

# Impact of Bookkeeping Methods on Financial Performance of SME's

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Date Submitted:

**May 5, 2026**

Date Accepted:

**May 12, 2026**

Date Published:

**May 25, 2026**

DOI:

**10.5281/zenodo.20380921**

## ABSTRACT

This study examined the influence of bookkeeping practices on the financial performance of micro and small enterprises (MSEs) in Potrero, Malabon City. A descriptive research design was used, and data were collected from 150 MSE owners through a survey questionnaire. To evaluate financial performance in terms of profitability and company growth, the study reviewed bookkeeping practices, including the recording of income, expenses, credit sales, and credit purchases. Findings showed that most MSEs maintain proper bookkeeping and demonstrate generally positive financial performance. Results revealed a significant positive impact of bookkeeping practices on profitability and firm growth, highlighting bookkeeping as an essential tool for business sustainability.

**Keywords:** *bookkeeping methods, financial performance, accounting systems, micro and small enterprises (MSEs), financial transparency, profitability*

## INTRODUCTION

Bookkeeping is the systematic documentation of an organization's financial transactions, serving as a fundamental component of the accounting process. It encompasses the preparation and keeping of the source documents that contain all the activities of the business. Small and medium enterprises contribute significantly to the local economy like Potrero, Malabon City, where they form the backbone in the growth of the economy. Effective financial management of successful micro and small enterprises depends on appropriate accounting procedures as an essential tool in the recording, analyzing, interpreting, and tracking their financial status. Strong accounting processes enable MSEs to make effective decisions, improve financial performance, and ensure regulatory compliance.

Previous studies reveal that many MSEs face challenges with the lack of bookkeeping skills and professional training, making precise record-keeping as well as accurate record-keeping and financial management. This gap affects their profitability and long-term sustainability, indicating a need to explore

bookkeeping practices specific to MSEs in Potrero. Gunathilaka et al., (2022) stated a significant positive relationship between single entry bookkeeping, computerized accounting systems, and firm financial performance. They confirm that by adopting a single-entry bookkeeping system and/or computerized accounting systems, MSEs can improve their financial performance significantly.

MSEs face challenges that hinder their ability to maintain accurate financial records. These challenges can lead to cash flow problems and limit business growth, making it vital to understand and improve bookkeeping practices. Furthermore, enhancing bookkeeping skills among MSE owners can empower them to use financial information as a management tool, ultimately contributing to the economic development of local communities like Malabon City.

This study aims to explore the influence of bookkeeping practices on the financial performance of small, medium, and micro enterprises in Potrero, Malabon. It seeks to understand how the bookkeeping practices of MSEs, whether manual or computerized record-keeping, influence its financial performance according to its profitability and firm growth. Ultimately, this study intends to provide an understanding as to how the influence of the MSEs bookkeeping practices affect their financial performance.

### **Literature Review**

One of the important aspects of financial management is bookkeeping, which enables small, medium, and micro enterprises (SMMEs) to record, organize, and summarize their business transactions correctly. Asante and Adjei (2023) claim that a good bookkeeping system is the foundation of a good financial decision-making process, thus giving the owners an opportunity to determine their business profitability and viability. Their study conducted in Ghana revealed that bookkeeping significantly contributes to the success of SMEs and the owner's accounting knowledge acts as the mediator between the bookkeeping and business success. Therefore, keeping accurate records is only a part of the task that business owners also need to have financial literacy skills to understand and utilize the financial data properly.

Business operations greatly depend on financial records that reflect transactions such as sales, purchases, income, and payments made either by the individual or the organization. Proper financial record keeping can affect the decision making of the management positively, thus enabling the managers to handle different aspects such as marketing, human resources, borrowing, pricing, inventory, and product development proficiently. Key financial documents are the income statement, the statement of financial position (balance sheet), the statement of cash flows, and the records of the internal control system that ensures the accuracy of transactions.

It is an undisputed fact that bookkeeping plays a significant part in a company's flourishing. Besides that, financial bookkeeping and transparency are closely related since both are two of the main pillars of honesty and trust that are the basis of financial reporting.

There are many things that help to set up an efficient record management system. Here are some of them: (a) controlling the creation and growth of records to reduce operating costs; (b) getting the right and most out of the work done; (c) integrating new records management technologies; and (d) meeting regulatory requirements. When combined, the factors above lead to the optimization of the organization's performance by showing the worth of good bookkeeping practices.

Lestari and Budi (2020) conducted research on SMEs in Indonesia and discovered that aside from budgeting literacy and financial inclusion, bookkeeping literacy also significantly contributes positively to the financial performance of the small and medium enterprises. Business enterprises that record their daily cash inflow and outflow, prepare their financial statements, and keep their ledgers in good order not only display good financial health but also show a higher growth rate. The results of this research show that systematic bookkeeping is the foundation of transparency, which is the main factor that leads to improved financial management and hence, increased profitability.

Damascene et al. (2025) found that meticulous financial recording results in good financial performance, which later brings about the growth of small scale and medium enterprises in the research area. For small scale and medium enterprises in Kinigi sector, it is advisable to regularly update their financial records on a weekly basis so that no financial data is left unnoticed within a specific time frame, thus keeping the enterprises' financial health picture accurate.

