

ACCOUNTING KNOWLEDGE, PRACTICES, AND CONTROLS OF MICRO, SMALL AND MEDIUM ENTERPRISES: EVIDENCE FROM THE PHILIPPINES

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ABSTRACT

Of the business enterprises operating in the Philippines, 99.6% are micro, small, and medium enterprises (MSMEs). The Magna Carta of Small Enterprises (Republic Act 6977) governs these MSMEs. However, they are still subject to laws on the declaration of income and other regulations as imposed by the Bureau of Internal Revenue (BIR), including proper accounting in accordance with accounting standards. This paper looks at the accounting knowledge, practices and controls of MSMEs located in Metro Manila cities and in several Quezon Province towns. The study primary investigates whether or not MSMEs understand accounting principles, have acceptable accounting practices and controls. Majority of the MSMEs are either very knowledgeable or knowledgeable on accounting principles and concepts. MSMEs common accounting methods used are cash, accrual and installment. Common accounting practices used by MSMEs are manifested in their bad debt estimation, depreciation method used, net receivable estimation, business documents used and payment methods. MSMEs practice basic accounting controls; however, computers are not commonly used. ANOVA reveals that there are significant differences between MSMEs in Metro Manila and in Quezon Province on their knowledge of accounting principles, accounting practices and controls.

JEL: M40, M41, M48

KEYWORDS: Accounting, Practices, Controls, MSMEs

INTRODUCTION

Micro, small and medium sized enterprises (MSMEs) play a vital role not only in wealth creation but also in dispersing new industries to the countryside that contribute to a more equitable distribution of income, encouraging entrepreneurial development, and stimulating gainful employment, supporting export growth and a potent force in efforts against poverty. Given their economic and social importance, Philippine MSMEs are considered vital in the recovery of the national economy (Ibarra, 2012).

Table 1: Category of MSMEs in the Philippines

CATEGORY	TOTAL ASSET VALUE	EMPLOYEES
Micro enterprise	P3,000,000 or less	1 - 9
Small enterprise	P3,000,001 – P15,000,000	10 – 99
Medium enterprise	P15,000,001 – P100,000,000	100 – 199

Sources: Small and Medium Enterprise Development Council; RA 9501 Magna Carta for SME

In the Philippines, MSMEs are categorized by the number of their employees and the size of their assets excluding land. Table 1 shows the category of MSMEs in the Philippines in accordance with 2012 statistics of the Department of Trade and Industry (DTI). According to DTI, there were 944,897 business enterprises operating in

the Philippines in 2012; 99.6% (940,886) were MSMEs and the remaining 0.40% (4,011) were large enterprises. MSMEs generated 4,930,851 jobs in 2012 versus 2,658,740 for the large enterprises.

The Philippine government has embarked upon a comprehensive and integrated strategy for the sustainable growth and development of SMEs in the country. The strategy encompasses all critical factors - technology, product development, finance, training marketing, and so on (Leano, 2006). To encourage the development of SMEs, the Government of the Philippines enacted into law the Magna Carta of Small Enterprises (Republic Act 6977) which outlines the general policies for the development of SMEs.

In that regard, it is worth considering to what extent these MSMEs follow established accounting principles. Accounting forms a vital element of any business. It plays a critical role in the success or failure of contemporary business institutions (Smirat, 2013). Accounting systems are responsible for recording, analyzing, monitoring and evaluating the financial condition of companies, preparation of documents necessary for tax purposes, and providing information support to many other organizational functions. In the context of small and medium enterprises (SMEs), accounting information is important as it can help the firms manage their short-term problems in critical areas like costing, expenditure and cash flow (Mitchell et al., 2000).

The European Commission (2008) recommended accounting systems, which maybe considered appropriate for small enterprises according to their particular needs. However, not all of these practices will assist all businesses, e.g. firms that operate on a simpler business model may find only some of them useful. The following are the recommended accounting systems: (1) Use of financial records, such as the sales daybook, purchases daybook, cash receipt book, check payments book, petty cash book, general journal, nominal ledger, debtors' ledger and creditors' ledger and a payroll system; (2) use of double-entry bookkeeping; (3) use of simplified formats for financial statements; (4) preparing projected cash flow statements on a regular basis; (5) use of accrual basis accounting; (6) applying the matching principle; (7) applying the true and fair value principle; (8) using a standardized chart of accounts; and (9) applying the "only once" principle meaning an administrative simplification in supplying financial information to different or the same authorities for different or the same purposes (e.g. taxation, statistics, Basel II, banks).

