

**IMPACT OF CREDIT MANANEGEMENT ON THE PROFITABILITY OF
PRODUCTION FARM OF KABYOYON FARM IN EASTERN UGANDA**

BY

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**A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS AND
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UNIVERSITY**

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DECLARATION

I KAMIRUT TIMOTHY, do hereby declare that this is my original work and has not been
Published or submitted for any other degree award to any other university before.

Signed: 

KAMIRUT TIMOTHY

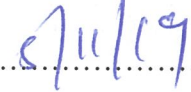
Date: 14th/10/2019

APPROVAL

This research entitled the impact of credit management on the profitability of production farm Kabyoyon Farm in Eastern Uganda was done under my supervision by the University supervisor.

Signed:.....

Mr. Timbirimu Micheal

Date:.....

DEDICATION

This report is dedicated to my family members more especially my beloved dad Mr. JAMES K. CHEMEN and mum SUSAN CHEROP for the contribution in my educational success, my brothers and sisters for the love and care to ensure that I become an academic giant. I can't forget my friends for the material assistance in form of a computer that I used throughout the whole process. May God bless you abundantly and many others whose names have not been mentioned also their role is fully recognized.

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2.1 Overview of Credit Management	6
2.2 Profitability	8
2.3 Relationship between credit management and profitability of Kabyoyon Production Farm ...	9
2.4 Conclusion	10
CHAPTER THREE.....	11
METHODOLOGY	11
3.0 Introduction.....	11
3.1 Research Design	11
3.2 Area of Study	11
3.3 Population of the Study	11
3.4 Procedure of the Study.....	11
3.5 Sampling Method.....	12
3.5.1 Stratified Random Sampling Method	12
3.5.2 Judgmental Sampling Method	13
3.6 Sampling Size	13
3.7 Data Source.....	14
3.7.1 Primary Data	14
3.7.2 Secondary Data	14
3.8 Data Collection Instruments and Method.....	15
3.8.1 Interview	15
3.8.2 Questionnaire	15
3.8.3 Observation.....	16
3.8.4 Focus Group Discussion	16

3.9 Validity and Reliability of the Data.....	16
3.10 Data Analysis and Presentation	16
3.11 Ethical Issues in Research	17
CHAPTER FOUR	18
DATA PRESENTATION, INTERPRETATION, ANALYSIS AND DISCUSSION OF FINDINGS.....	18
4.0 Introduction.....	18
4.1 Finding on the demographic characteristic of respondents.	18
4.2 Credit Management in Kabyoyon Production Farm.....	20
4.2.1 Whether the Company can do without credit sales	20
4.2.2 Department in charge of credit in Kabyoyon firm.....	21
4.2.3 Response on the period of which credit is allowed	21
4.2.4 What major risk is associated with investment in trade credit threatens your company most?	22
4.2.5 Approximately, what percentages of your company’s credit sales run into bad debts?.....	22
4.2.6 Modes used by the firm to recover debts back	23
4.2.7 What percentage of your total monthly saving is made on credit?.....	24
4.3 Profitability of A Production Farm.....	24
4.3.1 Response On Whether Liquidity Can Be Attributed	24
4.3.2 How can you rate your company credit management strategies?.....	25
4.3.3 From your record, would you say that trade discount is an effective tool in profit debt collection?.....	26
41.2 percent believe it is an extent and only 1 respondent disagreed with them.....	26
4.4 The Relationship Between Credit Management and the Profitability of Production Farms ...	26
4.4.1 Whether profits are realized from credit extension?.....	26

4.1.2 Whether the information regarding a customer’s credit worthiness can help reduce bad debt losses.....	27
4.1.3 Response on whether credit extension attracts more sales than cash sale.....	28
CHAPTER FIVE	32
SUMMARY, CONCLUSION, RECOMMENDATION AND LIMITATION OF THE STUDY	32
5.0 INTRODUCTION	32
5.1 SUMMARY OF MAJOR FINDING.....	32
5.2 CONCLUSION.....	33
5.3 RECOMMENDATION.....	33
5.4 LIMITATION OF THE STUDY.....	34
5.5 AREAS OF FURTHER RESEARCH.....	35
REFERENCES	36
APPENDICES	38

LIST OF TABLES

Table 4.1 Showing sex of respondents	18
Table 4.2 Showing age group of respondents.....	19
Table 4.3 Showing qualification of respondents	19
Table 4.4 Showing the period of service at Kabyoyon.....	20
Table 4.5 Showing whether the company can do without credit sale	20
Table 4.6 Shows the department responsible for management and administration	21
Table 4.7 Showing the period which credit is allowed.....	21
Table 4.8 Showing the company's threatens	22
Table 4.9 Shows the percentage of credit sale which runs to bad debts.....	22
Table 4.10 Showing the mode used to recover debts back.....	23
Table 4.11 Shows the percentage of saving from credit sales.....	24
Table 4.12 Showing the views on how liquidity can be attributed to bad debt.....	24
Table 4.13 Showing the rate level of credit management strategies	25
Table 4.14 Showing how trade discount is an effective tool of profit.....	26
Table 4.15: Showing whether profits are realized from credit extension.....	26
Table 4.16 Shows how customer's worthiness can reduce bad debts	27
Table 4.17 Showing how credit extension attracts more sales.	28
Table 4.18: Showing frequency of both variables that were used for computation of strength of the relation.	29

ABSTRACT

The aim of the research work is to appraise “the impact of credit management on the profitability of a production farm focus on Kabyoyon farm” this is because, trade credit is a short term source of finance and sometimes take the form of bills payables. The stamen of the problem of this research banks about the poor level of credit management and also the problems which the firms encounter as a result of high-rate of bad debts. The objective of this research study is to highlight the effects of the credit management on the profitability of the company as well as to highlight the advantages of effective and efficient management of trade credit amongst others. Furthermore, this research work will be of immense significance to the staff of Kabyoyon farm as well as the students and the researcher since it aims at providing effective means of reducing default in collection of accounts also, research questions like, could a company liquidity problem be attributed to bad debt? On the average, how long do you allow credit to customers? Etc. research instrument used were questionnaires for the purpose of obtaining the desired result in treating and extensive use of tabular information and percentages were of create importance in the light of the findings and conclusions of this work, the following recommendations are put up: that then should be a regular review of credit policies to suit the changes in the business environment and that an enquiry unit should established to take responsibility for prospective credits assessments amongst others.

