



Financial Management Practices and Financial Accounting Standards Compliance: Case of MSMEs in the Northern Philippines

Kristelle Joy C. Placido^{1*}, Kate Corine R. Buduan¹, Vea Neth A. de la Cruz¹, Ynah Bianca E. Reynon¹

¹Northwestern University, Philippines

Received : November 19, 2024

Revised : February 3, 2024

Accepted : February 7, 2024

Online : July 30, 2024

Abstract

Starting a business appeared simple; however, many businesses fail to maintain their operations in the long run. Based on this issue, this study explores the depth of understanding and knowledge of MSME business owners in Ilocos Norte, Philippines, regarding compliance with Financial Accounting Standards (FAS) and Financial Management Practices (FMP). Additionally, it seeks to determine the relationship between FAS and FMP and the success of businesses. The methodology used was a descriptive and correlational design. The data was gathered from 379 MSMEs through a survey questionnaire. A 4-Likert scale was used to analyze and interpret the results. Also, researchers used the International Business Machines Statistical Package for the Social Sciences (IBMSPPSS), specifically regression analysis, to correlate the financial performance of the MSMEs to their financial management practices and compliance with the financial accounting standards. The study revealed that micro, small, and medium enterprises (MSMEs) in Ilocos Norte maintain a moderate level of implementation of financial management practices and compliance with financial accounting standards, concentrating on the Statement of Comprehensive Income. The study also revealed a significant relationship between financial management practices, compliance with financial accounting standards, and business performance, leading to success. It is justified that effectively and efficiently managing financial matters can contribute to the enhancement of business performance.

Keywords *Financial Management Practices; Financial Accounting Standards; Financial Performance; Micro, Small, and Medium Enterprises; Financial Reporting Compliance*

INTRODUCTION

Micro, small, and medium enterprises (MSMEs) are crucial in various countries' economic growth and profitability development (Mveku et al., 2023). According to the Department of Trade and Industry (Brilliantes et al., 2020), the MSME sector in the Philippines contributed 35.7% of the total value added, with small businesses contributing 20.5%, micro-enterprises at 4.9%, and medium firms at 10.3%. The presence of MSMEs in national development has a strategic role in the absorption of labour, for it contributes approximately 64.67% of employment, providing 5,461,731 jobs. However, the industry faces challenges, such as limitations and the inability to apply appropriate financial management practices, including a lack of access to finance and the need for awareness of compliance with financial accounting standards (Barbosa, 2021; Hafizi et al., 2023; Sappor et al., 2023; Alam et al., 2023; Bashokoh et al., 2023).

Financial management practices encompass various aspects such as working capital, inventory management, and financial planning, which are crucial for assessing business performance and profitability. As Corpuz and Bool (2021) and Hailu et al. (2016) highlight, these practices are essential for adequate money and asset management. Despite the significance of financial management, many businesses fail due to a lack of understanding, focusing solely on total sales rather than net income or loss. Proper strategies and management control are often neglected, emphasizing the hardships, time, and effort required for effective financial management (Amoako, 2013; Sanga et al., 2014).

Copyright Holder:

© Kristelle, Kate, Vea, & Ynah. (2024)

Corresponding author's email: placidokristellejoy@gmail.com

This Article is Licensed Under:



The International Financial Reporting Standards (IFRS), adopted globally, including in the Philippines, promote consistency and transparency in accounting practices. Understanding fundamental accounting processes is crucial for preparing accurate financial statements (FS). To ensure compliance, business owners must adhere to standard recording methods for FS to accurately assess the company's financial performance.

In recognizing the significance of MSMEs, this study explores the understanding and knowledge of MSMEs in Ilocos Norte regarding compliance with Financial Accounting Standards (FAS) and Financial Management Practices (FMP). It aims to determine the relationship between FAS, FMP, and business success. The study intends to benefit MSME owners by providing decision-making knowledge in financial management and accounting standards, ultimately improving business performance. Aspiring entrepreneurs can also benefit by gaining insights into prominent areas for focus and improvement before startup, reducing potential problems because it gives a person the ability to be more confident and insightful with their decisions (Susanti & Widiastuti, 2021). This study addresses a gap in previous research by focusing on micro-sized businesses. It aims to contribute valuable insights to reduce business failure, aligning with Zotorvie's (2017) and Hafizi et al.'s (2023) recommendations.

Research Problem

The general objective of this study is (1) to evaluate the level of usage of FMP by the MSMEs in Ilocos Norte, (2) to assess the level of compliance of MSMEs in Ilocos Norte with the FAS, and (3) to find out the relationship of financial practices and their compliance to the success of the business. It specifically answers the following:

1. What is the level of implementation of the MSMEs of Ilocos Norte in the Financial Management Practices in terms of:
 - a. Asset Management
 - b. Cash Management
 - c. Receivables Management
 - d. Inventory Management
 - e. Payables Management
 - f. Financial Planning
2. What is the level of compliance of MSMEs in Ilocos Norte with the Financial Accounting Standards in terms of:
 - a. Statement of Financial Position
 - b. Statement of Profit or Loss
 - c. Statement of Changes in Cash Flows
 - d. Statement of Changes in Owner's Equity
3. Is there a significant relationship between:
 - a. Financial Management Practices and Financial Performance of a Business
 - b. Financial Accounting Standards Compliance and Financial Performance of a Business

LITERATURE REVIEW

Theoretical Underpinning

Contingency Theory

Contingency theory suggests that effective organizational structures and FMP differ based on contextual factors, both internal and external. Muguchia (2018) notes that specific FMP may work for some businesses and not for others, depending on the business environment and external factors. This implies that financial managers must adopt a tailored approach to financial management based on their unique circumstances. Faccio et al. (2016) support this by finding that

the effectiveness of FMP, such as dividend policy and capital structure decisions, varies depending on the firm's characteristics and the external environment. Moreover, [Al-Smadi \(2019\)](#) found in their study that the impact of certain FMP, such as capital adequacy management, on financial performance depends on the banks' size and age.

