the position of accounts receivable as compared to other current assets of the company. Table 3 shows the volume of accounts receivable as a component of other current assets.

Table 3 shows percentage of accounts receivable to total assets. Accounts receivable increased from 45.9% in 2019 to 58.1% in 2020. The increase in receivable can be attributed to the delayed payments by debtors, a sign of inefficiency in accounts receivables management specifically in collection efforts.

As shown in the Table 4, accounts receivable has been rising between 2019 and 2020. The percentage of accounts receivable to total assets has grown from 26.7% to 35.6% from 2019–2020. The average percentage of accounts receivable to total assets is 48.45% a percentage that is higher than the one recommended by Benton (1987) of 15.7%, an indication of unfavorable accounts receivable management by Lesley Bakers Ltd. Increase in accounts receivable by the company is a clear sign of poor management of receivables and working capital. This increase was due to the fact that the company gave much credit to clients and recovery was not effective due to the sudden covid-19 pandemic.

##### 4.2.2. Cash conversion cycle

The cash conversion cycle (CCC) is a metric that communicates the time (estimated in days) it takes for an organization to change over its interests in stock and different assets into incomes from deals. Additionally, called the Net Operating Cycle or basically Cash Cycle, CCC endeavors to quantify how long each net information dollar is restricted in the creation and deals measure before it gets changed over into cash gotten.



This measurement requires some investment the organization needs to sell its stock, how long it requires to gather receivables, and how long it needs to take care of its bills.

$CCC = DIO + DSO - DPO$  where:

DIO = Days of inventory outstanding

(Also known as days' sales of inventory)

DSO = Days sales outstanding

DPO = Days payables outstanding

Table 5 shows that the CCC is increasing meaning it takes a longer time to generate cash, which can increase the risk of insolvency. This may result from extended collection periods due to the sudden covid-19 pandemic that negatively affected the financial capacity of its debtors. However, an increase in CCC shows a poor WCM practice and management should apply effective measures to ensure that WCM issues are attended.

### 4.3. Financial Ratios Analysis

Ratio analysis is used to compare a firm's performance and the status to that of other firms or itself overtime so as to make future plans. This analysis helps management to identify areas that should be improved. In view to present Proton Bakers WCM and measure its effectiveness, liquidity and activity ratios were calculated. These ratios are in one way or the other affected by WCM policies taken by the firm. The ratio computed are based on the data of Lesley Bakers financial statements for the period 2019–2020.

#### 4.3.1. Current ratio

This ratio is calculated by simply dividing current assets by current liabilities Current ratio = Current Assets ÷ Current Liabilities.

**Table 3: Analysis of accounts receivables**

Item	Financial year	
	2019	2020
Inventory and work in progress	23,428,542,000	15,276,811,000
Trade and other receivables	21,618,608,000	24,814,128,000
Due from related parties	467,906,000	776,986,000
Income tax recoverable	1,073,509,000	237,973,000
Cash and bank balances	518,549,000	1,636,875,000
Total current assets	47,107,114,000	42,742,773,000
% of AR to C.A	45.9	58.1

Source: Lesley Bakery Pvt Ltd financial statements 2019-2020

**Table 4: Lesley bakers' accounts receivable as a component of total assets**

Item	Financial year	
	2019	2020
Trade and other receivables	21,618,608,000	24,814,128,000
Total assets	81,029,346,000	69,788,404,000
%A/R to T.A	26.7	35.6

Source: Lesley Bakery Pvt Ltd financial statements 2019-2020

**Table 5: Lesley Baker's' CCC**

CCC	2019	2020
DIO	82	83
DSO	34	33
DPO	(66)	(64)
CCC	50	55

Source: Lesley Bakery Pvt Ltd financial statements 2019–2020

From the Table 6, it's evident that NPD's current ratio is satisfactory over the period, the ratio shows that the company can more than cover its current liabilities using its current assets. However, even though the company's current ratios look better during the period under review, it needs a mention that there is a big percentage of accounts receivable in its current assets that form a large amount in the company's statement of financial position which needs much more attention, which is a sign of weak recovery and consequently poor collection procedures in place.