Bookkeeping is basically a financial control tool that gives the manager the leverage to take the right business decision as they find out the company's financial situation. The bookkeeping information is used by different stakeholders including managers, investors, executives, customers, suppliers, and regulators. The information when turned into insightful knowledge can bring about improved business outcomes through the recognition of both the strengths and the weaknesses of the business. Managers should, therefore, through the analysis of the financial statements, focus on building the company's strengths and addressing its weaknesses in order to increase the company's value.

Bookkeeping, being one of the essential factors that help small and medium sized enterprises (SMEs) to survive and grow, offers a significant benefit to businesses by way of accurate recording of transactions and compliance with regulatory requirements, thus aiding their growth and stability. Micabalo et al. (2022) found a remarkable influence of bookkeeping practices on the performance of micro and small businesses by the fact that a firm that had kept its cash journal, sales, and purchase transactions had been able to effectively control its cash leading to excellent business performance. As most business owners only have a limited understanding of bookkeeping, the research focused on the crucial role of keeping good records in the development of the business.

However, Agyeman (2021) highlighted the important contribution of financial accounting in SMEs and recommended that the National Board for Small Scale Industry conduct training programs and put up regulations for the submission of financial statements to be in line with standards. Likewise, Nkwinika and Akinola (2023) were in full agreement with the idea that financial literacy, technology adoption, and regulatory compliance should be introduced as necessary conditions for financial stability for a long time. By introducing world class practices and getting support from authorities, SMEs can not only survive but also attain sustainable growth amid stiff competition. Micabalo (2022) emphasized that the implementation of the right bookkeeping practices plays an important role in the performance, profitability, and decision making of small and micro enterprises in Lapu Lapu City. The research also recommended providing training and seminars for SME owners to improve their bookkeeping skills thus strengthening the association between accurate record keeping and the sustainability of the business.

### **Theoretical Framework**

This study, "Impact of Bookkeeping Practices on the Financial Performance of MSEs", is anchored in agency theory, and decision making theory. Together, these theories explain the mechanisms through which bookkeeping practices; accuracy, timeliness, completeness, and usage of record, translate into improved financial performance; the profitability, and the growth in MSEs.

### The Agency Theory

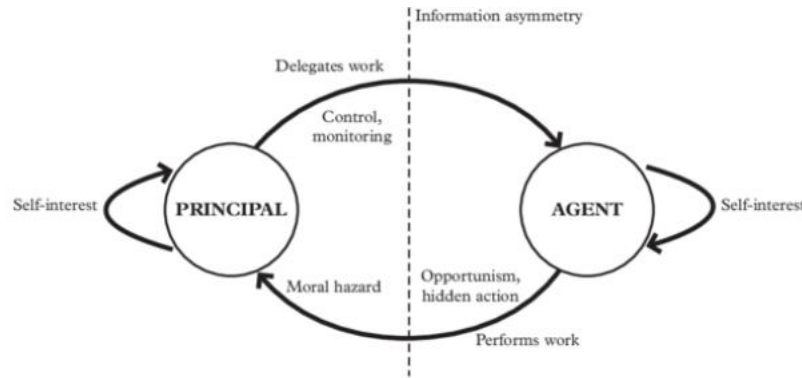


Figure 1. *The Agency Theory*

Agency Theory helps to clarify the relationship between MSE owners (principals) and managers or bookkeepers (agents) who are in charge of business finances. When agents' desires differ from owners', conflicts are likely to occur like when bookkeepers do not keep the records properly or when they focus on their personal interests. Wach and Tarus (2021) argue that this theory advocates the professionalization of family businesses by introducing proper controls, especially in areas of performance measurement, remuneration, and safeguarding small investors against majority shareholders. As per Wach and Tarus (2021), during an SMME, the agency theory stands firm that there must be mechanisms in place (e.g. proper and legal records keeping) which are obligatory to bring about fairness, accountability, and the coming together of objectives of various parties; and therefore, the achievement of business performance.

### The Decision-making Theory



Figure 2. *The Decision-making Theory*

This theory focuses on how information accuracy and reliability, among other benefits derived from proper bookkeeping, can guide MSE owners and managers to make decisions that would lead to the growth and success of the business. Herbert A. Simon (1947) argued that decision making is maybe the most important thing that an organization does, and that the process comprises the formulation and implementation of decisions. Thus, poor and delayed decisions will always work against the achievement of goals. In this research, efficient bookkeeping is a source of important financial information used for ratio analysis among other things, and therefore plays a key role in the reduction of risks, as well as the increase of profits, liquidity, and growth. Action theory is concerned with the selection of optimal alternatives for economic choices (according to Adela et al., 2024), whereas Nicson (2025) points out that lack of proper records leads to less informed decisions which consequently limits the performance of the business. It is therefore obvious from this theory that businesses that maintain good bookkeeping practices have a competitive advantage over those that don't.

### **Statement of the Purpose and Assumption**

This study aims to analyze the influence of bookkeeping practices on the financial performance of SMEs in Malabon. It seeks to determine whether their bookkeeping practices contribute to the profitability and firm growth of their businesses.

The researchers aim to specifically answer the following questions:

1. What are the firmographic profiles of SME owners or managers in Potrero, Malabon in terms of:
  - a. Type of business
  - b. Years of business operation
  - c. Number of employees
  - d. Business size (micro, small, or medium)
2. How do SMEs in Potrero, Malabon record the following:
  - a. Credit purchases
  - b. Credit sales
  - c. Income and Expense
3. What is the financial performance of these SMEs in terms of:
  - a. Profitability
  - b. Firm growth
4. Does bookkeeping have a significant influence on financial performance?

