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## Bookkeeping Practices of Small and Medium Enterprises (SMEs)

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### **Abstract:**

*This study surveyed the small and medium enterprises (SMEs), specifically, it sought to assess and determine the SMEs business profile and its bookkeeping practices applied to their respective enterprise and its challenges. The study used a descriptive research design through an adopted and closed-ended structured questionnaire. The respondents are the SMEs in Tandag City, Surigao del Sur specifically the single proprietors. The study found out that the most of the SMEs business were engaged in trading, their enterprise exist within 3-7 years, and earned an increasing yearly income. As to the bookkeeping practices, most of SMEs employed an outsourced bookkeeper. The outsourced bookkeeper prepares monthly financial statements and kept records such to include book of accounts and sales book as well as monthly and quarterly tax reports. Most of SME owners have lack of knowledge and no formal training in handling bookkeeping, and encountered cash-flow problem due to lack of financial literacy and no adequate bookkeeping practices. Therefore, most of the SMEs are dependent from the services rendered by an outsourced bookkeeper as an attractive and beneficial employment due to low cost and lack of expertise in bookkeeping functions. Hence, most of SME owners need to undergo a bookkeeping training for them to have enough knowledge, enhance and equip their skills in bookkeeping as management tools and control.*

**Keywords:** Bookkeeping, bookkeeping practices, small and medium enterprises

### **1. Introduction**

Bookkeeping practice is the process of recording enterprise financial transactions to support its financial condition. It is important in sustaining and growing any enterprise and assists them to make sound economic decisions for future plan. Its inability and unwilling to maintain proper bookkeeping practices could lead to enterprise failure (Moore, 2015). Hence, small and medium enterprises (SMEs) which are considered as the country's driving force for economic growth must have well-established bookkeeping practices to maintain and improve its financial condition to stimulate its contribution to local and national economy (Camposano, 2014).

Accordingly, bookkeeping was considered as the foundation on which a compliance program should be built upon (Reed, 2010). Okpala, as cited by Kutsaru (2014) stated that bookkeeping is just as important as making enterprise. If properly maintained, bookkeeping could lead to increased profitability and expansions of SMEs (Chelimo et al., 2012). Accurate bookkeeping not only helps an enterprise to comply with the law and paid taxes, but it can also help track the status of the enterprise and inadequate bookkeeping can be a factor in enterprise failure (Corstvet 2010). Furthermore, a study of Chelimo et al., (2012) has also established that there is a direct relationship between bookkeeping, growth and profitability of SMEs.

Yanson (2014) evidently stated that SMEs have a common and immediate need for an adequate bookkeeping model that will provide them with timely and accurate financial statements. In fact, many great enterprises have failed because of bookkeeping practices. Likewise, according to the study of Chelimo, et al. (2012) disclosed that about 60% of the failure of many enterprises within the first three years is due to management inefficiencies brought about by lack or absence of bookkeeping. Also, Suraj (2011) study also revealed that SME owners agreed that bookkeeping considered as a long process and a complete waste of time and for that matter difficult for them to cope with. This study on the other hand attempted to assess the bookkeeping practices of SMEs.

Viewed from the preceding scenarios, evidently bookkeeping plays a key role in the financial performance and condition of the SMEs for better economic decision that leads to improve the enterprise status. This study was conducted to examine and identify the bookkeeping practices of SMEs so that appropriate action like bookkeeping training program for SMEs can be designed for them to have grasped enough knowledge and enhance their skills in bookkeeping as management tools and control.

#### **1.1. Framework**

This study is anchored Freeman's Decision Theory as cited in the study of Chelimo, et al. (2012) which states the relevance in understanding the effects of bookkeeping on the growth of SMEs. The Decision Theory is concerned with the

identification of the best decisions. It uses mathematical approaches like the ratio to analyze and explain the relations of the variables with interaction with other operating functions of the enterprise. It intertwined with managerial analysis because, as an information system it provides significant, meaningful information about the enterprise both for internal management use and external financial reporting. This is considered since SMEs proprietors can decide as to the applicability of the bookkeeping practices in their respective businesses.

