

**FINANCIAL MANAGEMENT PRACTICES AND PROFITABILITY OF SMALL AND
MEDIUM ENTERPRISES IN KABALE MUNICIPALITY**

BY

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REG NO: 12/A/MBA/053/PG

ABSTRACT

This study examined the relationship between financial management practices, characteristics and impacts on the profitability of SMEs. Objectives of the thesis are (1) To investigate the various financial Management practices used by SMEs, (2) To determine how financial management practices and financial characteristics affect SMEs profitability and (3) To determine the relationship between financial management practices and profitability of SMEs. The study adopted descriptive research design, specifically cross-sectional survey design using both the quantitative and qualitative methods of data collection. The study comprised of the staff of 63 selected SMEs including those basically involved in financial management practices. The study population comprised of 76 SMEs and 63 SMEs were selected using Morgan table of determining sample size. Respondents were staff who are directly employed in the finance and accounting departments. One respondent was purposively selected from each SMEs totaling to 63 respondents. Descriptive findings of SME profitability were analyzed. These findings generally revealed that 99 of 150 SMEs surveyed (66%) were profitable and the remainder (34%) were not profitable, that is, they could not produce an annual average profit return that was higher than the free-risk rate of interest. The findings indicate that Cash and inventory budgets are frequently prepared. Levels of receivables and inventory are reviewed frequently. However, SME owners had a low level of management knowledge, and owner/manager's experience has been seen to be more important than application of theories of financial management. This required training of skills of financial management for the owners and managers. The size of annual profits of SMEs was not high. Annual profits of SMEs in Kabale were generally low because of small firm size in terms of total assets and labor. This study recommends the following issues to be considered by government policy-makers. Remove discrimination between SMEs and large companies and between state and non-state SMEs in granting loans, Develop the financial market including both capital and money markets and Provide training programs in financial management skills for the owners and managers of SMEs.