When conducting this research, the following assumptions were considered. This research assumed that:

- i. Bookkeeping has no significant influence on the financial performance of the firm.
- ii. Bookkeeping has a significant influence on the financial performance of the firm.

## Research Simulacrum

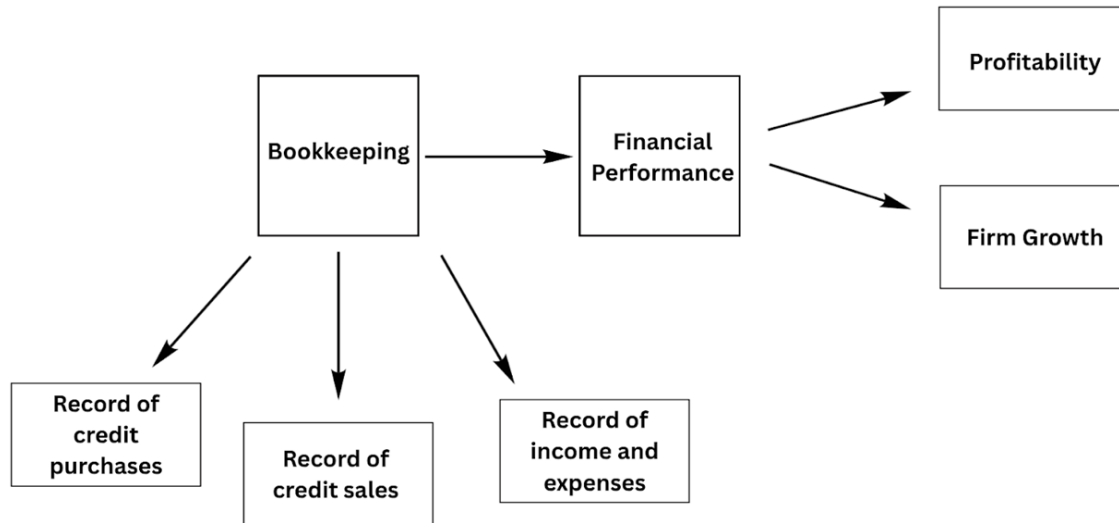


Figure 3. *Diagram*

Figure 3 presents the research simulacrum of the study illustrating the relationship between the bookkeeping practices and financial performance of MSEs in Potrero, Malabon. The bookkeeping practices, which include how these businesses record their financial transactions, serve as the independent variable of the study. On the other hand, financial performance serves as the dependent variable and is measured in terms of profitability and firm growth of these businesses.

## METHODS

### Research Design

This study is conducted through a descriptive correlational quantitative research design that aims at giving an accurate description of the bookkeeping of MSMEs in Potrero, Malabon City and their perceived influence on financial performance. The correlational aspect was applied to examine the relationship between bookkeeping practices and financial performance, determining the strength and direction of this association using statistical analysis. 150 SME owners will be selected through proportionate sampling to represent the barangays fairly. The answers will be arranged, coded, and thematically analyzed to determine frequent patterns and issues. The entire research, including the preparation of the instrument, data gathering, analysis, and reporting, will be done within the 12-week period and correspond to the ethical standards.

### Research Locale

The study will be conducted in Barangay Potrero in Malabon City. The respondents will be interviewed and asked to answer the questionnaire in their respective place of business. The respondents were selected based on their suitability to participate.

Potrero was selected as the locale due to its high concentration of micro, small, and medium enterprises among all the barangays in Malabon City, many of which rely on traditional bookkeeping methods. Despite the significant role of these businesses in the city's local economy, there is limited

academic research examining how their record-keeping practices influence financial performance. The unique economic environment of Brgy. Potrero, combined with the practical need to support SME development programs in the area, makes it an ideal setting for this study. Conducting the research in Brgy. Potrero, Malabon allows for accessible data collection while producing findings that can meaningfully assist local stakeholders in strengthening financial management and business growth.

### **Population and Sampling**

The total population of SMEs in Brgy. Potrero, Malabon is 1,164. At first, the researchers planned to have a sample size of about 250 respondents with a 5% margin of error based on sample size determination tables. However, the study was able to gather data from 150 respondents because of factors such as limited availability of business owners, some business owners refusing to participate, and lack of time for data gathering.

Lastly, 150-sized samples are enough to statistically analyze data in correlational research. They are also regarded as suitable in studies dealing with SMEs where the respondents represent different types of business groups of micro and small enterprises within the area, thus giving a solid base for analyzing bookkeeping practices and financial performance.

In this study, purposive sampling will be used in which people will be chosen as research participants on the basis of certain characteristics that are in line with the research objectives. This makes sure that the respondents are those who handle financial record-keeping and make financial decisions in the business. To be included in the study, respondents must meet the following criteria: (1) the business must be currently operating within Brgy. Potrero, Malabon; (2) classified as a micro or small enterprise; (3) the respondent must be the business owner or an authorized representative involved in financial record-keeping or decision-making; and (4) willingness to participate voluntarily, with assurance of confidentiality.

