

# **CASH MANAGEMENT PRACTICES AND PROFITABILITY OF SMALL AND MEDIUM ENTERPRISES IN MUKONO CENTRAL DIVISION**

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**A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT  
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## DECLARATION

As per the university values of integrity and diligence, I have not received any unauthorized assistance while working on this paper. I Ninsiima Rinah declare that the work is authentically mine and to the best of my knowledge, it contains no traces of plagiarism or any other unethical practices. The only work used that has already been published by other persons has been purely for reference purposes.

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Date: 04/05/26

APPROVAL

This research report has been submitted for examination with my approval.

Signature.......... Date.....04/05/26.....

Name: Agume Anthony

## DEDICATION

I dedicate this work to my dear parents, whose sacrifices and unwavering empower of education have been the foundation of my success. To my siblings and friends, thank you for being my constant support system.

Finally, I dedicate this to any a spring entrepreneur in Mukono Central Division may your hard work be met with the financial wisdom to thrive and grow.

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May God bless you all abundantly.

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## ABSTRACT

The study examined the relationship between cash management practices and the profitability of small and medium enterprises (SMEs) in Mukono Central Division. The study was guided by three specific objectives: to examine the effect of cash budgeting practices on the profitability of SMEs, to assess the influence of cash collection practices on SME profitability, and to evaluate the influence of cash disbursement management on SME profitability.

A cross-sectional approach was employed for data collection from the SMEs in one period of time. The target population was 300 registered small-scale businesses within the Mukono Central division, which included retail shops, hardware shops, grocery shops, and general goods shops. By consulting the Krejcie and Morgan (1970) sample size table, a sample size of 169 subjects was obtained. Stratified random sampling was carried out to make sure that all types of SMEs would be represented equally in the research. Data collection involved the use of structured questionnaires and relied on both primary and secondary data. The SPSS software was applied for data analysis involving descriptive and inferential statistics like frequencies, percentages, mean, standard deviation, correlation, and regression analysis.

From the results obtained, it was evident that cash budgeting is positively correlated with SME profitability. Firms engaging in regular preparation and analysis of cash budgets can effectively plan their finances, manage their expenses, and improve their financial performance. It was also evident that efficient cash collections are critical in improving firm liquidity and profitability, since they enable firms to recover their receivables on time and prevent bad debts. Moreover, it emerged from the study that good practices in cash disbursements enhance profitability through appropriate scheduling of disbursements and cost savings. The study showed that good cash management is very important in boosting profitability and the overall financial stability of the SMEs operating in the Mukono Central division.

## CHAPTER ONE

### 1.0 Introduction

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

### 1.1 Background of the study

Decisions regarding cash management continue to hold significant importance in organizations due to the limited financial resources available for various operational needs. Cash management remains central to organizational operations, as it supports the achievement of business goals. It involves planning for cash requirements, controlling cash inflows and outflows, determining optimal cash balances periodically, and prudently investing surplus cash. (James ,2020)

Small and medium enterprises (SMEs) are required to strike a balance between liquidity and profitability in order to sustain their operations. Adequate liquidity ensures that SMEs meet short-term obligations as they fall due, while effective utilization of cash enhances profitability. Weston and Copeland (2008) indicate that businesses require cash reserves to manage short-term discrepancies between cash inflows and outflows, as these flows are rarely synchronized. Effective cash management practices therefore influence both liquidity and profitability (Raheman & Nasr, 2017).

Good cash management practices enhance the survival and growth prospects of SMEs and attract investors who consider sound cash handling a key indicator of financial health (Merchant Factors, 2013). Efficient management of cash receipts and payments improves profitability and liquidity, thereby contributing to sustained business growth over time (Brinchk, Soeren & Gemuenden, 2019).

It is crucial that businesses keep their cash balances in check while utilizing excess cash efficiently. Businesses should not be overly dependent on overdrafts as a permanent means of financing. Although overdrafts can help increase profits, seasonal variations

in business activities and late customer payments will continue to pose challenges for cash flow. Cash is a vital current asset essential for conducting business activities.

According to financial experts, most companies fold because of improper cash management practices and lack of sound financial performance. Poor cash flow management and ineffective use of current assets are the factors that either make an enterprise prosper or fall into failure. Therefore, proper cash management techniques are necessary for the survival of SMEs. (Sylvia ,2021)

Profitability can be considered the best measure used in determining the success of small and medium-sized enterprises since it shows growth, efficiency, and competitiveness. Performance of small and medium enterprises is usually determined through such measures as liquidity levels, debt ratios, asset management, among others.

The studies conducted by Fatoki (2021) reveal that there is still a problem regarding the profitability of small medium enterprises owing to scarce resources, high running costs, and stiff competition. Also, the liquidity problems continue to be faced by the small medium enterprises and this may lead to financial difficulties (Salim & Yadav, 2020).

There are several challenges facing the small medium enterprises in Uganda such as poor availability of finance, lack of managerial skills, and the new rules that pose a threat to the business operations. Although the small medium enterprises play a crucial role in the growth of the economy, providing jobs, and generating revenues, they are faced with the problem of closure after a few years of establishing.

## **1.2 Statement of the problem**

SMEs are still important in the process of economic development, especially in underdeveloped nations like Uganda. SMEs in Mukono Central Division have a substantial contribution to employment creation, provision of services, and economic growth.

However, most of these SMEs suffer from ongoing profitability problems, which are mainly attributed to poor cash management strategies.

These SMEs operate in dynamic business environments yet suffer from low cash balances, late payment of suppliers, inability to pay for wages, and inability to pay utility bills among other things. These factors hamper their growth and put them at the risk of remaining stagnant or closing down (Coyle, 2022).

However, despite the introduction of various strategies that are aimed at facilitating growth and profitability of SMEs, problems relating to profitability persist. The above scenario implies that there is a knowledge gap with regard to the influence of cash management practices and techniques on profitability of SMEs in Mukono Central Division.

### **1.3 Purpose of the study**

The purpose of the study was to assess the effect of cash management practices on the profitability of small and medium enterprises in Mukono Central Division.

### **1.4 Specific objectives of the study**

- i. To examine the effect of cash budgeting practices on the profitability of SMEs
- ii. To assess the influence of cash collection on SMEs profitability.
- iii. To assess the influence of cash disbursement management on SMEs profitability.

### **1.5 Research questions**

- i) What is the effect of cash budgeting practices on the profitability of SMEs?
- ii) How does cash collection influence the profitability of SMEs?
- iii) What is the influence of cash disbursement management on the profitability of SMEs?

## **1.6 Scope of the study**

### **1.6.1 Subject scope**

The current research study was aimed at studying the practices of cash management and its impact on the profitability of small and medium enterprises. Some of the areas explored in terms of cash management include cash planning, cash flow management, accounts receivable management, and accounts payable management among others, and their effect on profitability ratios such as net margin, return on assets etc. The choice of the subject matter for this research was based on the importance that is attached to cash management in maintaining liquidity and efficiency of small and medium enterprises. For instance, in a developing economy like Uganda where the problem of financial management is rampant, such research is important.

### **1.6.2 Geographical Scope**

The research took place in Mukono Central Division, which is situated in Mukono District, found in the Central Region of Uganda, some 24 kilometers away from Kampala. The reason behind selecting this particular geographical location was the prevalence of many SMEs in the area involved in various economic ventures, ranging from trade, production, to service delivery. In addition, the area represents an environment that contains a mixture of urban and peri-urban business settings, allowing the research results to be extrapolated to other regions of Uganda.

### **1.6.3 Time scope**

It is also worth noting that the SMEs under investigation were those in business for no less than five years. This criterion was chosen on purpose to make sure that the sample organizations have gathered enough experience and financial data to make their statements credible. Organizations operating successfully for five years are more likely to develop certain skills in managing finances, which means that they will be able to reveal the connection between money handling and the bottom line. In addition, limiting the timeframe to five years helps avoid including startups in the study sample.

## **1.7 Significance of the study**

The results obtained from this study are anticipated to have significant benefits for SME owners and managers through the improved ability to make well-informed financial decisions, especially regarding cash flow management activities. Through this study, SME operators can benefit immensely through gaining insight into best practices of cash flow management, which can help them manage their financial resources efficiently and improve profitability. This is especially critical since SMEs lack financial expertise and skills, which limit their growth potential.

Furthermore, this study will help understand both the advantages and disadvantages that characterize the cash flow management techniques used by SMEs. This will allow the identification of areas where SMEs are strong and those where improvements are necessary. This information will be useful for designing programs aimed at improving the financial management skills of SME owners and managers.

