

**THE IMPACT OF CREDIT MANAGEMENT ON THE PROFITABILITY OF A
MANUFACTURING FIRM
(A CASE STUDY OF UNILEVER PLC ABA, NIGERIA).**

BY:

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ACC/2008/477

**DEPARTMENT OF ACCOUNTANCY
FACULTY OF MANAGEMENT AND SOCIAL SCIENCES
CARITAS UNIVERSITY, AMORJI-NIKE, ENUGU**

AUGUST, 2012

TITLE PAGE

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A RESEARCH REPORT SUBMITTED

TO

**DEPARTMENT OF ACCOUNTANCY,
FACULTY OF MANAGEMENT AND SOCIAL SCIENCES
CARITAS UNIVERSITY, AMORJI-NIKE**

ENUGU – STATE.

**IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARDS OF
BACHELOR OF SCIENCE (B.SC) DEGREE IN ACCOUNTING**

AUGUST, 2012

APPROVAL PAGE

This research report written by Uzoh Chinedu .A. Acc/2008/477 is hereby certified as meeting the partial requirement for the reward of Bachelor of Science (B.Sc) degree in Accountancy, Caritas University Amorji-Nike, Enugu.

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DEDICATION

To our mother of perpetual help and to the sacred heart of Jesus, who gave me strength, grace and support I needed to carry out this work.

ACKNOWLEDGEMENT

I am sincerely grateful to the most High God who is the fountain of knowledge. To him be the glory now and evermore Amen.

I specially express my sincere gratitude to my supervisor Dr. Frank E. Ovute for his encouragement guidance and advice as a contribution to my work. I am grateful Sir.

Lots of appreciation goes to my head of department Dr. Frank Ovute and to my department lecturers Mr. Nsoke, Mr. Chinedu Enekwe, Mr. James, Mr. Desmond and the management of Caritas University Amorji-Nike Enugu State.

I also express my deep love and gratitude to my lovely parents Mr. and Mrs Uzoh for their love care and prayers and to my caring siblings for all their academic support I am indebted to a striking effect on your intellectual process on the development of my intellect. For their moral and financial support have enhanced the uniqueness of this project.

To my friends Chinyere Nwaeme, Queenette Martins, Ibhahulu Otatade Maris and Omole Olabisi Rebecca who have helped in ordering my knowledge, I appreciate you all.

I pray God lead you all in all ramification. Amen

ABSTRACT

The aim of this research work is to appraise “The impact of credit management on the profitability of a manufacturing firm focused on Unilever Nigeria Plc Aba”. This is because; trade credit is a short term source of finance and sometimes take the form of bills payable. The statement 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 Unilever Nig. Plc Aba 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’s 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 analyzing the data collected, an extensive use of tabular information and percentages were of great importance. In the light of the findings and conclusions of this work, the following recommendations are put up: that there should be a regular review of credit policies to suit the changes in the business environment and that an enquiry unit should be established to take responsibility for prospective credit’s assessments amongst others.

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CHAPTER ONE

1.0 INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Credit management is a term used to identify accounting functions usually conducted under the umbrella of accounts receivables. Essentially, this collection of processes involves qualifying the extension of credit to a customer, monitors the reception and logging of payments on outstanding invoices, the initiation of collection procedures, and the resolution of disputes or queries regarding charges on a customer invoice. When functioning efficiently, credit management serves as an excellent way for business to remain financially stable.

Competent credit management seeks to not only protect the vendor from possible losses, but also protect the customer from creating more debt obligations that cannot be settled in a timely manner.

Several factors are used as part of the credit management process to evaluate and qualify a customer for the receipt of some form of commercial credit. This may include; gathering data on the potential customer's, current financial condition including the current credit score.

BRIEF HISTORY OF UNILEVER NIGERIA PLC ABA

Unilever Nigeria Plc is a public liability company quoted on the Nigerian stock exchange since 1973 with Nigerian's currently having 49 percent of equity holidays established in Nigeria. Unilever Nigeria Plc started as a soap manufacturing company and is today's one of the eldest surviving manufacturing organization in Nigeria. The company changed its name to "Unilever Nigeria Plc" in 2001.

The company is into the manufacture and marketing of household toiletries and favorites which are manufactured in their various factory locations in Nigeria. This is because they are so deeply committed to meet the everyday needs of people everywhere in Nigeria. Such factors are located at Lagos, Agbara, Oregun and Aba. Its staff strength is about one thousand eight hundred (1,800) employers. They also have indirect employees like contract staff and others who range from our forty thousand employees throughout the country.

The company has also made provision for assistance in fields of health, education, children welfare and potable water hygiene as part of its social responsibility programme in the Nigerian communities.

Conclusively, Unilever Nigeria Plc from research has been found to be involved in both credit and cash transactions with its customers.

1.2 STATEMENT OF THE PROBLEM

There are many problems companies encounter as a result of poor credit management. Thus, the problems inherent in this research study as investigated are as follows:

- (1) There is a high rate of bad debts because some corporations take advantage of the credit that is extended to them and find themselves not able to pay debt later.
- (2) The poor level of trade credit management is reflected in the liquidity and profitability position of the firm.
- (3) The inability of business policy makers to certainly say how effectively, credit management other makes or mars the performance of the business in terms of profitability.
- (4) Furthermore, lack of experienced staff or officers to tackle onerous and vital duties of managing debts appropriately.
- (5) Also, limitation and inadequate training opportunities for key treasury or supporting staff.

(6) Finally, failure to comply with the agreed terms of agreement with the company upon when paying the debt.

1.3 OBJECTIVE OF THE STUDY

The main objective of this study is to appraise the impact of credit management on the profitability of manufacturing firms and also providing effective means of reducing default in collection of accounts.

Other objectives include the following:

- (1) To appraise the effects of the credit management on the profitability of the company.
- (2) Identifying the problems associated with credit management in manufacturing firms.
- (3) To investigate the advantages of effective and efficient management of trade credit.
- (4) To also show how to reduce losses caused by bad debt through the use of effective and sound collection policy and procedures.
- (5) It is also very necessary for a firm to critically evaluate the individual account of the customers to enable it obtain the necessary credit

- information about them and to devise appropriate collection procedures for effective collection of account.
- (6) To examine whether the credit management principles applied by the firm is appropriate and effective.
 - (7) To encourage staff to always be at an alert in respect of knowing who their debtors are.