#### 4.3.2. Cash ratio

This ratio relates cash equivalent and marketable securities to current liabilities. This measure carries much weight in evaluating the liquidity of a firm. It shows the firm's ability to meet short-term obligations using cash and near cash items. If the company manage to meet this obligation easily it is an indication that there is effective management of accounts receivable since this item forms the biggest part of current assets on the company's statement of financial position (Table 7).

Even though the ration improved in 2020, all the ratios are still way below the recommended standard of 0.5:1 as cited by Gibson (2019). The ratios being far below the recommended average is an indication of poor management of receivables where the collection of cash from the receivables is not effective. The cash of the company is not encouraging due to its continued accumulation into receivables and therefore there is a need for more efforts to curb this trend. To achieve this, Proton Bakers Ltd should revise the collection policy to generate cash from its sales as low cash ratio are attributed to slow paying customers due the increase in receivable balances over the year. The cash ratio of the company is problematic in that the company cannot be able to finance its short term obligations in case need be and therefore may hinder effective operations of the company, this also indicates poor WCM.

#### 4.3.3 Analysis of lesley bakers net working capital

Net working capital = Current assets – current liabilities

It measures the capacity of the company to settle its obligations and continue operations without seeking for any external financing. The higher the amount of net working capital the better is the operations of the company and vice versa (Table 8).

**Table 6: Lesley Bakers current ratios 2019-2020**

Item	Financial year	
	2019	2020
Current assets	47,107,114,000	42,788,404,000
Current liabilities	39,507,980,000	27,598,573,000
Ratio	1.2 : 1	1.6: 1

Source: Lesley Bakery Pvt Ltd financial statements 2019–2020

**Table 7: Lesley Bakers cash ratios 2019-2020**

Item	Financial year	
	2019	2020
	518,549,000	1,636,875,000
	39,507,980,000	27,598,573,000
<b>Ratio</b>	<b>0.01:1</b>	<b>0.06:1</b>

Source: Lesley Bakery Pvt Ltd financial statements 2019-2020. Cash ratio = Cash + Marketable securities ÷ Current liabilities

The figure for net working capital however improved in 2020 which is a good performance and effective working capital management all things being constant. However, this is not necessarily the case since from the analysis of the company’s assets receivables take a very big portion of the assets in the company’s balance sheet which increases year after year and therefore an indication that there is no clear policy of receivable management in as far as collection and recovery of receivables is concerned. Much attention should be given to receivable management so as to manage working capital effectively.

**4.4. Profitability Ratios**

The profitability ratios are exactly what the name suggests. They center around the association’s capacity to produce a benefit and a satisfactory profit from resources and value. They measure how productively the firm uses its resources and how viably it deals with its tasks.

**4.4.1 Gross profit ratio**

This ratio is calculated by dividing the Gross Profit by Sales. It is usually indicated as percentage.

$$\text{Gross profit ratio} = \frac{\text{Gross profit}}{\text{Net sales}} \times 100$$

As the gross benefit is found by deducting cost of products sold from net deals, higher the gross benefit better it is. There is no standard GP proportion for assessment. It might fluctuate from one business to another and industry to industry. In any case, the gross benefit procured ought to be adequate to recuperate every single working cost and to develop holds subsequent to paying all fixed revenue charges and profits. From the table over, the gross benefit proportion communicated in rate appear to be not to be agreeable, and despite the fact that it somewhat expanded to 25.2% in 2020, there is no assurance that the organization will appreciate benefit however shortfalls as acknowledged in the monetary years 2019 and 2020 (Table 9).