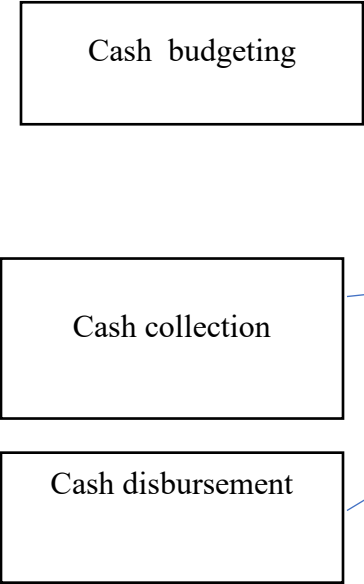
Moreover, the study will offer vital information regarding the link between efficient cash management and enhanced profitability of SMEs. The identification of this link will highlight the significance of good financial practices in business success. Not only will such findings help individual firms, but the findings of the research will also be useful in policy formulation in favor of SMEs in Uganda.

Finally, this research will prove to be an essential academic source for those seeking to carry out further research in the area of financial management within the context of SMEs. This is because it will serve as a base for future empirical studies, which will be informed by the unique evidence obtained from the case of Mukono District.

**1.8 Conceptual Framework**

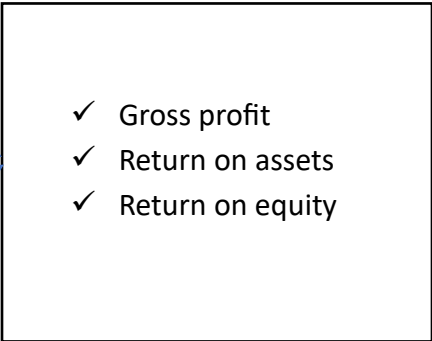
**Independent variable**

**Cash management practices**



**Dependent variable**

**Profitability**



**Source: Adapted from Nyabwanga *et al.* (2012)**

The conceptual model shows the link between the use of cash management techniques and the profitability of the business. The independent variables include cash budgeting, cash disbursements, and cash collections since these are some of the most critical aspects of planning, controlling, and managing the cash flows in the business. Through the process of cash budgeting, the company can predict cash flows, and ensure that there is enough cash to support its activities. The cash disbursement technique can help the company make sure that payments are made timely and appropriately, hence minimizing costs, penalties, and misuse of funds. The process of cash collection enables the company to improve its liquidity through timely conversion of its receivables to cash, thus facilitating easy operations in the business. The impact of these techniques is reflected in the dependent variable, profitability, which will be measured by gross profits, return on assets, and return on equity.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 Introduction

The purpose of this chapter is to provide a literature review about cash management approaches/techniques and the impact of such approaches/techniques on the financial performance of SMEs. Literature will be reviewed based on the objectives set by this study. It encompasses both theoretical and empirical literature on cash budgeting approaches, cash collection/disbursement management, cash holdings/lack of liquidity levels and their impact on organizational performance. The literature is reviewed based on the global, regional (Africa & East Africa) and local (Uganda) perspective with an emphasis on SMEs.

#### 2.1 Cash management practices in SMEs

Cash management is the process of planning, monitoring, and controlling cash flows to maintain sufficient liquidity and maximize profitability. Good cash management facilitates SMEs' ability to fulfill their short-term obligations, avoid unnecessary financing expenses, and take advantage of profitable investments. As stated by Ross et al. (2019), cash management consists of cash budgeting, cash receipts, cash payments, and optimal cash balances.

Worldwide, SMEs are faced with uncertain conditions, which require efficient cash management for them to sustain themselves and develop. Technological developments like electronic fund transfers, automated clearing houses, online banking, and financial management systems have revolutionized the efficiency and precision of cash management activities. Such technology enables companies to monitor their cash balances instantly, make better decisions, and minimize transaction expenses (Atrill, 2020).

The management of cash within African countries is highly influenced by financial disparities between the various nations. However, the development and use of mobile money and online payment systems have greatly impacted the way cash is managed in many parts of Africa. According to the World Bank (2020), the introduction of digital financial services has led to better liquidity management, reduced risk associated with handling cash, and financial inclusion of SMEs.

In East Africa, mobile money transfer services such as M-Pesa, MTN Mobile Money, and Airtel Money have greatly impacted the cash management system within SMEs. Jack and Suri (2020) indicate that mobile money transfer systems have improved the effectiveness of cash collections as well as ensuring faster cash flows to enhance profits. In Uganda, there have been various initiatives undertaken within the country which include reforming its financial sectors and the creation of the National Payment Systems in addition to mobile and agency banking (Bank of Uganda, 2019).

### **2.1.1 Profitability**

One of the main indicators used in gauging the performance of organizations is profitability, which can be described as the ability of an organization to make profits given its cost structure during a certain period. As stated by Brigham & Ehrhardt (2017), profitability reflects the extent of efficient resource utilization by an organization to make returns on behalf of its stakeholders. Besides being an indicator of operational efficiency, profitability is also a key factor when it comes to sustainability. High-profit making organizations have a greater chance of growing and expanding in their operations.

There exist various factors that determine the profitability of organizations regardless of their size. Among the major ones is the financial management system, which includes budgeting, cost management, and cash flow management, and determines how profitable businesses can be (Atrill & McLaney, 2019). In addition to the above, the profitability of organizations depends on market conditions, competitive forces, pricing, and operational efficiency. Research findings indicate that organizations with

effective financial management systems register higher levels of profitability than those with poor financial management systems.

Profitability may also be measured using a number of financial ratios which shed light on how well the firm is doing in terms of generating profits. The most popular ratios used are return on assets (ROA), return on equity (ROE), and net profit margin (Pandey, 2015). ROA focuses on how efficiently the firm makes use of its resources to generate profits, whereas ROE helps us analyze how well the owners are earning from their investments. Net profit margin gives an indication of the level of efficiency achieved by the firm in making profits.

Profitability and its connection to strategy have been extensively covered by many authors. Businesses that use innovative strategies including diversification, product differentiation, and digitalization tend to achieve higher levels of profitability (Porter, 1985). Planning gives an enterprise the ability to react to changes on the market, efficiently allocate resources, and gain a competitive advantage. As for small and medium-size enterprises, profitability has much to do with management, efficiency, and application of modern technological solutions like e-invoicing.

Not only does profitability indicate past success, but it is also a tool for predicting future success. Profitable businesses are better positioned to raise money from outside sources, conduct R&D activities, and grow geographically (Gitman & Zutter, 2015). On the other hand, low profitability might be a sign of inefficiency, poor expense management, or difficulties in the market environment that must be addressed through strategic interventions.

## **2.2 Cash budgeting practices and profitability of SMEs**

Cash budgeting is one of the key methods used in the management of cash in organizations by estimating cash flows in future periods. This method allows an organization to plan and be ready in case of either cash surplus or shortages. Through

successful cash budgeting, SMEs are able to manage their cash flows and use the available resources efficiently to create profitable business activities.

Research findings have revealed that there is a positive correlation between cash budgeting and profitability. Chittenden and Robertson (2019) found out that SMEs that engage in cash budgeting face less liquidity issues, leading to more profitability in their business activities. Likewise, Williams and Dobbs (2020) found out that effective cash budgeting plays a great role in the growth and development of businesses.

Cash budgeting in emerging economies is crucial because of the uncertainty surrounding cash flow and lack of access to credit facilities. According to the study conducted by Mwesigwa et al. (2019) on Ugandan small businesses, SMEs that undertake planned cash budgeting experience better profitability and stability in comparison to those lacking a cash budgeting strategy. Therefore, it can be concluded that cash budgeting is essential for ensuring that activities within a firm are in tandem with the available finances.

Cash budgeting is an important aspect of managing the financial resources of a firm through forecasting, planning, and controlling cash flows in order to meet various obligations within the firm while avoiding excessive debt. Cash budgeting is very important for SMEs as it helps in maintaining operations and increasing profitability.

Among the basic ways of managing cash budgets is the use of cash flow forecasts. This involves predicting the future inflows and outflows of cash within a certain timeframe. Those SMEs that always have cash budgets in place are well-equipped to identify when there will be a cash deficit or a cash surplus and can, therefore, come up with a contingency plan before time runs out. According to Danu et al. (2020), SMEs that forecast their cash flow always exhibit high levels of financial management skills and are less likely to experience liquidity problems.

Another significant aspect of cash budgeting in SME profitability is inventory management. Considering that a considerable amount of money in SMEs is held in inventory, stock control has an essential impact on cash budgeting. According to Laryea

and Eshun (2021), implementing a just-in-time inventory management system positively affected the cash flows in SMEs by reducing the costs associated with holding and storing items in stock. Furthermore, increased inventory turnover was found to lead to more efficient cash utilization in organizations and allowed them to invest cash back into productive processes, resulting in higher profitability.

Lastly, accounts receivable management can be considered a vital part of cash budgeting in SMEs. The time when SMEs collect money from their customers impacts cash budgeting and the financial health of enterprises. Specifically, Osei et al. (2020) explored cash budgeting practices within the manufacturing sector of SMEs and concluded that having strict credit policies, collecting money immediately after selling goods, and monitoring overdue accounts were associated with increased cash flows and higher profitability in manufacturing SMEs. Moreover, offering cash discounts for early payments contributed to faster cash receipts.