Institutional Theory

According to institutional theory, organizations within the same corporate field tend to have similar characteristics and structures due to societal norms and values. Adhering to these standards is crucial for businesses to receive continued support from key stakeholders, as [Tharmini et al. \(2021\)](#) demonstrated. Studies have focused on adopting IAS and financial reporting ([Sappor et al., 2023](#)), as accounting policies and techniques are also influenced by institutional theory and the values and norms of society ([Rahaman, 2019](#)). Organizations maintain legitimacy within their field through coercion, imitation, and normative pressures ([Tharmini et al., 2021](#)), making institutional theory relevant to the study of MSMEs adopting IFRS.

Review of Related Studies

Financial Management Practices

FMPs are essential for every company to manage its funds and achieve its objectives. In MSMEs, FMP include asset, cash, receivables, inventory and liability management, also financial planning ([Hernandez et al., 2021](#); [Ganti, 2022](#); [Stafford Global, 2021](#); [Bichachi, 2022](#); [The Investors Book, 2019](#); [Thurgood & Newton, 2022](#); [Kenton, 2022](#); [Geier, 2020](#)). Sound FMPs are critical to the business's sustainability, growth, and profitability ([Barbosa, 2021](#); [Hailu & Venkateswarlu, 2016](#)). However, MSMEs need help implementing sound FMP due to the nature of the cash flow cycle, working capital management challenges, and difficulty raising external finance ([Hailu & Venkateswarlu, 2016](#)). Studies suggest that most MSMEs need financial management and accounting systems that are different from those used by large firms and more skilled personnel to manage funds ([Barbosa, 2021](#); [Hailu & Venkateswarlu, 2016](#)). Deficiencies in financial management can cause failure, and practical FMP can enhance a firm's performance ([Mathew, 2013](#)).

Financial Accounting Standards

FAS is established by reputable institutions like the International Accounting Standards Board (IASB) and national accounting standard setters, providing guidelines for creating and presenting FS ([Katta, 2014](#); [Millan, 2019](#)). It emphasizes the significance of the accounting information system in managing finances and providing crucial data for decision-making, as discussed by [Hailu and Venkateswarlu \(2016\)](#). FAS is essential for assessing a company's operations and performance ([Millan, 2019](#)). MSEs encounter challenges due to a need to understand financial management, as noted in studies by [Waweru and Ngungi \(2014\)](#) and [Barbosa \(2021\)](#). MSEs often need help implementing financial reports needing more specialized training and human resources, as [Hafizi et al. \(2023\)](#) indicated. The growth and development of MSEs hinge on well-organized financial practices despite challenges in poor financial management and limited resources, as discussed by [Jindrichovska \(2013\)](#). The need for MSMEs to optimize financial reports following MSME FAS is emphasized, drawing on insights from [Hafizi et al. \(2023\)](#) and other relevant studies.

Financial Performance

Financial performance, encompassing metrics like liquidity, solvency, and profitability, is evaluated through the "sweet 16" approach, emphasizing the importance of monitoring multiple measures ([Nthenge, 2017](#); [Musando, 2013](#)). Effective FMP positively impact SMEs, with medium-sized businesses facing barriers like the need for accounting knowledge and high professional

accountant costs (Tharmini & Lakshan, 2021). Financial decision-making, particularly concerning working capital and investments, significantly influences SMEs' financial performance, favouring creative decisions over strict adherence to theory (Chepkemoi, 2013; Mathew, 2013). Due to inadequate education and regulatory gaps, challenges in maintaining accurate accounting records hinder SMEs (Sanga et al., 2014). Profitability analysis, working capital management, and innovative financial decision-making contribute to higher financial performance for SMEs (Nthenge & Ringera, 2017; Musando, 2013). These findings underscore the pivotal role of FMP in shaping the financial performance of SMEs.

Research Paradigm

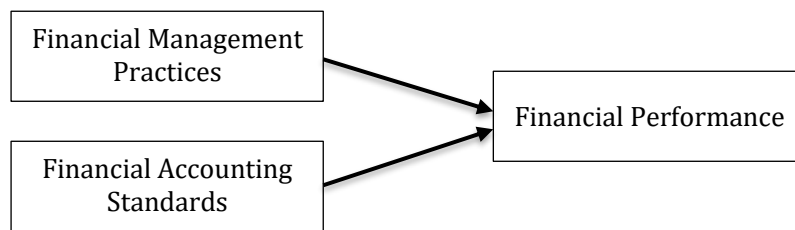


Figure 1. Research Paradigm

The research paradigm shows a positive correlation between FMP, FAS, and financial performance. The study's independent variables are FMP and FAS. At the same time, the dependent variable is the business's financial performance.

RESEARCH METHOD

Participants of the Study

The study focused on 379 MSMEs in Ilocos Norte, a province in the Ilocos region of the Philippines. The sample size was determined using the Raosoft Calculator to ensure that it represented the overall MSME population in the area. The study provides valuable insights into the current state of MSMEs in Ilocos Norte, which can be used to support the growth and development of these businesses. The sampling technique used was Uncontrolled Quota Sampling. The criteria for selecting the sample were businesses that were DTI and BIR registered and had been established for more than a year.

Research Design

The research methodology employed is quantitative research. The researchers used a combination of descriptive and correlational design as their methodology for knowing the level of FMP and financial compliance of MSMEs and examining the relationships between these variables and the financial performance of a business. Using this technique, the researchers analyzed the level of application and compliance of the MSMEs in Ilocos Norte and the extent to which the variables were related.

Research Instrument

The researchers have employed a survey questionnaire through Google Forms as the primary instrument for gathering the data required for the research. The survey questionnaire was adapted from the research of Abanis et al. al. (2013), Corpuz and Bool (2021), Hernandez et al. al. (2021), and Nketsiah (2015). The questionnaire comprises three sections: the demographic profile

of the respondents, followed by FMP using the Likert scale to determine the level of usage of MSMEs in Ilocos Norte. Lastly, the 4-Likert scale and frequency table were used to measure the MSMEs' compliance level. The data collection process started when the gathering commenced in October 2023, immediately following the receipt of ethical clearance. The researchers visited town to town to meet the target respondents personally.