CHAPTER ONE

1.0 Introduction

This chapter presents the background of the study, statement of the problem, purpose of the study, objective of the study, research questions, scope of the study, and significance of the study.

1.1 Background of the Study

Kabyoyon firm is one of the production farm in Uganda which adopted credit management as a way of achieving its objectives.

Every organization adopts credit as a way of achieving its objectives. The performance of the organization greatly depends on how it gives out its products in credit, and how it receives debts. Kabyoyon Company in Eastern Uganda is one of the company's that has been in position to give out its products in credit and receives debts in time, by doing that it has been able to achieves its objectives of profit maximization.

According to Omuya (1992) credit management refers to a process of controlling and collecting payments from customers, Credit management is a term used to identify accounting functions usually conducted under the umbrella of accounts receivable essentially. This process involves qualifying the extension of credit to a customer, monitor, the reception and logging of payment on outstanding invoice, the initiation of collection procedures and charges on a customer invoice.

On the other hand, profitability is defined by accountants as a difference between revenue and total cost. However, economist views profitability as the ability of a firm to maximize revenue and minimize cost (stand ford 1996).

Hatney (1991) puts that when a company earns income revenue that is greater than the cost incurred, then it has made a profit, but the question is how do you do that? is it sustainable? he added that customers should receive value for the product or services, the firm should also make a reasonable return from their investments.

Hentry (1997), the relationship between credit management and profitability can be seen from the cost point of view. Since profit is equal to total revenue less total cost of which credit cost is inclusive.

In Kabyoyon firm, there are a number of issues which firm is facing, such as bad debts, poor level trade credit, in adequate training to key treasury and low turn up of customers to buy its products on credits, there is also a serious problem of persistent decline in the level of profitability Kabyoyon firm in the past five years as shown in table 1 bellow.

Table: 1 showing the profitability level of Kabyoyon Farm

YEARS	PROFITABILITY LEVEL (%)
2014	66.7
2015	64.8
2016	60.2
2017	59.2
2018	59.0

Source: Kabyoyon Production Farm

The researcher then wonders why the profitability level of Kabyoyon production Farm has kept declining despite the Farm trying its best to strategies aimed at increasing its profitability such as good customer care, sales promotion, and advertisement among others. Preliminary studies indicates that low profitability in a Farm could be as a result of a Farm ignoring credit sales it's against this that a researcher was prompted to carry out the study to establish if there is a relationship between credit management and profitability of Kabyoyon Production Farm.

1.2 Statement of the Problem.

Farm profitability can be realized if a firm adopts a stringent credit policy such as; Selling on credit to only selected customers who possess proven credit worthiness and also who are

financially stable (Obianwu, 1990). Kabyoyon Production Farm adopted credit management strategies in order to increase its profitability. However, the level of profitability in Kabyoyon firm has still remain questionable. There are a number of challenges such as high level of bad debt, deteriorating relationship between customers and firm, decline in cash sales among others. All the above problems seem to be persisting due to the existence of ineffective credit management strategies in the organization it's against this background that the researcher was prompted to carry out the study to establish if there is a relationship between credit management and profitability of Kabyoyon firm.

1.3 Purpose of the Study.

The major purpose of the study was to examine the impact of credit management on the profitability of Kabyoyon firm.

1.4 Objectives of the Study.

The study was guided by the following objectives.

- i. To find out the benefit of credit management in Kabyoyon Production Farm
- ii. To find out the level of profitability of Kabyoyon Production Farm
- iii. Determine the relationship between credit management and profitability of Kabyoyon Production Farm

1.5 Research Questions

The study was guided by the following research question.

- i. What are the benefits of credit management in Kabyoyon Production Farm?
- ii. What is the profitability level of Kabyoyon Production Farm?
- iii. Is there a relationship between credit management and the profitability of Kabyoyon Production Farm?

1.6 Scope of the Study.

1.6.1 Subject Scope.

The study focused on the impact of credit management on the profitability of Farms. In the study credit management is the independent variable while the profitability will be the dependent variable.

1.6.2 Geographical Scope

The study was conducted at Kabyoyon Production Farm in Bukwo District in Eastern Uganda. The researcher carried out the study in this company because it's one of the production Farm in Uganda where several cases of credit management have been reported most in the past four years.

1.6.3 Time Scope

The study lasted for a period of two months from July 2019 to August 2019. The researcher used the data ranging from the year 2014-2018 in gathering information because a number of cases of credit management in Kabyoyon Production Farm seriously surfaced during this period of time.

1.7 Significance of the Study

The study is significance in the following ways.

It enables Kabyoyon Production Farm to institute the appropriate and effective credit management function in the organization.

It benefits the student, since it acts as a source for further reference on credit management and profitability of Farms.

The study helps the staff and management of Kabyoyon Production Farm in realizing and finding out solutions to the problems affecting organization as fur as credit management is concerned.

The study helps the researcher to gain skills and knowledge in rehearse proposal and report writing.

The study will help the customers to gain more knowledge about trade credit in the organization which will boost their purchases. The research study will help other organizations such as Engaano millers to learn from the techniques used by Kabyoyon Production Farm as fur credit management and profitability is concern.

