

Accounting Practices and the Profitability of Small Businesses in Santa Cruz, Laguna

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Abstract- *This study examined the relationship between the accounting practices and profitability of small businesses in Santa Cruz, Laguna. Accounting practices were examined in terms of bookkeeping, inventory and supply management, and budgeting, while profitability was examined using the gross profit margin ratio, net profit, and return on equity. The study includes the profile of the business, the extent of awareness of accounting practices, and the level of profitability of small businesses. Data were gathered from 143 small business owners, managers, or accounting staff such as bookkeepers and accountants through the administration of the survey. The study further adopted the use of Pearson r correlation to test the hypotheses with 5% significance. The study found that accounting practices and the profitability of small businesses have a significant relationship. Specifically, the finding revealed that budgeting and inventory and supplies management has significant low to very low correlation with net profit, gross profit margin ratio and return on equity. However, the findings also revealed that bookkeeping has significant relationship with net profit and return on equity but not with gross profit margin ratio. Moreover, the study concluded that small businesses in Santa Cruz, Laguna, have existed for more than 10 years and are mostly service-oriented businesses that are strongly profitable and aware of accounting practices to a great extent.*

Indexed Terms- *Accounting Practices, Profitability, Small Businesses*

I. INTRODUCTION

Every business whether big or small faces intense competition in today's competitive business environment, making effective accounting practices a way to enhance profitability. Proper record-keeping and adherence to accounting standards are factors that

directly impact the nature of financial reporting which affects the success and stability of businesses. Keeping accurate accounting records helps businesses assess their performance and make decisions on how to improve profitability and company operation such as cost reduction. Moreover, the availability of the financial information of their Company helps them make decisions that are best suited for the needs of their company as it can pinpoint areas for improvements. In addition, it allows them to shows their businesses' ability to generate cash flows which helps gain investors for expansion and helps creditors to assess their ability to pay with regards to their profitability status. Overall, businesses can achieve long-term profitability and success by enhancing and using accounting practices. (Houston, 2023)

With the growing number of businesses operating in every place with same products and services offered profitability and stability for small businesses has been a great challenge now. Despite having accounting practices that helps businesses out there to exist in the long run many owners specially small business owners doesn't have accounting practices. Additionally, cases of unmanaged businesses are very common as owners are sometimes not aware of the accounting practices that they need to apply in their businesses to be able to know whether they are earning profit or incurring loss. As investigated, the relation between accounting practices and profitability of small businesses is one of the concerns being tackled in business world but lacks attention in many areas. Specifically, in the municipality of Santa Cruz, Laguna there are very few to none of studies regarding accounting practices and profitability. Studies in different areas have been conducted by other researchers but results vary for

each place. Hence, *Accounting Practices and the Profitability of Small Businesses in Santa Cruz, Laguna*, is conducted. This study aims to provide further insight and awareness on the connection between accounting practices such as inventory management, budgeting and bookkeeping and profitability of small businesses in the municipality of Santa Cruz Laguna, a place where many small businesses operates. Additionally, this study also helps small businesses in the area of Santa Cruz, Laguna to assess their profitability and usage of accounting practices which affects business profitability.

II. METHODS

The researchers implemented the descriptive correlational method in the study to address challenges faced by small business owners in effectively implementing accounting practices. Following Adhiambo's (2021) definition, this method aimed to describe relationships between variables. Utilizing survey tools, including pre-surveys and questionnaires where researchers systematically, factually, and objectively depicted the current status of accounting practices in small businesses.

In Santa Cruz Laguna, researchers gathered firsthand information from 143 respondents, including owners, managers, bookkeepers, and accountants, utilizing stratified sampling for better representation. These respondents were proportionally distributed across different strata based on the population of small businesses in each barangay. The sample size was determined using Slovin's formula, resulting in the selection of 143 respondents from a total population of 221 small businesses.

For data collection, survey forms were utilized comprising checklists and Likert scale questionnaires to cover business profiling, the extent of accounting practices, and the profitability of small businesses. The Likert scale, with five response options (strongly agree/ to a great extent, agree, neutral, disagree, strongly disagree), helped gauge respondents' agreement levels with statements. The survey consisted of three parts: the first part comprised eight

questions concerning business profiling, the second part had fifteen questions about the extent of accounting practices, and the third part, evaluating the profitability of small businesses, also consisted of fifteen questions.

III. RESULTS AND DISCUSSION

3.1. Registered Small Businesses Profile

The results show that the majority of registered small businesses (46%) are service-based. A significant proportion of the respondents, specifically 71 small businesses or half of the respondents (50%), are sole proprietors. Out of the total sample size of 143 respondents, 58% stated that the number of their employees was between 10 and 49. Almost half (49%) or 70 small businesses have been in business for a duration of 10 years or more.