### **Research Ethics**

The researchers will follow ethical protocols during the data-gathering phase and will obtain consent from respondents. The respondents, the authorized representatives of SMEs in Brgy. Potrero, Malabon, may voluntarily participate in the survey. The researchers will protect respondents' private information in compliance with Republic Act No. 10173, which is the Data Privacy Act of the Philippines. All collected data will remain confidential and will not be shared with unauthorized individuals.

### **Research Instrument**

The research instrument used in this study was a structured survey questionnaire designed to measure the bookkeeping practices and financial performance of micro and small enterprises in Potrero, Malabon. The development of the questionnaire followed a systematic process of evolution, drafting, revision, and validation to ensure its accuracy, clarity, and relevance to the study.

### **Evolution of the Research Instrument**

The research instrument was developed based on the objectives and conceptual framework of the study, which focused on determining the relationship between bookkeeping practices and financial performance of SMEs in Potrero, Malabon. The evolution of the instrument began with a thorough review of related literature and previous studies concerning bookkeeping systems, accounting records, and business performance measurement.

From this review, the researcher identified two primary variables: bookkeeping practices as the independent variable and financial performance as the dependent variable. These variables served as the basis for constructing the questionnaire items. The indicators for bookkeeping practices include the maintenance of credit sales records, credit purchase records, and income and expense records. Financial performance, on the other hand, was measured using indicators related to profitability and firm growth.

The instrument was therefore designed to capture data that would accurately measure these two variables and determine their relationship.

### **Drafting of the Research Instrument**

The initial draft of the research instrument was a structured survey questionnaire intended to gather quantitative data from SME owners and managers. The questionnaire consisted of three major sections.

The first section gathered the profile of the respondents and their businesses, including type of business, years of operation, number of employees, and business size. This part was included to describe the characteristics of the SMEs participating in the study.

The second section focused on measuring the independent variable, which is bookkeeping practices. Items in this section were formulated to assess the extent to which respondents practice proper bookkeeping in terms of maintaining records of credit sales, credit purchases, and income and expenses.

The third section measured the dependent variable, which is financial performance. This part included statements that allowed respondents to evaluate the performance of their business in terms of profitability and growth.

Both the second and third sections utilized a 5-point Likert scale to measure responses with the following interpretations:

- 5 – Always
- 4 – Often
- 3 – Sometimes
- 2 – Rarely
- 1 – Never

Clear instructions were provided in the questionnaire to guide respondents in answering truthfully and accurately.

### **Revision of the Research Instrument**

After the preparation of the initial draft, the questionnaire underwent a series of revisions to enhance its clarity, coherence, and relevance to the study. The researcher carefully reviewed each item to ensure that all questions were directly aligned with the two main variables: bookkeeping practices and financial performance.

Unclear or repetitive statements were reworded or removed, and the structure of the questionnaire was refined to ensure logical sequencing of items. Suggestions from the research adviser were also considered, particularly regarding the appropriateness of terms used, simplicity of language, and overall organization of the instrument.

These revisions ensured that the questionnaire would be easily understood by MSME respondents and would effectively gather the necessary data for the study.

### **Validation of the Research Instrument**

To ensure the validity of the questionnaire, the instrument was subjected to content validation by experts in the fields of business, accounting management, and research. The validators examined the instrument based on the following criteria: relevance of each item to bookkeeping practices and financial performance clarity and comprehensibility of the statements appropriateness of the Likert scale used sufficiency of items in measuring the two variables.

The comments and recommendations of the validators were carefully reviewed and incorporated into the final version of the questionnaire. Necessary modifications were made to improve the wording, eliminate ambiguity, and strengthen the alignment of the items with the study objectives.

After validation, the finalized questionnaire was prepared for data collection. The survey was administered either online through Google Forms or personally using printed questionnaires, depending on the availability of respondents. Participants were informed that all information provided would be treated with strict confidentiality and would be used solely for academic research purposes.

### **Data Collection**

This study used a quantitative research method; therefore, the data gathering procedure followed a structured process to ensure the accuracy and reliability of the findings.

The study titled “Influence of Bookkeeping Practices on the Financial Performance of SME’s Entity in Malabon” utilized a structured survey questionnaire to collect primary data. The questionnaire consisted of close-ended items measured on a Likert scale, designed to assess the level of bookkeeping practices and the financial performance of Small, and Medium Enterprises (SMEs) in Brgy. Potrero, Malabon City.

The respondents were the owners or managers of selected SMEs. A purposive sampling technique was employed to ensure inclusion of businesses actively managing their bookkeeping activities. Prior to data collection, permission was secured from each participating establishment via a formal letter of request. Upon approval, the researchers conducted face-to-face visits to administer the surveys personally, which facilitated clear instructions and ensured a high retrieval rate by collecting completed questionnaires immediately after completion.

The survey was conducted on January 8, 2026, and respondents were informed of the study's purpose, ensuring voluntary participation and confidentiality of their responses. No personal or sensitive identifying information was collected, and all data were used exclusively for academic purposes.

The survey instrument underwent a pilot test with a small subset of respondents to validate clarity and reliability. Reliability analysis using Cronbach’s alpha confirmed the internal consistency of the Likert-scale items measuring bookkeeping practices and financial performance.

Collected data were systematically encoded and organized for statistical analysis using google form. Descriptive and correlational statistics were applied to determine the influence of bookkeeping practices on the financial performance of SMEs in Potrero, Malabon. Ethical considerations were observed throughout the study in accordance with relevant guidelines.

