

## **The Impact of the Credit Policy on the Profitability of the Listed Food, Beverage and Tobacco Companies in Sri Lanka**

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### **Abstract**

It is evident that the decisions regarding the trade credit policy are much vital on behalf of the profitability and performance of a company. This study considered the effects of trade credit policy on profitability of the listed Food, Beverage and Tobacco companies in Sri Lanka by considering the elements that included in the trade credit policy and the impact of them on the profitability of the selected companies. Debtors' collection period, Debtors' usage, Creditors' payment period and Creditors' usage were used as independent variables. Firm Size, Firm Liquidity and Firm Age were used as control variables. The profitability (dependent variable) was measured by using the return on assets (ROA).

The population of the selected sector consisted fifty listed companies as at 31st August 2021. Out of which 25 listed companies were selected for the sample according to Market Capitalization. The financial statements for the period starting from 2016/17 to 2020/21 were used as the sample and collected data were analysed using E-views. Descriptive statistics, correlation, R square, sig. value and regression were used to explore the relationship between independent and dependent variables. The study provides empirical evidence that trade credits have a negative and trade debts have a positive impact on the profitability as well as liquidity level, firm sizes have a positive impact on profitability, but firm age has a negative relationship on profitability.

**Key words:** *Credit policy, Profitability, Return on Assets, Performance.*