Technology incorporation in cash budgeting processes has played an important role in making SMEs profitable. According to Lin & Chen (2022), those businesses which have used digital tools for cash management in budgeting, collection of accounts receivable, and transaction processing could benefit from stable cash flow and reduced costs. Use of technologies such as mobile banking helped in having an effective overview of finances and enabled SMEs to take timely budgeting decisions to enhance their profitability.

Cash holding as a part of contingency planning is one of the main aspects in the process of cash budgeting. In accordance with Rahman et al. (2019), companies that had cash buffers managed to survive despite any changes in the amount of income and expenses because of their financial stability. It allowed them to remain profitable even during economic downturns.

Cash budgeting is an important aspect of financial management in small and medium enterprises because it involves predicting cash flow from the enterprise to facilitate liquidity. The literature suggests that the use of cash budgeting contributes to future

planning, uncertainty management, and financial performance of SMEs, specifically profitability.

The literature also suggests that cash budgeting is an integral part of financial management in SMEs. According to Nasimiyu (2024), the practice of cash budgeting is one of the many practices of cash management in SMEs that affect financial performance including profitability, liquidity, and solvency. Therefore, firms that incorporate cash budgeting into their financial management processes are able to make efficient resource allocation, manage cash shortage, and enhance investment opportunities leading to improved profitability. In a similar line of thought, Azhar & Syarif (2025) state that the role of budgeting practices is to enhance the process of decision-making through financial planning .

Additional empirical evidence reveals the significant positive relationship between cash budgeting and profitability. According to Kamau and Mungai (2020), cash budgeting has a significantly positive impact on profitability among SMEs in Kenya with high levels of significance ( $r = 0.662$ ,  $p < 0.01$ ). Furthermore, the researchers state that cash budgeting is responsible for explaining the variability in the profit level of SMEs, which confirms its value for financial performance improvement. Therefore, SMEs that use cash budgeting experience higher ROA owing to increased financial discipline and planning.

Finally, Onyango and Muchira (2023) showed that the joint implementation of cash budgeting, cash control, and cash forecasting positively affects financial performance of SMEs. In particular, budgeting helps SMEs identify future cash deficits and surplus allowing for effective decision making in terms of investments and expenditures. This fact supports the idea that cash budgeting can help increase financial performance through uncertainty reduction and efficient resource allocation.

In terms of the broader aspect of financial management, according to Musah et al. (2018), the practice of financial management, which includes budgeting, is positively linked to SME profitability and growth. The authors have observed that SMEs that engage

in systematic financial management practices tend to do well because of the enhanced planning and control mechanisms. Similarly, Arinaitwe & Byamukama (2025) reported that budgeting practices greatly help in achieving business growth, financial stability, and profitability among SMEs operating in Uganda.

Additionally, cash budgeting is another vital component of mitigating financial risks and sustaining business operations. Madangu (2022) argues that by making proper cash plans, which include budgeting, SMEs can ensure effective management of their cash conversion cycles and keep sufficient liquidity for sustained profitability.

However, despite its importance, literature shows that many SMEs are not fully embracing cash budgeting practices. According to Azhar & Syarif (2025), budgeting practices among SMEs are quite informal because of their lack of knowledge about finance management. The above gap indicates that although cash budgeting is essential in enhancing organizational performance, SMEs still struggle with adopting such practice, especially those operating in developing countries.

In conclusion, from the analysis above, it is evident that literature shows a great deal of proof indicating that cash budgeting practices significantly positively influence the profitability of SMEs. Through effective resource allocation, decision making, and planning, SMEs can maintain liquidity levels through cash budgeting practices.

### **2.3 Cash collection management on profitability of SMEs**

Cash management is an essential aspect that has a direct impact on the profit levels of small and medium-size businesses. Cash management entails managing the flows of cash that flow into the business and cash payments that are made by the business. Good cash management will ensure that the business remains solvent as well as ensure that it maintains enough cash for it not to incur extra cost when borrowing.

One of the best ways of handling cash flow in order to achieve profit maximization is through cash flow forecasting. The ability of SMEs to forecast cash flow enables them to make appropriate arrangements in times of cash surpluses and deficits to avoid

liquidity issues. In their research, Danu et al. (2020) noted that SMEs that forecasted cash flows frequently were able to handle financial risks and remain efficient. The authors based this finding on the results of the study conducted on 200 owners of SMEs where it was noted that SMEs that used sophisticated cash flow forecasting methods faced less liquidity constraints than those using informal and improvised means.

Ineffective inventory management is closely tied to poor cash inflows and outflows and therefore affects profitability negatively. One of the major challenges facing SMEs is that they allocate significant resources to inventories, limiting their available cash for various operations. In his study, Laryea and Eshun (2021) noted that implementation of a just-in-time inventory system, whereby minimal inventories are maintained, helped improve cash flow management and minimized storage expenses. In addition, quick selling of inventory stocks and replacement of goods was linked to proper cash flow management.

Management of accounts receivables is yet another important element that influences the profitability of SMEs. Fast debt recovery is critical for SMEs since it improves their cash flow status. In line with the research conducted by Osei et al. (2020), manufacturing SMEs adopting stringent credit policies and effective management of outstanding debt were more profitable owing to improved cash flows. Specifically, offering discounts on early payment and having effective billing systems contributed to faster debt collection, thus mitigating liquidity risks.

Technology-based cash management has become an important determiner of SME profitability. Use of technology enables the tracking of cash flows, managing of accounts receivable, and fast payments. In line with the research conducted by Lin and Chen (2022), use of digital platforms in cash management ensured stable cash flows and minimized operational costs. Technology enabled real-time access to financial information, thus contributing to sound decision-making processes in SMEs.

It is important to have enough cash balance and contingency plans to ensure stability and profitability. Small businesses that have enough savings can react quickly to any

changes in their cash flows. According to Rahman et al. (2019), service-based small businesses with strong cash balances were better able to cope with periods when their income was low and maintained business stability. Furthermore, efficient management of the cash conversion cycle (CCC) - the period during which inventory is converted to cash through sales - plays an important role in the business's liquidity and profitability. Singh and Kumar (2021) note that businesses with short CCCs had good liquidity conditions and were not affected by cash flows.

Cash collection and payment management is one of the most important aspects in the success of SMEs. These involve such things as good cash flow forecasts, effective management of inventories, rigorous management of receivables, use of advanced cash management systems, and maintaining adequate cash balances. All these aspects lead to effective operations, reduced risk, and improved profit-making capability.

Cash collection management is an integral part of working capital management. It entails the procedures and techniques adopted by firms to hasten their cash flows from customers. They include practices like billing, credit management, management of receivables, and the use of advanced payment mechanisms. Good cash collection enables firms to maintain adequate liquidity levels, avoid bad debts, and improve their operational effectiveness.

Researchers state that cash collection management is key to financial performance since it influences how rapidly a company will turn its sales into cash. According to Faque (2021), cash collection is a critical aspect of cash flow management, and companies that implement measures to enhance cash collections, including automation and effective billing, are well-placed to boost their financial performance. The research further indicates that slow collections expose organizations to risks of liquidity problems that may impede business processes and profitability.

There is substantial empirical evidence illustrating the existence of a strong connection between efficient cash collection practices and financial performance. For example, a study carried out on SMEs in Ghana shows that receivables management, which is highly

correlated with cash collection, significantly positively influences firm performance. Therefore, firms that engage in receivables management are likely to experience enhanced financial performance. Also, Lamptey et al. (2017) showed that extended accounts receivable durations adversely influence profitability.

For the SME sector in emerging economies, cash collection management becomes extremely critical when the firms face financial limitations and difficulties obtaining funding from external sources. According to Nasimiyu (2024), proper cash collection management techniques improve the profitability and financial stability of SMEs through cash flow management processes. Effective cash collection allows the organizations to invest in their operations, fulfill short-term responsibilities, and save on unnecessary expenses. In addition, the process results in higher profitability.

Moreover, studies carried out in an African setting indicate that inadequate cash collection techniques play a crucial role in the failure of SMEs. According to Aren and Sibindi (2014), small firms face challenges with late payment and insufficient credit management systems, leading to financial instability and the inability to operate efficiently. As such, the research shows the importance of cash being “king.” Thus, inefficient cash collection techniques can lead to the bankruptcy of financially viable organizations.

There is also evidence in the context of Uganda, where studies have indicated that cash management behaviors such as cash control and cash planning have a significant impact on the financial performance of SMEs. While the study focuses on cash management generally, it also indicates that proper cash collection systems are very important to guarantee cash flows that are sufficient for firms' business needs. Firms with proper and organized cash collection management systems are more likely to perform better than firms with poor cash collection systems.

The idea of cash collection management finds theoretical justification in working capital management theory, which suggests that companies must be able to optimize current assets and liabilities management to achieve maximum profitability. Proper

cash collection management minimizes the cash conversion period, thus increasing liquidity and providing room for higher profit generation. There is empirical support for this idea, even from China.

