

Title: Credit Policy and its Effect on Liquidity: A Study of Selected Manufacturing Companies in Nigeria

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Abstract: This paper considered the effect of credit policy on the liquidity of manufacturing companies in Nigeria. Credit policy from this perspective was viewed from the angle of controlling or regulating credit sales. The study looked into the problems of non-monitoring and the non-review of the credit policy of organizations as a cause of the liquidity problems associated with credit sales. The study centered majorly on the effects of each of the individual components of credit policy which include the credit standards, the credit period, the cash discount and the collection period on an organization's liquidity. It is also at finding out the type of effects that a company's credit policy has on its liquidity. Four manufacturing companies were selected which include Unilever Nigeria plc, Cadbury Nigeria plc, Nestle Nigeria plc and Nigerian bottling company. The annual reports and accounts of the selected companies as well as questionnaire where relevant data was made use of were statistically analyzed. Analysis of variance (ANOVA) and regression analysis were used in testing the hypothesis. The findings revealed that when a company's credit policy is favourable, liquidity is at a desirable level and lastly, the findings revealed that companies should ensure the monitoring and regular review of their credit policy and the allowance of cash discounts should be minimized as much as possible. We therefore recommended that organization should consider their mission, the nature of their businesses and their business environment before setting up a credit policy.