

## ABSTRACT

This study attempted to provide an analysis on why firms extend credit to their customers based on operational and quality control explanation. Long, Malitz, and Ravid (1993) proposed a model based on the idea that the major purpose of trade credit is to allow buyers to assess the quality of the firm's products before paying. In this paper, the researcher applies a similar methodology using a sample of manufacturing firms listed on Singapore Exchange.

There are six explanatory variables to be tested: operating assets turnover rate, company size, days of payable outstanding, short-term borrowing, high-tech firms and perishable goods. Trade credit policy is defined as the average time receivables are outstanding (DSO). The data for this research is secondary data available on firms' annual reports. The analysis is conducted using the time period from 2001 to 2003. All data are downloaded from Singapore Exchange official website ([www.sgx.com](http://www.sgx.com)).

Multiple linear regression analysis and independent sample T-test were conducted using time period of 2001-2003 and all manufacturing firms were listed on Singapore Exchange. The regression results show the evidence is consistent with the product quality theory of trade credit and inconsistent with the pure financial theory. Smaller firms with lower turnover (longer production cycles), and those requiring more time to observe quality extend more trade credit than larger firms or those where quality is easy to observe. Also contrary to traditional theories, the researcher found firms borrow or use trade credit to finance receivables.

One of the conclusions is that perishable goods variable is an insignificant determinant of trade credit policy. This finding may be for that sample size of perishable goods is too small to provide significant outcome.

The researcher proposes producers to obtain longer credit or an increased credit limit for their purchase and offer less trade credit to their clients. And producers might achieve some international product quality authentications as product quality guarantee to shorten period used for assessing product quality. At last, the researcher would like to recommend future research study on food and beverage industry individually.