The survey was conducted online through Google Forms. Before participants could access the questionnaire, they were shown an informed consent form that explained the study's objectives, voluntary participation, and measures for data privacy. Only those who agreed to provide consent were permitted to continue with the survey.

The gathered responses were stored in a password-protected Google account that was accessible exclusively to the researchers. The data was downloaded and secured in a protected file for subsequent analysis. To ensure anonymity, no identifiable personal information was collected. After the study concludes, all digital data will be permanently eliminated following a retention period of five (5) years to uphold confidentiality and data security.

### **Data Analysis**

This study utilized Statistical Package for the Social Sciences (SPSS) to process, analyze, and interpret the data gathered from the respondents. The data analysis was conducted to describe the firmographic profile of the respondents, determine the level of bookkeeping practices and financial performance of SMEs, and examine the relationship between bookkeeping practices and financial performance.

To determine the relationship between bookkeeping methods and financial performance, Pearson Product-Moment Correlation was used. This statistical test assessed the strength and direction of the

association between the two variables. A significance level of 0.05 was applied to test the hypothesis. The results of the correlation analysis were used to determine whether the null hypothesis ‘that there is no significant relationship between bookkeeping methods and financial performance’ should be accepted or rejected.

Furthermore, simple linear regression analysis was performed to identify the influence of bookkeeping methods on the financial performance of SMEs. This statistical tool evaluated the level to which bookkeeping methods significantly predict changes in financial performance, in relation to profitability and firm growth.

## RESULT

### Firmographic Profile of the Respondents in terms of:

Table 1 . *Types of Business*

<i>Type of Business</i>	<i>Counts</i>	<i>% of Total</i>	<i>Cumulative %</i>
Sole Proprietorship	113	75.33%	76.00%
Partnership	25	16.70%	92.00%
Corporation	12	8%	100.00%

Table 1 presents the distribution of SMEs in Potrero, Malabon based on the type of business. The table shows that the majority of SMEs are sole proprietorships, with 113 respondents representing this category. Partnerships and corporations are less common, with a number of respondents 25 and 12, respectively. These results indicate that sole proprietorships dominate the SME landscape in the area.

Table 2 . *Years of Operation*

<i>Years of Operation</i>	<i>Frequency (n)</i>	<i>% of Total</i>	<i>Cumulative %</i>
Less than 1 year (months)	3	2.00%	2.00%
1 year	10	6.70%	8.70%
2 years	15	10.10%	18.80%
3 years	19	12.80%	31.60%
4 years	19	12.80%	44.40%
5 years	13	8.70%	53.10%
6 years	15	10.10%	63.20%
7 years	6	4.00%	67.20%
8 years	10	6.70%	73.90%
9 years	4	2.70%	76.60%

10 years	9	6.00%	82.60%
11 years	3	2.00%	84.60%
12 years	3	2.00%	86.60%
13 years	2	1.30%	87.90%
15 years	7	4.70%	92.60%
16 years	1	0.70%	93.30%
17 years	1	0.70%	94.00%
18 years	2	1.30%	95.30%
20 years	1	0.70%	96.00%
26 years	1	0.70%	96.70%
40 years	1	0.70%	97.40%
48 years	1	0.70%	98.10%
50 years	2	1.30%	99.40%
Prefer not to say	1	0.70%	100.00%

Table 2 shows the distribution of SMEs in Potrero, Malabon according to their years of operation. The majority of firms have been in operation for 4 years, with 19 respondents falling within this category. A smaller number of firms have operated for 7-15 years and more than 17 years, representing 9 respondents. These results indicate that most SMEs in the area are relatively young enterprises, while a smaller proportion have been established for longer periods.

Table 3 . *Number of Employees*

<i>Number of Employees</i>	<i>Frequency (n)</i>	<i>% of Total</i>	<i>Cumulative %</i>
0	2	1.03%	1.30%
1	21	14.00%	15.30%
2	23	15.30%	30.60%
3	19	12.70%	43.30%
4	24	16.00%	59.30%
5	15	10.00%	69.30%

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6	4	2.70%	72.00%
7	5	3.30%	75.30%
8	4	2.70%	78.00%
9	2	1.30%	79.30%
10	8	5.30%	84.60%
11	1	0.70%	85.30%
12	2	1.30%	86.60%
14	2	1.30%	87.90%
16	1	0.70%	88.60%
17	1	0.70%	89.30%
18	1	0.70%	90.00%
20	1	0.70%	90.70%
27	1	0.70%	91.40%
30	2	1.30	92.70%
35	1	0.70%	93.40%
40	1	0.70%	94.10%
50	1	0.70%	94.80%
154	1	0.70%	95.50%
350	1	0.70%	96.20%
567	1	0.70%	96.90%
600	1	0.70%	97.60%
7000	1	0.70%	98.30%
None	3	2.00%	100.00%

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Table 3 presents the distribution of SMEs in Potrero, Malabon based on the number of employees. The majority of firms have a small workforce, with four employees being the most common, reported by 24 respondents. Most other firms have between one and ten employees, indicating a generally small-scale

operation. Notably, there is an outlier in the data, with one firm reporting 7,000 employees, which is substantially higher than the typical SME in the area. These results suggest that the workforce of SMEs in Potrero is predominantly small, with a few exceptional cases.