As for the level of profitability in terms of estimated annual income (used to compute the gross profit margin ratio), 30 small businesses have an annual income ranging from ₱12,000 to ₱600,000. Regarding the estimated annual cost of goods sold, which is also used to compute the gross profit margin ratio, 31%, or 45 small businesses, have reported ₱810,001 and above. In conclusion, 48%, or 69 small businesses, have a gross profit margin ratio of 81%–90%.

The result also presents the estimated annual net income used for computing the return on equity. According to the conducted survey, 32 small businesses report an annual net income of ₱2,700,001 and above, representing 22% of the respondents. Relating to estimated owner's equity (also used in computing the return on equity), the majority of businesses (25%) provided a response in the range of ₱1,500,001–₱3,000,000, equivalent to 36 businesses. Overall, 40% or 57 respondents of the registered small businesses stated that their return on equity was between 16% and 20%

3.2. Extent of Awareness on Accounting Practices among Small Businesses

Table 1. *Extent of Awareness on Accounting Practices among Small Businesses*

Extent of Awareness	Mean	SD
<i>Bookkeeping</i>	4.67	0.81
<i>Inventory and Supplies Management</i>	4.52	0.94
<i>Budgeting</i>	4.50	0.86

According to the results of the survey, bookkeeping has the highest mean of 4.67 with a standard deviation of 0.81. Inventory and Supplies Management has the second highest mean, with a mean of 4.52 and a standard deviation of 0.94. Furthermore, Budgeting had the lowest mean of 4.50 and the lowest standard deviation of 0.86. However, the analysis of the extent of awareness on accounting practices in terms of bookkeeping, inventory and supplies management, and budgeting stated above can be seen as the majority

of respondents also selected "strongly agree." As a result, it can be concluded that the extent of awareness of accounting practices among small businesses in terms of bookkeeping, inventory and supplies management, and budgeting is "to a great extent."

The results of Extent of Awareness on Accounting Practices among Small Businesses in terms of Bookkeeping can be seen in Table 2.

Table 2. Bookkeeping

Statements	Mean	SD	Remarks
1. <i>I use source documents like receipts to prove all transactions.</i>	4.74	0.80	Strongly Agree
2. <i>I consistently make financial records.</i>	4.65	0.87	Strongly Agree
3. <i>I regularly maintain accounts in ledger.</i>	4.74	0.64	Strongly Agree
4. <i>My business records a perpetual income statement in accordance with accounting standards.</i>	4.69	0.77	Strongly Agree
5. <i>I fully understand the balance sheet, profit and loss, and statement of cash flow.</i>	4.51	0.92	Strongly Agree
TOTAL	4.67	0.81	To a Great Extent

Table 2 shows the extent of awareness of accounting practices among Small Businesses in terms of bookkeeping, as indicated the highest mean of 4.74 the respondents strongly agree that they use source documents and maintain accounts in ledger on regularly. The second highest mean is 4.69, which is also interpreted as strongly agree. Finally, the lowest mean of 4.51 was also interpreted as strongly agree. All in all, the study's results indicate that the extent of

awareness on accounting practices among Small Businesses in terms of bookkeeping (with a mean of 4.67), is to a great extent.

The results of Extent of Awareness on Accounting Practices among Small Businesses in terms of Inventory and Supplies Management can be seen in Table 3.

Table 3. Inventory and Supplies Management

Statements	Mean	SD	Remarks
1. I can properly manage the flow of stock excess in my business inventory.	4.56	0.84	Strongly Agree
2. I am able to maximize the inventory (stock) balance in providing goods in the normal operating cycle.	4.52	0.85	Strongly Agree
3. I use accounting software (e.g. Microsoft Excel) to promptly manage the record of inventory utilization.	4.33	1.19	Strongly Agree
4. My business follows a systematic procedure when receiving stocks.	4.52	0.93	Strongly Agree
5. My business provides an inventory count in order to maintain accurate and up-to-date records.	4.66	0.83	Strongly Agree
TOTAL	4.52	0.94	To a Great Extent

Table 3 shows the extent of awareness of accounting practices among Small Businesses in terms of inventory and supplies management, as indicated the highest mean of 4.66 the respondents strongly agree that they can properly manage their business inventory and supplies. The second highest mean is 4.56, which is also interpreted as strongly agree. Finally, the lowest mean of 4.33 was also interpreted as strongly agree. All in all, the study's results indicate that the extent of

awareness on accounting practices among Small Businesses in terms of inventory and supplies management (with a mean of 4.52), is to a great extent.

