

BOOKKEEPING PRACTICES OF MICRO ENTERPRISES IN NORTHERN PHILIPPINES

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ABSTRACT--*This study aimed to determine the bookkeeping practices of micro enterprises in Northern Philippines. Specifically, it aimed to determine the demographic profile of the business owners of the microenterprises in terms of age, gender, educational attainment; the types of business activities engaged in; number of years in operation; bookkeeping practices and the extent of bookkeeping practices of microenterprises. The descriptive-qualitative research survey method was used in the study with 76 respondents chosen using the purposive sampling. Questionnaires and interviews were the instruments used in the data gathering. The data gathered were statistically analyzed using frequency counts, percentages, mean and weighted mean. Majority of the respondents are educated and in their middle-ages. The micro enterprises are female dominated and majority are engaged in the service business. The double-entry bookkeeping system and the accrual basis of accounting are used by the businesses. As to the extent of the practice of bookkeeping, all of the micro entrepreneurs must practice the daily, monthly, quarterly and annually bookkeeping practices while the weekly practices is moderately practiced.*

Keywords-- *bookkeeping, double-entry, accrual, micro enterprises, financial performance*

I. INTRODUCTION

Microenterprises are businesses in which an individual with meager capital can engage in to earn a living. Most of these activities are small in scale, hence, “micro” in terms of inputs, processes, outputs and markets. This kind of business can be an alternative for those individuals who seek for jobs and find difficulty to enter into the world of employment. Hence, many people, educated and non-educated are being motivated to become self-employed. One way of being self-employed is to start a micro business. A microenterprise involves an activity in which anybody can enter into because of its simplicity. It requires few inputs in terms of assets, labor and capital. The processes for the microenterprises are normally simple in terms of technology, skill and manpower. The volume of goods and services they produce or sell are similarly small. Microenterprises serve low income markets; the number of customers and their geographical scope are limited. Few microenterprises serve markets beyond their immediate community and mainly on a network of loyal buyers. The neighborhood sari-sari store, the fish and food vendors or repair shops are some examples. Microenterprises are identified on the basis of assets, employment and income. Hence, microenterprises are small businesses employing less than 10 people and with a starting investment of less than P3,000,000 (three million pesos). Microenterprises play a big role in the economy as they assist the government in job creation, reduction in poverty and the provision of income to workers and to the government in terms of the taxes paid by these businesses and workers. This is supported with the claim that small and medium enterprises make up the backbone of the economy. (Aremu and Adeyemi, 2011).

In the Philippines, MSMEs generated a total of 4,879,179 jobs in 2016 versus 2,831,729 for the large enterprises. This indicates that MSMEs contributed almost 63.3% of the total jobs generated by all types of business establishments that year. Of these, 30.4% or 2,345,992 jobs were generated by micro enterprises; 25.7% or 1,981,316 by small enterprises; and 7.2% or 551,871 by medium enterprises. (Source: Bridging the Gap: Philippine SMEs and Globalization, Small Enterprises Research and Development Foundation (SERDEF), Inc.).

Statistics reveal that microenterprises in the Philippines make up the bulk of enterprises in the country, and have the potential to contribute significantly to employment generation and poverty reduction. As of 2016, there are 915,726 business enterprises operating in the Philippines. Of these, 99.57% (911,768) are micro, small, and medium enterprises and the remaining 0.43% (3,958) is large enterprises. Of the total number of MSMEs, 89.63% (820,795) are micro enterprises, 9.53% (86,955) are small enterprises, and 0.44% (4,018) is medium enterprises. Large enterprises made up the remaining 0.43% (3,958). With these data, it clearly shows the major role of microenterprises in the economy. However, many cannot graduate from micro to small enterprises. Some of them also fails or stop operations. In other countries like Kenya and Nigeria, researchers pointed out that although small and medium enterprises play a big role in the development of the economy, the businesses were not performing well. Recent studies conducted indicate that the most probable cause of business failure is the lack of bookkeeping or maintenance of books by the establishments. Hence, this issue motivated the researcher to conduct one in the Philippines to determine if bookkeeping practices is the reason why micro enterprises cannot graduate to small enterprises.