1.4 FORMULATION OF RESEARCH HYPOTHESES

The following hypotheses are formulated for the purpose of this research work.

Ho: Firm's do not make some profits when trade credit questions

H₁: Firm's do make some profit when they extend credit to customers.

Ho: Its credit information about customers does not help in reducing bad debt losses.

H₂: Its credit information about customers help in reducing bad debt losses.

Ho: Firms that sale on credit to their customers do not make more sales than those who sale in cash.

H₃: Firm's that sale on credit to their customers do make more sales than those who save in cash.

1.5 RESEARCH QUESTIONS

Base on the problems which this research work is aimed at finding solutions to, the following questions are put forward in finding solutions to the problems.

1. Does credit management have any effect on the profitability of a company?
2. Can trade credit be phased out completely from a company's business dealing?
3. How can a firm enforce collection of it's over due debts?
4. Has any company through the aid of trade credit facility achieved high profit index?
5. Can the liquidity and profitability objectives of the company be achieved through the use of credit facilities?

1.6 SIGNIFICANCE OF THE STUDY

This research work will be of great significance to the staff of Unilever Nigeria Plc. It will go a long way in enlightening them on the concept of credit management accounting as well as the best strategies to be adopted to monitor debts. This research work will as well be of benefit to students and researchers because it would widen their scope from the information

contained in this research work and lastly, it will also be of help to the entire nation by also enlightening them on the importance of managing debt and finding the best possible measures in settling debts as at when due.

1.7 SCOPE OF THE STUDY

This research work on the impact of credit management on the profitability of a manufacturing firm is focused on Unilever Nigeria Plc. Aba State.

1.8 LIMITATIONS OF THE STUDY

In the course of this research work, the researcher encountered some bureaucratic problems which are very peculiar to Nigeria firms. These factors are as follows:

1. **Time:** The time specified for submission for this research work was obviously too short and as such, was unable to go about Unilever Nigeria Plc thoroughly in carrying out this research.
2. **Lack of knowledgeable and sincere personnels:** Some of the officials employed in most manufacturing firms including that of Unilever Nigeria Plc has no knowledge on the ways of ensuring that credit management works effectively and they are also not approachable because they place themselves

on a very high esteem and even when I was opportune to interview them, there were lots of shortcomings from the basis such as deliberate distortion of facts and amongst others.

3. **Lack of Facilities:** Research facilities such as transportation make research easy and interesting. But it is often noted that Nigeria has a poor transportation system which greatly affected me in conducting this research.

1.9 DEFINITION OF TERMS

For easy comprehension of this research work, the writer intends to define the following terms:

1. **Accounts Receivable:**

This is the total sum which is being owed to Unilever Nig Plc by its customers at any particular accounting period.

2. **Bad debts:**

They are losses which are incurred by Unilever Nig Plc when some of its customers fail to pay part or all the money being owed to the firm.

3. **Trade credit:**

Is any amount for goods and or resources which remain unpaid at the time of purchase of such goods or services but which is deferred for future use.

4. Liquidity:

This is used to describe the assets of firms which are easily convertible to cash.

5. Solvency:

We use this term to express a firm's liabilities or obligations as they fall due or simply put a state of being able to pay debts as they fall due.

CHAPTER TWO

2.0 LITERATURE REVIEW

In pursuance of this study “Credit Management on the profitability of a manufacturing firm”. The researcher designs this chapter to review the related literature. This chapter aims at gathering some of the available information on this matter in order to have an insight into what credit management on the profitability of a manufacturing firm is all about.

I.M Pandy (2002) saw trade credit as a short term source of finance. He also said that, it is the credit that a customer gets from a supplier of goods in the normal course of a business. Therefore, it is mostly an informal arrangement between the supplier and the buyer as no legal documents are signed.

I.M Pandy (2002), pointed out that trade credit may also take the form of bills payable. This happens when the buyer signs a bill – a negotiable instrument to obtain trade credit of which in his balance sheet, it appears as bills payable and it 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.

TRADE CREDIT

The main objective of trade credit is providing effective means of reducing default in collection of accounts in order to help management ascertain the profitability of the company. Thus, this collection of processes involves qualifying the extension of credit to a customer, monitors the reception and lodging of payments on outstanding invoices, the initiation of collection procedures and the resolution of disputes or queries regarding charges on a customer invoice. Many companies have been moving towards an organizational integration of the information required for credit control. These activities, which in the past existed as individuals operation, operation's upon gathering all sums from debtors are centralized on companies in the hand of a single manager due to the desire for greater effectiveness.

For purpose of clarity, the researcher intends to discuss the literature review under the following sub-headings:

- i. Reasons for granting credit
- ii. Setting credit policy and regulation
- iii. Credit policy goals

- iv. Credit policy variable analysis.

2.1 REASONS FOR GRANTING CREDIT

Firms may grant credit to their customers for various reasons which include but not limited to the following as noted by **Agu W:**

1. When there is a lot of competition in an industry, a firm may grant its customers credit so as to attract them for patronage.
2. The nature of the business may demand that goods be sold on credit instead of in cash. For instance; some industrial products may be sold on credit than in cash.
3. Most times, the status of the customer may require granting him some credit. Status here implies the size and credibility of the customer firm. Big firms who buy in bulk may not afford to pay for all the purchase at one.
4. At times, when a firm wants to establish a long term relationship with a customer (buyer) such a firm may decide to grant credit to the customer.
5. Credit sales can also act as marketing tools whereby a firm that launched a new product can decide to use credit to push the product into the market.

With the above reasons, it can be discovered why firms invest in credit. Meanwhile, trade has been described as a two edged sword which needs to be handled with care. Even though it can help a firm in achieving the above, it has also been proved that firms can be run down when improper management of trade credit is the order of the day.

Contributing to this, Walter (1987) says that, “since investment in trade debtors has a firm’s fund, it is necessary that a firm 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.

According to **Obinnu (1990)**;

In making analysis of trade credit, so many factors have to be taken into consideration.