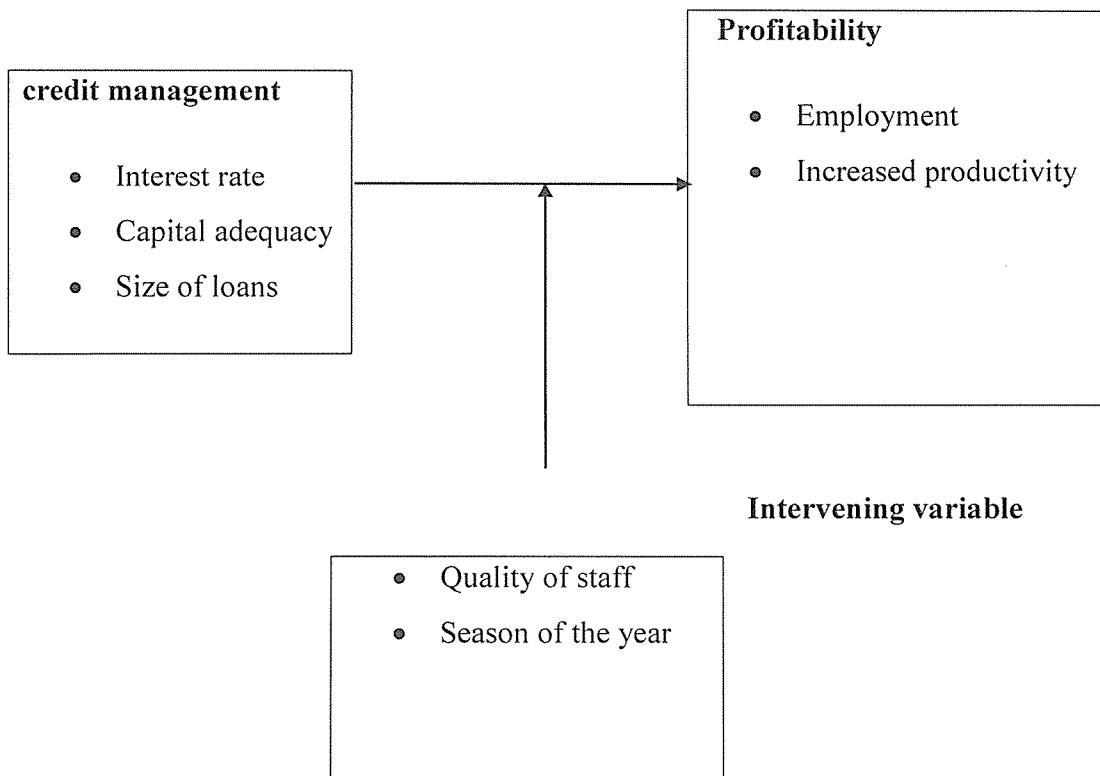
1.8 Conceptual framework

The conceptual framework illustrated in figure 1.2 indicates the relationship that exists between independent and dependent variables as used in this study in this case, the independent variable is management efficiency. Interest rate size of loan on the other hand, profitability is the dependent variable.

Figure 1.2 conceptual framework

Independent variables

Dependent variables



CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter contains the over view of credit management, benefit of credit management, profitability of Farms, the relationship between credit management and the profitability of the Farms, and conclusion. This data in this chapter was reviewed from text books, newspapers, journals, and internet in order to elaborate more on the topic under study.

2.1 Overview of Credit Management

Pandy (2006). Notes that trade credit are a short term source of finance. He further notes that trade credit are the credit that a customer gets from a supplier of goods in a normal cost of a business. Therefor it's mostly an informal management between the supplier and the buyer as no legal document is signed.

Trade credit may also take the form of bills payable. This happen when a buyer signs a bill a negotiable instrument to obtain trade credit of which in balance sheet, it appears as bills payable and is said to be formal since a bill is a formal acknowledgement of an obligation to repay an outstanding amount to supplier, any trade credit granted to a customer. Appears as account receivable, sundry debtors, bills receivable depending on the one that is applicable, (Pandy, 2002).

Yarhe (2007), pointed out that credit management is the process of controlling and collecting payments. From your customer a good credit management system will help you reduce the amount of capital tied up with debtors and minimize your exposure to bad debts. The main objective of credit management is providing effective means of reducing default in collection of accounts in order to help management ascertain the profitability of the company. Pandy (2005) asserted that prompt collection is needed for first turn offer on the working capital thurs, this collection of process involve qualifying the extension of credit to a customer, monitor, the reception and logging of payment on outstanding invoice.

According to Agu (2002), Farms may grant to their customers for various reasons such as, when there is a lot of competition in an industry a Farm may grant its customers credit so as to attract them for patronage. He further notes that credit sales can also acts as marketing tools whereby a Farm that launched a new product can decide to use push the product into the market.

Walter (1987). reports that, since investment in trade debtors has a Farms funds it is necessary that a Farm plan very well before investing in such venture. This will help in determining the date of sale and that of payment to be financed out of working capital Obinnu (1990).

The Benefit of Credit Management

Mantthys (2004), argue that, a perfectly organized credit management contributes to better assessments of your credit risks as well as to a better collection of organization debts, increasing the efficiency of organization and its useable capital.

Agu (1996), say that, credit sale can also act as marketing tool whereby a Farm that launched a new product can decide to use credit to push the product into the market

Walter (1999). reports that, since investment in trade as a Farms fund, its necessary that a Farm plan very well before investing in such venture. This will help in determining the date of sale and that of payment to be financed out of working capital.

Fiel et al (1990), argues that, the nature of business may demand that goods be sold on credit instead of in cash. Instance some industrial product may be sold on credit than in cash.

Fcib (2010). say that, most times the status of the customer may require granting him same credit, status here implies the and credibility of the customer in big Farm who buy in bulk may not afford to pay for all the purchase at ones.

Mercel (2014), asserted that, in these time of credit and economic crisis where companies more and more experience difficult in getting credit lines from there bank, good customer oriented cash credit management is the cheapest and maybe the best option to finance your daily business by improving cash flow, working capital needs and finally profitability

2.2 Profitability

Setting profit goals and striving to achieve them would be pointless if there were no mining of checking result against target. This is one the fundamental reasons for the need to have a system by witch profit can be reported regularly. The other basic reasons, for the reporting of profit are that a business owner is entitled to be informed periodically on the health of the business, (accum.architecture.com.au)

Profitability is the primary goal of all business ventures. Without profitability the business will not survive in the long run. So measuring current and past profitability and projecting future profitability is very important. (Hofstrand).