The results of Extent of Awareness on Accounting Practices among Small Businesses in terms of Budgeting can be seen in Table 4

Table 4. Budgeting

Statements	Mean	SD	Remarks
1. I usually make a plan at the beginning of the month to allocate the money that I will spend.	4.53	0.85	Strongly Agree
2. My budget objectives are reasonably achievable and realistic every time.	4.56	0.77	Strongly Agree
3. I prepare a regular comparative variance report.	4.36	0.93	Strongly Agree
4. My company's budgeting practices are effectively implemented.	4.51	0.85	Strongly Agree
5. The budget is enough to meet my business's normal operation.	4.55	0.85	Strongly Agree
TOTAL	4.50	0.86	To a Great Extent

Table 4 shows the extent of awareness of accounting practices among Small Businesses in terms of budgeting, as indicated the highest mean of 4.56 the respondents strongly agree that their business is working the proper way of budgeting. The second

highest mean is 4.55, which is also interpreted as strongly agree. Finally, the lowest mean of 4.36 was also interpreted as strongly agree. All in all, the study's results indicate that the extent of awareness on

accounting practices among Small Businesses in terms of budgeting (with a mean of 4.52), is to a great extent.

3.3 Level of Profitability of Small Business in Santa Cruz, Laguna

Table 5. Level of Profitability of Small Business in Santa Cruz, Laguna

Level of Profitability	Mean	SD
Gross Profit Margin Ratio	3.97	1.07
Net Profit	3.66	1.24
Return on Equity	3.83	1.01

Based on the results of the study, it can be seen that the gross profit margin ratio obtained the highest mean of 3.97 with a standard deviation of 1.07. The second highest mean is the return on equity, with a mean of 3.83 and a standard deviation of 1.01. In addition, net profit had the lowest mean of 3.66 with a standard deviation of 1.24. However, the analysis of the level of profitability in terms of net profit, gross profit margin ratio, and return on equity stated above can be

seen as the majority of respondents also chose "agree." Thus, it can be inferred that small businesses in Sta. Cruz Laguna is most profitable in terms of the gross profit margin ratio, with the highest mean of 3.97.

The results of the level of profitability of small businesses in Santa Cruz, Laguna, in terms of gross profit margin ratio can be seen in Table 6.

Table 6. Gross Profit Margin Ratio

Statements	Mean	SD	Verbal Interpretation
My business maintains low cost of sales.	4.07	0.99	Agree
My business is highly profitable after deducting all costs of sales/cost of goods sold from revenue.	4.21	0.83	Strongly Agree
My business usually enjoys quantity discount from its supplier.	4.01	1.17	Agree
My business can make more sales even if I sell my products at a higher price.	3.60	1.16	Agree
The gross profit margin ratio of my business is increasing or relatively stable compared to the previous fiscal year.	3.93	1.06	Agree
TOTAL	3.97	1.07	STRONGLY PROFITABLE

Table 6 presents the level of profitability of small businesses in Santa Cruz, Laguna, in terms of the gross profit margin ratio. The highest mean, 4.21, strongly suggests that these businesses strongly agree that their ventures are highly profitable after deducting all costs

of sales and the cost of goods sold from revenue. The second-highest average is 4.07, which is interpreted as agree. Even the lowest average, 3.60, is still interpreted as agree. Based on this information, it can be concluded that small businesses in Santa Cruz,

Laguna, are making a good amount of profit, around 3.97 on average, which is considered strongly profitable.

The results of the level of profitability of small businesses in Santa Cruz, Laguna, in terms of net profit can be seen in Table 7.

Table 7. Net Profit

Statements	Mean	SD	Verbal Interpretation
I review my business' pricing to generate high net profit.	4.18	0.93	Agree
My business expenses are usually low.	3.57	1.10	Agree
My business has made provisions for unpaid debts throughout the years	3.69	1.23	Agree
My business' current net profit is higher compared to previous years.	3.71	1.20	Agree
My business experienced high net losses.	3.13	1.46	Neither Agree nor Disagree
TOTAL	3.66	1.24	STRONGLY PROFITABLE

Table 7 presents the level of profitability of small businesses in Santa Cruz, Laguna, in terms of net profit. With the highest mean of 4.18 (agree), it suggests that small businesses perceive that they review business pricing to generate profit. The second-highest mean is 3.71, also interpreted as agree. In addition, it got the lowest mean of 3.13, being interpreted as neither Agree nor Disagree. Overall, the study's results indicate that the profitability level of

small businesses in Santa Cruz, Laguna, based on net profit (with a mean of 3.66), is strongly considered profitable.

The results of the level of profitability of small businesses in Santa Cruz, Laguna, in terms of return on equity can be seen in Table 8.