The MSME Magna Carta and Barangay Micro Business Enterprises (BMBE) mandate to the financial institution to provide financing access for the enterprises. Thus, Most SMEs failed to expand due to lack of additional capitalization and very difficult for them to comply with the documentation requirements necessary for avail financial access from formal lending institutions. Hence, access to financing is a key challenge for local SMEs, with most Philippine lenders requiring financial statements before extending credit. Slow fund disbursement due lack of bank and government guidance on preparation of compliance documents of which bookkeeping is required is one of the financing barriers (Leyco, 2015).

The framework of the study, where the first box clearly features the SMEs business profile in Tandag City, which includes: the type of an industrial sector which determines whether the SME is engaged into trading, manufacturing, and services; a number of years in business refers to the longevity or years from its first day of the enterprise operation; and the status of income identifies the trend of their yearly income whether increasing, decreasing or having a break-even/no loss. The second box also features the SMEs bookkeeping practices, which includes among others: the person in-charge of bookkeeping identifies who perform the bookkeeping functions like an outsourced bookkeeper, outsourced accountant, the owner or bookkeeper; the type of bookkeeping where referring to either single-entry or double-entry used; method of bookkeeping identify the method used among SMEs is manual and computer program, computerized or online-bookkeeping; the accounting method that applicable to their enterprise operation either cash or accrual basis;

While the bookkeeping records kept by the SMEs accordingly to their transactions like financial statements and book of accounts; the frequency of recording of accounts refers to the mode of recording of transactions like daily, weekly or monthly basis; bookkeeping activities refers to the activities done by the bookkeeper towards the bookkeeping function like preparation of financial statements and income tax reports; and bookkeeper's role in tax compliance emphasizes the role of the bookkeeper in the compliance of SMEs with regards to tax requirements in a monthly and annual preparation.

Thus, it assesses and determines the direct relationship of the variables into the problems that the SMEs encountered with regards to bookkeeping practices so that the desired result would serve as the basis in designing a bookkeeping training program.

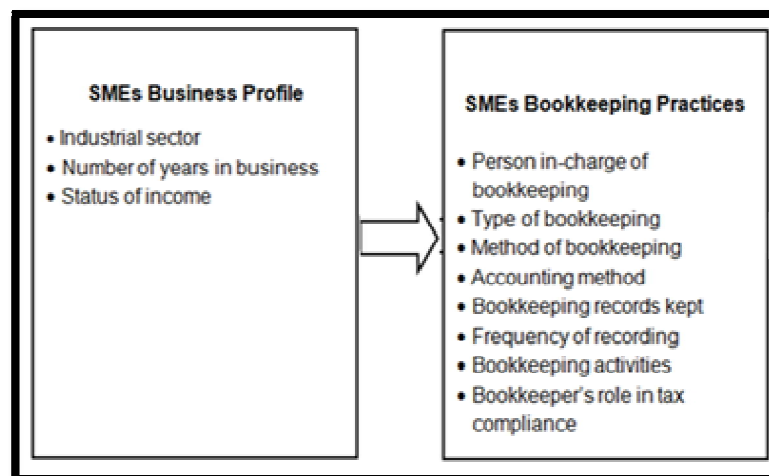


Figure 1: Schematic Diagram of the Study

## 1.2. Objective of the Study

The research study centered to determine the bookkeeping practices of SMEs in Tandag City.

## 2. Methodology

The study utilized a descriptive research design using quantitative and qualitative approach. In quantitative approach, a self-administered questionnaire was used to collect data. This approach was considered appropriate because it enabled the researcher to collect factual information from the respondents to establish the SMEs business profile and bookkeeping practices. While in the qualitative approach a casual interview was conducted to identify and determine the problems encountered by the respondents on general concepts of bookkeeping from their business.

According to Aggarwal (2008), a descriptive research is devoted to the gathering of information about the prevailing conditions or situations for the purpose of description and interpretation. This type of research design is not simply amassing and tabulating facts but includes proper analyzes, interpretation, comparisons, identification of trends and relationships.