Wood (2012) defines profitability as a result of selling goods and services for more that they cost, it's the comparison between the results obtained with the results expected. In trading organizations, a lot of attention is paid too much profit is made before deducting expenses for every sale or revenue like as it's the case in Kabyoyon Production Farm.

Profitability is the overall performance and effectiveness of the Farm, parties interested in financial analysis are short and long term creditors, owners and management. Short term creditor's main interest is in the liquidity position or the short term solvency of the Farm, and this is contributed by trade control in an organization for example Kabyoyon Production Fann (Pandey 2005).

This is the criteria important for decision making, managers need to be able to know the profit implications of their decisions, if assumed that a Farm will produce only what can be sold, the production volume and sales will be equal which further yield to profitability of an organization like Safi factory Daily Monitor (2011),.

www'.businessdictionarv.com/.profitabiliiv is a matter of degree, absolute amounts that is to say a simple total of a dollar profits is not enough to show how profitable a Farm is, a local lumber company with one million as profits in a year may have a higher degree of profitability than the largest oil Farm with its yearly total profits of over 3 billion dollars.

Reynolds (1988), asserts that a surplus of overall costs including implicit costs, required as rent of productive resources which is fixed in supply, the larger the supply of this kind of ability\in a particular organization ,the more rapid will be in the in the exploitation of new production opportunities and hence good profitability levels.

Awh (1977).notes that, profitability is the difference between the total revenue products and the total revenue cost, The total revenue product of labour is equal to the number of units produced by labour multiplied by the commodity price, if done dually leads to profitability.

Engler (1987) asserts that, is the ratio obtained by dividing an investment, competing projects may be ranked by profitability indexes, the higher the profitability index the more desirable the project.

Henderson (1991) asserts that, profitability is the residual value that makes an organization work or run smoothly which further leads to profitability of an organization preferably.

Salvin (1991), profitability refers to the original efficiency of capital or marginal efficiency of an investment. That is to say the assets, both current and non-current debtors, prepayments among others as it's the case in Kabyoyon Production Farm.

WWW.investorwords.com/-profitabilitv.htmlthe potential of the Farm or venture to be financially successful, in form of turnover, surplus, with minimum or no failures at all

2.3 Relationship between credit management and profitability of Kabyoyon Production

Farm

Villegas (2007), say that , the relationship between credit management and profitability can be seen from the business risk point of view, risk faced by credit granting institution and their customers, the strategies and plans of execution profitable. From the statement it can be seen profitability of a Farm depends on credit management if well managed then high profit.

Pandy(2005), reports that, optimal credit management policy is one which maximizes the profitability of a Farm.” He opined that the Farm’s value is maximized only when the incremental or marginal rate of return of an investment is equal to the incremental or marginal

cost funds used to finance the investment. Furthermore as stated by Pandey, the original goal of the Farm credit management is to maximize the profitability of a Farm”.

Bratoniric (1999) asserted that in order appropriately analyzed credit risk factors, organizations chief creditor, risk officers and higher risk of default. The variation in credit risk would lead to variation in the profitability required to have detail understanding of the principal economic factors that drive credit management performance and of organization loan portfolio which in turn affect organization performance.

2.4 Conclusion

Profitability being a key objective to business organization today, there is need for credit management policy in order to increase the profitability. Credit management should be controlled in such a way that profitability as a Farm to be realized or to increase the organization sales, it's true that if credit management contributes positively on the profitability of an organization, it's therefore established that the relationship exists between credit management and profitability of an organization.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter presents the methods that were used for collecting data from the field. It highlights the research design, area of study, sampling method, sample size, data sources, data collection instrument validity and reliability data analysis and interpretation.

3.1 Research Design

The research design involved survey and non-survey design. Survey design necessitated collection of primary data using questionnaire and interview schedule while non-survey design involve reading document materials for the purpose of collecting secondary data.

3.2 Area of Study

The study was carried out in Kabyoyon Production Farm in Bukwo District.

3.3 Population of the Study

The population of the study included the departmental heads, employees, and opinion leaders in Kabyoyon production Farm. The study population comprises of 62 respondents.

3.4 Procedure of the Study

The researcher started by identifying the problem in Kabyoyon Production Farm which was later followed by formulating a research topic, the researcher conceptualized the topic which was then taken to the supervisor for approval.

The researcher then got a letter of introduction signed by academic registrar and the letter was presented to the management of Kabyoyon Production Farm seeking for permission to carry out the study from the organization.

After getting permission, the researcher then designed questionnaires relating to the topic “the impact of credit management on the profitability of productions Farms” which were taken to Kabyoyon Production Farm. This enabled the researcher to collect the required data.

The researcher then went for pilot studying in Kabyoyon Production Farm to know more about the Farm and get familiarize himself with the operations of the organization.

The researcher then went ahead to collect data by approaching respondents and through the appropriate method like observation and questionnaire.

The researcher analyzed, sorted and interpreted the data collected and drew conclusion on what information was correct for presentation in relation to the topic.

The researcher then proceeded to type the research report and presented it to the supervisor to read through and make corrections.

Finally, the researcher typed a final copy of the report, printed, photocopied and gave the supervisor for approval and submission to department of accounting and finance of Kampala international university.

3.5 Sampling Method

The researcher used both stratified random sampling and judgmental sampling methods for obtaining the sample size for the study.

3.5.1 Stratified Random Sampling Method

Stratified sampling involved the researcher dividing the population into none overlapping

Groups called strata according to different characteristics of the population in the method the researcher specified and placed individual in each stratum with respect to the characteristic to be studied and afterwards collected simple random sample from each the strata and combined then into a sample, this method mainly targeted employee and head of department of Kabyoyon Production Farm.

This method was advantageous in that it leads to collection of correct data; the method was not subject to biasness since the sample was taken after initiating the necessary steps.

However, the process of dividing and classifying the population seemed to be tedious and difficult since the population may have different characteristics.