The IASB issued the International Financial Reporting Standards (IFRS) for SMEs to respond to a need. The full IFRS were developed primarily for public traded entities. However, there are more privately held companies than publicly traded ones. Many private companies prepare financial statements but these statements are based on local requirements that differ from the full IFRS. Users of the financial statements of SMEs do not have the same needs, but are more focused on assessing shorter-term cash flows, liquidity and solvency. In addition, many SMEs have observed that the full IFRS imposes a burden on them that has grown as the IFRS has become more detailed and more countries have begun to use them. The IASB has, therefore developed the IFRS for SMEs with the twin goals of meeting user needs while balancing costs and benefits from a preparer perspective.

The Philippine scenario is not different from the rest of the world. In October 2005, in consideration of the needs of the users of financial statements of privately held companies, as well as the burden to preparers of financial statements, the then Accounting Standards Council (ASC), now the Financial Reporting Standard Council (FRSC) provided temporary relief to private companies, referred to as "non-publicly accountable entities" (or NPAEs), by permitting entities that qualified as NPAEs not to use the full PFRS. The temporary relief was given under Philippine Accounting Standards (PAS) 101, Financial Reporting Standards for Non-publicly Accountable Entities.

The new Philippine Financial Reporting Standards for Small and Medium-sized Entities (PFRS for SMEs) became effective on January 1, 2010. The standards were adapted by the Financial Reporting

Standards Council (FRSC). The Securities and Exchange Commission (SEC) made the PFRS for SMEs a part of its rules and regulations, requiring covered companies to implement the new standard starting with financial statements filed in 2010. The PFRS for SMEs provides a substantially simplified set of internationally recognized accounting principles for privately held businesses. Based on the full PFRSs, which were developed primarily for listed companies, the PFRS for SMEs will particularly benefit businesses that operate internationally (Punongbayan & Araullo 2010).

The new standard offers a unique opportunity to create a standardized accounting framework for privately held businesses in the country, and throughout the world as enterprises transition to IFRS from which the PFRS for SMEs is adapted. A complete set of financial statements of an entity reporting under the PFRS for SMEs is similar to that provided for by full PFRS. It requires the following documents: statement of financial positions; either single statement of comprehensive income, or a separate income statement and a separate statement of comprehensive income; statement of changes in equity; statement of cash flows; and notes including a summary of significant accounting policies.

With the current trends and progress in the accounting for MSMEs, this study aims to assess the accounting practices of MSMEs in urban (Metro Manila) and rural (Quezon Province) settings, to determine whether knowledge of accounting principles is comparable. The hypotheses for this study are:

HO1: There is no significant difference between MSMEs in Metro Manila and in Quezon Province on their knowledge of accounting principles and concepts.

HO2: There is no significant difference between MSMEs in Metro Manila and in Quezon Province on their accounting practices.

HO3: There is no significant difference between MSMEs in Metro Manila and in Quezon Province on their accounting controls.

This study will have important policy implications for the Philippine government, particularly with regard to MSMEs. It will also add to the literature on accounting practices of MSMEs, in general. Related studies on accounting practices and controls are included in the study, statistical analysis of data gathered through survey using questionnaires and test on hypotheses collaborate the conclusions of the study.

LITERATURE REVIEW

According to Hatteu (2012), the accounting system provides information for making decisions about small business. Hatteu stressed the importance of understanding which entry system should be used and how accounting equations work. Hatteu advocates that accounting system should be easy to use, accurate, timely, consistent, understandable, dependable and complete. The accounting record of small businesses needs to follow the standard of generally accepted accounting principles (GAAP). In addition, a good accounting system is not only judged by how well records are kept but also by how well it is able to meet the information needs of both internal and external decision – makers (Mbroh and Attom, 2011; Hussein, 1983).

Husin & Ibrahim (2013) cited in their conceptual paper that the critical financial information that is mostly needed by the SMEs to increase their competitiveness or success could be categorized into four groups: (1) taxation, (2) financial accounting, (3) management accounting and (4) strategic planning.

A previous study by Wichmann (1983) reveals that accounting and marketing pose major challenges to management of SMEs. Hence, it is important that managers or owners of SMEs learn accounting or hire experts. Ismail and King (2007) believe that development of a sound accounting information system in

SMEs depends on the owner's level of accounting knowledge. Likewise, Mahon (1999) advocates sophisticated financial reporting systems as necessary in order to ensure that SME's resources are used effectively and that information must be accurate and reliable in order to provide a platform for timely and sound decisions.