- i. The market size has to be considered.
- ii. The firms market sharp.
- iii. The quality of product that is being sold because if it is of low quality, it will be hard to sell whereby recovery of debts will seem difficult.
- iv. The economic condition at the moment of sale.
- v. The intensity of competition in the industry.

All these are necessary because it has been found that the volume of credit sales is a function of the firm’s total sales and the percentage of

credit sales to total sales. The nature of business and the industry norms greatly influence the percentage of credit sales to total sales of a firm. However, a financial manager can only influence the volume of credit sales, collection period and investment in trade credit by altering the firm's credit policy.

2.2 SETTING CREDIT POLICY AND REGULATION

The term credit policy may mean different things to different people. But according to the chambers dictionary, it simply refers to "the laid down rules and procedures which a firm have chosen to guide her in the granting of credit to her customers.

However, according to Enarke Yarhe (1989), he identified three decision credit policy variables with which a firm must adopt so as to make a good policy arrangement. It includes;

2.2.1 Credit Standards

These are the criteria which a firm follows in selecting customers for the purpose of credit extension. A firm may adopt tight credit standard whereby it sells mostly on cash and may extend credit to only a few reliable customers. This will make such a firm to minimize bad debts losses but will not be able to

expand sales. Also, when a firm adopts a loose credit standard, it will expand sales but may not minimize bad debt losses and administration costs.

2.2.2 Credit Terms

These are those stipulations which a firm adopts as conditions under which the customer can buy on credit: It includes:-

- A. The Credit Period:-** This is the length of time for which the credit is extended to the customer. It is generally stated in terms of a net date. For instance, if a firm's credit terms are net 45, a customer is expected to repay his credit obligation within a maximum of 45 days.
- B. The Cash Discount:-** This is a reduction in payment offered to customer(s) to reduce him to pay his credit obligations within a specified period which will be earlier than the normal credit period. It is a tool which a firm uses to increase sales and also accelerate collection of debts from customers.

2.2.3 Collection Efforts

There should also be a properly laid down collection policy and procedures which a firm should follow in collecting its dues from customers. When a debt is overdue for collection from a customer, a polite letter should

be sent to remind the customer but if he fails to respond, a strong worded letter may follow thereafter and finally a personal visit may also help. If no respond still, a legal action may be initiated but care should be taken not to loose everything in a situation where the customer is not financially okay.

2.3 CREDIT POLICY GOALS

Having considered the variables involved in setting a credit policy, a firm how has the opportunity of going through the various policies available having known their different implications.

A firm may choose to adopt a lenient credit policy. This allows the firm to grant credit to customers whose worthiness cannot be ascertained. The firm adopts liberal terms and standards such as longer period of credit, granting credit to customers with stably financial positions etc on the other hand, **Obianwu (1990)** noted that, “a firm that adopts a stringent credit policy sells on credit to only selected customers who possess proven credit worthiness and also who are financially stable”.

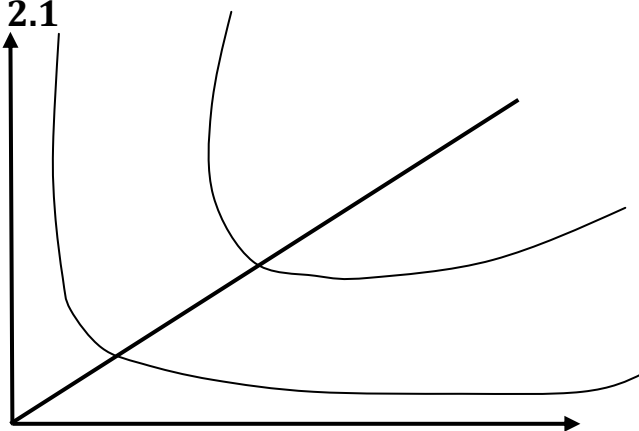
2.3.1 Optimal Credit Policy

In practice, there has always existed a trade-off between opportunity cost of cost contribution as a result of a firm not extending credit on cost of administration otherwise called carrying costs and bad debts loose. For a firm to strike a balance between the two, it must reach an optimal credit policy.

According to Stephen A. Ross, et al (1999), corporate finance, “At the optimal amount of credit, the incremental cash flows from increased sales are exactly equal to the carrying costs from the increase in accounts receivable”.

According to Pandey, I.M. (2005) Financial Management, “optimal credit policy is one which maximizes the firm's value”. He opined that the firm's value is maximized only when the incremental or marginal rate of return of an investment is equal to the incremental or marginal cost of funds used to finance the investment. Furthermore as stated by **Pandey**, “the original goal of the firm's credit policy is to maximize the value of the firm”.

Fig. 2.1



From the above diagram, there is a trade off at point A, where the total of opportunity costs of cost contribution, cost administration costs and bad debts losses are maximum.

Randolph W. Wester Field et al (1990) argues that: “in a perfect financial market, there should not be an optimal credit policy”. Thus, the decision to grant credit would be a matter indifferent to financial managers.

He also want further is say that a firm will extend trade credit if it has a comparative advantage in doing so. Then concluded by saying that, the optimal credit policy depends on the characteristics of particular firms.

2.4 CREDIT POLICY VARIABLE ANALYSIS

Writing on the issue of credit policy variable analysis, **Pandy, I.M (2000)** said that:

“Before a financial manager decides to grant credit to customers, he has to consider some variables that are of relevance to be put into analysis in order to achieve the objectives of the firm’s credit policy”. Those variables go a long way in influencing the level of receivables which will accrue to the firm. Some of the variables include:

2.4.1 CREDIT ANALYSIS

In order to make sure that credit will be granted to credit worthy customers, the financial or credit manager should be able to source enough information about the customers to enable him differentiate between customers that will not pay and customers that will pay. This information can be sourced from the following:

- a. A financial statement of a customer can be demanded from him, which will be analyzed to ascertain his credit worthiness.

- b. Credit report on customer's payment history with other firms may serve as good source of credit information.
- c. Banks do provide some information or assistance to their business customers to the credit worthiness of some firms.
- d. The selling firm can also make sure upon the customers payment history in the past to determine its credit worthiness in the present.

2.4.2 CREDIT SCORING

After gathering all relevant information about these customers, the credit or financial manager may decide to grant or not to grant any credit.