Data Analysis

The information collected in the FMP and FAS was analyzed using the 4-Likert method to generate the rating summary. The Likert scale was utilized to analyze and interpret the results. The researchers used the International Business Machines Statistical Package for the Social Sciences (IBMSPSS), specifically the chi-square test, to correlate the financial performance of the MSMEs to their FMP and compliance with the FAS. The data gathered were validated through Excel, which was used to check for data inconsistencies, duplication, and errors. The 4-Likert scale was used for the FMP and interpretation as presented in Table 1.

Table 1. Likert Scale Interpretation

Mean Range	Response Mode	Verbal Interpretation
3.51-4.00	Always	Highly Practiced
2.51-3.50	Often	Moderately Practiced
1.51-2.50	Rarely	Rarely Practiced
1.00-1.50	Never	Not Practiced

Ethical Considerations

The study ensured the privacy and confidentiality of the data by assigning a code for each participant and locking the data in a cabinet. The researchers did not disclose any information about the participants' experiences and conveyed their right to withdraw from the research. The study also guarantees no conflicts of interest, ensuring that only appropriate action or technique was followed. All procedures followed ethical standards established by the research committee, and the retrieved questionnaires were stored to be destroyed upon completion of the study.

FINDINGS AND DISCUSSION

Following the data collection process, the profiles of the respondents and the organization are presented in Tables 2 and 3 below.

Table 2. Profile of the Manager or Business Owner (n=379)

Indicators	f	%
Position		
Business Owner	194	51.19
Manager	185	48.81
Age		
Below 30 Years Old	88	23.22
30-40 Years Old	171	45.12
41-50 Years Old	69	18.21
Above 50 Years Old	51	13.46
Sex		

Indicators	f	%
Male	158	41.69
Female	221	58.31
Educational Attainment		
High School	33	8.71
Vocational Course	33	8.71
College Undergraduate	93	24.54
College Graduate	220	58.05

Table 3. Organizational Profile of MSMEs (n=379)

Indicators	f	%
Location of the Business		
North Zone	80	21.11
Central Zone	76	20.05
East Zone	70	18.47
South Zone	67	17.68
Laoag City	69	18.21
City of Batac	17	4.49
Legal Form of Business		
Sole Proprietor	310	81.79
Partnership	19	5.01
Cooperative	8	2.11
Corporation	42	11.08
Type of Business		
Merchandising	178	46.97
Services	138	36.41
Manufacturing	12	3.17
Food industry	50	13.19
LPG Gas Dealership	1	0.26
Number of Years of Operation		
1 - 2 years	51	13.46
3 - 5 years	146	38.52
6 - 10 years	82	21.64
More than 10 years	100	26.39
Number of Employees		
Less than 10 employees	321	84.70
10 - 99 employees	52	13.72
100 - 199 employees	6	1.58
Asset Size		
< ₱3,000,000	247	65.17
₱3,000,000 - ₱15,000,000	107	28.23
₱15,000,001 - ₱100,000,000	25	6.60
Annual Business Income		
< ₱250,000	181	47.76

Indicators	f	%
₱250,001 – ₱400,000	85	22.43
₱400,001 – ₱550,000	45	11.87
₱550,001 <	68	17.94

Level of Implementation of MSMEs in the Financial Management Practices

According to Table 4, the overall level of implementation of asset management practices in most MSMEs in Ilocos Norte is moderately practised, with a score of 3.21. This means businesses record their assets, allocate budgets for new purchases, schedule maintenance, and track depreciation and fair value. Location tracking is the highest implementation, with a mean score of 3.51. Findings from [Musah et al. \(2018\)](#) and [Ntim et al. \(2014\)](#) are consistent with these results, demonstrating the widespread adoption of asset management practices. However, [Nketsiah's \(2015\)](#) findings show that less than half of the entities in Sekondi-Takoradi implement asset management practices.

Table 4. Financial Management Practices in Terms of Asset Management

Indicators	Mean	Verbal Interpretation
Knows the location of each fixed asset.	3.51	Highly Practiced
Keeps track of movable fixed assets. (ex. Company vehicles).	3.31	Moderately Practiced
Keeps records of users of equipment.	3.29	Moderately Practiced
Keeps track of how many fixed assets the business has.	3.36	Moderately Practiced
Buys an adequate amount of equipment.	3.12	Moderately Practiced
Buys new equipment only when needed.	3.20	Moderately Practiced
Buy new equipment when there is enough budget.	3.03	Moderately Practiced
Has budget allocated for fixed assets.	3.15	Moderately Practiced
Keeps record of the condition of fixed assets.	3.22	Moderately Practiced
Schedules maintenance to get the longest life out of fixed assets.	3.32	Moderately Practiced
Minimizes maintenance costs.	3.34	Moderately Practiced
Keeps track of the life expectancy of each equipment.	3.09	Moderately Practiced
Depreciates assets to account for the asset's declining value over time.	2.98	Moderately Practiced
Keeps track of each fixed asset's depreciation status.	3.01	Moderately Practiced
Composite Mean	3.21	Moderately Practiced

According to Table 5, the mean score of MSMEs' implementations of cash management practices in Ilocos Norte is 3.35, indicating a moderate level of implementation. This means that most MSMEs in the area keep records of cash transactions, prepare cash budgets, and maintain a minimum cash balance. The most commonly implemented practice is recording all cash transactions. [Abanis et al. al. \(2013\)](#) found a slightly lower mean score in their study of SMEs in Western Uganda, while [Nketsiah \(2015\)](#) reported a more intensive implementation in the Sekondi-Takoradi. These differences may be attributed to variations in business environments, financial structures, and emphasis on specific aspects of cash management among MSMEs. Nonetheless, all studies emphasize maintaining records of cash transactions and preparing cash budgets.