In addition, systematic studies conducted recently have noted that the effectiveness of cash flow management techniques such as cash collection is contingent upon proper execution and incorporation of contemporary financial tools. According to Medupe and Nzama-Sithole (2026), small businesses that adopt digital payment solutions and automated cash collections are expected to enhance their liquidity and profitability. This underscores the increasing role of technological advancement in improving cash collection.

Although there are numerous advantages of cash collection, small businesses continue to struggle in their efforts to establish effective cash collection strategies. Some of these difficulties include inadequate credit policies, poor financial management skills, and informal business procedures. As a result, late payments and high bad debts have been prevalent in small businesses.

#### **2.4 Cash disbursement management and profitability of SMEs**

In recent years, a lot of focus has been given on the impact of cash disbursements management on the profitability of small and medium enterprises (SMEs). Cash disbursement management is concerned with planning, controlling, and monitoring the flows of cash expenditure relating to expenditures like payment of suppliers' bills, salaries, expenses, and investments. It is important to manage these cash flows effectively because there are many restrictions faced by SMEs in terms of finance, including lack of external funds and shortage of cash.

Cash disbursement management is important because it allows SMEs to pay debts on time, have good relationships with suppliers, and avoid penalties and interest charges. According to Chittenden & Robertson (2019), firms which paid attention to how much cash flowed out managed their activities better and attained greater profitability.

Appropriate management of disbursements entails effective planning by making payments when appropriate and avoiding wastage to retain cash. Williams & Dobbs (2020) argued that good management of disbursements contributes to stability, decreased financial pressure, and finally profitability in times of economic uncertainty.

Control of cash disbursements and proper financial performance have a close relationship. Smith & Green (2019) pointed out that SMEs managing their cash flow effectively and being able to fulfill all payments without financial pressures maintained profitability. This was as a result of having adequate amounts of working capital, avoiding borrowing from expensive sources and thus achieving financial stability. Johnson & Davis (2021) also showed that companies which managed their disbursements carefully through planned payments had better financial performance due to minimal wastages.

There is also the fact that how organizations disburse cash can determine how efficiently operations are conducted and the cost of doing business transactions. Brown and Miller (2020) found out that SMEs who planned their cash disbursements ahead of time could cut down transaction costs, avoid borrowing in emergencies, and avoid liquidity problems. Wilson and Baker (2021) showed that firms that employed automatic payment systems recorded greater profitability since such systems improved payment precision, cut costs, and reduced delays.

Moreover, cash disbursement management can also help an organization grow and be more profitable. According to Anderson and Moore (2019), when SMEs were careful in spending money on things that would help the company develop further and become more profitable, they were able to earn more. Clark and Thompson (2020) noted that firms which spent money on growth, which involved developing new products and expanding into other markets, increased profitability and sustainability.

The use of technology has also enhanced the link between cash disbursement management and profitability. According to the study by Martinez and Lopez (2021), small and medium-sized enterprises that embraced digital platforms and financial

management tools were in a better position to manage cash flows, minimize mistakes, and make sound financial decisions. As a result, profitability was improved. On the other hand, Taylor and Rodriguez (2022) noted that digitized disbursement systems helped minimize transaction costs and improve payment processing.

Managing cash disbursements is an important aspect of the broader issue of cash management in small and medium-sized enterprises (SMEs). This is because the manner in which a business manages its cash disbursement has direct bearing on its liquidity levels, operational effectiveness, and, eventually, profitability. Cash disbursement means the flow of money out of the business firm, especially as payment for things like paying suppliers, paying staff salaries, paying utility bills, paying taxes, and meeting other operational costs. The effective management of cash disbursements is important because it helps businesses achieve liquidity without overspending unnecessarily. As Brigham Eugene F. and Joel F. Houston (2019) observe, proper management of cash disbursement will ensure that the business does not have idle cash balances and that it is more profitable.

Effective management of cash disbursements includes planning, control, and coordination of cash payments to ensure that the money is put into use efficiently. Timing of cash payments is one critical element that must be considered in order to achieve effective cash management. Delays in payments, which are permissible, enable companies to put their cash to other useful activities, and early payments may at times be accompanied by discounts. According to Eugene F. Brigham and Michael C. Ehrhardt (2020), there is need for firms to come up with an effective cash policy whereby the advantages of delaying payments and avoiding discounts are balanced. It is also important for small businesses to keep good relations with their suppliers due to the fact that they finance themselves through trade credit.

A significant aspect relating to cash disbursements is the use of an internal control system. Internal controls are essential in ensuring that disbursement of cash is authorized and recorded properly and that there is no risk of theft or any other form of fraudulent activities. As suggested by Ray H. Garrison et al. (2021), proper internal

controls are vital in ensuring that money is not lost within the business. Weak internal controls in SMEs cause a significant number of costs without any benefits to the firm, hence poor profitability. Studies have revealed that SMEs with proper internal control systems have performed financially well compared to others.

The application of digital technology for conducting financial transactions has also brought about changes in the cash disbursement function of SMEs. The availability of electronic financial transactions, mobile banking, and digital accounting helps achieve effective and precise cash transactions. With regards to the case of Uganda, the use of mobile financial technology has led to an improvement in the management of cash transactions by SMEs. According to the Bank of Uganda (2022), the utilization of digital financial services has increased efficiency within transactions by lowering transaction costs and improving the accuracy of documentation. Digital technology enables SMEs to trace the cash outflows instantly, thus making the process of financial planning easier.

In addition, cost control is another important factor in cash disbursement management that is key to SME profitability. Effective monitoring of business expenses helps ensure that companies do not spend unnecessarily and use their money in the most efficient manner possible. According to Lawrence J. Gitman (2018), it is important to keep an eye on the company's disbursements to make sure that positive cash flows are maintained. It is worth noting that positive cash flows help firms stay profitable. Companies that cannot control their costs are likely to have cash flow problems and incur debt. On the other hand, those that can control disbursements will record high profit margins.

It is possible to cite empirical evidence of the effect of cash disbursement management on SME profitability. Deloof Marc (2003) demonstrated that good management of working capital and disbursements improves firm profitability considerably. Also, Raheman Abdul and Nasr Mohamed (2007) showed that effective cash conversion cycles, including payables management, positively impact firm profitability. Though carried out at different times and locations, these results can be applied to developing

countries like Uganda because poor working capital management continues to pose challenges for SMEs in such regions.

There are several challenges faced by SMEs in terms of cash disbursement management in Uganda, among them low levels of financial literacy, limited access to formal financial institutions, and poor financial management practices. Uganda Bureau of Statistics (2023) reports that many SMEs in Uganda operate in the informal sector and lack any form of financial management system, making it hard for them to effectively manage cash flows. Inefficiencies that arise from the inability to effectively track expenses and make prompt payments have an effect on profitability.

Supplier payment management is important in determining the profitability of SMEs since negotiating effective terms of payment is an important tool for managing cash flow. According to Van Horne James C. and John M. Wachowicz Jr. (2017), managing payables effectively can enhance liquidity while maintaining good supplier relations at the same time. SMEs can benefit from taking up opportunities for trade credits and use the money saved through such payments to invest in profit-making projects. Failure to honor payment obligations can harm the relationship with suppliers and jeopardize future transactions.

Moreover, budgeting and forecasting are some of the critical methods used in the management of cash disbursement. A carefully prepared cash budget allows an SME to prepare itself for any upcoming cash needs and make proper plans on how to spend its money. According to Charles T. Horngren et al., budgeting assists an organization in distributing its resource properly in order to avoid unnecessary expenses. In the case of SMEs, good budgeting practices ensure that adequate cash is available to fund important activities without wastage.

### **Summary of Literature Review**

Cash disbursement management is a critical practice used by SMEs in enhancing their profitability levels. Such practices as proper scheduling of payments, proper internal control systems, use of electronic payment systems, cost management, and proper

supplier's management lead to good financial performance of SMEs. As research shows, efficient cash disbursement management leads to improved profitability of SMEs. Nevertheless, certain obstacles prevent SMEs from adopting efficient cash disbursement management strategies in developing countries such as Uganda. These include poor financial practices and illiteracy among others.

In summary, cash disbursements are critical for ensuring profitability in small and medium-sized enterprises. Efficiently managing cash flows can enable a business to meet its liabilities, eliminate wastage, and engage in productive ventures. Studies have revealed that SMEs that are successful in cash disbursements, especially those utilizing technological systems, will be more profitable in the future.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.0 Introduction

This chapter describes the methodology that was used to undertake the study, including the research design, population of the study, sample size, sampling techniques, sources of data, methods of data collection, instruments for data collection, and data presentation and analysis.

#### 3.1 Research design

In conducting this study, a cross-sectional research design was used, which involved collecting data on the sample selected at one point in time. Such a method made it possible for the researcher to investigate the prevailing cash management practices and their effects on the profitability of SMEs. Data collected through this method was analyzed using correlation and regression techniques to find out the strength and nature of the relationship between cash management practices and firm profitability.

The researcher used a cross-sectional research design in this study due to its ability to collect information about many SMEs in a shorter period, thus being time and cost-efficient. The reason behind this is that the research aims at finding out the prevailing cash management practices and their effects on the profitability of the firms.

