
**IMPACT OF CASH MANAGEMENT ON THE FINANCIAL PERFORMANCE OF SME'S
IN PALLISA TOWN**

**BY
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**A RESEARCH REPORT SUBMITTED IN PARTIAL
FULLFILMENT OF THE REQUIREMENTS FOR
THE AWARD OF A BACHELORS DEGREE
IN BUSINESS ADMINISTRATION
BUSITEMA UNIVERSITY**

MAY, 2022

DECLARATION

This research report is my original work and has not been presented for a Degree in any other institution. No part of this research should be reproduced without the authors consent and that of The Busitema University.

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APPROVAL

This is to certify that research report by Amagoro Esther Monica on the topic “Impact of cash management on the financial performance of small and medium size enterprises in Pallisa town as my own under my approval as University’s supervisor

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DEDICATION

I dedicate this report to my family, my parents, brothers and colleagues for their help, patience, understanding and advice throughout the project.

ACKNOWLEDGEMENT

I am pleased to acknowledge the effort of all those who contributed to the successful completion of this project. Special thanks will go to my supervisor Ms. Swafiyya Nakyeyune for her commitment and guidance throughout my research. In addition, I also thank all Busitema University lecturers who interacted with me on various aspects of conducting a research.

Appreciation is also extended to the entire class of BBW and anyone else for their invaluable support during the research project.

Finally, I appreciate the moral support offered to me by my family, more so my parents who have been supportive to me during difficult times. Without them, it would have been impossible to attain this level of the paper

LIST OF ACRONYMS

1. SMEs: Small and Medium Enterprises.
2. GEM: Global Entrepreneurship Monitor
3. CMA: Capital Markets Authority
4. CIMA: Chartered Institute of Management Accounting
5. IFAC: International Federation of Accountants
6. CCC: Cash Conversion Cycle
7. ROA: Return on Assets
8. ROI: Return on Investment
9. ROE: Return on Equity
10. BBW: Bachelor in Business Administration Weekend

TABLE OF CONTENTS

DECLARATION.....	i
APPROVAL.....	ii
DEDICATION	iii
ACKNOWLEDGEMENT.....	iv
LIST OF ACRONYMS.....	v
TABLE OF CONTENTS	vi
LIST OF TABLES	ix
LIST OF FIGURES.....	x
ABSTRACT	xi
CHAPTER ONE.....	1
INTRODUCTION.....	1
1.1 Background of study	1
1.2 Statement of the Problem	4
1.3 Purpose of the study	4
1.3.1 Research objectives	4
1.4 Research questions	4
1.5 Scope of the Study.....	5
1.5.1 Content Scope.....	5
1.5.2 Geographical Scope.....	5
1.5.3 Time Scope	5
1.6 Significance of the Study	5
1.7 Conceptual Framework	7
1.8 Definitions of key terms.....	8
CHAPTER TWO.....	9
LITERATURE REVIEW	9
2.0 Introduction	9
2.1 Theoretical Review	9

2.1.1 Pecking Order Theory	9
2.1.2 Cash conversion cycle theory	9
2.2 Cash planning and financial performance.....	10
2.3. Cash Control and financial performance.....	12
2.4 Liquidity Management and financial Performance.....	13
2.5 Summary of the literature reviewed	14
CHAPTER THREE:.....	16
RESEARCH METHODOLOGY	16
3.0 Introduction	16
3.1 Research Design.....	16
3.2 Study Population	16
3.3 Unit of analysis:	16
3.4 Unit of inquiry:.....	16
3.5 Sample Size.....	17
3.6 Sampling method.....	17
3.7 Type of data.....	17
3.8 Data Collection methods	18
3.9 Data Analysis plan	18
3.10 Data Analysis Techniques and Methods	18
3.11 Reliability and Validity	19
3.11.1 Reliability	19
3.11.2 Validity	19
3.12 Ethical Considerations.....	20
CHAPTER FOUR:	21
DATA ANALYSIS AND PRESENTATION OF FINDINGS.....	21
4.0 Introduction	21
4.1 Response Rate	21
4.2 Demographic Information	21
4.2.1 Age group	21
4.2.2 Education background	22
4.2.3 Working experience.....	22