Table 5. Financial Management Practices in Terms of Cash Management

Indicators	Mean	Verbal Interpretation
Records all cash transactions.	3.78	Highly Practiced
Keeps track of all cash receipts.	3.77	Highly Practiced
Keeps track of all cash payments.	3.76	Highly Practiced
Saves with a financial institution.	3.11	Moderately Practiced
Performs monthly reconciliation of cash book with a bank.	3.04	Moderately Practiced
Separates business money from personal money.	3.64	Highly Practiced
The business has a bank account.	2.93	Moderately Practiced
The business normally experiences a cash shortage.	2.64	Moderately Practiced
The business normally experiences a cash surplus.	2.67	Moderately Practiced
The business sells goods or services in cash.	3.60	Highly Practiced
The owner/manager is involved in the preparation of the cash budget.	3.60	Highly Practiced
A cash budget is helpful in decision-making.	3.63	Highly Practiced
The business sets the minimum cash balance based on the owner's experience.	3.52	Highly Practiced
The business has a set minimum cash balance.	3.54	Highly Practiced
There is a monthly reconciliation of the cashbook with the bank.	3.03	Moderately Practiced
Temporary cash surplus is invested in marketable securities.	2.68	Moderately Practiced
The business reviews the cash budget.	3.59	Highly Practiced
The business prepares a cash budget.	3.59	Highly Practiced
The business has internal controls on cash (spending within budget).	3.55	Highly Practiced
There is the separation of cashier personnel from accounting duties.	3.46	Moderately Practiced
The business sets the minimum cash balance based on historical data.	3.49	Moderately Practiced
The business uses computer-assisted software to prepare a cash budget.	3.04	Moderately Practiced
Composite Mean	3.35	Moderately Practiced

Table 6 shows that MSMEs in Ilocos Norte moderately practice receivables management,

with an overall implementation level of 2.75. The most common practice is reconciling inventory changes to sales. The study also compares the findings to other studies, such as [Abanis et al. al. \(2013\)](#) study on SMEs in Western Uganda and [Nketsiah's \(2015\)](#) research on SMEs in the Sekondi-Takoradi. The comparison highlights the variability in receivables management practices among MSMEs, influenced by regional, economic, and contextual factors. The findings indicate the need for tailored approaches to receivables management in different business environments.

Table 6. Financial Management Practices in Terms of Receivables Management

Indicators	Mean	Verbal Interpretation
The business sells goods/services on credit.	2.59	Moderately Practiced
The business has a set credit policy in place.	2.59	Moderately Practiced
Implements account receivable collection policy.	2.88	Moderately Practiced
Monitors receivables by maintaining individual customer records.	2.97	Moderately Practiced
There is control over sales to employees.	2.97	Moderately Practiced
The sales are reconciled with inventory change.	2.98	Moderately Practiced
There is periodic preparation of the aging schedule.	2.85	Moderately Practiced
The business reviews the levels of percentage of bad debts.	2.82	Moderately Practiced
There is control over collections of written-off receivables.	2.84	Moderately Practiced
The business reviews the levels of receivables.	2.96	Moderately Practiced
Gives cash discount to customers.	2.84	Moderately Practiced
Embarks on personal visits.	2.83	Moderately Practiced
Reminds debtors through phone calls.	2.55	Moderately Practiced
Request previous debt to be paid before additional credit is given.	2.54	Moderately Practiced
Uses the police to collect their cash from credit customers.	2.09	Rarely Practiced
The business uses computer-assisted software to manage receivables.	2.64	Moderately Practiced
Composite Mean	2.75	Moderately Practiced

Table 7 shows that the MSMEs in the province moderately practice inventory management. They maintain inventory records, review inventory levels, prepare budgets, practice first-in and first-out systems, and establish physical inventory safeguards. Regularly updating inventory records is the most commonly implemented inventory management practice. The study also suggests that the entities utilize technology to record and monitor the safeguarding of their inventory. The discrepancies between the indicators are affected by the scale of the entity. [Abanis et al. al. \(2013\)](#) study in Western Uganda reveals a slightly lower mean, while [Nketsiah's \(2015\)](#) research in the Sekondi-Takoradi shows similar results to Ilocos Norte.

Table 7. Financial Management Practices in Terms of Inventory Management

Indicators	Mean	Verbal Interpretation
Maintains inventory records, which are updated regularly	3.66	Highly Practiced

Indicators	Mean	Verbal Interpretation
Records all new stock purchases in the book.	3.64	Highly Practiced
Conducts inventory or physical counting of stocks regularly.	3.62	Highly Practiced
Practices the first-in and first-out inventory management system.	3.61	Highly Practiced
Projects the required inventory level of stocks needed at a regularly specified time.	3.59	Highly Practiced
Returning spoiled goods to suppliers to minimize inventory shrinkage.	3.40	Moderately Practiced
CCTVs are in place to prevent theft.	3.23	Moderately Practiced
Prepares ending inventory reports and compares them with the physical count.	3.51	Highly Practiced
Applies different inventory management techniques to determine the desired level of inventory.	3.43	Moderately Practiced
There are physical safeguards of inventory against theft.	3.42	Moderately Practiced
There are physical safeguards of inventory against fire.	3.44	Moderately Practiced
There is the use of standard costs.	3.50	Moderately Practiced
There is proper authorization for purchases.	3.54	Highly Practiced
Inventory levels are determined based on the owner's experience.	3.45	Moderately Practiced
The business investigates discrepancies in inventory.	3.46	Moderately Practiced
The business reviews inventory levels.	3.49	Moderately Practiced
The business prepares an inventory budget.	3.52	Highly Practiced
The business computes inventory turnover ratios.	3.39	Moderately Practiced
Inventory levels are determined based on historical data.	3.48	Moderately Practiced
Inventory levels are determined based on the theory of inventory.	3.40	Moderately Practiced
The business uses computer-assisted software to record inventory.	3.11	Moderately Practiced
Composite Mean	3.47	Moderately Practiced

According to Table 8, most MSMEs in Ilocos Norte moderately implement payables management practices, including maintaining accurate records and implementing internal controls. The most implemented practice is maintaining proper records for all payables. This aligns with a similar study in the Sekondi-Takoradi by [Nketsiah \(2015\)](#) and a study on using borrowed funds by Ugandan entities by [Abanis et al. al. \(2013\)](#). These results highlight the importance of effectively managing debts and credits among MSMEs, regardless of regional differences. The discrepancies between the indicators are affected by the fact that some entities do not accept credit payments.