#### 3.2 Study population

Target population of the study was made up of 300 small-scale businesses which included retailers, hardware merchants, grocers, and general merchandisers (Mukono Municipal Council, 2023/2024 Financial Year report).

### 3.3 Sample size

Considering the wide scope of the small business' environment, an ideal sample size had to be identified. Therefore, the sample size of 169 was identified from Krejcie & Morgan's (1970) sample size tables.

**Table 3.1: Sample size distribution**

Category of Respondents	Population Size (N)	Sample Size (n)
Retail Shops	90	51
Hardware Shops	70	39
Grocery Stores	80	45
Dealers in General Merchandise	60	34
<b>Total</b>	<b>300</b>	<b>169</b>

### 3.4 Sampling technique

Stratified Random Sampling was utilized in selecting respondents for this study. This sampling method entailed the classification of respondents into different groups (strata) based on certain attributes. Such attributes could include factors like types of business, sizes of businesses, or years in the business. Once the classification was done, respondents were picked randomly from each stratum proportionally.

Stratified sampling helped in ensuring that all significant strata within the population were included in the sample. Therefore, this sampling design helped in minimizing sampling errors while enhancing representativeness. The use of stratified random sampling was appropriate in this study. It would ensure that the various viewpoints of the population would be captured while maintaining objectivity.

### **3.5 Sources of data**

Data for the research was gathered mainly through questionnaires, which acted as the primary source of information. The use of questionnaires provided an opportunity for the researcher to collect standardized data from the participants.

#### **3.5.1 Primary data**

“Primary data” meant data that had been gathered specifically for the purpose of the current study and which had never been documented anywhere else before. For the current study, primary data was collected through the use of questionnaires on the respondents. The questionnaires had been specifically constructed to collect data that would help achieve the research objectives. The collection of primary data helped ensure that the data collected was up-to-date and relevant to the research objectives.

#### **3.5.2 Secondary data**

Even though the emphasis was placed on primary data gathered from the use of questionnaires, secondary data was employed as supporting material. This entailed using data which had been previously published in the form of books, articles, journals, magazines, and other research papers. The examination of the secondary data helped in formulating the questionnaire and in interpreting the results.

### **3.6 Data collection instrument**

Questionnaires were the sole instrument used to gather data from respondents. These questionnaires were useful as they provided an opportunity to get both quantitative and qualitative data. There were both close-ended and open-ended questions in the questionnaires to ensure easy analysis of results as well as detailed information. The use of questionnaires made data gathering easy, systematic, and uniform; thus, the respondents could answer honestly.

### **3.7 Data quality control**

#### **3.7.1 Validity tests**

The study employed a content validity index (CVI) based on expert judgment, accepting only variables scoring above 0.70 for social sciences (Amin, 2005) to establish the validity of the research instrument.

#### **3.7.2 Reliability tests**

Reliability was assessed using Cronbach's alpha coefficient, which measured the consistency of the research instrument across time and various items. The analysis was conducted using SPSS software (Sekaran, 2003).

### **3.8 Procedure of data collection**

A letter accompanied by an explanation of why this research was conducted from Uganda Christian University was provided in order to prove that the research had a motive and also to get permission to do the research. Questionnaires were administered to the subjects and collected after one week for coding and analysis.

### **3.9 Data presentation and analysis**

After collection of all required data, it was rigorously checked for completeness and accuracy prior to its analysis. This involved checking the completeness of each questionnaire and ensuring that each question had been answered. Data was then classified based on the goals and variables under study. Coding of responses in numbers was carried out to facilitate entry in the computer.

Data analysis involved entry of data into SPSS program for processing. Entry errors were minimized by ensuring the data is clean and error free. Frequency distributions and descriptive measures like frequencies, proportions, mean, standard deviation, among others were generated from the raw data. Responses were also presented in frequency tables and statistical tables.

### **3.10 Ethical considerations**

The ethics of the research concerned the suitability of the researcher's conduct concerning the rights and well-being of people who were part of the research or impacted by it in one way or the other according to Saunders, Lewis & Thornhill (2009). In doing the research, the researcher made sure that there was both methodological suitability and ethical validity in the research design. The researcher observed the various ethics of the research including those concerning respect for people, beneficence, and justice.

All respondents were not under duress when taking part in the research. All participants were made aware of the nature of the research, what was going to be done to them in the research process, and what impact participation would have on them. Consent of the respondents was sought in writing before starting data collection in order to avoid any form of dispute later. The researcher respected the confidentiality and anonymity of all the respondents by not including their names and identities in the report.

### **3.11 Limitations of the study**

The study faced certain limitations that might have had an effect on its results. First, some small businesses did not keep their financial records properly or regularly. The lack of financial data in some instances led to inaccuracies in the answers provided by the respondents. Sometimes the answers were based on assumptions and estimations rather than accurate figures.

Secondly, conducting thorough research involved huge financial costs related to collecting the data, traveling expenses, printing out the questionnaires, and processing the data. Lack of sufficient funds limited the scope of the research. Time management was another challenge that made it difficult to contact all targeted respondents.

In addition, the research study had geographical limitations in that it involved small firms based in the Mukono Central Division area only. This means that the results cannot be generalized in any way to other firms based outside the division in Uganda, especially

large firms with well-defined financial control systems. Despite all these constraints, it should be noted that appropriate steps were taken to ensure the credibility and reliability of the results.

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND INTERPRETATION

#### 4.0 Introduction

The current chapter gives the analysis and interpretation of the findings for the research entitled, "The Impact of Cash Management on Profitability of Small and Medium Enterprises in Mukono Central Division." The data collected from the SMEs proprietors/managers was done using the structured questionnaire approach.

#### 4.1 Response rate

Table 4.1: Response rate

Description	Frequency
Questionnaires distributed	169
Questionnaires returned	150
Questionnaires not returned	19
<b>Response Rate</b>	<b>88.8%</b>

Source: Primary Data (2026)

$$\text{Response Rate} = (150 / 169) \times 100 = 88.8\%$$

The study managed to attain a response rate of 88.8%, which is very high compared to other survey studies. High response rates in empirical research have been found to be above 70%, according to the existing literature on methodologies. Thus, having a response rate of 88.8% in this research means that there was a high level of cooperation among respondents, hence improving the validity of the study.

A high response rate has been known to reduce the chances of non-response biases, whereby the opinion of non-respondents might differ from that of respondents. Consequently, the data gathered will represent the features, attitudes, and behaviors of the selected respondents. In this case, the findings from this study will be highly representative of the SMEs in Mukono Central Division.

Moreover, a very important advantage of this high response rate is that it makes this study highly significant statistically as well as generalizable, meaning that the researcher is able to make valid conclusions based on the results obtained from the conducted research. Another advantage of such a response rate is that it makes the analysis conducted by the researcher more reliable, since there is an opportunity to analyze a larger amount of data.

## 4.2 Gender of respondents

**Table 4.2: Gender Distribution**

<b>Gender</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Male	90	60%
Female	60	40%
<b>Total</b>	<b>150</b>	<b>100%</b>

**Source: Primary Data (2026)**

From the findings, 60 percent of the respondents were males while 40 percent were females. This shows that the management of small and medium enterprises in the central division of Mukono is largely controlled by males. This could possibly be an indication that the male gender has more access to ownership of businesses than their female counterparts, or they have better chances to manage them than the latter.

However, the inclusion of the women respondents constitutes 40 percent of all the respondents, which clearly indicates that women are actively involved in business endeavors. This has become an increasing trend whereby women are increasingly getting involved in income-generating activities.

In addition, the use of both men and women participants boosts the validity and reliability of the results of the study. By incorporating the opinions of both sexes, the

study has been able to provide an unbiased and broadened perspective regarding cash management behavior and its impact on profits in SMEs. The incorporation of both sexes in the study makes sure that the results will not be skewed towards any single sex.

### 4.3 Age Group of respondents

**Table 4.3: Age distribution**

Age Bracket	Frequency	Percentage (%)
21-30 years	55	37%
31-40 years	45	30%
41-50 years	30	20%
Above 50 years	20	13%
<b>Total</b>	<b>150</b>	<b>100%</b>

**Source: Primary Data (2026)**

Based on the study results, the highest percentage of respondents (37%) belonged to the age group of 21-30 years, while 30% of the respondents were within the age range of 31-40 years. Therefore, one may conclude that the SMEs industry is largely populated by rather young people who have a lot of energy, dynamism, and enthusiasm to venture into other areas of entrepreneurship. These people are generally risk-takers and usually embrace the latest technological innovations, especially digital finances.

Additionally, 20% of the survey participants were within the age bracket 41-50, while those who were 50 and above represented 13%. While few in numbers, this group of people can add valuable experience, maturity, and stability to their businesses. These individuals have amassed knowledge and skills throughout their lives, which might help them make good decisions particularly in areas such as financial planning and risk management.