### 2.1. Respondents of the Study

The respondents of the study were the existing SMEs in Tandag City, Surigao del Sur specifically the single proprietors. The study excludes micro-entrepreneurs and large enterprises.

Respondents	Population	Sample
DTI's Registered SMEs (as of September 2015)	439	100

*Table 1: Distribution of Respondents*

Out from the list of DTI's registered SMEs as of September 2015, the 100 respondents were identified as the sample size of the study.

## 2.2. Sampling Techniques

In getting the sample size out from 439 SMEs in Tandag City, the sample size was determined and the result showed 100 respondents as the sample size of the study and the obtained sample size of the respondents represent the whole population responses.

Based on the identified sample size, the researcher utilized the simple random sampling method specifically the lottery method. Each member or item of the population at hand was assigned a unique number. The numbers are then thoroughly mixed, was put in a bowl or jar and from there, respondents were selected.

However, the researcher used the Stat Trek's Random Number Generator as an alternative in identifying the sample population, where the sample population was selected from random numbers as quickly and easily through this website <http://stattrek.com/statistics/random-number-generator.aspx> to make it easier to identify the respondents based on the sample population of the study.

## 2.3. Research Environment

Tandag City is the center of trade and commerce for the central and northern municipalities in the province. From 2002-2005, there were 652 Business Names Registered (BNR) in Tandag City with a total investment of P336,621,014. Among the highest Business Name Registered is in the category of trading with 337 BNR and ₱76,546,311.00 worth on investment and servicing with 284 BNR and ₱255,548,703.00 worth of investment (Tandag Economic Profile, 2005). As of September 2015, Tandag City is comprised of 437 registered SMEs.

## 2.4. Research Instrument

The study used a close-ended structured questionnaire adopted from the combined studies of Maseko and Manyani (2011) titled Accounting Practices of SMEs in Zimbabwe: An Investigative Study of Record Keeping for Performance Measurement, Mendoza (2014) titled Accountancy Service Requirements of MSMEs in the Philippines, and Chelimo, et al (2012) titled Effects of Bookkeeping on Growth of Small and Medium Business Enterprises.

The established questionnaire of the study was divided into three (3) major parts of the study: Part I asked questions about the SMEs business profile. Part II asked questions about the SMEs bookkeeping practices. And Part III asked queries about the SMEs bookkeepers' role with tax compliance. And casual interview with the respondents on the problems they encountered on the concepts of bookkeeping and their practices.

Since the study used an adopted foreign-made questionnaire, some modifications were made to suit the local scenario; hence, validation of instrument was conducted.

The validation of instrument was conducted from the experts in the field of bookkeeping from the Office of the Commission on Audit, from the Bureau of Internal Revenue, from the banking sector which is an SME lending officer and Head in Accounting, and from the academe who scrutinized the questionnaire as to its form and content. Test and retest were also being employed utilizing respondents not part of the study. The result of the dry-run then subjected to statistical analysis for reliability.

The researcher pilot tested and retrieved the questionnaire to 10 SME respondents to determine the reliability of the instrument. After a week, the same questionnaire was being administered to the same participants to assess the test-retest reliability of the instrument. Then, the instrument's reliability was tested.

## 2.5. Data Gathering Procedure

The data of this research were collected using a survey questionnaire. The researcher sent a permission letter to the respondents and the researcher proceeded the administering of the questionnaire if the respondents approved to be participated as respondent of the study. Then, the instrument was administered by the researcher for data collection and was retrieved from each respondent. At the same time, a casual interview was conducted to the respondents as part of the inquiry on the problems they have encountered in bookkeeping.

The retrieved questionnaires from the respondents were tallied and tabulated on the prepared tabulation sheet, and the responses from the casual interview were consolidated in preparation for the data presentation and analysis.

## 2.6. Statistical Treatment of Data

The data on the tabulation sheet from the retrieval of adopted questionnaires were analyzed using descriptive statistics such as frequency counting, percentage, ranking, and Spearman's Correlation Coefficient.

In analyzing and interpreting the data, the researcher used the following statistical treatments: frequency counting, percentage, ranking, and Spearman's Correlation Coefficient Analysis.