The studies of Dyt and Halabi (2007) and Zhou (2010) concluded that the main problem of business owner and managers of micro enterprises is mostly in their inability to keep sufficient records to aid them in their decision-making. Another problem is their difficulty in preparing proper financial statements because of poor or insufficient records. Results of their studies show that majority of micro businesses rely more heavily on manual methods, while small businesses are more likely to use computerized systems. They recommend the use of accounting software by owner-managers in SMEs to improve accounting practices.

Amoako (2013) conducted a case study on SMEs in Kumasi Metropolis in Ghana to look at their record keeping strategies. Based on the results obtained, the author concluded that SMEs do not maintain proper books of accounts because owners do not appreciate the need to keep accounting records, lack accounting knowledge and find the cost of hiring professionals prohibitive. He recommends specific guidelines for SMEs to be designed by the authorities. He suggests that accounting records in SMEs be mandatory and that the government should institute a regulatory body to ensure SMEs keep proper accounting books. He also suggests accounting training programs for SMEs that need further education to be initiated by the Ministry responsible for Trade and Industry.

Another study in Ghana was made by Amidu, Effah, and Abor (2011). They explored the e-accounting practices among SMEs in Ghana. They also looked at the expectations, realities and barriers in adopting e-accounting. The authors concluded that almost all of the SMEs sampled attached a lot of importance to financial information since they hired qualified people to handle their accounting information. The study showed that most of the respondents used accounting software. Even if the firms dealt with lack of electricity supply and frequent system breakdown, they were still satisfied with the computer systems they used. The authors also recommended that SMEs in Ghana adhere to good and standard accounting principles in their operations. The authors believes that adoption of e-accounting would ensure proper accounting practices.

Yason (2014) believed that SMEs, despite having different products, services and business strategies, have a common and immediate need for an adequate accounting infrastructure that will provide them with timely and accurate financial statements. According to Yason, many SMEs do not prioritize their finance and accounting infrastructure due to cost considerations and the way they are structured. Yason also stated that SMEs have insufficient finance personnel who are knowledgeable about the latest accounting standards and fast-changing tax regulations.

Mendoza (2014) aimed to look at the accountancy services that MSMEs commonly require from the public accountancy firms and/or individual CPA in public practice in the Philippines. The study noted that taxation service was the most commonly outsourced while internal audit was the least. The study also showed that micro and small enterprises differ from medium enterprises in terms of the level of complexity of accountancy services; the former having simpler ways of doing their tasks and are not into exploring the other relatively complex methods and processes. The business profile attributes of the MSMEs, specifically asset size, nature of business, form of business organizations, and employment had something to do with the type and extent of services they undertake and outsource to practicing CPAs.

The study of Cynthia Cudia (2008) in the Philippines revealed that 76% of her SME respondents used the accrual method while 6% used the cash method for record keeping and regularly converted to the accrual method for purposes of reporting to regulatory bodies. The remaining 18% used the cash method and their

external auditors were tasked to prepare year-end adjustments using accrual method in accordance with GAAP. The accounting method used by SMEs is based on the following factors: nature of their business, convenience of the method, complexity of accounting, tax compliance, cost, usefulness in decision-making, and other factors such as method required by Bureau of Internal Revenue (BIR), to support revenue during the period.

METHODOLOGY

A survey, using the questionnaire used by one of the researchers in a previous study, was used to record the perceptions of the respondents. The questionnaire is divided into three (3) portions: knowledge of accounting principles and concepts, accounting practices and accounting controls. Respondents included owners, finance officers, accountants, bookkeepers, managers, and employees who were knowledgeable in the operations of the business.

The questionnaire covers fundamental accounting concepts and principles, which are guides and bases for computations, report presentations and decisions concerning accounting amounts and matters. These concepts and principles aid in the proper accounting, reporting and presentation of the financial statements and other valuable reports needed by internal and external users. Entrepreneurs need to know that these concepts and principles help them evaluate accounting matters with confidence and justification. Some of these principles are briefly discussed below.

The historical cost principle states that all acquired assets are accounted for at their actual cost. The revenue recognition principle is concerned with the proper accounting of revenues or income earned during a specific period. The revenue should be recognized in the accounting period goods are delivered or services are rendered. The expense recognition principle states that expenses are to be recognized in the accounting period it is actually incurred and not when it is paid. Entity concept separates an organization or a firm from any other organization and individuals. They should always be treated as separate economic units. Going concern puts no limit on the life of the business. This assumes that businesses will operate on a continuous basis. This affects estimations and valuations. Relevance is concerned with the preparation of information that is meaningful and useful to the needs of the users. It is preparing the right report for the right user.