The above information gives a good overview of the number of respondents in each age category. Young people can easily introduce innovation and adaptability into business

processes. The younger generation is also characterized by greater proficiency in using technology, which helps in implementing new ways of handling cash flow in small businesses. On the other hand, older people usually depend on experience when making decisions, which brings stability. This study benefits greatly from having respondents of various age groups as it makes its conclusions reliable and comprehensive.

**4.4 Marital status of respondents**

**Table 4.4: Marital status**

<b>Marital Status</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Single	60	40%
Married	75	50%
Widow	7	5%
Widower	5	3%
Divorced	3	2%
<b>Total</b>	<b>150</b>	<b>100%</b>

**Source: Primary data (2026)**

Fifty percent of the participants had marital status, with the rest being single in a sizeable number, at forty percent. Others were widow (5%), widower (3%), and divorce (2%). This implies that most small and medium enterprise (SMEs) owners are either married or in family-based relationships, implying that most business operators have family commitments that must be fulfilled.

This shows that most SME owners have financial obligations and dependents, including children’s school fees, family maintenance, household expenses, and childcare needs. It is expected that this will affect the way business operators conduct themselves within their firms, especially financially. Married people tend to take a cautious approach to money matters, which is important for sustainable business operations and steady income flow.

In addition to this, the high proportion of single people further indicates that there is a portion of SME operators who might not have any direct obligation towards their families and therefore, have some degree of freedom when taking risks regarding finances. The inclusion of widowed, widowers, and separated persons although in a small proportion further reveals that the SME owners have different kinds of life backgrounds, which could further influence their way of managing the business.

In summary, the results imply that financial management decisions of SMEs are heavily influenced by the status of one’s family. It can be argued that married respondents would be more concerned about profitability, liquidity, and proper cash management due to various reasons.

#### 4.5 Education level of respondents

**Table 4.5: Education level**

Education Level	Frequency	Percentage (%)
Primary	20	13%
Secondary	30	20%
Certificate	28	19%
Diploma	40	27%
Bachelor’s Degree	25	17%
Master’s Degree	5	4%
Others	2	1%
<b>Total</b>	<b>150</b>	<b>100%</b>

**Source: Primary data (2026)**

From the above results, it can be noted that the highest number of people involved in the survey were diploma graduates, constituting 27% of the total sample size. Secondary school graduates were next with 20% and certificate holders with 19%. Those with bachelor’s degrees made up 17% while those with master’s degrees comprised 4%.

It is apparent from the results presented above that most of the owners/managers of SMEs in the study area have moderate to high educational backgrounds. These education levels help SME operators understand some fundamental principles of business finance, including budgeting, cash flow analysis, cash collection, and disbursement among others.

In addition, the occurrence of those holding diplomas and degrees as SME proprietors suggests increasing financial literacy in the sector. Those with higher educational qualifications will be more disposed to adopting formal accounting methods, planning, and technological advancements in finance because their educated minds are always willing to embrace financial discipline. On the contrary, those who are less educated, such as secondary and certificate holders, might adopt informal financial activities, although they can also gain from capacity building programs.

It can be concluded that the educational qualifications of SMEs have an important role in determining their financial behaviors through improved cash management practices.

#### 4.6 Business type

**Table 4.6: Type of Business**

<b>Business Type</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Retail Shop	60	40%
Grocery Shop	30	20%
Hardware Shop	25	17%
General Merchandise	28	19%
Others	7	4%
<b>Total</b>	<b>150</b>	<b>100%</b>

**Source: Primary Data (2026)**

From the above results, it is evident that the most common activity among the sampled respondents was operating retail shops since 40% of the respondents engaged in such

activities. This activity dominates among the SMEs because, unlike other enterprises, the retail shops offer a range of services and products that customers require in their daily lives. The grocery stores made up 20% of the respondents, which indicates that these stores play an integral part in providing various household needs, and hence there is regular customer traffic in such shops. The hardware shops formed 17% of the respondents, indicating the availability of enterprises that operate in the field of constructing and building. Additionally, there were enterprises that traded in general merchandise, making up 19% of the respondents.

In general, this distribution clearly indicates that the research has succeeded in including various categories of SMEs, which are actively engaged in daily cash transactions. This implies that these organizations usually make cash receipts and disbursements in large amounts, which makes them very suitable for investigating the effect of cash flow and its impact on profitability. Moreover, the preponderance of retail firms makes the research more relevant since these firms have firsthand experiences regarding the impact of cash management practices on their business results.

#### 4.7 Period spent in business

**Table 4.7: Years in operation**

Years	Frequency	Percentage (%)
0-5 years	65	43%
6-10 years	45	30%
11-15 years	25	17%
Above 15 years	15	10%
<b>Total</b>	<b>150</b>	<b>100%</b>

**Source: Primary Data (2026)**

An appreciable percentage (43%) of firms surveyed had been in business for only a few years, namely between 0-5 years. This means that many firms in the study were in the

initial stages of their operations, and as such, may face difficulties in growing, consolidating their position in the market, and structuring their activities. Conversely, an appreciable number of firms in the sample had been in business for more than 5 years, implying that there existed some relatively established firms within the sample population.

This distribution ensures that there is an equal representation of both new and existing firms in the sample group. The dominance of over fifty percent of the respondents who have been operating in the industry for more than five years makes the data collected more credible because the firms have had time to develop sound cash management procedures. Also, the participation of new firms contributes towards obtaining knowledge on financial management in the initial stages of setting up and running a business. It is clear from the above analysis that the respondents had adequate experience in handling business affairs.

#### 4.8 Cash Budgeting practices and profitability

**Table 4.8: Cash Budgeting Practices**

Statement	Mean	Std. Dev
Preparing detailed cash budgets improves profitability	4.45	0.62
Regular review of cash budgets enhances decision-making	4.38	0.70
Cash budgeting identifies surplus and deficit periods	4.20	0.75
Realistic cash budgets reduce liquidity risks	4.30	0.68
Cash budgeting supports investment planning	4.10	0.80
Monitoring budget vs actual improves profitability	4.50	0.60
Effective budgeting reduces unnecessary expenses	4.55	0.55

**Source: Primary Data (2026)**

Table 4.8 provides the results on cash budgeting and its impact on profitability and financial management. From these results, it is clear that the respondents have a strong

agreement that cash budgeting is a key determinant of organizational success. This can be seen in the high mean values for all the items, ranging from 4.10 to 4.55, with minimal standard deviations (0.55 to 0.80).

The item "Efficient budgeting curtails unnecessary expenditures" was ranked highest, having a mean value of 4.55 and a standard deviation of 0.55. This means that almost all the respondents are of the opinion that effective cash budgeting helps control costs. It is also evident from the standard deviation value that there was no big difference in the answers provided by the respondents. Also, "Budget vs. Actual analysis increases profitability" was highly ranked with a mean value of 4.50 and standard deviation of 0.60.

Moreover, the mean score of the statement, "Preparing detailed cash budgets increases profitability" was 4.45 (Std. Dev = 0.62), indicating that respondents agree strongly on the significance of preparing detailed cash budgets in increasing profitability. In addition, the statement "Frequent review of cash budgets improves decision-making" was rated highly (Mean = 4.38, Std. Dev = 0.70). This implies that reviewing cash budgets is a key tool in aiding managers to make better decisions. Hence, cash budgeting is not merely a tool for planning but also decision-making.

Moreover, the respondents agreed that "Practical cash budgets lower liquidity risks" (Mean = 4.30, Std. Dev = 0.68). This indicates that respondents believe that cash budgets that are practically attainable can help organizations avoid any liquidity risk. Also, the statement "Cash budgeting determines times of surplus and deficits" was rated at a mean of 4.20 (Std. Dev = 0.75). This further indicates that respondents recognize the importance of cash budgeting in predicting the organization's cash flow pattern. Finally, the statement "Cash budgeting assists in investment planning" had the least mean score (Mean = 4.10, Std. Dev = 0.80).

## 4.9 Cash collection practices and profitability of SMEs

**Table 4.9: Cash collection practices**

Statement	Mean	Std. Dev
Efficient cash collection improves profitability	4.60	0.50
Credit policies reduce bad debts	4.40	0.65
Follow-ups on overdue accounts improve profits	4.35	0.72
Early payment incentives increase cash inflow	4.10	0.80
Accurate receivables records enhance performance	4.55	0.55
Digital tools improve collection efficiency	4.48	0.60
Reducing collection periods improves liquidity	4.50	0.58

**Source: Primary Data (2026)**

Findings on perceptions of respondents concerning cash collection and its effect on organization performance have been provided in Table 4.9 below. As evident from the table above, respondents agree very strongly that efficient cash collection practices help improve profitability and financial performance as indicated by mean scores ranging between 4.10 and 4.60. Low standard deviations (0.50 to 0.80) show that respondents agreed.

The finding with the highest mean score is "Efficient cash collection helps in improving profitability" having a mean of 4.60 and standard deviation of 0.50. The result shows that there was strong agreement by most respondents that efficient cash collection helps improve profitability. Efficient cash collection provides companies with enough working capital hence enhancing profitability.