### 3. Results and Discussion

The data revealed in Table 2 on the SMEs respondent on business profile as to type industrial sector, number of years in business, and status of income.

SMEs Business Profile	Indicators	Frequency	Percentage
Type of Industrial Sector	Trading	58	58
	Manufacturing	8	8
	Other Services	34	34
	Total	100	100
Number of years in business	Below 3 years	17	17
	3 – 7 years	31	31
	7 – 10 years	22	22
	More than 10 years	30	30
	Total	100	100
Status of Income	Increasing	70	70
	Break-even (no loss, no gain)	24	24
	Decreasing	6	6
	Total	100	100

Table 2: SMEs Business Profile

The table revealed the SMEs respondents' business profile based on the three areas. As to industrial sector, the majority of the respondents are engaged in trading (58%) and manufacturing (8%) only. Then, as to a number of years in business, most the respondents are within the range of 3-7 years (31%) and few of them are below 3 years (17%). And as to a status of income, the majority of the respondents' income is increasing (70%) and some of them have a decreasing (6%) income.

This implies that the industrial sector was dominated and inclined into trading which they may have actually several transactions every day (Abrugar, 2013) that has been established for the quite period whereby claimed that their yearly income is increasing. This study was supported by Amoako (2013) where he found out that majority of the businesses were involved in trading which makes up over 60% of the surveyed firms. The study of Suraj (2011) revealed the distribution of years in business that about 87.5% of businesses were five years and above, and only 12.5% were below five years. Coleman (2010) also emphasized that good accounting records of SMEs contribute increasing business level of profit.

The data showed in Table 3 on SMEs respondents on bookkeeping practices as to person in-charge of bookkeeping, type of bookkeeping, method of bookkeeping, and accounting method.

SMEs Bookkeeping Practices	Indicators	Frequency	Percentage
Person in-charge of Bookkeeping	Outsource bookkeeper	56	56
	Outsource Accountant	21	21
	Owner-manager/Dot it by yourself	15	15
	Employed bookkeeper	8	8
	Total	100	100
Type of bookkeeping	Single-entry	98	98
	Double-entry	2	2
	Total	100	100
Method of bookkeeping	Manual	45	45
	Computerized	2	2
	Online bookkeeping	1	1
	Manual and computer program	52	52
	Total	100	100
Accounting method	Cash	92	92
	Accrual	8	8
	Total	100	100

Table 3: SMEs Bookkeeping Practices

The table showed the results of the SMEs bookkeeping practices based on the respondent's practices used regarding of the person in-charge of bookkeeping, type of bookkeeping, method of bookkeeping, and account method.

As to person in-charge of bookkeeping, revealed that most of the respondents hired an outsource bookkeeper (56%) and few of them employed bookkeeper (8%). This implies that SME owners are dependent on the services of an outsourced bookkeeper as an attractive and beneficial employment option for them due to several reasons like low cost and expertise. Outsourcing bookkeeping functions provide in-depth reporting and statistics where SME owners can have

complete peace of mind that their financial status is being monitored by outsourced bookkeeper who thoroughly understands every process involved. Furthermore, since SME owners are preoccupied with the day-to-day running of the business, they might find that they make errors or miss deadlines where accounts are concerned, but outsourcing to a bookkeeping expert ensures that accounts are delivered promptly, with no errors.

Yanson (2014) believed that SMEs have a common and immediate need for timely and accurate bookkeeping services due to cost considerations and the way they are structured. Also stated that SMEs have insufficient finance personnel who are knowledgeable about the latest accounting standards and fast-changing tax regulations. Further, the India's Business Service Helpline commonly known as SME Joinup (2015) identifies the benefits for SMEs in outsourcing bookkeeping functions like reduced cost, charge according to SMEs needs, leverages the expertise, and scalability.