Understandability pertains to prepared financial reports that are understood by those who need it. Financial statements should be clearly understood by the business owners. Timeliness refers to the preparation of financial reports. Reports should be prepared when it is needed. Consistency refers to the usage of same accounting methods from period to period for comparability reasons. It is a concept that should be adapted by businesses if they want to obtain reliable data. Completeness supposes financial reports are composed of complete set of financial statements with corresponding basis and subsidiary reports. Residual theory relates to what is being left to the owners from the assets of the business. It is based on the equation owner's equity is equal to assets minus liabilities. Funds theory includes an asset restricted for designated purposes. This theory is useful in the management and control of cash and other assets.

Out of 350 questionnaires distributed in Quezon Province from August to November 2013, 310 completed surveys are used in the study, while 160 completed surveys out of 200 questionnaires distributed in Metro Manila from July to September 2014 were included in the study. The researchers used enumerators to distribute the survey instruments. Metro Manila cities include Manila, Quezon City, Makati City, Caloocan, Marikina, Paranaque and Pasig. The scope of Quezon Province includes Lucena, Tayabas, Pagbilao, Candelaria, Sariaya, and Lucban. These places were purposely selected because majority of the MSMEs are located in the National Capital Region (NCR) and Region 4-A (Calabarzon). Metro Manila belongs to the NCR and Quezon Province belongs to Region 4-A. Using Slovins (Guilford

1973) formula for the sample size, the margin of error for 310 samples is approximately 5.5% while for 160 samples it is approximately 8%. Acceptable sample size is within 5% to 10% margin of error.

Responses were tabulated and descriptive analyses were used for the computed mean, weighted mean and rank. Variables are the accounting principles, concepts, accounting practices and accounting controls. Analysis of variance (ANOVA) were used to investigate the hypotheses

RESULTS AND DISCUSSIONS

MSMEs Knowledge of Accounting Principles and Concepts

Results of the survey (Table 2) show that 41.7% of the MSMEs believe that they are either very knowledgeable or knowledgeable on accounting principles and concepts with knowledgeable representing the highest percentile of 29.1%; while 11.6% have insufficient knowledge and a high 22.9% have no knowledge at all. On their level of knowledge to the individual concepts, Table 2 shows that MSMEs rated *historical cost, understandability, timeliness, consistency and completeness* as their highest while *residual theory* is rated as the lowest, although MSMEs believe that they have sufficient knowledge on this concept.

Table 2: MSMEs Knowledge and Application of Accounting Principles and Concepts (n=470)

Accounting Principles and Concepts	Level of Knowledge					WT Mean	Interpretation
	Very Knowledgeable	Knowledgeable	Sufficient	Insufficient	None		
Historical cost	64	151	115	44	96	3.1	Knowledgeable
Revenue Recognition	51	152	116	35	116	3.0	Sufficient
Expense Recognition	44	127	118	68	113	2.8	Sufficient
Entity Concept	55	139	110	64	102	3.0	Sufficient
Going concern	66	142	111	51	100	3.0	Sufficient
Relevance	63	138	116	56	97	3.0	Sufficient
Understandability	77	166	102	34	91	3.2	Knowledgeable
Timeliness	75	157	98	42	98	3.1	Knowledgeable
Consistency	77	150	110	37	96	3.2	Knowledgeable
Completeness	82	138	113	43	94	3.2	Knowledgeable
Proprietary Theory	38	113	115	76	128	2.7	Sufficient
Residual Theory	33	103	115	80	139	2.6	Sufficient
Funds Theory	47	104	112	76	131	2.7	Sufficient
Total	772	1780	1451	706	1401	3.0	Sufficient
Percentile	12.6	29.1	23.8	11.6	22.9	100	

This table shows MSMEs in Metro Manila and Quezon Province knowledge and application of accounting principles and concepts; the weighted mean of their responses and the interpretation of the weighted mean.

MSMEs confirm that they understand financial statements, they use historical costs in recording, they adhere to timeliness in preparing financial statements for income tax purposes and they apply consistent principles in their preparation of financial statements. They rated residual theory as the lowest because, in practice, owners tend to neglect obligations from the computation of net worth.

In actual practice, MSMEs recognize revenues when the customers pay the full amount of goods or services availed. In the case of credit sales, revenues are recognized upon payment of goods and services. Small businesses equate revenue to money actually received regardless of when ownership of goods is transferred or when services are rendered.

Study reveals that MSMEs have sufficient knowledge of *entity concept, going concern* and *relevance*. Follow up interviews further show that entity concept is the most difficult to follow because owners of

business have the tendency to mix their personal accounts with business accounts. They adhere to the going concern concept and believe that they will continue their businesses as long as profit is good.