**4.4.2. Net profit ratio**

Net Profit proportion is utilized to gauge the general productivity and subsequently it is extremely helpful to owners. The proportion is exceptionally valuable as in if the net benefit isn’t adequate, the firm will not have the option to accomplish a palatable profit from

**Table 8: Lesley Bakers net working capital 2019-2020**

Item	Financial year	
	2019	2020
Current assets	47,107,114,000	42,788,404,000
Current liabilities	39,507,980,000	27,598,573,000
Net working capital	7,599,134,000	15,189,831,000

Source: Lesley Bakery Pvt Ltd financial statements 2019-2020

**Table 9: Lesley Bakers’ gross profit ratios 2019-2020**

Item	Financial year	
	2019	2020
	7,885,370,000*100	9,036,174,000*100
	33,385,259,000	35,883,608,000
Ratio	23.6%	25.2%

Source: Lesley Bakery Pvt Ltd financial statements 2019-2020

its speculation. This proportion likewise shows the company’s ability to confront antagonistic financial conditions, for example, value rivalry, low interest, and so on Clearly, the higher the proportion the better is the benefit.

From the Table 10, it is clear that net benefit for the organization has been diminishing quite a long time after year. From the investigation of lower part of the assertion of exhaustive pay, it is apparent that the primary concern is incredibly influenced by finance costs which have nearly multiplied during a similar period. This critical expansion in finance expenses can be clarified by the enormous number of records receivables that rose from 2019 to 2020. This ties the organization’s functional incomes into receivables constraining the organization to go into acquiring to back its activities. This places plain the failures in the organization’s receivables the board which is a marker of poor WCM practices and there is plausible that the organization will languish even extreme deficiencies over the procedure years.

**4.4.3. Debtors’ (A/R) turnover ratio**

Accounts receivable turn over indicates the number of times accounts receivables turn over each year. Generally, the higher the values of debtors’ turnover, the more effective is the management of accounts receivables. Debtors turnover ratio is computed as;

$$\text{Debtors turnover} = \frac{\text{Credit sales}}{\text{Average debtors}}$$

From the Table 11, it is clear that the accounts receivable turnover is very low at <1, and more worrying declining year on year an indication that there is a poor or no policy for accounts receivable management of the company which is also a sign of poor WCM. Accounts receivable turnover ratio or debtor’s turnover ratio indicates the number of times the debtors are turned over a year. The higher the value of debtors’ turnover the more efficient is the management of debtors or more liquid the debtors are (Abawi. 2017; PricewaterhouseCoopers, 2018). Similarly, low debtor’s turnover ratio implies inefficient management of debtors or less liquid debtors. However, from the analysis in the table above, debtor’s turnover has been low and declining from 1 year to the another, and this may be due to relaxed collection efforts and

**Table 10: Lesley’s net profit ratios 2019-2020**

Item	Financial year	
	2019	2020
	(431,599,000) *100	(4,020,205,000) *100
	33,385,259,000	35,883,608,000
Ratio	(1.3%)	(11.2)%

Source: Lesley Bakery Pvt Ltd financial statements 2019-2020

**Table 11: Lesley’s accounts receivable turnover 2019-2020**

Financial year	Computation	Number of times
2019	33,385,259,000 (17,877,785,000+21,618,608,000)	0.85
2020	35,883,608,000 (21,618,608,000+24,814,128,000)	0.77

Source: Lesley Bakery Pvt Ltd financial statements 2019-2020

inefficient accounts receivable management in general. Thus, the overall management of debtors for the company is not effective.

**4.4.4. Average collection period**

Average collection period measures the quality of debtors. It indicates the period of collecting the accounts receivables, by calculating the number of days’ accounts receivables remain uncollected. It is computed as;

$$\text{Average collection period} = 365 \div \text{Debtor's turnover}$$

With the financial year estimated to have 365 days

Average collection period measures the average number of days that accounts receivable is outstanding (Table 12). This activity ratio should be the same or lower than the company’s credit terms. As a rule, outstanding receivables should not exceed credit terms by more than 10-15 days. Kermit D. Larson (2019). However, as shown by the above table, Lesley’s average collection period is much more than 10-15 Days of its credit period which is estimated to 90 days’ maximum meaning that the credit customers do not fulfil the credit terms given and therefore a sign of poor management of accounts receivable since customers do not fulfil their obligations on time. Receivables remain uncollected for a very long period, an indication of inefficient WCM.