4.2.4 Position in the organization	23
4.2.6: Category of the Organization	23
4.3 Descriptive findings on effects of cash planning and financial performance	24
4.4 Descriptive findings on effects of cash control and financial performance	25
4.5 Descriptive findings on effects liquidity management and financial performance.....	26
4.6 Findings from the objective	28
4.6.1 Cash planning and financial performance	28
4.6.2 Cash control and financial performance	28
4.6.3 Liquidity management and financial performance.....	28
4.7 Regression Analysis	29
4.7.1 Regression analysis of cash planning and financial performance.	29
4.7.2 Regression analysis of cash control and financial performance.....	30
4.7.3 Regression analysis of liquidity management and financial performance.	30
DISCUSSION OF FINDINGS, CONCLUSION AND RECOMMENDATIONS.....	32
5.0 Introduction	32
5.1 Discussion of the findings.....	32
5.1.1 Cash planning on financial performance of SMEs.....	32
5.1.2 Cash control on financial performance.....	32
5.1.3 Liquidity management and financial performance.....	33
5.2 Conclusion.....	33
5.3 Recommendations	34
5.4 Limitations of the study.....	34
5.5 Areas for further studies.....	34
REFERENCES	36
APPENDICES.....	40
Appendix I: Letter of Introduction	40
Appendix II: Questionnaire.....	41
SECTION B	42
Appendix III: Work Plan.....	45
Appendix IV: Research Budget.....	46

LIST OF TABLES

Table 1: Population of the study (using Craquis table of determination sample size)	16
Table 2: Reliability	19
Table 3: Gender of Respondents.....	21
Table 4: Age group	21
Table 5: Education background	22
Table 6: Experience	22
Table 7: Position in the organization	23
Table 8: Organization Category.....	23
Table 9: Descriptive findings on effect of cash planning and financial performance	24
Table 10: Descriptive findings on the effect of cash control and financial performance	25
Table 11: Descriptive findings on effects of liquidity management and financial performance.....	26
Table 12: Descriptive findings on effects of cash management and financial performance	27
Table 13: Correlation results.....	28
Table 14: Regression analysis of cash planning and financial performance	29
Table 15: Regression analysis of cash control and financial performance.....	30
Table 16: Regression Analysis of liquidity on financial performance	30

LIST OF FIGURES

Figure 1: Conceptual Framework	7
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ABSTRACT

The study examined the effect of cash management on financial performance of SMEs in Pallisa town. The study applied quantitative and qualitative research design

Data was collected from 250 people as a target population with accessible unit of inquiry being 186 respondents consisting of managers, cashiers, accounts assistants, supervisors and operators. Data was collected using a closed ended questionnaire and statistical packages goods and services for analyzing data where frequency tables, descriptive statistics, reliability, validity, correlation and regression results were obtained. The study findings revealed that there is a positive and significant effect between cash planning, cash control, liquidity management on financial performance. The study therefore recommends that improvement on financial performance depends on cash planning, cash control and liquidity management

CHAPTER ONE

INTRODUCTION

1.1 Background of study

The government has identified SMEs as one of the vital sectors that contribute towards economic development (Weda, 2015.), (Heinonem, 2012.) Pointed out that, SMEs play the role of reducing levels of poverty, thus creating job opportunities, mentoring entrepreneurship culture and creating inter-economic link via supply chain in trade activities.(Lockea, 2012), (Weda, 2015) makes reference to the economic survey conducted in 2006 and states that in the year 2006 at least 20% of the GDP is directly attributable to small and medium enterprises. According to (IFAC, 2003) financial performance is of great importance to SMES in such a way that it shows how healthy the firm is financially over a certain period of time, facilitates accountability and strategic planning, growth and expansion and increases competitive advantage of SMES.

SMEs have come up with various interventions to ensure that they perform well, (Murkor A.S., 2018) observed that finance managers should come up with a compulsory cash flow policy to enable the organization come up with clear policies for cash flow management including the investment of surplus funds if need arises. SMEs should set a policy so as to keep bankruptcy cost at a lower level and also management efficiency is required in managing costs, increasing efficiency and financial performance (Aminatu & Liman, 2018). Lengthening the bills of period, shortening the debtors' collection period and suspending purchase of inventory (CMA, 2010). Minimize idle cash in the hands of program recipients and cash control, cash planning, and, cash being one of the current asset's items in the balance sheet. These measures are being considered an important tool in ensuring that funds are available to meet recurrent expenditure (Katz, (2009).) However, despite the above interventions, small and medium enterprises have continued to perform poorly because of lack or limited knowledge on cash management (Macharia, 2009). Lack of cash cushion as one of the major reasons SMEs fail (Christensen, 2013) 31.34% lack prior experience in managing small business which has prompted poor financial performance. Globally, in Europe, (Yiwei et al, 2011), examined that the average cost of deficiency 32% are performing poorly due to poor cash management, in Europe still, technical inefficiency is at 42.9% due to limited awareness on technology and this results into mismanagement of cash. In Malaysia, the average efficiency of company's financial performance is 7.17%, implying that 92.83% are inefficient and under poor financial status. (Dahmen, 2014), growth constraints of SMEs are

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