Comparative knowledge of accounting principles and concepts between MSMEs in Metro Manila and in Quezon Province is shown in Table 3. It shows that Metro Manila MSMEs have higher level of knowledge of accounting principles and concepts than MSMEs in Quezon Province. The highest weighted mean of 3.8 for Metro Manila are manifested in three concepts namely, *understandability, timeliness and consistency*. Quezon Province shows 2.9 highest mean on two concepts: *understandability and completeness*. Both Metro Manila and Quezon Province MSMEs registered their lowest knowledge on *residual theory* with weighted mean of 3.0 and 2.4, respectively.

Table 3: MSMEs Comparative Knowledge of Accounting Principles and Concepts

Accounting Principles and Concepts	Metro Manila		Quezon Province	
	WM	Interpretation	WM	Interpretation
Historical cost	3.7	Knowledgeable	2.8	Sufficient
Revenue Recognition	3.5	Knowledgeable	2.7	Sufficient
Expense Recognition	3.4	Knowledgeable	2.6	Sufficient
Entity Concept	3.6	Knowledgeable	2.6	Sufficient
Going concern	3.5	Knowledgeable	2.8	Sufficient
Relevance	3.7	Knowledgeable	2.7	Sufficient
Understandability	3.8	Knowledgeable	2.9	Sufficient
Timeliness	3.8	Knowledgeable	2.8	Sufficient
Consistency	3.8	Knowledgeable	2.8	Sufficient
Completeness	3.7	Knowledgeable	2.9	Sufficient
Proprietary Theory	3.2	Knowledgeable	2.5	Sufficient
Residual Theory	3.0	Knowledgeable	2.4	Sufficient
Funds Theory	3.1	Knowledgeable	2.5	Sufficient
Total	3.5	Knowledgeable	2.7	Sufficient

This table shows the Comparative weighted mean of between Metro Manila and Quezon Province MSMEs on their knowledge of Accounting principles and concept. Interpretations of the weighted mean are: "knowledgeable" for Metro Manila and "sufficient" for Quezon Province MSMEs.

Using one-way, analysis of variance (ANOVA) between MSMEs in Metro Manila and in Quezon Province, with 1 and 26 degree of freedom respectively, shows that the computed P value of 0 is less than the P value of 4.225 at 5% level of significance. Therefore, the hypothesis that there is no significant difference between MSMEs in Metro Manila and in Quezon Province on their knowledge of accounting principles and concepts is rejected. Differences on all areas of accounting principles and concepts exist. The sources of variation between and within the two groups at 5% level of significance are shown in Appendix A.

Common Accounting Practices and Control

As shown in Table 4, MSMEs common accounting methods used are cash, accrual and installment, in that order. Common accounting practices used by MSMEs are manifested in their bad debt estimation, depreciation method used, net receivable estimation, business documents used and payment methods.

On accounting method, majority or 68.1% of the MSMEs use *cash basis* (rank 1) followed by *accrual basis* at 21.9% (rank 2) and *installment basis* at 13.4% (rank 3). Most MSMEs do not know accrual basis of accounting. They operate on a cash basis. They deduct expenses from cash they received during the day and consider the balance as income. A portion of this amount is use as working capital the following day.

The bad debts estimation includes *percent of credit sales*, *aging of receivables* and *percent of receivables*. Businesses estimate the amount of uncollectible accounts to reflect the correct amount of receivable at the end of the accounting period. This is needed so that the net income for a particular period is not overstated. Aging considers the number of days an account remains unpaid and set a certain percentage of uncollectible. This is based on prior experiences of the company. Percent of receivable is another convenient way of estimating bad debts.

Table 4 MSMEs Accounting Practices

n=470			
Practices	Freq.	%	Rank
Accounting Method			
Cash basis	320	68.1	1
Accrual Basis	103	21.9	2
Installment Basis	63	13.4	3
No Answer	4	0.9	
Bad Debts Estimation			
Aging of Receivables	143	30.4	2
Percent of Credit Sales	167	35.5	1
Percent of Receivable	99	21.1	3
None	61	13.0	
Depreciation Method			
Straight-line	271	57.6	1
Composite	76	16.2	2
Group	58	12.4	3
None	65	13.8	
Net Receivable Estimation			
Allowance for Sale Discounts	139	29.6	2
Allowance for Sales Returns	160	34.0	1
Allowance for Freight Charges	83	17.7	4
Allowance for Bad Debts	96	20.4	3
Business Documents			
Official Receipt	348	74.0	1
Invoice	194	41.3	2
Voucher	120	25.5	3
Others: quotations, order form	7	15.0	4
Payment Method			
Cash	361	76.8	1
Check	124	26.4	2
Credit/Card	48	10.2	3
Others: debit, on-line	4	0.9	4

This table shows the accounting practices used by MSMEs in Metro Manila and in Quezon Province. Percentiles and ranks are used to indicate the differences in their responses.

