

Is the Influence of Net Working Capital on Earnings Per Share Critical: A Literature Review?

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Abstract

Working Capital is also known as Net Working Capital (NWC). Gross Working Capital means all the assets of the company that can be converted into cash within one year. Gross Working Capital is the total value of the current assets such as accounts receivables, inventory of raw materials, work in process inventory, finished goods inventory, cash and bank balance, marketable securities and short-term investments. Net Working Capital is the difference between current assets and the current liabilities. The current liabilities are such as bank loan, creditors, bills payable and etc. Net Working Capital mainly consist of inventories. High Net Working Capital means high inventories are involved. When the inventories are high, the cost of capital will also be high. Companies take loan from banks and pay interest which is the cost of the capital. Due to this, the earnings before tax will be reduced and hence, the earnings after tax will accordingly decreased. The earnings after tax are also known as net income. The retained earnings are equal to net income minus dividend. Investors are concerned about the companies' Earnings Per Share (EPS). The Earnings Per Share is calculated by dividing retained earnings with the number of outstanding shares. The value of EPS depends on the efficient management of NWC. There is an increased interest among the public listed companies to explore various moderating variables that influence their EPS. Based on literature reviews, no concrete studies have been found relating moderating variables which can influence the relationship between NWC and EPS where this research is to explore this aspect.

Keywords

Net Working Capital, Earnings Per Share, Public Listed Companies

Biographies

Batumalay Kaliannan received a B.Tech. degree in Mechanical Engineering from IIT Madras, India, BBA with Hons (Finance) from OUM, and MBA from Universiti Putra Malaysia, Malaysia. Currently, he is a senior lecturer at Asia Metropolitan University, Malaysia. He has worked in various multinational companies for nearly 28 years.

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