As to the type of bookkeeping, the majority of the respondents used single-entry bookkeeping (98%) while the double-entry got only (2%). The data implies that SME respondents preferably used the single-entry bookkeeping because they feel that it is a more appropriate type of bookkeeping and a simple way of tracking income and expenses which become their usual practice. This statement was supported accordingly from the study of Ademola et al. (2012) stated that single-entry bookkeeping is commonly used by SMEs to record primarily the daily income and expense accounts in the revenue and expense journal. Also, Edwards (2016) cited the benefits of using the single-entry bookkeeping like easy to understand, simple to maintain and keep it on track, and easy to calculate the profit.

As to the method of bookkeeping, revealed that most of the respondents used manual and computer program (52%) and online bookkeeping (1%). Likewise, most of the respondents preferred the use of manual and computer program method of bookkeeping for convenience and faster recording of their transactions. It is also evident that SMEs still maintain the manual system of recordkeeping nowadays. However, they also used computers to make bookkeeping functions faster and easier and facilitate the faster generation of financial reports.

This was supported in the study of Suraj (2011) emphasized that 65% of SME respondents were using both manual and computer support systems in keeping records of their daily activities. Thus, Rabaja (2015) stated SMEs keep both manual and computer program of books of account since they may not be able to afford pricey software systems that handle accounting functions. In order to keep up with the changing times and maintain efficiency, they often use simple computer programs such as Excel spreadsheets to record and store their transactions. In managing sizable chunks of data, manual jotting down of entries no longer proves to be a practical and effective mode of bookkeeping.

As to accounting method, revealed that majority of the respondents used cash basis (92%), and accrual basis got only 8%. Most of the SME respondents operated on a cash basis as accounting method since their daily sales are considered as their income and portion of it were used as the next day working capital. They deduct expenses from the cash they received during the day and consider the balance as income. A portion of this amount is used as working capital the following day. Similarly, the study of Ibarra et al. (2015) in accounting method resulted that SMEs do not know accrual basis of accounting. The data showed in Table 4 on SMEs respondent practices as to bookkeeping records and book of accounts kept.

SMEs Bookkeeping Practices	Indicators	Percentage (n=100)	Rank	
Bookkeeping records kept	Monthly Financial Statements (Income Statement, Balance Sheet)	81	1	Most Important
	Business receipts	73	2	
	Tax returns and reports	72	3	
	Payroll records	10	4	
	Monthly remittances report	8	5	
	Schedule of furniture, fixtures, equipment (FFE), and premises	1	6	Least Important
Book of Accounts kept	Sales Book	81	1	Most Important
	Purchases Book	78	2	
	Expenses Book	62	3	
	Cash Disbursement Book	50	4	
	Cash Receipts Book	34	5	
	Schedule of Accounts Payable	18	6	
	Schedule of Accounts Receivable	12	7	
	General Ledger	8	8	Least Important
	General Journal	5	9	

Table 4: Practices: as to Bookkeeping Records and Book of Accounts

The table showed the respondents most bookkeeping records and book of accounts kept. The result revealed that the most important bookkeeping records kept by the respondents are the monthly financial statements (81%) and the least important schedule of furniture and fixtures (1%). The most important book of accounts kept by respondents is the sales book (81%), and the least important to kept is general journal (5%).

This indicates that majority of the SME respondents practiced bookkeeping of financial statements and sales book as compliance with the BIR regulation and kept those documents just in case if the BIR examiner requested for verification and assessment. In fact, Okpala (2012) as cited in the study of Kutsaru (2014) that legal requirement and management

tools are the primary reasons why they keep books. Also, the study of Ibarra et al. (2015) emphasized that among the many business documents that the businesses are using and maintaining are legal business documents like financial statements and sales as reflected in the official receipts (OR) as imposed by the Bureau of Internal Revenue (BIR) regulations.

The data showed in Table 5 on SMEs respondent practices as to frequency of recording of accounts.