Table 4 shows that one-third (35.5%) of MSMEs use *percentage of credit sales*, which ranks first, over the other methods. MSMEs prefer using *aging of accounts receivable*, ranks second or 30.4%, rather than *percentage of accounts receivable*, ranks third or 21.1%. MSMEs, particularly small businesses, have problems on credit sales because they do not have credit policies, personnel to do the collections and to maintain subsidiary accounts for individual receivables. An alarming 13% of the MSMEs do not estimate bad debts.

The various depreciation methods being used by the businesses are *straight-line*, *composite*, and *group*. Straight-line is the simplest method of depreciation that allocates the cost of an asset over its useful life. The simple formula made it convenient for use by MSME business owners. The composite method, on the other hand, groups and treats assets that are dissimilar in nature and vary in useful life as a single unit. This is specifically used in businesses where there are numerous fixed assets that make it impossible to account for individual depreciation. In the case of small businesses, grouping of assets eliminates accounting for individual assets and helps the owner compute the depreciation in a single easy way. This is similar in nature with the composite method.

The study shows that more than half or 57.6% of MSMEs use the *straight-line method* of computing depreciation, followed by *composite method* 16.2% and lastly, *group method* at 12.4%. A high 13.8% do not estimate depreciation of fixed assets. This portion of MSMEs claim that the costs of fixed assets were already paid for and that depreciation is not necessary to be shown as an expense.

The various net receivable estimation techniques used by MSMEs for credit sales include *allowance for sales discounts*, *allowance for sales returns*, *allowance for freight charges* and *allowance for bad debts*. Net receivable is computed by deducting from credit sales discounts, returns, freight charges or bad debts. Results show that majority (63.6%) of the MSMEs give discounts and accept returns. Almost one-third or 38.1% of the MSMEs recognize allowances for freight and bad debts as deductions to receivables.

Among the many business documents that the businesses are using, they are maintaining only three (3) business documents namely official receipt (OR), invoice and voucher. Majority of the businesses use *official receipts* imposed by the Bureau of Internal Revenue (BIR) regulations. Payment methods accepted by MSMEs owners are *cash*, *check* and *credit and/or card*. The most convenient payment method is cash at 76.8% followed by check payments at 26.4. Although credits cards are not widely acceptable by MSMEs, 10.2% accept credit cards to increase sales.

Table 5: Comparative MSMEs Accounting Practices

Accounting Practices	Metro Manila			Quezon Province		
Accounting Method	Freq.	%	Rank	Freq.	%	Rank
Cash basis	105	65.6	1	215	69.4	1
Accrual Basis	57	35.6	2	46	14.8	3
Installment Basis	10	6.3	3	53	17.1	2
No Answer	4	2.5		0		
Bad Debts Estimation	Freq.	%	Rank	Freq.	%	Rank
Aging of Receivables	57	35.6	1	86	27.7	2
Percent of Credit Sales	37	23.1	2	130	41.9	1
Percent of Receivable	31	19.4	3	68	22.0	3
None	35	21.9		26	8.4	
Depreciation Method	Freq.	%	Rank	Freq.	%	Rank
Straight-line	120	75.0	1	151	48.7	1
Composite	6	3.8	3	70	22.6	2
Group	9	5.6	2	49	15.8	3
None	25	15.6		40	12.9	
Net Receivable Estimation	Freq.	%	Rank	Freq.	%	Rank
Allowance for Sale Discounts	34	21.2	3	105	33.9	2
Allowance for Sales Returns	43	26.9	2	117	37.7	1
Allowance for Freight Charges	28	17.5	4	55	17.7	3
Allowance for Bad Debts	51	31.9	1	45	14.5	4
Business Documents	Freq.	%	Rank	Freq.	%	Rank
Official Receipt	138	86.3	1	210	67.7	1
Invoice	105	65.6	2	89	28.7	2
Voucher	72	45.0	3	48	15.5	3
Others: quotations, order form	7	4.4	4	0		
Payment Method	Freq.	%	Rank	Freq.	%	Rank
Cash	127	79.4	1	234	75.5	1
Check	72	45.0	2	52	16.8	2
Credit/Card	15	9.4	3	33	10.6	3
Others: debit, on-line	4	2.5	4	0		

This table shows the comparative accounting practices between MSMEs Metro Manila and Quezon Province. Percentile and rank are used to show the differences in their responses.