3.5.2 Judgmental Sampling Method

In this method, the researcher's judgment or views was used for selecting items that the researcher considered to be representative of the population under study. The researcher used the sampling method for selecting the customers of for the study whom the researcher perceived as people who had the required information needed for the study.

This method was disadvantageous in that, it saved time since the researcher did not need to initiates various procedure but rather use his judgment to select the sample population He considers a representative.

However, this method was subject to biasness since it largely depended on the researcher's own judgment.

3.6 Sampling Size

For easier collection of data and analysis, a sample size was randomly selected for the study based on convince, the sample size was determined departmentally using taro Yamane formula given below

$$n = \frac{N}{1 + Ne^2}$$

Where n = the desired size

N = population size

e = maximum acceptable level of error

l = theoretical constant

The researcher assumed 5% level of error would be tolerable for the research work with confidence level of 100%. Hence sample size was computed then.

$N = 62$

$E = 0.05$

$= 62$

1.155

$n = 53$

Therefore out of the population of 62 respondents in Kabyoyon Production Farm, 53 respondents were selected for the study.

3.7 Data Source

The researcher used both primary and secondary data source.

3.7.1 Primary Data

This was the data that was collected fresh and for the first time from the field. That is to say Kabyoyon Production Farm. This data was obtained using questionnaires, interview and observation method.

This data source was advantageous in that it gave detailed data and also enabled the collection of information relating to what was in the farm at the time of study. Was at time interfered by unforeseen circumstances and factors such as bad weather.

3.7.2 Secondary Data

This is the data that was obtained from available sources such as magazine, reports, textbooks, journals, information from local newspapers and internet search engine's among others.

This data was used because it was relatively cheap and faster than primary data source since it involves the researcher gathering data from already existing sources, however, this data sources at time s gave data that was outdated.

3.8 Data Collection Instruments and Method.

The researcher used the following data collection methods and instrument.

3.8.1 Interview

This method involved the researchers asking the respondents questions and the answers gave was recorded in a note book, interview method used particularly for getting information from the client of Kabyoyon Production Farm particularly those who could not read and write in English.

The researcher also used this method for obtaining additional information from key responded such as those in accounting department, marketing and production departments.

This method was selected because it gives firsthand information and also solve language barrier problem, this method could give more information in greater depth.

This method was however time consuming as it involves interviewing the respondents who even be biased.

3.8.2 Questionnaire

The researcher used closed ended question which required specific answers. Stated in the questionnaire. The respondents were required to tick the correct answers from the alternatives given

The researcher used this method to target all respondents and particularly those responders like head of departments were always too busy to attend to be interviewed by the researcher, questionnaires were left in the office so that they could fill them during their free time and later collect them.

3.8.3 Observation

In this method the researcher observed what was taking place in the organization. The researcher took note of every activity in the organization provided it was relevant for the study. This method targeted all respondents it was particularly used to obtain firsthand information which could not be explained by respondents. However the observation method was disadvantageous in that the respondents could at times be biased after realizing that there were being student.

3.8.4 Focus Group Discussion

In this method, the researcher gathered respondents who were knowledgeable about credit management process and profitability particularly those respondents from finance department through discussion were held with these respondents in a roundtable. Everybody was given opportunity to freely discuss the variable under investigation and the researcher took note of issues discussed.

The researcher used this method because it gives detailed and relevant information about variables under investigation from respondents who are well versed with variable under study. However, this method is time consuming as it involves key respondents sitting down and discussing issues in detail with the researcher.

3.9 Validity and Reliability of the Data.

The quality of the data was controlled and maintained by getting a big sample

Approaching the respondents at a convenient time and also giving the respondents enough time to respond to question. The researcher also consulted other successful researcher for guidance especially on data quality control, the researcher also controls the quality of the data by using instruments of other successful researchers.

3.10 Data Analysis and Presentation

Data collected from the field was sorted, corded and presented in frequencies and Percentages tables. The findings were analyzed using chi-square formula to determine the impact of credit

management on the profitability of production Farms. The test was necessary for translating the respondent's views in statistical form. The chi-square was depicted by the formula below.

$$\chi^2 = \sum \frac{(O_i - E_i)^2}{E_i}$$

Where, χ^2 - chi-square

O_i = observed value.

E_i = expected value.

H_0 : Farms do not make any profit from trade credit extension.

H_1 : Farms make some profit from credit extension.

This formula was initiated to determine the impact of credit management on the profitability of production Farms.

3.11 Ethical Issues in Research

The respondents were informed on the nature and purpose of the research, and how the

Results were to be used. All the respondents remained anonymous and were identified in research report only by social-demographic characteristic. The researcher did not publish the data which had been previously published or displayed out the information apart from the study purpose.

CHAPTER FOUR

DATA PRESENTATION, INTERPRETATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter covers presentation, analysis and discussion of the research findings, the study was guided by the following research question.

- i. What are the benefits of credit management in Kabyoyon Production Farm?
- ii. What is the profitability level of Kabyoyon Production Farm?
- iii. Is there a relationship between credit management and profitability of Kabyoyon Production Farm?

The information collected from the respondents is presented as shown below in the frequency tables.

4.1 Finding on the demographic characteristic of respondents.

Table 4.1 Showing sex of respondents

Sex	Frequency	Percentage%
Male	33	62.2
Female	20	37.7
Total	53	100

The results in the table above show that, 62.2% of the respondents were males whereas 37.7% were females. These imply that males were willing to participate in the study than female respondents.

Table 4.2 Showing age group of respondents

Age	Frequency	Percentage%
18yrs and below	-	-
19-25yrs	8	15.1
26-40yrs	26	49.1
Above 40yrs	19	35.8
Total	53	100

Source: primary data

As indicated in the table above the age of respondents was classified into groups and the results indicates that 49.1% were age ranging from 26-40 years, followed by 35.8% revealing that they were aged 40 years and finally 15.1% indicated that were 19- 25years. Therefore, basing on the above findings it implies that the respondents were mature enough to provide the required information.