Likewise, "Accuracy in record-keeping of receivables leads to good performance" (Mean = 4.55, Std. Dev = 0.55) and "Shorter collection periods make an organization financially strong" (Mean = 4.50, Std. Dev = 0.58) were highly agreed with. The implication is that keeping accurate debtor records and reducing collection periods contribute to

enhancing the liquidity position of an organization. Accurate record-keeping is important since it provides information necessary for monitoring and making decisions.

Also, “Technology aids efficient collection of money from debtors” (Mean = 4.48, Std. Dev = 0.60) is another positive view of cash collection process. This is because digital tools play a critical role in improving the process of following up customers for payment. In addition, “Credit policies lower the level of bad debts” (Mean = 4.40, Std. Dev = 0.65) and “Following up overdue accounts increase profitability” (Mean = 4.35, Std. Dev = 0.72) show that credit policy is important in managing receivables.

While the statement had a somewhat lower level than the others, “Early payment incentives help boost cash flows” attained the highest mean score of 4.10 (Std. Dev = 0.80), indicating that respondents agreed that providing discount and other incentives to make early payments could speed up the process of generating cash. Nevertheless, the comparatively higher standard deviation indicates a bit of difference in opinions concerning this method.

From the results, it is evident that proper cash flow management strategies such as efficient collection process, good credit policy, regular monitoring, accurate accounting, and digitization, among other methods, significantly impact profit margins, cash flows, and performance of businesses in general.

#### 4.10 Cash disbursement management and profitability

**Table 4.10: Cash disbursement management**

Statement	Mean	Std. Dev
Scheduling payments improves profitability	4.35	0.70
Controlling disbursements increases profits	4.70	0.45
Prioritizing critical suppliers enhances performance	4.50	0.60
Approval processes reduce financial errors	4.65	0.50
Reviewing disbursement patterns identifies savings	4.40	0.65

Maintaining cash reserves supports profitability	4.20	0.75
Digital platforms improve financial performance	4.55	0.55

**Source: Primary Data (2026)**

Table 4.10 below displays respondents’ perceptions about cash disbursements management and its impact on financial performance. As can be seen from the table above, the means obtained for all questions ranged between 4.20 and 4.70, which indicate the consensus among respondents regarding the positive impact of sound cash disbursement management on the organization’s profitability and performance. The comparatively low standard deviations (from 0.45 to 0.75) also reflect the consistency in respondents’ responses in support of the question.

The highest mean (of 4.70) was achieved in regard to the statement “Controlling disbursements increases profits,” while the standard deviation stood at 0.45, indicating that there was consensus among respondents regarding the significance of controlling cash outflows for improved profitability.

“Approval processes minimize financial mistakes” also obtained a high mean of 4.65 and a standard deviation of 0.50. This indicates that the respondents strongly believe that there is a need for effective and organized approval processes that can significantly help prevent any errors or fraud from occurring.

Another statement that was strongly agreed on by the respondents was “Digital systems boost financial performance” (Mean = 4.55, Std. Dev = 0.55) and “Priority payments to crucial suppliers contribute to good performance” (Mean = 4.50, Std. Dev = 0.60). This means that using digital payment systems will increase efficiency, accuracy, and transparency, while giving priority to payments to key suppliers will ensure continuous business operations.

Moreover, “Examining spending patterns leads to savings” (Mean = 4.40, Std. Dev = 0.65) and “Timing payments contributes to profitability” (Mean = 4.35, Std. Dev = 0.70) imply that the respondents understand the significance of conducting routine financial analysis and planning timely payments. Such approaches will allow companies to discover ways for cutting costs, prevent fines from being charged, and effectively manage their cash flow.

Despite having a lower score than other statements, “Having cash reserves increases profitability” (Mean = 4.20, Std. Dev = 0.75) is still considered high. Therefore, the respondents recognize that maintaining sufficient cash reserves positively impact a company’s finances, providing the business with enough funds to settle its liabilities.

The results reveal that efficient cash disbursement management using control techniques, authorization procedures, technology, prioritization, and planning greatly assists in enhancing business profitability and performance. Moreover, the small standard deviation values clearly show that the participants have more or less similar views about these management processes.

## CHAPTER FIVE

### SUMMARY OF FINDINGS, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

#### 5.0 Introduction

In this chapter, there will be a summary and synthesis of the important findings from the study on Cash Management Practices and Profitability of Small and Medium Enterprises (SMEs) in Mukono Central Division. In addition, the findings of the research will be linked to theories and existing literature and some reasonable conclusions and suggestions made based on the findings. This chapter has been organized following the stated objectives of the study, which include cash budgeting practices, cash collection practices, and cash disbursement management practices.

#### 5.1 Summary of findings

The research has revealed that the management of cash flow is one of the key determinants of profitability and sustainability for small businesses in Mukono Central Division. Generally, it can be concluded that enterprises that have an organized, systematic, and controlled method of managing their cash flows outperform those that lack effective cash management systems.

##### 5.1.1 Cash budgeting practices and profitability

The results showed that there is a great impact of cash budgeting in terms of enhancing the profitability of the SMEs. The respondents said that through the preparation of cash budgets, an organization can plan its cash flows and be able to know when they are likely to be short or abundant. This means that they are able to plan and invest wisely, hence minimizing uncertainties.

It was discovered that SMEs that update and revise their cash budgets are in a position to plan their expenditure in relation to the available resources. It ensures that they do not exceed their resources and thus avoid cases of unnecessary borrowing. Cash

budgeting also ensures that funds are used for necessary purposes of the organizations, such as buying inventory and expanding the business.

Also, it was discovered that budgeting in terms of cash promotes effective coordination among various business operations including procurement, sales, and finances. As a result, SMEs can continue their operations without being interrupted by a lack of funds since everything has been planned according to available cash. This kind of financial planning makes companies more profitable because of increased efficiency and proper financial management.

### **5.1.2 Cash collection practices and profitability**

It was also found out that proper cash management processes have a great effect on liquidity management and profitability among SMEs. Firms that adopt effective billing procedures and strictly monitor overdue payments were able to enjoy smooth and dependable cash flows.

According to the participants, timely billing after business sales transactions leads to faster payment of bills and quicker cash cycles. Moreover, regular follow-ups on overdue payments ensure that clients honor their payment responsibilities according to set deadlines. SMEs adopting stringent credit policies, such as rigorous customer credit checks and establishment of credit ceilings, tend to remain more stable financially than others who do not follow credit guidelines.

In addition, good cash collection leads to reduced reliance on external financing. As a result of regular cash flow, it becomes easier for SMEs to cover their operational costs, including salary payments, without the need for expensive loans. This helps save money that would have been used for repayment purposes and hence raises the bottom line. Also, by having well-managed accounts receivable, it is easier for firms to improve their liquidity ratios and act quickly in any situation. In conclusion, an effective cash collection system plays a critical role in ensuring smooth cash flow operations and business success.

### **5.1.3 Cash disbursement management practices and profitability**

The research demonstrated that sound cash outflow management is strongly correlated with effective cost control and profitability in SMEs. The respondents indicated that sound payment schedules to suppliers and creditors help companies build good business relations as well as minimize their liquidity problems. Effective prioritization of payments such as raw material purchase, utilities, and other important expenses allows businesses to conduct their operations without any disturbances.

It was also indicated by the respondents that an effective expenditure approval system helps minimize the risks of financial management problems and financial frauds. The businesses which make their payments after obtaining permission demonstrate higher effectiveness in terms of cost management. Such an expense management approach allows controlling finances in a more disciplined way.

Furthermore, the research proves that effective cash disbursement management enables SMEs to benefit from supplier discounts and favorable credit terms, thus lowering the cost of acquisitions and increasing profit margins. By carefully managing payment schedules, organizations can achieve better working capital status and prevent any undue financial pressure.

From the study, it is clear that efficient management of cash disbursements is fundamental in achieving cost savings, better financial management, and increased profits for SMEs operating in the Mukono Central Division.

## **5.2 Discussion of findings**

### **5.2.1 Cash budgeting practices and profitability**

Results have shown that there is very high consensus among respondents on the role played by cash budgeting techniques in improving profits. This is in line with Financial Management Theory put forward by James C. Van Horne, where he suggests that good planning and management of the firm's finances lead to improved performances. Good cash budgeting helps firms plan their finances and manage them effectively.

The findings are consistent with the empirical research conducted by Pandey I.M. (2020), who believes that cash budgeting can help firms stay out of bankruptcy and become more profitable through effective financial planning. Likewise, the study findings are consistent with the Cash Conversion Cycle theory developed by Richard A. Brealey and Stewart C. Myers, who point out that appropriate financial planning will minimize liquidity problems and increase the value of the firm. The consistency in responses is a clear indication that small businesses in the Mukono Central Division understand the significance of planning and controlling their cash flows. Financial control will enable early detection of any variations, thus taking remedial steps to avoid financial problems.