Keplan R.S (1998) noted the use of "five C's of credit" to estimate the profitability of default in order to advert default risk which are as follows:

- **Character:**

The customer's willingness to settle his obligations when they are due has to be put into consideration because it determines default rate.

- **Capacity:**

This is the ability of the customer to settle his financial obligations when they fall due. This is determined by analyzing the firms operating cash flows.

- **Capital:**

The financial reserve of a customer goes a long way to tell if he is able to meet his credit obligation when they become due.

- **Collateral:**

Most times, a firm may pledge an asset in the case of default. Such an asset has to be evaluated to know its worth incase there was a default.

- **Condition:**

A credit or financial manager should be able to assess the extent to which a customer's ability to pay is likely to be affected by the prevailing economic decisions.

2.4.3 COLLECTION POLICY AND PROCEDURES

A collection is necessary since all customers do not pay their bills the same time, while some customers pay promptly, others are slow payers. Collection efforts should be focused on accelerating collection from slow payers thereby reducing bad debts losses.

Pandy, I.M (2005) asserts that, prompt collection is needed for fast turnover of working capital; keeping collection costs and bad debts within limits and maintaining collection efficiency. A collection policy should lay down a clear cut collection procedure. The procedures should be followed

with tact to avoid losing some customer to other competitors by covering overdue accounts. Firms should start early enough to collect his accounts from customers and it should be known that it is the duty of the firm to remind debtors to pay their due accounts.

2.4.4 ESTABLISHING INTERNAL COLLECTION PROCEDURE

Firms often have varying collection procedures for different customers or creditor. Just as they have different policies for different customers but all these depends mostly on the prevailing economic conditions and credit worthiness of each customer. Nevertheless, a carefully planned collection procedure is essential for consistent treatment of credit accounts.

Thus, according to Ibid (2005), he identified some internal collection procedures such as:

PROMPT ACTION:

The time frame between sales and payment should not be stretched to avoid growth of accounts receivable. It also increases the risk of uncollectible accounts. So the best time to collect overdue accounts is as soon as it was overdue.

DELINGUENCY CHARGES:

To hasten the payment of debts on the side of debtors, a certain percentage of the outstanding credit is charged on overdue balances.

2.4.5 OTHER COLLECTION PROCEDURES

Here, the firm devises some means that will enable her collect overdue accounts from customers.

Some of those procedures as mentioned below are useful:

- 1) The firm sends a delinquency letter informing the customer of the past-due status of the account.
- 2) The firm makes telephone calls to the customer involved.
- 3) Most times, the firm may need to employ a collection agency.
- 4) Finally, the firm may also decide to take a legal action on the customer.

In achieving this, care must be taken here not to hasten the customer's insolvency because if the customer's financial status is weak, legal action may lead her to insolvency.

2.4.6 MONITORING RECEIVABLES

For a firm's book, debts to be collected using whichever ever chosen policy and procedures, it has to be strictly monitored and controlled.

Writing on the objectivity of monitoring receivables upon credit management, **Pandy (2002)** identified some three methods used in evaluating and managing accounts receivable. They are:

- i. The average collection period.
- ii. The aging schedule.
- iii. Collection experience matrix.

AVERAGE COLLECTION PERIOD

Each firm in credit policy provides for credit period which is always compared with the calculated average collection period. In essence, measures the average amount of time required to collect an account receivable. It is calculated using the formula below.

$$\text{ACP} = \frac{\text{Debtors} \times 360}{\text{Credit sales}}$$

Where ACP = Average collection period.

If a firm collection period is extended such that it defers by a number of days, with that of the state collection period, it results in delays in cash inflows, which automatically impairs the firm's liquidity position and increases the chances of bad debt losses.

AGING SCHEDULE

This method of evaluating receivables helps in tabulating receivables by the age of the account. That is, according to the length of time for which such

receivables have been outstanding. Thus, the following is an example of aging schedule.

Age of Account	Outstanding Debts	Percentage
0 - 25	200,000	50.0
26 - 35	100,000	25.0
36 - 45	50,000	12.0
46 - 60	20,000	5.0
Over 60	400,000	100.0

This schedule shows that assuming the firms stated credit period is 25 day that 50 percent of receivables remain outstanding beyond this period. This affects the firm's working capital and liquidity position. Similarly, aging schedule provides more information about the collection experience of receivables.

COLLECTION EXPERIENCE MATRIX

The two previously shown traditional methods of evaluations receivables have some limitations. They fail to relate receivable to sales of the same period. This makes control difficult and meaningful information about them is not obtained.

However, collection experience matrix makes use of dis-aggregated data for analysis of collection experience. This approach relates receivable to sales of the same period since it uses a matrix to show the sales of a given period in a horizontal order and the associated receivables in a vertical order. For instance; factoring.

FACTORING

In credit management, different firms adopt different strategies as long as it will yield a positive result. This is pertinent in considering the fact that the collection of receivables pose a lot of problems to firms, particularly addressed to small-scale enterprise.

On this note, most firms to avoid all the risks associated with credit collection sell their account receivable to a financial institution known as factor whose job is to manage, finance and collect receivables. The sales ledger contains some vital information about each customer of a firm. Such information ranges from total value of sales made to such a customer and the range of payment made by such customer.

However, the factor maintains account for the different customer based on the data contained in the sales ledger. He gives clients necessary information and reports about market trends. Also, he makes a systematic

analysis of the information regarding client for its proper monitoring and management. This may include:

CREDIT COLLECTION AND PROTECTION

One of the job of factors is to collect the due amount or part of it from the customer. While he is collecting the due book debts, he owes himself the duty of protecting against the occurrence of bad debt losses which will affect his collections incase it occurs.

FINANCIAL ACCOMMODATION

Normally, when factors buy a client's book debts, it is done at a discount and the factor extends some advanced cash to the client against the debt. This is to help assist the client financially to enable him forge ahead with business. This advance extended to the client is aimed at proving him with some short-term finance which have some intrinsic cost attached. Thus, it enables the client to also maintain some working capital with which to run his business.

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CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 RESEARCH DESIGN

A research specifies the methods and procedures for conducting a particular study. Thus, the research design adopted in this research is survey design field work which includes the use of personal or oral interview and questionnaires.

(A) QUESTIONNAIRE METHOD

A questionnaire was designed and administered in the process of gathering data for the study. The investigator designed questionnaire which were relevant in gathering information from the staff of the company in credit management on the profitability of manufacturing firms.