Table 4.3 Showing qualification of respondents

Qualification	Frequency	Percentage%
Certificate	9	17
Diploma	29	54.7
Degree	9	17
Masters	6	11.3
Total	53	100

Source: primary data

As far as qualification of respondents is concerned, the finding indicated that the respondents had attained education and that 29.7% of the respondents had a diploma, 17% degree, 17% had

certificate and finally 11.3% had a masters. This therefore indicates that the respondents had the required qualification to participate in the study.

Table 4.4 Showing the period of service at Kabyoyon

Length of service (years)	Frequency	Percentage%
Less than 1 year	13	24.5
1-5 years	23	43.4
6years and above	17	32.4
Total	53	100

Source: primary data

As per the above table the findings revealed that the respondents in Kabyoyon who had stayed 1-5 years were about 43.4%, followed by 32.4% representing those who had stayed for less than one year and finally 24.5% representing those who had stayed for 6 years and above, this finding reveals that the respondents gave their response basing on the experience and wide perspective of the operation of Kabyoyon Production Farm.

4.2 Credit Management in Kabyoyon Production Farm

4.2.1 Whether the Company can do without credit sales

Table 4.5 Showing whether the company can do without credit sale

Options	Respondents	Percentage%
Agreed	8	15.1
Disagreed	41	77.4
Indifferent	4	7.56
Total	53	100

Source: primary data

The responds in table 6 indicates that 41 persons representing 77.4 percent believes that Kabyoyon cannot do without selling her goods on credit to customers also, 8 person representing 15.1 percent agreed that Kabyoyon can do without credit sales while 4 persons feel indifferent about it.

4.2.2 Department in charge of credit in Kabyoyon firm

Table 4.6 Shows the department responsible for management and administration

Options	Respondents	Percentage%
Marketing dep't	14	26.4
Finance dep't	33	62.3
Production dep't	6	11.3
Total	53	100

Source: primary data

Table 7 above reveals that 62.3 percent of respondent agreed that it is finance department which is in charge of the farm credit, 26.4 said that it is marketing while the minority comprising 11.3 percent said its production department.

4.2.3 Response on the period of which credit is allowed

Table 4.7 Showing the period which credit is allowed

Options	Respondents	Percentage%
two week	6	11.3
One months	43	81.1
One year	4	7.5
Total	53	100

Source: primary data

From the above table, 43 respondents which represents 81.1 percent of the total respondents agree that the company allows its customers one month within which to pay their debts, about 6 respondents which comprises about 11.3 percent say two weeks while the remaining 4 representing 7.5 percent say its only one year.

4.2.4 What major risk is associated with investment in trade credit threatens your company most?

Table 4.8 Showing the company's threatens

Options	Respondents	Percentage%
Administrative cost	9	17
Low profitability	12	22.6
Bad debts	32	60.4
Total	53	100

Source: primary data

The above table show that 32 respondents which present 60.4 percent of the total respondents believes that the company spends much money on administration activities while 12 respondents representing 22.6 percent believes its low profitability realize by the firm that threatens the firm, 9 respondents believe its bad debts which threatens the firm.

4.2.5 Approximately, what percentages of your company's credit sales run into bad debts?

Table 4.9 Shows the percentage of credit sale which runs to bad debts.

Options	Respondents	Percentage %)
Agreed	32	58.5
Disagreed	21	39.6
Total	53	100

Source: primary data

The table above indicates that 32 respondents representing 58.5 percent of total respondents believe that approximately 39.6 percent of the owing by customers run into bad debts. Also 21 respondents making a total of 1.9 percent say it is above 50 percent.

4.2.6 Modes used by the firm to recover debts back

Table 4.10 Showing the mode used to recover debts back

Options	Respondents	Percentage %)
Going to Court	9	17
Use of Persuasion	39	73.5
Through Threats	5	9.4
Total	53	100

Source: primary data

From the above table, 39 respondents which represents 73.5 percent of the total respondents say that it is through use of persuasion were company recover back debt, about 9 respondents which comprises of 17 percent say it's through court action while the remaining 5 respondents making up 9.4 percent say it is through threats. All the 73.5% of the respondents said that persuasion is the fair means in which the firm use to recover back its bad debt. This is in line with Enorke (2004), who pointed out that credit management is the process of controlling and collecting payments from your customer a good credit management system will help you reduce the amount of capital tied up with debtors and minimize you exposure to bad debts.

4.2.7 What percentage of your total monthly saving is made on credit?

Table 4.11 Shows the percentage of saving from credit sales

Options	Respondents	Percentage%
Between 10-30%	17	32.1
Up to 40%	30	56.6
Above 50%	6	14.1
Total	53	100

Source: primary data.

Table 12 indicates that 30 respondents representing 56.6 percent of all respondent believe that up to 40 percent is saved, 17 respondents making a total of 32.1 percent say it's between 10.30 percent 6 respond say it's above 50 percent.

4.3 Profitability of A Production Farm

4.3.1 Response On Whether Liquidity Can Be Attributed

Table 4.12 Showing the views on how liquidity can be attributed to bad debt

Options	Respondents	Percentage%
Agreed	12	22.6
Disagreed	34	64.2
Indifferent	5	9.4
Total	53	100

Source: primary data

As per above table the 12 respondents representing 22.6 percent of the total respondents agreed that Farm make some profit, 64.2 percent of respondents disagreed with idea while 5 respondents representing 9.4 percent were indifferent about it.

4.3.2 How can you rate your company credit management strategies?

Table 4.13 Showing the rate level of credit management strategies

Options	Respondents	Percentage%
20-40%	9	17
50% and above	38	71.8
Less than 20%	6	11.2
Total	53	100

Source: primary data

The response in the table above indicates that 38 responds representing 71.8 percent believe that credit management strategies of Kabyoyon can be rate at a rate above 50%, 9 responds representing 17 believe its 20-40% while 6 responds feel less than 20%.