SMEs Bookkeeping Practices	Accounts	Daily	Weekly	Semi-Monthly	Monthly	Quarterly
Frequency of Recording of Accounts	Current Assets	0	0	4	80	5
	Fixed Assets	0	0	6	86	6
	Current Liabilities	1	1	0	89	6
	Equity	0	0	0	71	10
	Income	77	17	2	3	0
	Cost of Sales for those engaged in Trading	0	3	12	40	3
	Cost of Sales for those engaged in Manufacturing	0	2	3	3	0
	Cost of Services for those engaged in Services	7	17	5	5	0
	Ordinary Allowable Itemized Deduction	0	0	0	95	1

Table 5: Practices: Frequency of Recording of Accounts

The table showed that SMEs frequency of recording the accounts that were mostly recorded monthly are in the current assets, fixed assets, current liabilities, equity, and ordinary allowable itemized deduction accounts. Then, the income accounts were recorded daily. The costs of sales for trading were recorded monthly, for manufacturing were sometimes recorded monthly and semi-monthly, and for services were recorded most on a weekly basis. The data implies that the frequency of recording on the transaction among SMEs is dependent from the availability of their outsource bookkeeper and applicability of their time recording. Correspondingly, Porter et al. (2014) stated that the bookkeeping transactions must be posted to the accounts on a periodic basis where the frequency of posting depends on the type of bookkeeping methods and the volume of transactions. In a manual method, transactions might be posted daily, weekly, or even monthly depending on the amount of activity. While in a computerized method, posting is likely done automatically by the computer each time a transaction is recorded. In contrast, Chelimo et al. (2012) cited that frequency of recording positively enhanced SMEs growth as a measure of profitability and increase business expansion. Furthermore, Abrugar (2013) emphasized that to avoid backlogs in bookkeeping, SMEs should record their business transactions on time or as frequent as possible. The percentage distribution is revealed in Table 6 on the bookkeeping activities of SME's.

SMEs Bookkeeping Practices	Indicators	Percentage (n=100)	Rank	
Bookkeeping Activities	Monthly preparation of financial statements	87	1	Most Important
	Preparation of tax remittance documents	78	2	
	Recording of transactions in subsidiary ledgers	44	3	
	Recording of transactions in general ledgers	36	4	
	Preparation of remittance documents to government	20	5	
	Quarterly preparation of financial statements	16	6	
	Doing account reconciliation	15	7	
	Preparation of account schedules	12	8	
	Doing bank reconciliation	7	9	
	Recording of transactions in specialized journals	4	10	
	Doing sales or revenue analysis	4	11	Least Important
	Doing profitability analysis	2	12	

Table 6: Distribution of Bookkeeping Activities of SME's

The table indicated that most important bookkeeping activities performed by the respondents outsource bookkeeper is the preparation of monthly financial statements (87) and the least important is doing profitability analysis (2%). This implies that SME owners are wanted to be assured of preparing and submitting monthly financial statements as basis for computation of tax payables for the month which forms part of government compliance. Accordingly, Ibarra et al. (2015) stated that SMEs confirm that they understand financial statements, use historical costs in recording, and adhere to timeliness and consistency in preparing financial statements for income tax purposes. The percentage distribution is revealed in Table 7 on the SMEs bookkeeper's role in tax compliance.

SMEs Bookkeeping Practices	Indicators	Percentage (n=100)	Rank	
Bookkeeper's Role in Tax Compliance	Preparation of monthly and quarterly tax reports	90	1	Most Important
	Preparation of annual tax returns and other tax reports	63	2	
	Filing of tax returns	60	3	
	Assistance in tax cases and settlements	8	4	
	Assistance to tax computations	5	5	
	Tax education and information	3	6	
	Tax planning	1	7	Least Important

Table 7: Bookkeeper's Role in Tax Compliance

The table revealed the most important bookkeepers' role regarding tax compliance is the monthly and quarterly tax reports (90%) and the least important tax planning (1%). This implies that most of SME respondents have strictly complied with the mandate of the BIR to file and pay monthly and annual income tax due through them outsource bookkeeper. The majority of them prepare statements of income and expenses because it is needed in the determination of tax due. Accordingly, the study of Ibarra et al. (2015) revealed that financial statements for tax purposes are normally prepared by an accountant. However, SMEs always hire outsource bookkeepers to prepare the financial statements.

The SMEs respondent problems encountered by in terms of bookkeeping practices are presented in Table 8.