Bookkeeping is an activity which involves the process of recording all accounting transactions, classifying and summarizing these data to enable the bookkeeper to come up with financial reports as basis in making a sound decision about the operating, investing and financing activities of the business. Bookkeeping involves activities using different systems that can be adopted by the company such as the single entry or double-entry system of bookkeeping. A single entry system records accounting transaction with a single entry to the accounting records. Its focus is centered on the results of the business that are reported on the statement of financial performance. The core information track in a single entry system is cash receipts and cash disbursements. The assets and liabilities are not tracked in a single entry system of bookkeeping. Double entry bookkeeping maintains the duality principle which states that for every recorded transaction two accounts are affected where one is debited and another account is credited. Both sides of the entry should always be equal in amount. In businesses, bookkeeping vary in size, frequency, sensitivity, maturity and the level of growth of the businesses including the importance of working capital. The system of bookkeeping adopted or practiced depends on the owner/operator of the business. However, proper bookkeeping should be observed by the owners as these financial reports generated through bookkeeping activities serve as the lifeblood of the business. Proper bookkeeping enables one to provide accurate measures on the financial status and financial performance of the company to management as well as interested users. It helps the users in evaluating the performance and progress of the business. The output in bookkeeping, through the financial statements, makes accounting as the language of business. Hence, both the maker and users of these statements should have a clear understanding of what is contained there to enable them to readily see the picture of their business and as basis in making plans and strategies on how to improve business operations. However, it is sad to note that many people in business sometimes overlook the importance of accurate record keeping of every business transaction. Bookkeeping may be present but may be inaccurate hence; it does not

reflect the actual financial status and financial performance of the business which could lead to faulty decisions of the managers. Thus, many businesses fail from the beginning. (Wanjahi, 2012). Proper bookkeeping and timely financial reporting of the bookkeeper and a good understanding of bookkeeping by management contributes to effective and efficient financial decisions made for business growth and sustainability. Good bookkeeping practices performed consistently will keep the business running at its very best and allows discovery and solving of problems on a timely manner. The best way to understand good bookkeeping practices is to group them into daily, weekly, monthly, and quarterly basis as claimed by Kashoo (2004).

A number of researches have investigated the role of bookkeeping in SMEs.

In the study conducted by Chelimo (2014) on the Effects of Bookkeeping on Growth of Small and Medium Business enterprises in Kabarnet Town, Baringo Country, Kenya, he found out that many SMEs operators in Kabarnet town maintain sales record books using the double entry system. Bookkeeping positively enhanced SMEs growth as measured by profitability and increased business expansion in Kabarnet town. Bookkeeping can be used as a tool of monitoring business transactions in SMEs; hence, the findings of the study could provide useful information that will help the business community in Kabarnet town to appreciate the role of bookkeeping in their business.

Nayathi, Benedict OH (2017) in their Analysis of Bookkeeping Practices of Micro-Entrepreneurs in the Retail Clothing Industry in Cape Town, South Africa found out that most micro-entrepreneurs do practice bookkeeping manually, but do not complete the bookkeeping cycle. Most micro-entrepreneurs indicated that decision-making is based on maintained financial records which translate to poor decisions-making emanating from incomplete bookkeeping records which may ultimately result to business failure.

Bowen, (2009) observed that the failure of the micro and small scale enterprises has mainly been attributed to simple management mistakes. This simple management mistakes can lead to extinction of these micro and small scale enterprises due to their limited capacity to deal with the outcome of improper management decisions (Longenecker, 2006).

Clauteir, Underdown (2002), Reed (2005) and Aruwa (2006) emphasized that small scale businesses must keep and maintain proper and adequate records not only for the orderly conduct of the enterprise but because it helps entrepreneurs reduce the possibilities of early failure and increase chance of business survival. It also serve as basis for planning and controlling business operations, improve profitability and keep the business in a sound and healthy condition to face competition. For small scale entrepreneurs to succeed, it is a must that all relevant source documents must be maintained, recorded in the respective books as basis for the preparation of the financial statements.