The question as were directed to relevant area of the project such as: production staff, marketing staff and accounting staff.

(B) PERSONAL OR ORAL INTERVIEW

As either face to face (oral interview) was conducted. Those interviews were the people who were in the position to know the consequences of proper inadequate trade credit management in a manufacturing company.

3.2 AREA OF STUDY

This research work covers only the Aba branch of Unilever Nig. Plc. Most of the data used in this work were gathered from Unilever Nig. Plc Aba branch in Abia State. Thus, the researcher decided to narrow the study of Aba branch only for easy co-ordination and easy access to data.

3.3 SOURCES OF DATA

The sources of data used in this study emanated mainly from the following:

- (a) Primary sources
- (b) Secondary sources

The primary source were obtained through the use of oral interviews and questionnaires while the secondary source were obtained from relevant textbooks, journals and newspapers, magazines, seminar topics, encyclopedia,

dictionary amongst others: Specifically our sources of secondary data came from the following sources.

- (1) The University Library
- (2) The national library, Enugu
- (3) Journals (relevant to this study) auditing reports and related documents.
- (4) Related literature on credit management on the profitability of manufacturing firms.

3.4 POPULATION OF THE STUDY

The population of the study were made up of all production, marketing and accounting departments. The population consist of 42 production staff, 52 marketing staff and 40 Accounting staff bringing a total population to 134.

3.5 INSTRUMENT OF DATA COLLECTION

Considering the nature of this work, more than one instrument was used in collecting data. The investigator traveled to the company under study (Unilever Nig Plc Aba) and distributed questionnaires personally to avoid loss in transit.

Official documents like relevant journals also gotten which gave more weight to the information collected from questionnaires.

3.6 VALIDATION OF THE INSTRUMENT

The relevance of this research work was adequately considered in the instrument used in the data collection. The construction of the questionnaires was properly done so as to avoid using questions which might not really achieve the desired results. Thus, ensuring originality.

3.7 RELIABILITY OF THE INSTRUMENT

The questionnaires were first administered to a selected small fraction of the sample in order to determine the degree of accuracy of the instrument. From this exercise, a satisfactory outcome was achieved which shows that the instrument was reliable.

3.8 METHOD OF DATA ANALYSIS

The analysis of data involves more of statistical tools in the presentation of information. Simple percentages were used in qualifying the relationship in one datum to another.

The same percentage frequency method is:

Frequently each opinion x 100

Total number of respondents

Also, the chi-square technique was featured in the results aspect of the hypothesis.

$$\text{Formula} = \chi^2 = \frac{\sum(o_i - e_i)^2}{E_i}$$

Where χ^2 = Chi-square

O_i = Observed frequency

E_i = Expected frequency

3.9 SAMPLE DESIGN AND DETERMINATION OF SAMPLE SIZE

However, for easier collection of data and analysis, a sample size was randomly selected for the study based on convenience. The sample size was determined departmentally using **Taro Yamane** formula given below:

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

Where n = the desired sample size

N = Population size

E = Maximum acceptable level of error

I = Theoretical constant

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

$$\begin{aligned}
 N &= 134 \\
 E &= 0.05 \\
 &= \frac{134}{1 + 134 (0.05)^2} \\
 &= \frac{134}{1 + 0.335} \\
 &= \frac{134}{1.335}
 \end{aligned}$$

$$n = 100.$$

Thus, out of the population of 134 staff of the above department part of them were used as sample for the study.

CHAPTER FOUR

4.0 PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

This chapter focuses on the analysis and interpretation of data from the sources designed to reveal the facts about the subject of this study in relation to the effects of credit management on the profitability and liquidity of Unilever Plc Aba branch factory. For the analysis, the formulated hypothesis will guide the relevant questions as contained in the administered questionnaires and will be analyzed with available data. The tables below reveal the distribution of the respondents from Unilever Plc. Aba.

4.1 ANALYSIS AND INTERPRETATION OF DATA

The researcher administered a total of 40 questionnaires to the staff of Unilever Plc Aba. However, most of the questionnaires collected were not filled as most of the staff misplaced theirs as at the time of collection. This resulted in the collection or return of only 34 out of the 40 that were distributed or rather

administered on the staff. Meanwhile, the observed data are presented here under by means of table and percentage.

QUESTION 1:

Could a company's liquidity problem be attributed to bad debt?

Table 4.1

Options	Respondents	Percentages
Above 70%	6	17.65%
Between 40 – 70%	8	23.53%
Up to 40%	20	58.82%
Total	34	100%

SOURCE: FIELD RESEARCH

The above table shows that 20 persons representing 58.82% of the total respondents believe that bad debts can cause up to 40% of a company's liquidity problem. 6 persons who represents about 17.65% believe that bad debts can cause up to 70% of a company's liquidity problem.

QUESTION 2:

Would you argue it that your company cannot do without credit sales?

Table 4.2

Options	Respondents	Percentage
Agreed	6	17.65%
Disagreed	26	76.47%
Indifferent	2	5.88%
Total	34	100%

SOURCE: FIELD RESEARCH

The response in table 4.2 indicated that 26 persons representing 76.47% believes that Unilever Plc. Aba cannot do without selling her goods on credit to customers. Also, 6 persons representing 17.65 agree that Unilever Plc can do without credit sales while 2 persons feel indifferent about it.

QUESTION 3:

We are in charge of your management and information?

Table 4.3:

Options	Respondents	Percentage
Marketing Dept.	8	23.53%
Finance Dept.	23	67.65%
Production Dept.	3	8.82%
Total	34	100%

SOURCE: FIELD RESEARCH

From the above table, 23 respondents agree that the finance department administers the firm's credit and manage same. That is about 67.65%, 8 people comprising 23.53% say marketing department while 3 people representing 8.82% say it is the production department.

QUESTION 4

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

Table 4.4:

Options	Respondents	Percentage
One week	2	5.88%
Two weeks	3	8.82%
One month	29	85.30%
Total	34	100%

SOURCE: FIELD RESEARCH

From the above table, 29 respondents which represents 85.30% of the total respondents agree that the company allows its customers one month within which to pay their debts. About 3 respondents which comprises about 8.82% say two weeks while the remaining 2 respondents making up the remaining 5.88% say it is only one week.