Table 8. Financial Management Practices in Terms of Payables Management

Indicators	Mean	Verbal Interpretation
Maintains proper records for all payables.	3.44	Moderately Practiced

Indicators	Mean	Verbal Interpretation
The business has internally generated cash sources.	3.35	Moderately Practiced
The business has easy access to bank loans.	3.00	Moderately Practiced
The business uses borrowed funds.	2.39	Rarely Practiced
The business sets the capital structure based on the theory.	2.95	Moderately Practiced
The business uses borrowed funds only.	2.11	Rarely Practiced
Effective payables management is essential for maintaining strong supplier relationships.	3.26	Moderately Practiced
Timely payment of invoices is crucial for building trust and credibility with suppliers.	3.22	Moderately Practiced
Implementing automated systems for managing payables can enhance efficiency and accuracy.	3.11	Moderately Practiced
Negotiating favourable payment terms with suppliers is essential for optimizing cash flow.	3.19	Moderately Practiced
Monitoring and analyzing payables data can provide valuable insights for decision-making.	3.23	Moderately Practiced
Establishing clear payment policies and procedures can help avoid late payment penalties.	3.24	Moderately Practiced
Maintaining accurate records of payables transactions is necessary for financial reporting.	3.28	Moderately Practiced
Conducting regular reviews of payables processes can identify areas for improvement.	3.23	Moderately Practiced
Implementing internal controls to prevent fraudulent activities in payables is essential.	3.23	Moderately Practiced
The business investigates discrepancies in inventory.	3.22	Moderately Practiced
Composite Mean	3.09	Moderately Practiced

According to Table 9, the overall level of implementation of financial planning among MSMEs in Ilocos Norte is high, with a mean of 3.58, indicating that most entities prepare budget plans, budget allocations, and reserve funds for business expenditures. This finding is consistent with [Hernandez et al.'s \(2021\)](#) research on MSMEs in Batangas, Philippines, where financial planning practices are highly emphasized. However, [Atieno's \(2013\)](#) study reveals a disparity in the adoption of financial planning practices among MSMEs in Nairobi City, with only 64% of entities implementing such practices. Therefore, further research and intervention are necessary to promote the importance of financial planning among MSMEs in different regions. However, the scale of the entity also affects the discrepancies between the indicators.

Table 9. Financial Management Practices in Terms of Financial Planning

Indicators	Mean	Verbal Interpretation
Prioritize business expenditures to conserve financial resources.	3.57	Highly Practiced
Prepare a budget plan for business expenses.	3.60	Highly Practiced
Reserve funds for business expenses such as utilities, rent, bills, payrolls, etc.	3.66	Highly Practiced
Review business expenses regularly.	3.63	Highly Practiced
Reserve funds for financial risk.	3.55	Highly Practiced
Always consider and maintain emergency funds for the business.	3.56	Highly Practiced
Provide a budget plan for expansion, production, marketing, sales, revenue, etc.	3.49	Moderately Practiced
Review the business budget regularly.	3.60	Highly Practiced
Provide mechanisms to ensure the financial and operational goals of the business are achieved.	3.58	Highly Practiced
Ensure the optimal allocation of resources.	3.59	Highly Practiced
Composite Mean	3.58	Highly Practiced

Level of Compliance of MSMEs with the Financial Accounting Standards

Table 10 shows that most entities adhere to a quarterly reporting schedule for their FS, with a mean of 2.19, as observed in the study conducted by Mathew (2013). However, some entities compile their statements monthly, semi-annually, or annually. The Statement of Financial Position, together with the Statement of Comprehensive Income, has the highest mean of 3.01, while the Statement of Changes in Equity has the lowest mean of 2.84. Zotorvie's (2017) research revealed that organizations tend to concentrate primarily on the Income Statement and Statement of Financial Position. This indicates that respondents are more likely to focus on the standing and performance of the business entity.

Table 10. Frequency of Reporting

Indicators	Mean	Verbal Interpretation
The MSME prepares a Statement of Financial Position	3.01	Quarterly
The MSME prepares a Statement of Comprehensive Income	3.01	Quarterly
The MSME prepares Statement of Changes in Equity	2.84	Quarterly
The MSME prepares a Statement of Cash Flow	2.94	Quarterly
The MSME reviews and assesses the impact of accounting on its financial statements	2.90	Quarterly
Composite Mean	2.94	Quarterly

Mean Range	Response Mode	Verbal Interpretation
3.51-4.00	Monthly	Monthly
2.51-3.50	Quarterly	Quarterly
1.51-2.50	Semi-annually	Semi-annually
1.00-1.50	Annually	Annually

According to Table 11, the compliance of MSMEs with the Statement of Financial Position in Ilocos Norte is moderate, with an overall composite mean of 3.44. The preparation and presentation of the Statement of Financial Statement exhibit the highest average score. At the same time, the classification, valuation, and disclosures of the Statement of Financial Position have the lowest mean score. However, the overall interpretation still has moderate compliance, which is consistent with a study conducted by [Caclini \(2021\)](#).

Table 11. Compliance with the Statement of Financial Position

Indicators	Mean	Verbal Interpretation
The MSME prepares and presents the Statement of Financial Position in accordance with the Philippine Financial Accounting Standards.	3.46	Moderately Complied
The MSME correctly classifies assets and liabilities as current and non-current in the Statement of Financial Position.	3.43	Moderately Complied
The MSME accurately values assets and liabilities in the Statement of Financial Position using appropriate measurement bases such as historical cost or fair value.	3.43	Moderately Complied
The MSME discloses necessary information regarding its assets, liabilities, and equity in accompanying the Statement of Financial Position.	3.43	Moderately Complied
The MSME ensures consistency between the Statement of Financial Position and other financial statements and disclosures.	3.44	Moderately Complied
Composite Mean	3.44	Moderately Complied

Mean Range	Response Mode	Verbal Interpretation
3.51-4.00	Always	Highly Complied
2.51-3.50	Often	Moderately Complied
1.51-2.50	Rarely	Rarely Complied
1.00-1.50	Never	Not Complied

Based on the findings from Table 12, MSMEs in Ilocos Norte exhibited a high degree of compliance toward adhering to the requirements outlined in the Statement of Comprehensive Income. The overall composite mean score of 3.54 suggests that MSMEs in the region show a proactive approach towards compliance. The research conducted by [Caclini \(2021\)](#) aligns with these findings. The mean scores for statements 2 and 3 were the highest at 3.55. Despite the disparity in average values, the interpretation of the findings regarding high compliance remains congruent.