The study conducted by Onaolapo and Adegbite (2014) revealed that majority of the respondents do not prepare financial statements annually. The study concluded that poor accounting records keeping would lead to poor financial performance and business collapse in the long run.

Wnajala, et. al (2014) found out that majority of the MSBEs were not good in practicing bookkeeping management due to the low level of education attained and lack of accounting knowledge. The study concluded that bookkeeping management practices might be a cause of poor business performance.

Kutsaru, N. (2014) found out that most of the informal traders use single entry bookkeeping system, only a few have computers, hence, many paper works are done and most of them don't have qualified bookkeepers.

Most informal traders do not produce any financial reports neither do they measure their financial performance. Findings on the growth of SMEs reveals that there is still slow and stunted growth, most of these enterprises have existed between 1-2 years and few of them go above 5years. With these backgrounds of bookkeeping in other countries, the researcher came up with the study on the practices of microenterprise in the Philippines.

II. OBJECTIVE OF THE STUDY

The main objective of the study is to determine the bookkeeping practices of microenterprises in Northern Philippines. Specifically, it aimed to determine the demographic profile of the business owners of the microenterprises in terms of age, gender, educational attainment; types of business activities engaged in; number of years in operation; bookkeeping practices and the extent of bookkeeping practices of microenterprises

III. MATERIALS AND METHODS

The descriptive-qualitative research survey method and documentary analysis were used in the study with seventy six (76) owners of micro enterprises as respondents. The purposive sampling was used in the selection of the respondents in Tuguegarao City, Northern Philippines. The respondents were from the merchandising and service sector. The service sector included the hotels and restaurants, eateries, snack house and transportation services. The data were gathered with the use of self-administered questionnaires to the respondents. Interviews were also done by the researcher to supplement the data gathered. The data analysis made use of statistical tools such as frequency counts, percentages, mean and weighted mean.

IV. RESULTS

1. The mean age of the respondent is 31 years old , the youngest coming from the age bracket of 20 – 25 and the oldest from the age bracket of 46 and above.
2. The mean years in operation of the businesses is 12 years with 1 – 5 years as the earliest and 21 and above as the highest number of years the business is in operation.
3. Majority of the business activities performed were on the service sector.
4. Majority of the microenterprises made use of the double-entry system of bookkeeping and the used of the accrual basis of accounting.
5. As to their daily practice in bookkeeping, all the respondents enter transactions in journals and ledgers as well as the preparation of invoices for credit transactions.
6. The checking of weekly overdue accounts and sending notices to debtors within the week is their priority while the preparation of weekly cash flow reports ranks last.
7. On the monthly practices on bookkeeping, reconciliation of journals and ledgers with the trial balance ranks first and sending out of monthly reports to clients and customers ranks last.
8. As to the quarterly bookkeeping practices, the maintenance of a back up on records and reports ranks first in their work while the review of quarterly payroll reports and records payments ranks last.

9. On annual bookkeeping practices, the preparation of financial statements ranks first in their activities while the preparation of the annual regulatory requirements ranks last.

10. As to the extent of bookkeeping practices, all the bookkeeping practices were much practice with the exemption of the weekly practices which were moderately practiced.

V. DISCUSSIONS

Table 1: Analysis of respondents by age, gender, trainings and educational attainment

<i>Age</i>	<i>Frequency</i>	<i>Gender</i>	<i>Frequency</i>	<i>Educational attainment</i>	<i>Frequency</i>
15 - 20	3	Male	28	Primary	5
21 - 25	5	Female	48	Secondary	7
26 - 30	10			College Level	8
31 - 35	16			Vocational	10
36 - 40	8			College Graduate	32
41 - 45	14			Master's Degree	9
46 - above	20			Doctoral Degree	5
Total	76		76		76
Mean age -	31				