**5. MAJOR FINDINGS/DISCUSSION**

WCM was driven by the conservative approach techniques whereby it is required to reduce receivables from customers, maintaining high stocks, and timely settlement of liabilities. However, following the covid-19 global pandemic which led to many business operations being ceased and many of the organisation’ clients which are in the formal sector to be highly affected resulting in the delaying of amounts due. The sudden increase in debtors would result in cash shortages to fund other operations and pay the current liabilities. On the other side of secondary data analysis, the findings indicated slow payment by credit customers meaning that most of the firm’s accounts receivable remains outstanding for a long period of time; this is evidenced by high percentages of accounts receivable compared to other current assets of the firm. Through ratio analysis, Lesley’s liquidity and activity ratios revealed unsatisfactory results, which also showed a continuous decline. This is an indication of poor management of the firm’s assets of which accounts receivable is one of the largest components. This is supported by Wadesango et al. (2021)’s findings which indicated same results. Generally, the firm’s accounts receivable management was found not effective, and this also affects WCM (Ghebreyesus, 2020).

The average collection period of the company indicated a very unsatisfactory results where the number of days in collection procedures ranged from 429 and 474 days for the year 2019 and 2020 respectively, this is an indication of poor management of

**Table 12: Lesley’s average collection period 2019-2020**

Financial year	Computation	Number of days
2019	365÷0.85	429
2020	365÷0.77	474

Source: Lesley Bakery Pvt ltd financial statements 2019-2020

receivables since the collection period is way above the credit policy set by the company and therefore there is a need to rectify this if the company should meet its targeted performance in as far as accounts receivable management is concerned. The profitability ratios of the company were also not satisfactory and the company reported net losses in the years 2019 and 2020, and this was mainly due to high finance costs incurred in the 2 years. This resonates well with findings from a study conducted by Scherr (2020) whose results were similar. If you consider this together with the fact that accounts receivables were also very high in the same periods, the company is basically forced into much borrowings to finance its working capital needs. These borrowings would have avoided or at least reduced were company’s accounts receivable to be liquidated on time and also if effective working capital management practices were put in place.

Coronavirus will be a worry for pretty much any business, paying little mind to the area or district inside it works. The way to overseeing working capital through this period will be understanding the lawful and legally binding boundaries inside which the business is working, cautious arranging and keeping an open exchange with key partners (Tijan, 2020; Sebastian, 2020). Working capital administration isn’t simply critical to associations with less financial assets, yet additionally they are viable when associations are increasing their ventures during monetary recovery stages (Li 2019). Subsequently, to dispose of financial issues in the midst of emergency, for example, (Covid-19 lockdown), chiefs should utilize fitting working capital arrangements.

**6. CONCLUSION**

The research findings indicated that although the global covid-19 pandemic led to many of Lesley Bakers customers forfeiting payments which resulted in many debtors, the management of accounts receivable is also not effective, a conclusion based mainly on accounts receivables turnover and average collection period results, and this also highlights poor WCM practices in the organization as well. Accounts receivables turnover showed the number of times Proton’s accounts receivable turn over each year, whereas the average collection period showed the number of days the firm’s accounts receivables remain uncollected. Both of them revealed unsatisfactory results, an indication of slow payment by credit customers, poor collection policy by the firm and ineffective accounts receivable management. These poor WCM affected Lesley’s profitability as well it was found out that the organisation had suffered many finance costs due to cash shortages as a result of cash being tied up in receivables. Good WCM practices must be paid attention to and in the case of Lesley there is room for improvement.

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