As shown in Table 5, MSMEs in Metro Manila and Quezon Province ranking of accounting practices do not show much difference; however, computed percentiles show differences. These differences were collaborated by chi-square, where P-values computed are less than the P values at 5% level of

significance. Therefore, the hypothesis that there is no significant difference in MSMEs accounting practices is rejected. The computed Chi-square P- values of the accounting practices are shown in Appendix B.

MSMEs Accounting Controls

Table 6: MSMEs Basic Accounting Control (n=470)

Accounting Controls	Always	Sometimes	Never	WT M	Interpret.
Company deposits cash/ maintains bank account	227	167	76	2.3	Always
Accountant prepares financial statements	220	142	108	2.2	Always
Business does financial planning and fund management	179	185	106	2.2	Always
Keep track of assets and liabilities	211	162	97	2.2	Always
Records daily expenditures	270	113	87	2.4	Always
Prepares budget	242	137	91	2.3	Always
Pays payable when due	226	131	113	2.2	Always
Use computers in accounting	158	128	184	1.9	Sometimes

This table shows the basic accounting controls practiced by MSMEs in Metro Manila and in Quezon provinces. Except for use of computers, MSMEs always adhere to these controls.

Depositing cash intact before the end of the day or at the morning of the next working day is a form of security and control as shown in Table 6. Maintaining a bank account is also advisable for small businesses so that misuse and embezzlement could be avoided. Results show that majority of the respondents always practice that particular control function. Follow up questions reveal that micro businesses do not usually maintain bank accounts because their daily income is just enough to sustain their day-to-day cash needs.

Financial statements for tax purposes are normally prepared by an accountant. MSMEs always hire non-accountants to prepare the financial statements. Business owners get the service of an accountant if his signature is needed for income tax purposes. Majority of the MSMEs prepare statements of income and expenses only because it is needed in the determination of tax due. Results show that they always prepare financial statements.

Financial planning is always a part of the managerial functions of MSMEs owners. Financial plans aid in the proper estimation and control of capital and operating expenses. Small businesses rely heavily on the contingent approach to management. What the nature of the situation dictates is what guides their decision-making. In connection to this, MSMEs always perform tracking of assets and liabilities.

The only record of daily expenditures for small businesses is a logbook or a list of cash paid for a particular day. Most of the owners maintain a list of daily expenses to reconcile cash balance for the day. This aids in the proper accounting of cash shortage or overage. MSMEs also always pay their payables when due. Most of the MSMEs always prepare a budget for their business. The budget serves a very vital function in determining future cash needs. This also reflects targets in numerical terms. Entrepreneurs normally prepare a budgeted income statement to help them set ceiling for expenses and a good target for income.

The use of computers makes accounting functions faster and easier. It facilitates the faster generation of financial reports. Results of the study revealed that majority of the MSMEs still use manual procedures in accounting. Only some of the MSMEs use computers for accounting purposes.

Table 7 shows that there are significant differences between MSMEs in Metro Manila and in Quezon Province on their accounting controls. Metro Manila MSMEs always have accounting controls, while MSMEs in Quezon Province always used accounting controls on depositing cash, recording daily

expenditures and in preparing budget and the other controls were used only “sometimes”. One-way analysis of variance (ANOVA) rejects the hypothesis that there is no significant difference on MSMEs accounting controls. The computed P value of zero is less than the 4.6 P value at 5% level of significance is shown in Appendix C.

Table 7: Comparative MSMEs Accounting Control

Accounting Controls	Metro Manila n=160		Quezon Province n=310	
	WM	Interp.	WM	Interp.
Company deposits cash/ maintains bank account	2.7	Always	2.1	Always
Accountant prepares financial statements	2.8	Always	1.9	Sometimes
Business does financial planning and fund management	2.5	Always	2.0	Sometimes
Keep track of assets and liabilities	2.7	Always	2.0	Sometimes
Records daily expenditures	2.9	Always	2.1	Always
Prepares budget	2.6	Always	2.2	Always
Pays payable when due	2.7	Always	2.0	Sometimes
Use computers in accounting	2.5	Always	1.6	Sometimes

This table shows the comparative responses of MSMEs in Metro Manila and in Quezon Province on their accounting controls. While MSMEs in Metro Manila shows “always” on all accounting controls, MSMEs in Quezon Province are not consistent on their accounting controls, showing “always” and more “sometimes” on their accounting controls.