QUESTION 5

What major risk as associated with investment in trade credit, threatens your company most?

Options	Respondents	Percentage
Bad debt losses	7	20.59%
Low profits	8	23.53%
High admin cost	19	55.88%
Total	34	100%

SOURCE: FIELD RESEARCH

The above table shows that 19 respondents which present 55.88% of the total respondent believe that the company spends much money on debt administration while 8 respondents representing 23.53% believe it is low profits that threaten the company. 7 respondents believe it is bad debt losses and that is 20.59%.

QUESTION 6

Approximately what percentages of your company's trade credit run into bad debts?

Table 4.6:

Options	Respondents	Percentage
Between 10 – 20%	22	64.71%
Between 30 – 50%	11	32.35%
Above 50%	1	2.94%
Total	34	100%

SOURCE: FIELD RESEARCH

Table 4.6 indicated that 22 respondents representing 64.71% of the total respondents believe that approximately 10 – 20% of the owing by customers run into bad debts. Also, 11 responds making a total of 32.35% says it's between 30 – 50% while one respondent says it is above 50%.

QUESTION 7

What mode does your company use to recover its debts back?

Options	Respondents	Percentage
Court action	3	8.82%
Use of persuasion	17	50%
Use of threats	14	41.18%
Total	34	100%

SOURCE: FIELD RESEARCH

Table 4.7 indicates that 17 respondents believe that the company uses persuasion to recover its debts when they are going bad and that is about 50% of the total respondents 14 respondents a total of 41.18% says it is the use of threats while the remaining 3 persons representing 8.82 says it is court action.

QUESTION 8

What percentage of your total monthly sales is made on credit?

Table 4.7:

Options	Respondents	Percentage
Between 10 - 30%	6	17.65%
Up to 40%	28	82.35%
Above 50%	0	0%
Total	34	100%

SOURCE: FIELD RESEARCH

From the above table, 28 respondents representing 82.35% of the total respondents believe that up to 40% of the company's total monthly sales are made on credit, 6 respondents representing 17.65% says it is between 10 - 30% while no respondent says it is above 50%.

QUESTION 9

What would you rate your company's credit management strategies?

Table 4.9:

Options	Respondents	Percentage
Very effective	18	52.94%
Moderate	10	29.41%
Very poor	6	17.65%
Total	34	100%

SOURCE: FIELD RESEARCH

From table 4.9, 18 respondents making 52.94% of the total respondents, agreed that the company's credit management strategies are very effective about 10 respondents comprising 29.41% claim that the strategies are moderate while the remaining 6 respondents making 17.65% believe it is very poor.

QUESTION 10

From your records, would you say that trade discount is an effective tool in prompt debt collection?

Table 4.10:

Options	Respondents	Percentage
Strongly Agreed	19	55.88%
To and extent	14	41.18%
Disagreed	1	2.94%
Total	34	100%

SOURCE: FIELD RESEARCH

In the above table, 19 respondents representing 55.38% of the total respondents strongly agreed that trade discount is an effective tool in prompt debt collection while 19 respondents comprising 41.18% believes it is an extent and only 1 respondents disagreed with them.

QUESTION II

Considering the bad debt losses firms do incur, do you think some profits do accrue to firms from credit extension?

Table 4.11:

Options	Respondents	Percentage
Agreed	12	35.29%
Disagreed	17	50%
Indifferent	5	14.71%
Total	34	100%

SOURCE: FIELD RESEARCH

From the above table, 12 respondents representing 35.29% of the total respondents agreed that firms make some profits. It respondents disagreed with that idea while 5 respondents representing 14.7% were indifferent about it.

QUESTION 12

Do you think that information regarding a customer's credit worthiness can help reduce bad debt losses?

Table 4.12

Options	Respondents	Percentage
Agreed	25	73.53%
Disagreed	6	17.65%
Indifferent	3	8.82%
Total	34	100%

SOURCE: FIELD RESEARCH

In table 4.12 above, 25 respondents believe that credit information about customers can help in reducing bad debt losses and that represents 73.53% while 6 respondents representing 17.65% of the total respondents disagreed with that. The remaining 3 respondent making up for the remaining 8.82% were indifferent about that.

QUESTION 13

Does credit extension attract more sales than those cash sales?

Table 4.13

Options	Respondents	Percentage
Agreed	18	52.94%
Disagreed	10	29.41%
Indifferent	6	17.65%
Total	34	100%

SOURCE: FIELD RESEARCH

From the above table, 18 respondents representing 52.94% of the total respondents agreed that credit sales attract more sales than those cash sales. 10 respondents representing 29.41% disagreed with that idea while the remaining 6 respondents representing 17.65% were indifferent.

4.2 TEST OF HYPOTHESES

The hypotheses formulated in chapter one of these research will be listed here to either prove their validity or invalidity. The acceptance or otherwise of each hypothesis will be based on the information given in the analyzed data.

4.3 TEST OF HYPOTHESIS 1:

The statistical tool required for testing the hypothesis is chi-square static as a companion between the actual and the expected outcomes in order to determine the validity of the work. This method of analysis is to enable the researcher arrive at a significant result.

The decision rule is to reject Null hypothesis.

[Ho] if the calculated value is more than the chi-square

Table $\chi^2 = 0.05$. Otherwise accept the Null hypothesis

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

Where, χ^2 = Chi-square

O_i = Observed value

E_i = Expected value

H_0 : Firms do not make any profit from trade credit extension

H_1 : Firms make some profit from credit extension.

To test the above hypothesis, question 11 will be relevant and the contingency table below relates to extracts from table.