This means that if the firm adopts good techniques on their credit management then it can recover its debts back, this is in line with Mantthys (2004), who argue that, a perfectly organized credit management contributes to a better assessments of your credit risks as well as to a better collection of organization debts, increasing the efficiency of organization and its useable capital.

4.3.3 From your record, would you say that trade discount is an effective tool in profit debt collection?

Table 4.14 Showing how trade discount is an effective tool of profit

Options	Respondents	Percentage %
Strongly agreed	30	56.6
To an extent	17	32.1
Disagreed	6	11.4
Total	53	100

Source: primary data

In the above table, respondents representing 56.6 percent of the total responds strongly agreed that trade discount is an effective tool in prompt debt collection while 17 respondents comprising 32.1 to an extent and 6 respondents disagreed.

41.2 percent believe it is an extent and only 1 respondent disagreed with them.

4.4 The Relationship Between Credit Management and the Profitability of Production Farms

4.4.1 Whether profits are realized from credit extension?

Table 4.15: Showing whether profits are realized from credit extension

Options	Respondents	Percentage%
Agreed	18	34
Disagreed	27	50.9
Indifferent	8	15.1
Total	53	100

Source: primary data

From the above table, 18 respondents representing 34 percent of the total respondent agreed that Farms realize profit from bad debt, 50.9 percent of respondents disagreed while 8 respondents representing 15.1 percent were indifferent about it.

4.1.2 Whether the information regarding a customer's credit worthiness can help reduce bad debt losses

Table 4.16 Shows how customer's worthiness can reduce bad debts

Options	Respondents	Percentage%
Agreed	35	66
Disagreed	9	17
Indifferent	9	17
Total	53	100

Source: primary data

In the table above 35 respondents believe that credit information about customers can help in reducing bad debt losses and that representing 66 percent while 9 respondents representing

17 percent of all respondents disagreed with that, the remaining 9 respondents making up for the remaining 17 percent were indifferent about that. This means that the Farm associate with the trusted customer as far as credit is concern.

This finding is in line with Fcib (2008) who notes that, customer may require being granted credit; the worthiness and credibility of the customer who buy in bulk may not afford to pay for all the purchase at ones and trade credit can be the preferable mean.

4.1.3 Response on whether credit extension attracts more sales than cash sale

Table 4.17 Showing how credit extension attracts more sales.

Options	Respondents	Percentage%
Agreed	17	32.1
Disagreed	28	52.8
Indifferent	8	15.1
Total	53	100

Source: primary data

From the above table, 28 respondents representing 52.8 percent of the total respondents disagreed that credit sales attract more sale than those cash sale, 17 respondents representing 32.1 percent agreed with idea while the remaining 8 respondents representing 15.1 were indifferent.

This reveals that most of the Farms products are sold out on credits since most customers they like getting goods on credit, they go and sale then they pay out the debts and remain with the profit

This is in line with Fiel et al (1990), argues that, the nature of business may demand that goods be sold on credit instead of in cash. Instance some industrial product may be sold on credit than in cash hence generating mores sales and profits for the firm.

Table 4.18: Showing frequency of both variables that were used for computation of strength of the relation.

Variable	Marketing	staff Production	Total
Agreed	11	9	20
Disagreed	9	17	26
Indifferent	4	3	7
Total	24	29	53

Source: primary data

Expected frequency (Ei) = row total * Colum total

Grand total That is. = $r_t * C_T / Q_t$

Agreed responses

Marketing staff - $20 * 24 / 53 = 9.1$

Production staff = $20 * 29 / 53 = 10.9$

Disagreed respondents

Marketing staff = $26 * 20 = 9.8$

Production staff = $26 * 29 / 53 = 14.2$

Indifference responses

Marketing staff = $7 * 24 / 53 = 3.2$

Production staff = $7 * 29 / 53 = 3.8$

	O _i	E _i	O _i -E _i	(O _i -E _i) ²	(O _i -E _i)/E _i
Marketing staff agreed	11	9.1	1.9	3.61	0.4
Production staff Agreed	9	10.9	-1.9	3.61	0.3
Marketing staff Disagreed	4	9.8	-5.8	33.6	3.4
Production staff disagreed	17	14.2	2.8	7.8	0.5
Marketing staff Indifferent	4	3.2	0.8	0.6	0.2
Production, staff indifferent	3	3.8	-0.8	0.6	0.2
				E(O _i -E _i) ²	5

Calculated value of $X^2=5$

$CDF = (R-1) (C-1)$

From the table

$R = 21$ $C = 3$

Therefore, $(2-1) (3-1)$

$= (1) (2) = 2 * 1 = 2$

Since the test of 5% level of significance (X^2) (0.05)

$= 5.992$ (from the table)

Since the calculated value of $X^2 = 5$, is less than the tabulated VALUE $X^2 = 5.991$, therefore the null hypothesis should be accepted and we concluded that Farms do not make profit from credit extension than cash sales.

While interviewing the workers at Kabyoyon production Farm, the study found out that poor strategies used by management of kabyoyon farm is the major factor that greatly affects the profitability of kabyoyon production farm. Therefore they suggested that management and other stake holders should improve on credit management since the most challenges affecting the profitability of kabyoyon farm are due to poor strategies used by management.

CHAPTER FIVE

SUMMARY, CONCLUSION, RECOMMENDATION AND LIMITATION OF THE STUDY

5.0 INTRODUCTION

This chapter presents the summary of findings, recommendation, and limitation of the study and areas of further research.

5.1 SUMMARY OF MAJOR FINDING.

Finding on credit management of Kabyoyon Production Farm

The finding reveals the fact that credit management has not been of great importance to a firm due to factors affecting the firm as far as credit management is concern such factors include, bad debts, poor liquidity conditions of most customers, minimum investment in account receivable among other.

The findings reveal also that, credit practices are going down as a result of economic and political instability, inherent fluctuation and uncertainty of business operation in Kabyoyon Production Farm.

Further finding reveals that, Kabyoyon Production Farm maintains flexibility of their policies.