Table 12. Compliance to the Statement of Comprehensive Income

Indicators	Mean	Verbal Interpretation
The MSME prepares and presents the Statement of Profit or Loss in accordance with the Philippine Financial Accounting Standards.	3.53	Highly Complied
The MSME accurately records and reports revenues and expenses in the Statement of Profit or Loss.	3.55	Highly Complied

Indicators	Mean	Verbal Interpretation
The MSME recognizes revenues and expenses in the Statement of Profit or Loss according to the matching principle in the relevant accounting period.	3.55	Highly Complied
The MSME discloses necessary information regarding its assets, liabilities, and equity in accompanying the Statement of Profit or Loss.	3.54	Highly Complied
The MSME ensures consistency between the Statement of Profit or Loss and other financial statements and disclosures.	3.53	Highly Complied
Composite Mean	3.54	Highly Complied

According to the findings presented in Table 13, Micro, MSMEs in Ilocos Norte province exhibit a moderate level of compliance (composite mean of 3.39) regarding the Statement of Changes in Cash Flow. The highest average score (3.41) was observed in the formulation and delivery of the statement, while statements 2, 3, 4, and 5 had a comparatively lower mean score of 3.39. Despite the differences in average values, the interpretation of adherence to the Statement of Changes in Cash Flow suggests a similar moderate compliance level to a study conducted by [Caclini \(2021\)](#).

Table 13. Compliance to the Statement of Changes in Cash Flows

Indicators	Mean	Verbal Interpretation
The MSME prepares and presents the Statement of Changes in Cash Flows in compliance with the Philippine Financial Accounting Standards.	3.41	Moderately Complied
The MSME precisely categorizes and records cash inflows and outflows in the Statement of Changes in Cash Flows.	3.39	Moderately Complied
The MSME provides a clear and concise explanation of the sources and uses of cash as presented in the Statement of Changes in Cash Flows.	3.39	Moderately Complied
The MSME reconciles the net increase or decrease in cash with the change in cash and cash equivalents on the Statement of Financial Position.	3.39	Moderately Complied
The MSME ensures consistency between the Statement of Changes in Cash Flows and other financial statements and disclosures.	3.39	Moderately Complied
Composite Mean	3.39	Moderately Complied

According to Table 14, MSMEs in Ilocos Norte demonstrate moderate compliance with the Statement of Changes in Owners' Equity, with an overall composite mean of 3.15. The highest mean is recorded in recording and reporting changes in owner's equity (3.18), while the lowest is in disclosing necessary information related to the Statement of Changes in Owners' Equity (3.13). However, despite these variations, the interpretation of moderate compliance remains consistent. This finding is consistent with the research conducted by [Caclini \(2021\)](#).

Table 14. Compliance to the Statement of Changes in Owner's Equity

Indicators	Mean	Verbal Interpretation
The MSME prepares and presents the Statement of Changes in Owner's Equity in compliance with the Philippine Financial Accounting Standards.	3.16	Moderately Complied
The MSME precisely classifies and reports changes in owner's equity components (e.g., share capital, retained earnings) in the Statement of Changes in Owner's Equity.	3.15	Moderately Complied
The MSME precisely records and reports changes in owner's equity.	3.18	Moderately Complied
The MSME discloses necessary information regarding contributions, distributions, and other changes in owner's equity.	3.13	Moderately Complied
Our MSME ensures consistency between the Statement of Changes in Owner's Equity and other financial statements and disclosures.	3.16	Moderately Complied
Composite Mean	3.15	Moderately Complied

Table 15 shows that the overall composite mean is 3.49, which suggests that MSMEs in Ilocos Norte place significant importance on the compliance of FS. The data shows that the highest mean is tied between Statements 1 and 5, gaining a mean of 3.51 with a verbal interpretation of very important, which shows that MSMEs in Ilocos Norte views on compliance with FS are crucial in terms of enhancing their financial credibility and reputation and minimizing the risk of legal and regulatory penalties.

Table 15. Importance of Compliance

Indicators	Mean	Verbal Interpretation
The MSME compliance enhances our MSME's financial credibility and reputation.	3.51	Very Important
The MSMEs' compliance improves decision-making based on accurate financial information.	3.48	Important
The MSMEs' compliance facilitates access to financing and investment opportunities.	3.46	Important
The MSMEs' compliance increases customer trust and confidence in our MSME.	3.49	Important
The MSME compliance minimizes the risks of legal and regulatory penalties for our MSME.	3.51	Very Important
Composite Mean	3.49	Often Important

Mean Range	Response Mode	Verbal Interpretation
3.51-4.00	Always	Very Important
2.51-3.50	Often	Important
1.51-2.50	Rarely	Low Importance
1.00-1.50	Never	Not Important

The study conducted a chi-square test of independence to evaluate the relationship between financial performance, FMP, and FAS compliance. The results showed a significant correlation between FMP and financial business performance and between FAS compliance and business performance. [Atieno \(2023\)](#), [Waweru and Ngugi \(2014\)](#), [Zotorvie \(2017\)](#), and [Capiña \(2017\)](#) have all conducted research supporting the significance of effective FMP and compliance with FAS for the success of a business. Proper accounting records and compliance allow an organization to consistently evaluate its overall progress and uphold its standing within the industry, thus ensuring continued success.