### **5.2.2 Cash collection practices and profitability**

Results show that there is a significant relationship between effective cash collection techniques and profitability, and liquidity. Based on the above results, it is clear that SMEs understand the need for effective management of receivables for effective cash flow management.

The above findings confirm the findings from the Working Capital Management theory presented by Eugene F. Brigham and Joel F Houston (2011). The two argue that the efficient management of receivables ensures that there are no bad debts and therefore helps in enhancing liquidity and profitability. With good credit policies and follow-ups, there is little risk of default.

Positive perception towards the effectiveness of technology in enhancing cash collection efficiency is based on the Technology Acceptance Model (TAM). According to Fred Davis, this model highlights how perceptions can influence the decision of adopting technologies.

Moreover, the research results align with other studies that state that decreasing the period of collection leads to an improvement in the cash conversion cycle and liquidity, eventually resulting in better profitability. Hence, the study proves that structured

credit policies, follow-ups, proper documentation, and technology play a vital role in SME performance.

### **5.2.3 Cash disbursement management and profitability**

From the results, there is evidence that sound cash disbursement management significantly impacts the profit levels in the organizations. This shows that the organizations consider the need for good internal controls in handling the cash outflows. This result backs up the views held by William H. Meckling (2012). According to the author, there is a need for good control mechanisms that will help in avoiding any misuses of funds. There are better monitoring of expenses, and this leads to better profits.

The results further back up Internal Control Theory as advanced by Committee of Sponsoring Organizations of the Treadway Commission (COSO). The theory shows that the effectiveness of control activities helps to boost financial performance. Moreover, the positive attitude towards use of digital platforms in disbursement management points at the modernization of finance procedures in the firms. The use of digital payments increases transparency and boosts the profitability of the business. The use of cash reserve in the firms, although differing in opinion slightly, backs up the Precautionary Liquidity Theory.

## **5.3 Conclusions**

From the results of the study, the following conclusion can be drawn. Namely, cash budgeting practices are of primary significance and are significantly important in increasing the profits of SMEs in Mukono Central Division. As shown from the study, those firms that prepare cash budgets and strictly follow them plan their financial activities better and match their expenses with their anticipated inflow of funds without straining themselves financially. Cash budgeting also helped improve managerial control of these firms because they could limit their expenses, concentrate on critical expenses, and use the limited finances wisely.

In addition to this, the process of cash budgeting plays an important role in helping SMEs achieve greater accuracy in their financial planning. Companies that conduct their cash budgets in the right way are able to forecast times of having excess or a lack of cash flow. Based on this, these companies can plan how they can solve problems relating to financial stability, whether through modifying credit policies, postponing unnecessary expenditure, or obtaining loans when required. All these factors will lead to increased efficiency and better financial results for SMEs.

In addition, this research finds out that good cash collection methods play a crucial role in determining the liquidity and profitability of small firms. An effective credit system, which includes well-developed credit policies, appropriate client screening, quick billing, and continuous follow-ups for receivables, was observed to greatly minimize late payments and uncollectible accounts. Small companies that strictly implement their credit terms and keep track of their receivables can effectively hasten their cash flow, thus enhancing their liquidity status.

The improved liquidity of businesses has been seen to have a positive effect on their sustainability since companies can meet their liabilities such as payment of salaries, rent, suppliers' bills, and operational costs without difficulty. Furthermore, efficient cash collection systems allow SMEs to recycle money to purchase stock, grow their business operations, and benefit from new market opportunities. This continual improvement in the cash cycle will result in higher revenue creation and profitability in the long run. On the other hand, poor cash collection systems lead to cash flow problems, increased external debt financing, and inefficiencies.

On another note, the research has found that the appropriate handling of cash outflow in SMEs is a crucial part of financial management and increasing profitability. Appropriate financial management entails controlling cash outflows through systematic payments, approvals, and monitoring expenditures. Businesses that are careful about their payments by separating pressing debts from non-essential expenses can effectively sustain their working capital balance.

It was also observed that having good internal control systems prevented instances of financial mismanagement, fraud, and unnecessary expenditure, thus protecting business assets. In addition, sound planning on how cash is disbursed allows small businesses to benefit from supplier financing, discounts for early payments, and large-scale buying, hence reducing expenses even further. It follows, therefore, that companies that make effective use of their cash disbursements are able to enjoy enhanced cost efficiency, financial stability, and better profit margins. In conclusion, the findings show that cash management practices such as cash budgeting, cash collections, and cash disbursements together have a significant impact on the profitability of SMEs in Mukono Central Division.

#### **5.4 Recommendations**

##### **Recommendations based on the findings of the study**

From the study findings, some recommendations are presented below in an effort to promote the financial stability and profitability of SMEs operating in Mukono Central Division. To begin with, SMEs are advised to develop better cash budgeting processes through the preparation of accurate cash budgets. Businesspersons should ensure that they review their budgets regularly so as to reflect their financial position and changes in the business environment. This is important because it will allow entrepreneurs to forecast their financial challenges in advance and make wise decisions. Entrepreneurs are recommended to implement proper credit policies as well as adopt online receivables management systems. This will assist enterprises to reduce the occurrence of bad debts as well as improving their cash flows.

It is important that SMEs adopt robust internal control measures in order to control cash expenditures. It requires setting up a system that formally approves expenditure and conducts audits to detect discrepancies. Internal controls help avoid the mismanagement of finances, thus making it possible to maximize profits.

There is need to embrace digital financial platforms. Digital platforms increase efficiency, increase transparency, and help keep accurate records of finances. Using such platforms, an SME can track transactions in real time, get accurate records, and plan accordingly.

### **5.5 Areas for further research**

Future studies may

Examine the quantitative relationship between cash management practices and profitability using regression analysis.

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## APPENDICES

### QUESTIONNAIRE

I am Ninsiima Rina, a student of Uganda Christian University conducting a research study on “Cash Management Practices and Profitability of Small and Medium Enterprises in Mukono Central Division” as a partial requirement for the award of a Bachelor’s degree in Business Administration of Uganda Christian University.

I kindly request you to assist by answering the questions below. Your responses will be treated with strict confidentiality.

#### SECTION A: Demographic Data

Please tick (✓) in the appropriate box  as the most agreed answer to the following statements.

##### 1. Gender of the respondent.

Male

Female

##### 2. Age group of the respondent.

21-30 years

31-40 years

41-50 years

above 50 years

##### 3. Marital status of the respondent.

Single

Married

Widow

Widower

Divorced

##### 4. Education level of the respondent.

Primary level

Secondary level

Certificate level

Diploma level

Bachelor’s level

Master’s level

Others specify.....

**5. Business type:**

Retail shop  Grocery shop

Hardware shop  General merchant .

Others specify.....

**6. For how long have you been doing this business?**

0 - 5 years  6-10 years  11-15 years  Above 15 years

**SECTION B: Cash Management Practices and Profitability**

**Instructions:** Please indicate your level of agreement with each statement using the following scale:

**Strongly Agree = 5, Agree = 4, Not Sure = 3, Disagree = 2, Strongly Disagree = 1**

**Cash budgeting practices on the profitability of SMEs**

Statement	1	2	3	4	5
1. Preparing a detailed cash budget helps my business to allocate resources efficiently and maximize profits.					
2. Regular review of the cash budget enhances our decision-making and business profitability.					
3. Cash budgeting allows my business to identify periods of surplus and deficit, improving financial planning.					
4. Setting realistic cash budgets reduces the risk of liquidity shortages and supports profitability.					
5. Cash budgeting helps my business to plan for investments and operational growth effectively.					
6. Monitoring budgeted versus actual cash inflows and outflows improves profitability.					
7. Effective cash budgeting reduces unnecessary expenses and enhances profit margins.					

### Cash collection on SMEs profitability

Statement	1	2	3	4	5
1. Efficient cash collection ensures timely receipt of payments and improves business profitability.					
2. Implementing credit policies reduces bad debts and enhances profitability.					
3. Regular follow-ups on overdue accounts positively influence our cash flow and profits.					
4. Offering incentives for early payments increases cash inflow and profitability.					
5. Maintaining accurate records of receivables improves monitoring and enhances financial performance.					
6. Using digital tools for cash collection increases efficiency and contributes to higher profitability.					
7. Reducing collection periods improves liquidity and allows the business to take advantage of profitable opportunities.					

### Cash disbursement management on SMEs profitability

Statement	1	2	3	4	5
1. Proper scheduling of cash payments ensures sufficient funds are available for essential operations, improving profits.					
2. Controlling cash disbursements prevents unnecessary spending and increases profitability.					
3. Prioritizing payments to critical suppliers enhances operational efficiency and profitability.					
4. Implementing approval processes for cash payments reduces financial errors and protects profits.					
5. Regular review of disbursement patterns helps identify cost-saving opportunities.					

6. Maintaining cash reserves for emergency payments prevents business disruption and supports profitability.					
7. Using digital platforms for disbursements enhances control, reduces delays, and improves financial performance.					

**Thank you very much for your time and cooperation!**