Finding on the level of profitability of Kabyoyon Production Farm

The finding indicates that Kabyoyon profitability level is high this has been indicated by high profit received from the sale of their product both on cash and on credit.

The findings reveal that, Kabyoyon Production Farm has been receiving back high percentage of its bad debts.

It was also discovered that the Farm receives more profit from cash sale than the credit sale this was indicated by high profit realized from cash sale of the Farms products

Finding on the relationship between credit management and profitability of Kabyoyon Production Farm

The finding indicates that there is a low relationship between credit management and profitability of Kabyoyon Production Farm this can be seen in that the more the effort committed towards credit management the level of profitability still remains low.

The hypothesis formulated was tested using chi-square method and the finding reveals that, there was a low relationship between the credit management and profitability of Kabyoyon Production Farm as indicated by the X being 5.991.

5.2 CONCLUSION

From the research carried out, the researcher was able to note that

Credit management can do well if effective credit management can be applied such as adoption of techniques, procedure, tools such as, monitoring performance, applying trade discount to customers, use of researchable or recommended means recover debts back since this will improve relationship between customers and organization.

Farms do not make more profit from credit extension to customers considering the time value of money and the average collection period including overdue debts.

Since Kabyoyon firm maintain a flexible credit policy there is likely to be a boost in sales resulting in an increase in revenue and profit of the firm hence Farm should manage trade credit well since it cannot be done away with.

5.3 RECOMMENDATION.

From the above study findings, the researcher concluded the following

The management of Kabyoyon Production Farm should put in consideration and appreciate the role played by debtors/customers by encouraging them by allowing trade discount to them.

As credit sale is almost inevitable, a credit department should be established in the Farm, handed by a credit controller and charged with the responsibility⁷ of implementing credit policies.

There should be a regular review of credit policies to suit the changes in the business environment.

An enquiry unit should be established to take responsibility for prospective creditor's assessment.

Kabyoyon Production Farm management needs to conduct adequate review of credit sale done by finance department to ensure that all debts are recovered.

5.4 LIMITATION OF THE STUDY.

The researcher faced the following limitation.

Financial constrain. Limited financial resources hindered the researcher from getting enough information required for the study and also other facilities like transport, supervision fee among others, however the researcher contacted relative to provide financial assistance to facilitate the research study.

Language barrier; due to language difference the researcher could neither speak nor understand the local language which some of the respondents were familiar with hence limiting the chances of collecting enough information,. The researcher overcome this problems by using friends who knew those language to translate for respondents who were not in position to express themself well in writing and spoken English.

Limited time; the time allocated for the research study was inadequate to allow the researcher collect all the information about the variable under investigation. The researcher however overcomes this problem by collecting data sticking to the study time schedule and also using Questionnaires as the major instrument of data collection questioners were given to the respondents earlier so that to minimize delays in answering.

The researcher experienced a problem of low responses from some of the respondents due to the low value they attach to the research.

The researcher suggests that management should improve the customers relationship. Farm management should open up to customers and make them feel as part of the Farm. Management should see customers as first priority and treat them in all aspect of the business.

5.5 AREAS OF FURTHER RESEARCH.

Given the finding and unexhausted aspects of the study it was important to provide some

Suggestion on certain users that needed to be considered in while out of more extensive study and analysis on supervision and workers performance. These areas include.

The roles of credit management

The impact of credit management on the profitability of manufacturing firm

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APPENDICES

APPENDIX 1: RESEARCH QUESTIONNAIRES

Dear Sir/Madam,

I am KAMIRUT TIMOTHY a student of Kampala International University carrying out a research study as a partial fulfillment of the requirement for the award of bachelors in business administration.

I humbly seek to get your opinion in order to facilitate the study on the impact of credit management on the profitability of production farm a case study of Kabyoyon farm. Information given will be specifically used for academic purpose and will be treated with ultimate confidentiality.

SECTION A

BACKGROUND INFORMATION

(a) Gender

Male

Female

(b) Age

(i) 25 years and below

(ii) 26-35 years

(iii) 36-45 years

(iv) 46 and above

(c) Level of education

(i) Certificate

(ii) Diploma

(iii) Degree

(iv) Masters

(d) How long have you worked with Kabyoyon firm.

(i) less than one year

(ii) 1-3 years

(iii) 4-6 years

(iv) More than 6 years

CREDIT MANAGEMENT

Please tick as appropriate.

1. Do you think your company can do without credit sale?

a) Agreed

b) Disagreed

c) Indifferent

2. Who is in charge of your credit management and administration in your firm?

a) Marketing

b) Finance department

c) Production

3. On the average, how long do you allow credit to your customers?

a) One week

b) Two months

c) One year

4. What major risk is associated with investment in trade credit threatens your company?

a) Bad debts

b) High administration cost :

c) Low profit

5. Approximately, what percentage of your company's credit run into bad debts?

a) Between 10-20%

b) Between 30-50%

c) Above 50%

6. What modes does your company use to recover its debts back?

a) Court action

b) Use of persuasion

c) Use of threats

7. What percentage of your total monthly saving is made on credit?

a) Between 10-30%

b) Up to 40%

c) Above 50

8. How can you rate your company's profitability level?

a) Very effective

b) Moderate

c) Very poor

9. From your records, would you say that trade discount is in effective tool in profit debt collection?

a) Strongly agreed

b) To an extend

c) Disagreed

10. Do you think a company's liquidity problem can be attributable to bad debt?

a) Above 70%

b) Between 40%

c) Up to 40%

RELATIONSHIP BETWEEN CREDIT MANAGEMENT AND PROFITABILITY OF PRODUCTION FIRM

11. Considering the bad debts loose that FARM do incur do you think some profit do occur to FARM from credit extension

a) Agreed

b) Disagreed

c) Indifferent

12. Do you think that information regarding a customer's credit worthiness can increase the profitability of your firm?

a) Agreed

b) Disagreed

c) Indifferent

13. Does credit extension sale attract more profitability than those cash sale?

a) Agreed

b) Disagreed

c) Indifferent