Table 4 . *Main Line of Business*

<i>Main Line of Business</i>	<i>Frequency (n)</i>	<i>% of Total</i>	<i>Cumulative %</i>
Food & Beverage	33	22.00%	22.00%
Retail Stores	12	8.00%	30.00%
Clothing & Apparel	7	4.70%	34.70%
Hardware & Construction	6	4.00%	38.70%
Salon / Spa / Personal Care	6	4.00%	42.70%
Trading / Merchandising	5	3.30%	46.00%
Automotive Services	5	3.30%	49.30%
Technology / IT / Electronics	5	3.30%	52.60%
Water Refilling Station	4	2.70%	55.30%
Laundry Services	3	2.00%	57.30%
Manufacturing / Processing	3	2.00%	59.30%
Logistics / Cargo	3	2.00%	61.30%
Pharmacy / Medical / Dental	3	2.00%	63.30%
LPG / Gas Services	3	2.00%	65.30%
Printing & Tarpaulin	2	1.30%	66.60%
Fish / Seafood Trading	2	1.30%	67.90%
Service Agency	2	1.30%	69.20%
Agriculture	1	0.70%	69.90%
Rental Services	1	0.70%	70.60%
Pet Supplies	1	0.70%	71.30%
Furniture	1	0.70%	72.00%
Vape Shop	1	0.70%	72.70%

Music Instruments	1	0.70%	73.40%
Party Needs	1	0.70%	74.10%
Others / Unclassified	38	25.90%	100.00%

Table 4 presents the distribution of SMEs in Potrero, Malabon according to their line of business. The most common line of business is Food and Beverage, with 33 respondents, followed by Retail with 12, Clothing and Apparel with 7, etc. Several lines of business are represented by fewer firms, with some categories having only one respondent, such as Service Agency with 2 and Party Needs with 1. Overall, the data show that SMEs in the area operate in a variety of industries, with Food and Beverage being the dominant sector.

### Bookkeeping practices in terms of:

Table 5 . *Record of Credit Sales*

<i>Indicators</i>	<i>Mean</i>	<i>SD</i>	<i>Interpretation</i>
1. Our business keeps a detailed record of all credit sales transactions.	4.5	1.05	Always
2. Credit sales are recorded immediately after the transaction	4.37	1.09	Always
3. Customer names and amounts owed are properly listed in a sales ledger or logbook.	4.27	1.2	Always
4. We issue official receipts or invoices for every credit sale.	4.15	1.37	Often
5. The business regularly reviews its list of credit customers to monitor payments	4.44	1.13	Always
Average	4.346	1.168	Always

Table 5 presents the respondents' ratings on the bookkeeping practice of recording credit sales. Among the indicators, the highest mean score of 4.50 (SD = 1.05) was observed for the statement "Our business keeps a detailed record of all credit sales transactions," which is verbally interpreted as "Always." The lowest mean score of 4.15 (SD = 1.37) corresponds to "We issue official receipts or invoices for every credit sale," interpreted as "Often." Other indicators, including recording credit sales immediately after the transaction (M = 4.37, SD = 1.09), properly listing customer names and amounts owed (M = 4.27, SD = 1.20), and regularly reviewing the list of credit customers to monitor payments (M = 4.44, SD = 1.13), were all interpreted as "Always." The overall mean score of 4.35 indicates that SMEs in Potrero, Malabon consistently maintain detailed records of credit sales.

Table 6 . *Record of Credit Purchases*

<i>Indicators</i>	<i>Mean</i>	<i>SD</i>	<i>Interpretation</i>
1. The business maintains a complete record of all credit purchases.	4.47	1.11	Always
2. Supplier information and payment due dates are properly documented.	4.33	1.15	Always
3. Purchase orders and invoices are filed and organized systematically.	4.3	1.19	Always
4. Credit purchases are verified before payment to ensure accuracy.	4.35	1.16	Always
5. Outstanding payables are reviewed periodically to prevent overdue balances.	4.29	1.21	Always
Average	4.348	1.164	Always

Table 6 presents the respondents' ratings on the bookkeeping practice of recording credit purchases. The highest mean score of 4.47 (SD = 1.11) was reported for the statement "The business maintains a complete record of all credit purchases," which is interpreted as "Always." The lowest mean score of 4.29 (SD = 1.21) corresponds to "Outstanding payables are reviewed periodically to prevent overdue balances," also interpreted as "Always." Other indicators, including properly documenting supplier information and payment due dates (M = 4.33, SD = 1.15), systematically filing purchase orders and invoices (M = 4.30, SD = 1.19), and verifying credit purchases before payment to ensure accuracy (M = 4.35, SD = 1.16), were all interpreted as "Always." The overall mean score of 4.35 indicates that SMEs in Potrero, Malabon consistently maintain complete and organized records of credit purchases.