Table 8. Return on Equity

Statements	Mean	SD	Verbal Interpretation
<i>My equity has the capability to return in less than a year.</i>	3.76	1.06	Agree
<i>My business demonstrates the ability to generate profit quickly.</i>	3.86	1.01	Agree
<i>My equity is more than enough to operate a business.</i>	3.99	0.88	Agree

<i>My business exceeds its expected return on equity.</i>	3.83	0.97	Agree
<i>My business's current return on equity is higher compared to previous years</i>	3.69	1.12	Agree
TOTAL	3.83	1.01	STRONGLY PROFITABLE

Table 8 shows the level of profitability of small businesses in Santa Cruz, Laguna, in terms of return on equity. The highest mean is 3.99 (agree), which means that the business equity is more than enough to operate a business. The second-highest mean is 3.86, also interpreted as agree. Even the lowest average, 3.69, is interpreted as agree. Overall, the study indicates that the profitability level of small businesses in Santa Cruz, Laguna, measured by return on equity

(with a mean of 3.83), is strongly considered profitable.

The results of the test of relationship between Accounting Practices and level of profitability of small businesses in Santa Cruz, Laguna can be seen in Table 9.

Table 9. Test of Relationship between the Extent of Awareness of Accounting Practices and Level of Profitability among Small Businesses in Santa Cruz, Laguna

Accounting Practices	Profitability	r-value	p-value	Analysis	Degree of Correlation
Bookkeeping	Net Profit	0.223	0.008	Significant	Low Correlation
	Return on Equity	0.186	0.026	Significant	Very Low Correlation
	Gross Profit Margin Ratio	0.137	0.104	Not Significant	Very Low Correlation
Inventory and Supplies Management	Net Profit	0.193	0.021	Significant	Very Low Correlation
	Return on Equity	0.315	0.000	Significant	Low Correlation
	Gross Profit Margin Ratio	0.237	0.004	Significant	Low Correlation
Budgeting	Net Profit	0.243	0.003	Significant	Low Correlation
	Return on Equity	0.244	0.003	Significant	Low Correlation
	Gross Profit Margin Ratio	0.220	0.008	Significant	Low Correlation

As shown in the table above, accounting practices in terms of bookkeeping and the profitability of small businesses in terms of net profit and return on equity are showing low and very low correlations,

respectively. In terms of inventory and supplies management and the profitability of small businesses in terms of net profit, return on equity, and gross profit margin ratio are all showing very low to low correlations. Lastly, the accounting practices in terms of budgeting and the profitability of small businesses

in terms of net profit, return on equity, and gross profit margin ratio are all showing low correlations. The statistical values indicates that there is a significant relationship between the accounting practices in terms of Inventory and supplies management, Budgeting and the profitability of small businesses in terms of net profit, return on equity and gross profit margin ratio. However in terms of bookkeeping, the statistical value shows a significant relationship with net profit and return on equity but a not significant result in terms of bookkeeping and gross profit margin ratio. Hence, the null hypothesis is rejected.

This is further supported by the study of Prempeh et al. (2022) which states that keeping accounting record is important in the growth of a business. The result also agrees with another study done by Perez et al. (2022) which demonstrates that there is a significant correlation between accounting practices and business performance or profitability.

CONCLUSION

After careful evaluation and analysis of the findings; the following conclusions are drawn:

1. Majority of the small businesses in Santa Cruz, Laguna are individually owned service-oriented businesses, with 10-49 working force and are existing 0510 years or more. These businesses have an estimated annual income with the bracket Php 12,000.00 to Php 600,000.00.
2. The findings also revealed that majority of the owner's equity fall between the bracket Php1,500,001.00 to Php3,000,000.00, and return on equity ranging from 16% to 20%.
3. The majority of registered small businesses in Santa. Cruz, Laguna, have shown a great extent of awareness on the accounting practices in bookkeeping, inventory management, and budgeting.
4. The level of profitability of the registered small businesses in Santa. Cruz, Laguna has shown that in terms of measuring their gross profit margin ratio, net profit, and return on equity, it gives the small business owners a strong level of profitability.
5. The utilization of accounting practices, such as bookkeeping, budgeting, and inventory and supplies management, proves to be both effective

and efficient in evaluating the profitability of a small business. These practices play a crucial role in identifying and assessing the financial performance of a company, allowing business owners to know if their business is profitable or not.

6. There is a significant relationship between accounting practices and the profitability of small businesses. In addition, it also indicates a correlation between these independent and dependent variables. Therefore, the researchers rejected the null hypothesis. However, the researchers accepted the null hypothesis in terms of bookkeeping and gross profit margin ratio.

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