Table 16. Correlation of Financial Performance of a Business to Financial Management Practices and Financial Accounting Standards

	< ₱250,000	₱250,001 – ₱400,000	₱400,001 – ₱550,000	₱550,001 <	Chi-Square Value	P-Value
Financial Management Practices						
Always	212	132	112	184	153.1535	0.00**
Often	258	141	45	60		
Rarely	80	9	3	2		
Never	2	1	1	1		
Financial Accounting Standards Compliance						
Always	183	166	90	145	103.4305	0.00**
Often	250	99	57	88		
Rarely	112	14	13	12		
Never	7	4	1	2		

Note ** significant at 0.001 level of significance

CONCLUSIONS

The comprehensive analysis of MSMEs in Ilocos Norte indicates a moderate to highly practised approach across various financial management domains, with an overall mean of 3.24, suggesting the balanced implementation of asset, cash, receivables, inventory, payables management, and financial planning. Comparisons with related studies affirm the positive impact of these practices on business efficiency and performance. Variations underscore the necessity for nuanced context-specific financial management strategies tailored to each business environment's challenges and opportunities. The compliance analysis in Tables 9 to 14 reveals a moderately compliant stance (overall mean of 3.18) among MSMEs in Ilocos Norte across various FS, indicating balanced adherence to reporting schedules and compliance with statements. MSMEs exhibit a proactive approach to complying with the Statement of Comprehensive Income. The study aligns with [Caclini's \(2021\)](#) findings, highlighting consistent moderate to high compliance levels. Significant correlations between FMP and business performance, evidenced by chi-square tests, emphasize the critical role of effective FMP in success. Compliance with FAS is also significantly associated with business performance, underscoring the importance of proper accounting records for consistent evaluation and sustained success. This study contributes new insights into the specific context of MSMEs in Ilocos Norte. It offers valuable additions to the existing literature and a more comprehensive understanding of their FMP and compliance levels.

LIMITATION & FURTHER RESEARCH

The research is limited to entities established over a year and must be registered in the Department of Trade and Industry and the Bureau of Internal Revenue. The scope of the study is

limited to some financial management practices and financial accounting reporting standards. Further research in other provinces is recommended, focusing on only one financial management practice or one accounting standard for a more extensive analysis of the variables. Including or focusing on newly established business entities' FMP or FAS is also recommended.

REFERENCES

- Abanis, T., Sunday, A., Burani, A., & Eliabu, B. (2013). Financial Management Practices In Small And Medium Enterprises in Selected Districts In Western Uganda. *Research Journal of Finance and Accounting*, 7(38), 75-85. <https://doi.org/10.5897/AJBM2013.6899>.
- Al-Smadi, M. (2019). A Study of Capital Structure Decisions by SMEs: Empirical Evidence from Jordan. *Academy of Accounting and Financial Studies Journal*, 23(1), 1-9.
- Alam, P. J., Wati, L. N., & Marlianingrum, P. R. (2024). Micro, Small, and Medium Enterprises Based on Creative Economy Increasing the Competitiveness Excellence of the Modern Night Market Perdanaria Jakarta. *International Journal of Entrepreneurship, Business, and Creative Economy*, 4(1), 146-159. <https://doi.org/10.31098/ijecbe.v4i1.1557>
- Amoako, G. K. (2013). Accounting Practices of SMEs: A Case Study of Kumasi Metropolis in Ghana. *International Journal of Business and Management*, 8(24), 73-83. <https://doi.org/10.5539/ijbm.v8n24p73>
- Atieno, J. M. (2013). *The Relationship Between Financial Planning And The Financial Performance Of Small and Medium Enterprises In Nairobi City Centre Kenya* [Thesis, University of Nairobi]. UoN Digital Repository. <http://erepository.uonbi.ac.ke/handle/11295/59750>
- Barbosa, R. O. (2021). Financial management practices of micro and small enterprises in Tanauan, Leyte, Philippines. *TARAN-AWAN Journal of Educational Research and Technology Management*, 2(1), 60-69. <https://journal.evsu.edu.ph/index.php/tjertm/article/view/261>
- Bashokoh, M. I., Akhlagh, E. M., Gholizadeh, M. H., Soori, A., Sahebi, A. G., & Gholami, S. (2023). Identifying and Prioritizing Factors Affecting Financing Performance of the Supply Chain in Food Industry SMEs. *International Journal of Entrepreneurship, Business, and Creative Economy*, III(2), 74-91. <https://doi.org/10.31098/ijebce.v3i2.1592>
- Bichachi, R. (2022, October 28). *Cash Management Defined*. Oracle Netsuite. <https://www.netsuite.com/portal/resource/articles/accounting/cash-management.shtml>
- Brilliantes, K., Erroba, J., Llorente, M., Lor, R., & Workie, Y. (2020). *MSMEs Value Chain Rapid Response Survey (Wave 2)*. United Nations Development Programme, Philippines. https://www.dti.gov.ph/sdm_downloads/msme-value-chain-rapid-response-survey-wave-2/.
- Caclini, M. P. (2021). Comparative Analysis of Financial Reporting of Selected Small and Medium Enterprises (Smes) in Baguio City: Basis for a Financial Planning Model. *Journal of Contemporary Issues in Business and Government*, 27(3), 1487-1502. <https://doi.org/10.47750/cibg.2021.27.03.200>
- Capiña, M. V. (2021). Impact of Management Practices on Micro and Small Enterprise (MSEs) Performance in Marinduque, Philippines. *Journal of Social Entrepreneurship Theory and Practice (JSETP)*, 1(1), 84-97. <https://doi.org/10.31098/jsetp.v1i1.561>
- Chepkemoi, P. (2013). *An Analysis of The Effects of Capital Structure of Small and Medium Enterprises on Their Financial Performance: A Case of Nakuru Town* [Thesis, Kabarak University]. KABU Repository. <http://ir.kabarak.ac.ke/handle/123456789/913>
- Corpuz, B. M., & Bool, N. (2021). Working capital management practices and sustainability of Barangay Micro Business Enterprises (BMBEs) in Ilocos Norte, Philippines. *International*