Table 7 . *Record of Income Expenses*

<i>Indicators</i>	<i>Mean</i>	<i>SD</i>	<i>Interpretation</i>
1. The business records all daily income received.	4.65	0.646	Always
2. All expenses, even small ones, are properly recorded.	4.46	0.872	Always
3. There is a clear separation between business and personal expenses.	4.53	0.841	Always
4. The business prepares monthly summaries of income and expenses.	4.43	0.986	Always
5. Financial records are used to monitor cash flow and budgeting decisions.	4.42	0.936	Always
Average	4.498	0.8562	Always

Table 7 presents the respondents' ratings on the bookkeeping practice of recording income and expenses. The highest mean score of 4.65 (SD = 0.646) was observed for the statement "The business records all daily income received," which is interpreted as "Always." The lowest mean score of 4.42 (SD = 0.936) corresponds to "Financial records are used to monitor cash flow and budgeting decisions," also interpreted as "Always." Other indicators, including proper recording of all expenses (M = 4.46, SD = 0.872), clear separation between business and personal expenses (M = 4.53, SD = 0.841), and preparation of monthly summaries of income and expenses (M = 4.43, SD = 0.986), were all interpreted as "Always." The overall mean score of 4.50 indicates that SMEs in Potrero, Malabon consistently maintain accurate and organized records of both income and expenses.

**Financial performances in terms of:**

Table 8 . *Profitability*

<i>Indicators</i>	<i>Mean</i>	<i>SD</i>	<i>Interpretation</i>
1. Our business has experienced an increase in profit over the past year.	4.14	0.949	Often
2. Sales revenue has consistently exceeded total expenses.	4.12	0.882	Often
3. We regularly analyze our financial statements to assess profitability.	4.32	0.985	Always
4. Our profit margins have improved compared to previous periods.	4.13	0.88	Often
5. Our business generates sufficient profit to cover all operational costs.	4.37	0.719	Always
Average	4.216	0.883	Always

Table 8 presents the respondents' ratings on the financial performance of SMEs in terms of profitability. The highest mean score of 4.37 (SD = 0.719) was observed for the statement "Our business generates sufficient profit to cover all operational costs," which is interpreted as "Always." The lowest mean score of 4.12 (SD = 0.882) corresponds to "Sales revenue has consistently exceeded total expenses," interpreted as "Often." Other indicators, including analyzing financial statements to assess profitability (M = 4.32, SD = 0.985), experiencing an increase in profit over the past year (M = 4.14, SD = 0.949), and improvement of profit margins compared to previous periods (M = 4.13, SD = 0.880), were interpreted as either "Often" or "Always." The overall mean score of 4.22 indicates that SMEs in Potrero, Malabon generally experience stable profitability, with most businesses able to generate sufficient revenue to cover operational costs.

Table 9 . *Firm Growth*

<i>Indicators</i>	<i>Mean</i>	<i>SD</i>	<i>Interpretation</i>
1. Our business has experienced growth in sales volume or market share.	4.27	0.818	Always
2. We have increased our number of customers or clients over the past year.	4.2	0.912	Always

3. The business has expanded its products, services, or operations.	3.88	1.22	Often
4. The number of employees or physical branches has increased.	3.4	1.44	Often
5. Our business has achieved greater stability and competitiveness in the market.	4.28	0.868	Always
Average	4.006	1.0516	Often

Table 9 presents the respondents' ratings on the financial performance of SMEs in terms of firm growth. The highest mean score of 4.28 (SD = 0.868) was observed for the statement "Our business has achieved greater stability and competitiveness in the market," which is interpreted as "Always." The lowest mean score of 3.40 (SD = 1.44) corresponds to "The number of employees or physical branches has increased," interpreted as "Often." Other indicators, including growth in sales volume or market share (M = 4.27, SD = 0.818), increase in number of customers or clients (M = 4.20, SD = 0.912), and expansion of products, services, or operations (M = 3.88, SD = 1.22), were interpreted as either "Always" or "Often." The overall mean score of 4.01 indicates that SMEs in Potrero, Malabon generally experience steady growth, particularly in market stability, customer base, and sales volume, while expansion in workforce or physical presence is comparatively limited.

Table 10 . *Influence of Bookkeeping to the financial performance of SMEs in Potrero Malabon.*

Variables	Bookkeeping practices	Financial performance
Bookkeeping practices	-	
Pearson's r	-	0.652
Df	-	28
P-value	-	0.001
Financial performance		

Table 10 presents Pearson's correlation analysis between bookkeeping practices and the financial performance of SMEs in Potrero, Malabon. The results show a strong positive correlation ( $r = 0.652$ ) between bookkeeping practices and financial performance, indicating that higher adherence to proper bookkeeping is associated with better financial outcomes. The correlation is statistically significant at the 0.01 level ( $p = 0.001$ ), suggesting that the observed relationship is unlikely to have occurred by chance. These findings support the conclusion that bookkeeping practices are closely related to the financial performance of SMEs in the study area.