Table 1 show that the mean age of the respondents is 31 with the youngest entrepreneurs falling within the age bracket of 15-20 while the oldest is within the age bracket of 46 and above. This implies that the micro entrepreneurs are in their energetic years of working for a living. The data also revealed that majority of the respondents are female. It is not surprising as based on records; the Philippine population is female dominated. This can be attributed to the culture in the Philippines that women rear their young children in the absence of a care taker. Hence, the alternative is for the married females to start a business to generate income while rearing their young children. Majority of the entrepreneurs are educated. There were only five respondents who have finished primary education, 32 are college graduates, 9 are master's degree holder and 5 have doctoral degree as their highest educational attainment. This data implies that many do not find employment in the public or private sectors, thus, to help solve the unemployment problem, many venture into business activities of their fields of interest thereby contributing to the gross domestic product of the country.

Table 2. Respondents by years in Business Operation

<i>Years</i>	<i>Frequency</i>	<i>Percentage</i>
1 - 5	13	17.11%
6 - 10	12	15.79%
11 – 15	18	23.68%
16 – 20	25	32.89%
21 - above	8	10.53%
Total	76	100%

Mean Years - 12		
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The table presents the number of years the business had been in operation. The mean years in operation of the businesses are 12 years. This implies that many microenterprises have survived in the business world despite the different stages of business development they might have experienced such as the start-up stage where entrepreneurs have to devote much of their time and money to launch their businesses. However, the table shows that many are in their growth stage and may have expanded their businesses.

Table 3. Type of Business Activities Respondents are engaged in

<i>Business activities</i>	<i>Frequency</i>	<i>Percentage</i>
Merchandising	31	40.79%
Service Business		
Hotels and Restaurants	10	13.16%
Eateries	15	19.74%
Snack House	12	15.79%
Transportation Business	8	10.53%
Total	76	100%

Table 3 shows that majority of the respondents are in the service business such as operations of hotels and restaurants, eateries, snack houses and transportation businesses. The transportation business in the study referred to are the van and tricycle operations. The data on the table shows that 40.79 percent of the respondents are into merchandising business. Food business is one of the businesses where you could be assured of sales as everyone needs food everyday in order to survive.

Table 4. Respondents distribution as to Bookkeeping System and Basis of Accounting Used

<i>Bookkeeping System</i>	<i>Frequency</i>	<i>Percentage</i>	<i>Basis of Accounting</i>	<i>Frequency</i>	<i>Percentage</i>
Single Entry	20	26.32%	Cash	25	32.89%
Double Entry	56	73.68%	Accrual	51	67.11%
total	76	100%		76	100%

Based on the table, 56 of the respondents prepare their books using the double entry system while 20 out of the 76 respondents employ the single entry system of bookkeeping. While the single entry system may be acceptable for tax purposes, it does provide a business with the entire book keeping information to adequately report the book keeping affairs of the business. It focuses only on the revenues and expenses or the financial performance of the business. Because of the deficiencies observed in the single entry system of bookkeeping (Cromie, 1991) stated that in the near future, there will probably no single entry system.

The double entry system has a built-in checks and balances. Due to the use of debits and credits, the double-entry system is self-balancing. The total of the debit values recorded must equal the total credit values

recorded. (Cohen, 2005). This system observes the duality principle of accounting and when used along with the accrual method of book keeping, it provides a complete book keeping system as it focuses on both the statement of financial position and the statement of financial operation. Thus, the micro entrepreneurs appreciated the double entry system as a tool in measuring and monitoring the financial resources of the business with the claims attached to these financial resources.