CONTINGENCY TABLE 1

Variables	Marketing Staff	Production	Total
Agreed	7	5	12
Disagreed	6	11	17
Indifferent	2	3	5
Total	15	19	34

Expected Frequency (E_i) = $\frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}$

That is, $e_i = \frac{r_t \times c_t}{g_t}$

Agreed Responses:

$$\text{Marketing Staff} = \frac{12 \times 15}{34} = \frac{5.29}{34} = 5.3$$

$$\text{Production Staff} = \frac{12 \times 19}{34} = 6.7$$

Disagreed Responses:

$$\text{Marketing Staff} = \frac{17 \times 15}{34} = 7.5$$

$$\text{Production Staff} = \frac{17 \times 19}{34} = 9.5$$

Indifferent Responses:

$$\text{Marketing Staff} = \frac{5 \times 15}{34} = 2.7$$

$$\text{Production Staff} = \frac{5 \times 19}{34} = \frac{2.79}{34} = 2.8$$

	O_i	E_i	O_i - E_i	(O_i - E_i)²	$\frac{(O_i - E_i)^2}{E_i}$
Marketing Staff Agreed	7	5.3	1.7	2.89	0.545
Production Staff Agreed	5	6.7	- 1.7	2.89	0.431
Marketing Staff Disagreed	6	7.5	- 1.5	2.25	0.3
Production Staff Disagreed	11	9.5	1.5	2.25	0.237
Marketing Staff Indifferent	2	2.2	- 0.2	0.04	0.018
Production Staff Indifferent	3	2.8	0.2	0.04	0.014

	$E(O_i - E_i)E_i$	1.545
--	-------------------	-------

Calculated value of $\chi^2 = 1.54$

Calculation of Degree of Freedom

$$CDF = (R_t - 1) (C_t - 1)$$

From the contingency table.

$$R = 2 \quad C = 3$$

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

$$= (1) (2) = 2 \times 1 = 2$$

Since the test of at 5% level of significance

$$(\chi^2)_{(0.05, 2)}$$

$$= 5.992 \text{ (from the table)}$$

DECISION RULE

Reject Null Hypothesis if calculated χ^2 is greater than the critical (table) value χ^2

$(0.05, 2)$ otherwise accept the Null Hypothesis (H_0)

DECISION

Since the calculated value of $\chi^2 = 1.545$, is less than the tabulated value of $\chi^2 = 5.991$, therefore the null hypothesis should be accepted and we concluded that firms do not make any profit from credit extension.

TEST OF HYPOTHESIS 2:

Ho: Credit information about customers does not help in reducing bad debt losses.

Hi: Credit information about customers assist a firm in reducing bad losses.

To test the above hypothesis question, number 12 will be relevant and the contingency table below relates to extract from table 4.12. This test is carried out at 5% level of significance.

CONTINGENCY TABLE 2

Variables	Marketing Staff	Production	Total
Agreed	18	7	25
Disagreed	02	4	6
Indifferent	1	2	3
Total	21	13	34

Expected Frequency (E_i) = $\frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}$

That is, $e_i = \frac{RT \times CT}{GT}$

AGREED RESPONSES:

$$\text{Marketing Staff} = \frac{25 \times 21}{34} = 15.4$$

$$\text{Production Staff} = \frac{25 \times 13}{34} = 9.6$$

DISAGREED RESPONSES:

$$\text{Marketing Staff} = \frac{6 \times 21}{34} = 3.7$$

$$\text{Production Staff} = \frac{6 \times 13}{34} = 2.3$$

INDIFFERENT RESPONSES

$$\text{Marketing Staff} = \frac{3 \times 21}{34} = 1.9$$

$$\text{Production Staff} = \frac{3 \times 13}{34} = 1.1$$

$$X^2 = E \frac{(O_i - E_i)^2}{E_i}$$

	O _i	E _i	O _i - E _i	(O _i - E _i) ²	$\frac{(O_i - E_i)^2}{E_i}$
Marketing Staff Agreed	18	15.4	2.6	6.76	0.439
Production Staff Agreed	7	9.6	-2.6	6.76	0.704

Marketing Staff Disagreed	02	3.7	-1.7	2.89	0.781
Production Staff Disagreed	4	2.3	1.7	2.89	1.257
Marketing Staff Indifferent	1	1.9	-0.9	0.81	0.426
Production Staff Indifferent	2	1.1	0.9	0.81	0.736
				$E(O_i - e_i)^2$	4.343
				E_i	

Calculated value of $x^2 = 4.343$

Calculation of Degree of Freedom

$$Cdf = (R_t - 1) (C_t - 1)$$

From the contingency table since the test is at 5% level of significance.

$X^2 (0.05, 2) = 5.991$ from the table.

DECISION RULE

Project Null hypothesis if calculated x^2 is greatest than the critical (table) value $x^2 (0.05, 2)$ otherwise, accept null hypothesis (H_0).

DECISION

Since the calculated value of $x^2 = 5.991$, we therefore accept the null hypothesis and conclude the credit information about customers does not help in reducing bad debt losses.

TEST OF HYPOTHESIS 3:

Ho: Firms who sell on credit to their customers do not make more sales than those who sell in cash.

Hi: Firms who sell on credit to their customers do make more sales than those who sell in cash.

In testing the hypothesis, question 13 extract will be used in the contingency table below which data relates to table 4.13. This test is carried out at 5% level of significance.

CONTINGENCY TABLE 3

Variables	Marketing Staff	Production	Total
Agreed	12	6	18
Disagreed	8	2	10
Indifferent	2	4	6
Total	22	12	34

Expected Frequency (E_i) = Row Total x Column Total

Grand Total

That is, $e_i = \frac{RT \times CT}{GT}$

AGREED RESPONSES:

$$\text{Marketing Staff} = \frac{18 \times 22}{34} = 11.6$$

$$\text{Production Staff} = \frac{18 \times 12}{34} = 6.4$$

DISAGREED RESPONSES:

$$\text{Marketing Staff} = \frac{10 \times 22}{34} = 6.5$$

$$\text{Production Staff} = \frac{10 \times 12}{34} = 3.5$$

INDIFFERENT RESPONSES:

$$\text{Marketing Staff} = \frac{6 \times 22}{34} = 3.9$$

$$\text{Production Staff} = \frac{6 \times 12}{34} = 2.1$$

$$X^2 = \frac{E (O_i - E_i)^2}{E_i}$$

Ei

	O _i	E _i	O _i -E _i	(O _i - E _i) ²	$\frac{(O_i - E_i)^2}{E_i}$
Marketing Staff Agreed	12	11.6	0.4	0.16	0.014
Production Staff Agreed	6	6.4	-0.4	0.16	0.025
Marketing Staff Disagreed	8	6.5	1.5	2.25	0.346
Production Staff Disagreed	2	3.5	-1.5	2.25	0.643
Marketing Staff Indifferent	2	3.9	-1.9	3.61	0.96
Production Staff Indifferent	4	2.1	1.9	3.61	1.719
				$\frac{E(O_i - e_i)^2}{E_i}$	3.707

Calculated value of $x^2 = 3.707$

Calculation of Degree of Freedom

$$Cdf = (R_t - 1) (C_t - 1)$$

From the contingency table;

Since the test is at 5% level of significance,

$X^2 (0.15, 2) = 5.991$ from the table.