CONCLUSIONS

The paper assessed the accounting knowledge, practices and controls of MSMEs in Metro Manila cities and in several towns in Quezon Province. It aimed to determine the level of accounting knowledge on the basic accounting terminologies and theories. Additionally, it investigated the acceptability of the accounting practices and controls employed by the small and medium enterprises. A self-made survey instrument divided into 3 portions: knowledge of accounting principles and concepts, accounting practices and accounting controls was used as the data gathering tool. A total of 470 respondents who were owners, finance officers, accountants, bookkeepers, managers, and employees completed the survey.

The results revealed three major findings: (1) MSMEs are knowledgeable on accounting principles and concepts; (2) the most common practices include cash basis accounting method, bad debt estimation based percent of credit sales, straight line method of depreciation, net receivable estimation based on allowance for sales returns, official receipt as business document and cash payment method; (3) commonly practiced accounting controls are daily deposit of cash, daily recording of expenses and regular budget preparation. ANOVA reveals that there are significant differences between MSMEs in Metro Manila and in Quezon Province on their knowledge of accounting principles, accounting practices and controls.

The exodus of accounting graduates to the metropolitan in quest for higher remuneration has been constantly on the rise. This tremendously affects the level of accounting knowledge due to the influx of accounting professionals to Metro Manila. Furthermore, the cost efficiency measures of rural entrepreneurs tend to neglect the fact that accounting data and reports are necessary for the reliability of the results of operations. These realities added much to the significant difference in the level of accounting knowledge, accounting practices and accounting controls of the MSMEs in Metro Manila and Quezon Province. The government should adhere to its mission to further develop and strengthen MSMEs in the country. To further develop its realms, continues programs should be formulated with concentration on seminars and training on the new PFRS for MSMEs, bookkeeping and recordkeeping. There are government agencies spearheading the thrust of MSMEs including the Department of Trade and Industry, Department of Science and Technology among others.

The paper partially presented a scenario on the accounting practices of MSMEs, which eventually disclosed some malfeasance. However, the study presented a self-assessment of the accounting

knowledge, practices and controls of MSMEs. This limits the generalization of the entire accounting practices in the Metro Manila and Quezon Province. Furthermore, the lack of intensive interview and personal observation tend to neglect the fact that papers and actual practices have tremendous differences. Accounting figures might not reflect a reality. Researchers are encouraged to further investigate on the actual accounting practices of MSMEs to verify the self-assessment. The compliance on the recently imposed PFRS for SMEs should be dealt with accordingly.

APPENDIX

Appendix A: Summary Analysis of Variance (ANOVA - One-Way) on Accounting Principles

Groups	Sample Size	Sum	Mean	Variance		
Metro Manila	14	49.300	3.521	0.070		
Quezon Province	14	37.700	2.693	0.024		
ANOVA						
Source of Variation	SS	Df	MS	F	p-level	F crit
Between Groups	4.806	1	4.806	103.020	0.000*	4.225**
Within Groups	1.213	26	0.047			
Total	6.019	27				

Appendix 1 shows analysis of one-way variance between group and within groups, at 5% level of significance, df 1 and 26 respectively. *computed p value is 0 is less than the P value of **4.225, rejecting hypothesis that there is no significant difference between MSMEs in Metro Manila and in Quezon Province on their knowledge of accounting principles and concepts.

Appendix B: Computed Chi-square P- values of the accounting practices

Accounting Practices	P-Value**
Accounting Method	0.00000006301
Bad Debts Estimation	0.00000402878
Depreciation Method	0.00000000083
Net Receivable Estimation	0.00001530690
Business Documents	0.00000555658
Payment Method	0.00000425346

** P-values computed are less than the P value of 5 at 5% level of significance. Therefore, the hypothesis that there is no significant difference in MSMEs accounting practices is rejected.

Appendix C: Summary Analysis of Variance (ANOVA One-way)

Groups	Sample Size	Sum	Mean	Variance		
Metro Manila	8	21.400	2.675	0.019		
Quezon Province	8	15.900	1.988	0.033		
ANOVA						
Source of Variation	SS	Df	MS	F	p-level**	F cri **t
Between Groups	1.891	1	1.891	72.766	0.000	4.600
Within Groups	0.364	14	0.026			
Total	2.254	15				

** Computed P value of zero is less than the P value of 4.6 at 5% level of significance, rejecting hypothesis that there is no significant difference between MSMEs in Metro Manila and in Quezon Province on their practice of accounting controls.

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