Respondent	SMEs Problems Encountered In Bookkeeping
1	The respondent was reluctant in employing an in-house bookkeeper because it adds financial burden like paying salary and other employees benefit not like having an outsource bookkeeper.
2	The respondent knows only how to record their daily sales and expenses but doing other bookkeeping functions and preparing financial statements was a big burden due lack of knowledge in bookkeeping.
3	The respondent was a high school graduate only and admitted that she has no idea in preparing the financial statements and not familiar with the terms used.
4	The respondent lack of adequate training on bookkeeping that is why she hired an outsource bookkeeper to do bookkeeping.
5	The respondent was not able to focus in doing bookkeeping because she was exhausted from day-day transaction of the business.
6	The respondent wanted to expand their business but could not access bank loans for additional capital due for lack of financial records. So, he hired an outsource bookkeeper since then to have enough financial records to be presented to the bank in availing credit.
7	The respondent has not undergone any financial literacy program specifically bookkeeping and often encountered cash-flow problem due to lack of financial literacy.
8	The respondent was able to encountered penalty for late filing of income tax and financial statement because after that incident she hired an outsource bookkeeper to perform bookkeeping function.
9	The respondent has no background and knowledge in bookkeeping since he come from technical and non-business-related course.
10	The respondent misplaced receipts such delivery and purchases receipts that lead in providing insufficient or incorrect supporting documents in summarizing the business transactions.

Table 8: Problems Encountered in Bookkeeping Practices by Respondents

Most of SME owners completed a technical-related course; thus, they lack knowledge on bookkeeping and no formal training on handling bookkeeping. Sometimes they misplaced receipts that provide insufficient support documents, and often encountered the cash-flow problem due to lack of financial literacy. Thus, the majorities of the SME owners preferably hire an outsourced bookkeeper to be free from burden in handling bookkeeping functions and comply the regulatory agency requirements. However, it was discovered from the study of Suraj (2011) that ignorance and lack of education on the part of many SME owners was a contributory factor to the problem according to the study. According to Maseko and Manyani (2011) that the majority of SMEs do not keep the complete accounting records because of lack of accounting knowledge and, as a result, there is an inefficient use of accounting information in financial performance measurement.

The relationship between the SMEs business profile and bookkeeping practices are showed in Table 9 using the Spearman's Coefficient Correlation.

SMEs Business Profile	Mean	SMEs Bookkeeping Practices	Mean	d	d²	Computed Value	Table Value	Decision	Conclusion
Industrial Sector	33	Person responsible in preparing financial statement	20	13	169	0.99	0.250	Rejected	Significant
		Type of bookkeeping	50	-17	289	0.99	0.250	Rejected	Significant
		Method of bookkeeping	20	13	169	0.99	0.250	Rejected	Significant
		Accounting method	50	-17	289	0.99	0.250	Rejected	Significant
		Bookkeeping records kept	35	-2	4	0.99	0.250	Rejected	Significant
		Frequency of recording	15	18	339	0.99	0.250	Rejected	Significant
		Bookkeeping activities	27	6	35	0.99	0.250	Rejected	Significant
		Bookkeeper's role in tax compliance	33	0	0	0.99	0.250	Rejected	Significant
Σ d² 1,294									
SMEs Business Profile	Mean	SMEs Bookkeeping Practices	Mean	d	d²	Computed Value	Table Value	Decision	Conclusion
Number of years in business	25	Person responsible in preparing financial statement	20	5	25	0.99	0.250	Rejected	Significant
		Type of bookkeeping	50	-17	289	0.99	0.250	Rejected	Significant
		Method of bookkeeping	20	13	169	0.99	0.250	Rejected	Significant
		Accounting method	49	-16	240	0.99	0.250	Rejected	Significant
		Bookkeeping records kept	35	-2	4	0.99	0.250	Rejected	Significant
		Frequency of recording	15	18	339	0.99	0.250	Rejected	Significant
		Bookkeeping activities	27	6	35	0.99	0.250	Rejected	Significant
		Bookkeeper's role in tax compliance	33	0	0	0.99	0.250	Rejected	Significant
Σ d² 1,101									
SMEs Business Profile	Mean	SMEs Bookkeeping Practices	Mean	d	d²	Computed Value	Table Value	Decision	Conclusion
Status of Income	33	Person responsible in preparing financial statement	20	13	169	0.99	0.250	Rejected	Significant
		Type of bookkeeping	50	-17	289	0.99	0.250	Rejected	Significant
		Method of bookkeeping	20	13	169	0.99	0.250	Rejected	Significant
		Accounting method	49	-16	240	0.99	0.250	Rejected	Significant
		Bookkeeping records kept	35	-2	4	0.99	0.250	Rejected	Significant
		Frequency of recording	15	18	339	0.99	0.250	Rejected	Significant
		Bookkeeping activities	27	6	35	0.99	0.250	Rejected	Significant
		Bookkeeper's role in tax compliance	33	0	0	0.99	0.250	Rejected	Significant
Σ d² 1,245									