- Journal Of Research In Business And Social Science (2147- 4478), 10(2), 21-32.*
<https://doi.org/10.20525/ijrbs.v10i2.1033>
- Faccio, M., Aggarwal, R., Guedhami, O., & Kwok, C. C. (2016). Culture and Finance: An introduction. *Journal of Corporate Finance, 100(41), 466-474.*
<https://doi.org/10.1016/j.jcorpfin.2016.09.011>
- Ganti, A. (2022, May 31). *What Is Asset Management, and What Do Asset Managers Do?*. Investopedia.
<https://www.investopedia.com/terms/a/assetmanagement.asp>
- Geier, B. (2023, May 23). *What Is Financial Planning?*. SmartAsset.
<https://smartasset.com/financial-advisor/financial-planning-explained>
- Hafizi, M. R., Akbar, W., Hakim, S., & Misnaningsih, L. N. (2023). Investigating the Practice of Financial Accounting Standards for Micro, Small and Medium Enterprise (Msmes): Evidence from Central Kalimantan. *Journal of Islamic Economics Perspectives, 5(1), 5(1), 39-46.* <https://doi.org/10.35719/jiep.v5i1.103>
- Hailu, A. Y., & Venkateswarlu, P. (2016). Financial Management Practices of Micro and Small Enterprises in Addis Ababa, Ethiopia. *International Journal of Commerce and Management Research, 2(3), 50-64.*
- Hernandez, M. C., Balboa, C. S., Cuenca, R. C., & Quilantang, N. k. (2021). Assessment of Financial Management Practices of Small and Medium Enterprises (SMEs) in Nasugbu, Batangas. *International Journal of Creative Business and Management, 1(2), 24-37.*
<https://doi.org/10.31098/ijcbm.v1i2.5065>
- Jindrichovska, I. (2013). Financial management in SMEs. *Financial management in SMEs. European Research Studies Journal, 16(4), 79-95., 16(4), 79-95.*
- Kenton, W. (2022, July 12). *Liability Management: Definition, Strategies, Importance.* Investopedia.
<https://www.investopedia.com/terms/l/liability-management.asp>
- Mathew, M. (2013). *Financial Management Practices Employed By Small And Medium Enterprises (SMEs) In The Buffalo City Metropolitan Municipality, Eastern Cape.* University of Fort Hare.
- Millan, Z. V. (2019). *Conceptual Framework & Accounting Standards.* Bandolin Enterprise.
- Muguchia, M. M. (2018, November). *The Effect Of Financial Management Practices On The Financial Performance Of The Companies Listed At Nairobi Securities Exchange* [Thesis, University of Nairobi]. UoN Digital Repository. <http://erepository.uonbi.ac.ke/handle/11295/106177>.
- Musah, A., Gakpetor, E. D., & Pomaa, P. (2018). Financial Management Practices, Firm Growth and Profitability of Small and Medium Scale Enterprises (SMEs). *Information Management and Business Review, 10(3), 10(3), 25-37.* <https://doi.org/10.22610/imbr.v10i3.2461>
- Musando, J. A. (2013). *The Relationship Between Financial Planning And The Financial Performance Of Small And Medium Enterprises In Nairobi City Centre Kenya* [Doctoral dissertation, University of Nairobi Research Archive].
- Mveku, B., Mutero, T. T., Nyamwanza, T., Chagwasha, M., & Bhibhi, P. (2023). The Significance of Microfinance Establishments on the Growth of Small to Medium Enterprises in Zimbabwe. *International Journal of Management, Entrepreneurship, Social Science and Humanities, VII(1), 50-61.* <https://doi.org/10.31098/ijmesh.v7i1.1519>
- Nketsiah, I. (2015, October). *Financial management practices and performance of small and medium enterprises in the Sekondi-Takoradi metropolis.* University of Cape Coast Institutional Repository. <https://ir.ucc.edu.gh/xmlui/handle/123456789/3137>
- Nthenge, D., & Ringera, J. (2017). Effect of Financial Management Practices on Financial Performance of Small and Medium Enterprises in Kiambu Town, Kenya. *American Based Research Journal, 6(1), 6-32.*

- Ntim, A. L., Evans, O., & Anthony, F. (2014). Accounting practices and control systems of small and medium size entities: A case study of Techiman municipality. *Journal of Finance and Accounting*, 2(3), 30-40. <https://doi.org/10.11648/j.jfa.20140203.11>
- Rahaman, M. S. (2019, August). *Institutional Theory in Accounting*. Circle of Business. <https://circlebizz.com/accounting/institutional-theory-in-accounting/>
- Sanga, D., Kasubi, J., & Kisumbe, L. (2014). A Challenge of Business Record Keeping for Tanzania Small and Medium Enterprises (SMEs): A Case of Madukani Ward- Dodoma Region. *European Journal of Business and Management*, 6(38).
- Sappor, P., Sarpong, F. A., & Seini, R. A. (2022). The adoption of IFRS for SMEs in the northern sector of Ghana: A case of structural equation modeling. *Cogent Business & Management*, 10(1), 3-7. <https://doi.org/https://doi.org/10.1080/23311975.2023.2180840>
- Stafford Global. (2021, July 7). *What is Asset Management?*. Stafford. <https://www.staffordglobal.org/articles-and-blogs/finance-articles-blogs/asset-management/>
- Susanti, A., & Widiastuti, S. (2021). Personal Financial Behavior in Surakarta Students. *International Journal of Entrepreneurship, Business, and Creative Economy*, 1(1), 66-73. <https://doi.org/10.31098/ijebce.v1i1.448>
- Tharmini, T., & Lakshan, A. M. (2021). Impact of Financial Management Practices on Performance of Small and Medium Enterprises – Legitimacy Theory Perspectives. *Kelaniya Journal of Management*, 10(1), 43-64. <https://doi.org/10.4038/kjm.v10i1.7666>
- The Investors Book. (2019, February 11). *Cash Management*. The Investor Book. <https://theinvestorsbook.com/cash-management.html>
- Thurgood, C., & Newton, K. (2022, November 11). *Receivable Management: Purpose, Importance, & Impact*. study.com. <https://study.com/learn/lesson/receivables-management-overview-purpose-impact.html>
- Waweru, C., & Ngugi, D. K. (2014). Influence of Financial Management Practices on the Performance of Micro and Small. *European Journal of Business Management*, 1(11), 141-161.
- Zotorvie, J. S. (2017). A study of Financial Accounting Practices of Small and Medium Scale Enterprises (SMEs) in Ho Municipality, Ghana. *International Journal of Academic Research in Business and Social Sciences*, 7(7), 29-39. <https://doi.org/10.6007/IJARBS/v7-i7/3075>