Table 5. Respondents as to Bookkeeping Practices and Extent of practice

Bookkeeping Practices	*Bookkeeping Practices			Extent of Practice				
	F	%	Rank	MP	MoP	LP	Weighted mean	DV
<i>Daily</i>				3	2	1		
Enters business transactions in the journals and ledgers.	76	100%	1.5	44	25	11	2.64	MP
Prepares invoices for credit transactions.	76	100%	1.5	35	28	13	2.29	MP
Performs daily cash counts and makes cash reports.	54	71%	4	37	22	17	2.26	MoP
Weighted mean							2.40	MP
<i>Weekly</i>								
Weekly Cash Flow report is prepared,	22	29%	3	34	25	17	2.22	MoP
Reviews credit accounts and ensure bills payments are done on time.	25	33%	2	40	23	13	2.36	MP
Checks weekly overdue accounts and sends notices to overdue accounts within the week	37	49%	1	42	20	14	1.79	MoP
Weighted mean							2.12	MoP
<i>Monthly</i>								
Reconciles journals and ledgers with the trial balance.	47	62%	1	38	22	16	2.29	MoP
Sends out monthly statements to clients and customers.	29	38%	3	42	20	14	2.37	MP
Reviews credit rating of members.	36	43%	2	50	15	11	2.51	MP
Weighted Mean							2.39	MP
<i>Quarterly</i>								

Reviews quarterly payroll reports and records payments.	33	43%	3	52	14	10	2.55	MP
Reviews taxes and records quarterly payments.	65	86%	2	52	16	8	2.58	MP
Backs up bookkeeping records and reports.	69	91%	1	48	18	10	2.50	MP
Weighted mean							2.54	MP
<i>Annually</i>								
Prepares financial statements.	76	100%	1	58	12	10	2.74	MP
Updates chart of accounts.	68	89%	2	52	17	7	2.59	MP
Prepares year-end adjustments	58	76%	3	40	20	16	2.32	MoP
Prepares annual regulatory requirements	49	64%	4	43	18	15	2.37	MP
Weighted mean							2.51	MP

***multiple responses; 2.34-3.00- much practiced 1.67 -2.33 –Moderately practiced 1.00 – 1.66 Least Practice**

The table shows that all respondents do the entering of business transactions in the journals and ledgers. Moreover, invoices for credit transactions are promptly prepared. Hence, the daily activities on bookkeeping are much practiced by the respondents. This is a good indication of proper book keeping as this will avoid if not minimize the omission of any unrecorded transactions of the business. As to their weekly practices, checking of weekly overdue accounts and sending notices to customers with overdue accounts within the week is given attention. This practice implies the monitoring of their collectibles to avoid too much delay on collections as well as having huge bad debts. This activity will also improve the receivable management and cash management of the enterprises. The data also reveals that the maintenance of back up records and reports is much practice which implies the presence of planning strategies and precautionary measures of management for possible lost of records. Furthermore, on their annual bookkeeping practices, the data reveals that the annual preparation of financial statements and the preparation of year-end adjustments are given attention. Such practice indicates an appreciation of the respondents on proper record keeping which are eventually used in decision-making. Year-end adjustments are made when needed so as to report the actual financial position of the company. It is also observed that they do comply with preparation of annual regulatory requirements although given the last priority in their annual bookkeeping practices. In summary, the micro entrepreneurs as revealed on their practices appreciate proper and accurate recording. This is an indication that these businesses although still categorized as micro enterprises are doing good as shown on the number of years that they had been in operation. It can also be implied that accurate records on their performance have guided them in their business operations and decisions. However, a study on the factors affecting their not advancing to small, medium and large enterprises may be

undertaken by researchers in the future. As to the extent of bookkeeping practices, in summary all the practices were much done by the respondents. Hence, bookkeeping among the micro enterprises in the Northern Philippines is good.

VI. CONCLUSIONS

Based on the findings of the study, the following conclusions were drawn; majority of the respondents are educated and in their middle-ages. The micro enterprises are female dominated and majority are in the service business. The double-entry bookkeeping system and the accrual basis of accounting are used by the businesses. As to the extent of the practice of bookkeeping, all of the micro entrepreneurs much practiced the daily, monthly, quarterly and annually bookkeeping practices while the weekly practices is moderately practiced.

VII. RECOMMENDATIONS

On the basis of the following conclusions, the researcher recommends the use of the double-entry bookkeeping system and the accrual basis of accounting to enable them to properly monitor, evaluate and maintain accurate records that would help in their business and strategic planning and in making decisions on the areas of operations, investment and financing.

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