Table 9: Relationship between SMEs Profile and Bookkeeping Practices

The results showed that there is a very high significant relationship between SMEs respondents' profile and bookkeeping practices as presented in Table 9. This is revealed through the Spearman's Correlation Coefficient whereby there is a very strong relationship of 0.99 on the research variables.

Thus, the researcher's decision rejects the null hypotheses because the absolute value obtained by  $r$  is 0.99 which is greater than the table value of  $r$  is 0.250. The decision of the researcher in the research hypotheses was supported, because the researcher rejected the null hypotheses the absolute value obtained by  $r$  agrees with the Spearman's correlation coefficient relationship of the hypothesis. This implies that SMEs profile affects bookkeeping practices and vice



versa. According to Alter (1976) as cited from the study of Suraj (2011), systems run a very high risk of failure when there was a pronounced gap between users (SMEs profile status) and technicians (outsourced bookkeeper) and when these groups continue to pursue the different goal. Under such conditions, users are often driven out of the implementation process, resulting in system failure (bookkeeping).

#### 4. Conclusions

On the basis of the findings, the following conclusions were drawn:

The industrial sector is inclined into trading that has several transactions and has been established for quite period of time, hence, resulting into an increased business income.

SMEs are dependent from the services of an outsourced bookkeeper as an attractive and beneficial employment, preferably use the single-entry bookkeeping, preferred the use of manual and computer program method of bookkeeping for convenience and faster recording of their transactions, use traditional accounting method, and practiced bookkeeping of financial statements and sales book as part of compliance with the BIR regulation.

Most of SME owners need to undergo a bookkeeping training program for them to have grasped enough knowledge on bookkeeping. This is to enhance their skills on bookkeeping as one of their management tools and control in handling operational from their business.

#### 5. Recommendations

Culled from the conclusion, the following recommendations are offered:

SMEs ought to strengthen in keeping financial records for them to be able to track the enterprise transactions and to have an accurate income and paying taxes accordingly, because as the enterprise grows and its existence it becomes the more complex the transactions are.

For those SMEs having sizable transactions, they need to purchase and acquire a software system to have an efficient and effective bookkeeping function. Thus, acquiring a software system could immediately produce financial reports and statements that are necessary for them and for compliance with regulatory agencies such as the BIR. Use of software system to be installed to their computers could track down daily financial transactions without hassle of scanning bundles of documents filed.

There is a need to enhance SMEs bookkeeping practices since it is found to be dependent of contacting from an outsourced bookkeeper and SME owners have lack of knowledge regarding bookkeeping. It is highly recommended to adopt the proposed bookkeeping training program for SME owners to minimize the SMEs dependability of employing an outsourced bookkeeper. Hence, the training program give them hands-on orientation and awareness on the concepts and basic bookkeeping among SME owners is necessary for proper monitoring and control management purposes. This can be done through the community extension program of the University to be spearheaded by the Master of Business Administration of the Graduate School in collaboration with the government agencies such as Technical Education and Skills Development Authority (TESDA), DTI, and LGU focusing on the bookkeeping training program for SME owners.

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