DECISION RULE:

Reject Null hypothesis if calculated x^2 is greater than the critical (table) value x^2

(0.05, 2) otherwise, accept the Null hypothesis (H₀).

DECISION

Since the calculated value of $x^2 = 3.707$ is less than the table value of $x^2 = 5.991$, we therefore accept the Null hypothesis and conclude that firms who sell on credit to their customers do not make more sales than those who sell in cash.

CHAPTER FIVE

5.0 SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY OF FINDINGS

From the responses gotten from the respondents, some interesting findings were made. The results of the researcher's findings were collected from all the departments involved of Unilever Plc Aba Nigeria.

The findings of the study as deduced from the tables in chapter four reveal the following regarding credit management in manufacturing firm.

MAJOR FINDINGS

1. Firms maintain minimum investments in account receivable, giving short term credit as firms now prefer to trade on cash.
2. In Unilever Plc Aba, when a customer fails to pay at the due date, further supplies are withheld until payment is made. If he continues to be delinquent in his payment attitude, his distributorship license is revoked. Thus, depending on the materiality of the debt, a legal action may be instituted.
3. Also, credit practices are going down as a result of economic and political instability, poor liquidity condition of most customers, inherent fluctuation and uncertainty of business operation in Nigeria.
4. It was also discovered that the company maintains flexibility in their credit policies.
5. The company maintains adequate books of accounts for their customers (contributors).

More also, the three hypotheses formulated for the study was fasted. The test technique however was chi-square.

5.2 CONCLUSION

This research has gone to a reasonable extent to find out sources and problems associated with the management role in the profitability of manufacturing industries.

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

- (1) Firms who sale on credit do not make more profit than their counterparts who sale in cash.
- (2) Firms do not make any profit from credit extension to customers considering the time value of money and the average collection period including over due debts.
- (3) Effective management of trade can help in reducing bad debt.
- (4) Also credit information does not guarantee a bad debt free transaction as it relates to trade credit customers.
- (5) Since Unilever Plc. Aba maintains a flexible credit policy, there is likely to be a boost in sales resulting in an increase in revenue and profit of the company.

Hence, firms should manage trade credit well since it cannot be done away with.

5.3 RECOMMENDATIONS

After detailed examination of the impact of credit management in a manufacturing firm (Unilever Plc Aba). The investigator wishes to make the following recommendations which would benefit the company in the particular and the other manufacturing firms in general.

1. As credit sales is almost inevitable, a credit department should be established in the firm, handed by a credit controller and charged with the responsibility of implementing credit policies.
2. There should be a regular review of credit policies to suit the changes in the business environment.
3. A prospective creditor should be assessed properly to ascertain his credit worthiness possibly using the 5c's of credit before extending credit to him.
4. An enquiry unit should be established to take responsibility for prospective creditor's assessments.
5. For control purpose, relevant financial ratios should be computed at the end of each financial year for comparison purpose.

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APPENDIX 1

Department of Accountancy,
Caritas University,
Amorji – Nike,
Enugu,
Enugu State.
P.M.B 10784

The Personnel Manager,
Unilever Nig. Plc

Dear Sir / Madam,

REQUEUST FOR ADMINISTRATION OF QUESTIONNAIRE

I am a final year student of Accountancy Department, Caritas University Amorji – Nike, Emene Enugu.

I am currently carrying out a research on “The impact of Credit Management on the Profitability of a manufacturing firm” using your company (Unilever Nig. Plc Aba) as a case study.

Therefore, your frank answer to this question will be highly appreciated as they will help the research a great deal.

Be assured that all information given will be specifically used for academic purpose and will be treated with ultimate confidence.

Thanks for your co-operation.

Yours faithfully,

Uzoh Chinedu A.

APPENDIX II

INTERVIEW QUESTIONS

Comprises of two sections; A and B

INSTRUCTION:

Please fill in the blank spaces as provided below:

SECTION A:

1. Name:.....
2. Department:.....
3. Academic Qualification(s):.....
4. Position:.....
5. How long have you worked with the company?.....
.....

SECTION B:

Please tick [] as appropriate

1. Could a company's liquidity problem be attributable to bad debt?
A. Above 70% [] B. Between 40% [] C. Up to 40% []
2. Would you argue if your company cannot do without credit sales?
A. Agreed [] B. Disagreed [] C. Indifferent []
3. Who are in charge of your credit management and administration?
A. Marketing [] B. Finance Department [] C. Production
Department []

4. On the average, how long do you allow credit to your customers?
A. One week [] B. Two months [] C. One month []
5. What major risk is associated with investment in trade credit threatens your company most?
A. Bad debt [] B. Low profit [] C. High administration cost []
6. Approximately, what percentage of your company's credit run into bad debts?
A. Between 10 – 20% [] B. Between 30 – 50% [] C. Above 50% []
7. What mode does your company use to recover its debts back?
A. Court Action [] B. Use of persuasion [] C. Use of threats []
8. What percentage of your total monthly savings is made on credit?
A. Between 10 – 30% [] B. Up to 40% [] C. Above 50% []
9. How can you rate your company's credit management strategies?
A. Very effective [] B. Moderate [] C. Very poor []
10. From your records, would you say that trade discount is an effective tool in profit debt collection?
A. Strategy Agreed [] B. To an extent [] C. Disagreed []
11. Considering the bad debts losses that firms do incur, do you think some profits do occur to firms from credit extension?
A. Agreed [] B. Disagreed [] C. Indifferent []

12. Do you think that information regarding a customer's credit worthiness can help in reducing bad debt losses?
- A. Agreed [] B. Disagreed [] C. Indifferent []
13. Does credit extension attract more sales than those cash sales?
- A. Agreed [] B. Disagreed [] C. Indifferent []