### Linear Regression

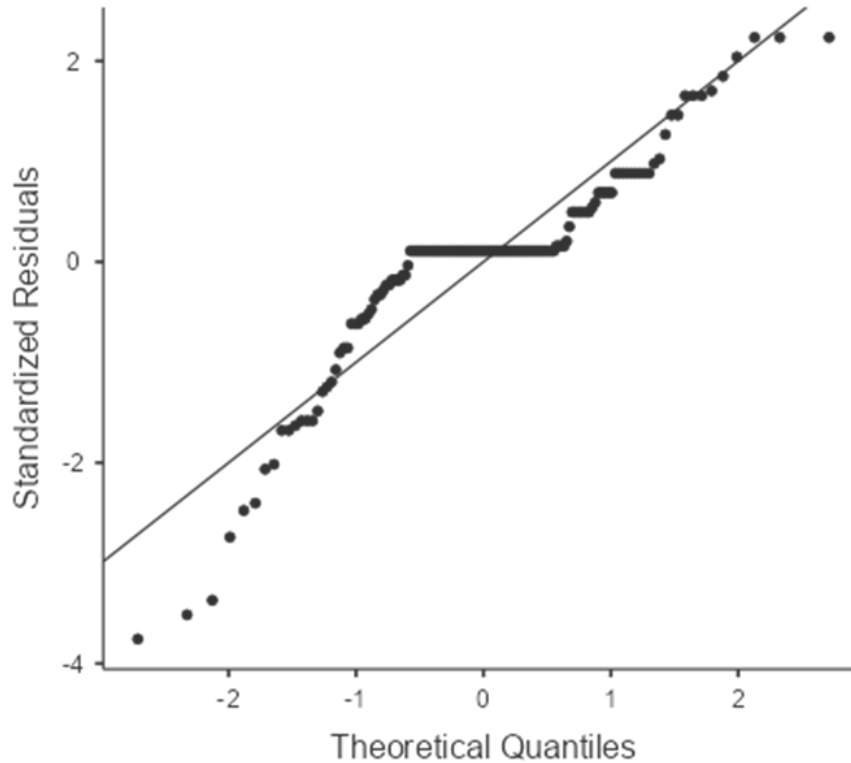


Figure 4 . *Q-Q Plot*

Table 11. *Model Fit Measures*

<i>Model</i>	<i>R</i>	<i>R</i> <sup>2</sup>
1	0.632	0.400

Note. Models estimated using sample size of N=150

Table 11 presents the model summary of the analysis conducted with a sample size of 150 respondents. The results show that the model has an R value of 0.632, indicating a moderate positive relationship between the independent and dependent variables. Moreover, the R<sup>2</sup> value of 0.400 suggests that 40% of the variation in the dependent variable can be explained by the independent variable(s) included in the model. This implies that while the model explains a substantial portion of the variance, 60% of the variation is influenced by other factors not included in the study.

Table 12 . *Model Coefficients- Profitability*

<i>Predictor</i>	<i>Estimate</i>	<i>SE</i>	<i>t</i>	<i>p</i>
Intercept	2.274	0.2357	9.65	<.001
Firm Growth	0.533	0.0537	9.93	<.001

Table 12 presents the regression coefficients of the model. The intercept has an estimate of 2.274 with a standard error of 0.2357, and it is statistically significant ( $t = 9.65$ ,  $p < .001$ ). This indicates that when the predictor variable is held constant at zero, the dependent variable has an estimated value of 2.274. Furthermore, Firm Growth has an estimated coefficient of 0.533 with a standard error of 0.0537. The results show that Firm Growth significantly predicts the dependent variable ( $t = 9.93$ ,  $p < .001$ ). This means that for every one-unit increase in Firm Growth, the dependent variable increases by 0.533 units. The very low p-value indicates that the relationship is statistically significant.

Table 13 . *Normality Test (Shapiro-Wilk)*

<i>Statistic</i>	<i>p</i>
0.862	<.001

Table 13 presents the test statistic and its corresponding p-value. The statistic value is 0.862, with a p-value of less than .001. Since the p-value is less than .001, the result is statistically significant. This indicates that there is a significant relationship between the variables tested in the analysis.

## DISCUSSION

### **Firmographic Profile of the Respondents in terms of:**

#### ***Types of Business***

Table 1 shows the distribution of respondents according to the type of business ownership. The majority of the respondents operate as sole proprietorships, accounting for 75.33% of the total, which indicates that most SMEs in the study area are individually owned and managed. This dominance of sole proprietorship suggests that business decisions, including bookkeeping and financial management practices, are largely handled by single owners, potentially affecting the consistency and formality of record-keeping. Partnership comprises 16.70% of the respondents, a smaller but notable presence of more structured business entities with formal organizational systems. Meanwhile, corporations represent 8.00% of the total, indicating limited shared-ownership enterprises among the respondents. Although the presence of partnerships and corporations are significantly smaller compared to the latter, this suggests that there are structured and shared ownership businesses existing in the area. Hence, this diversity allows different approaches to bookkeeping and financial management. However, the dominance of sole proprietorships may also present certain limitations, as individually managed businesses may lack formal internal control systems and structured financial oversight. Overall, the distribution highlights that the SME reflecting sector in the study area is primarily composed of individually owned businesses, which may influence the adoption and implementation of bookkeeping practices and their impact on financial performance.

### ***Years of Operation***

Table 2 shows the distribution of respondents according to their years of business operation. The data indicate that a large proportion of the enterprises are relatively young, with more than half of the respondents (53.10%) operating for five years or less, suggesting that many SMEs in the study area are still in their early stages of development. This may indicate limited managerial and financial experience among some respondents. The highest concentrations are observed among businesses operating for three and four years, each accounting for 12.80% of the total, reflecting a period where enterprises are actively establishing their operations and financial systems. Meanwhile, businesses with six to ten years of operation comprise a substantial portion of the sample, indicating a group of more established enterprises with greater operational experience. The existence of established businesses demonstrates sustainability and market resilience. A smaller percentage of respondents have operated for more than ten years, extending up to 50 years, which highlights the presence of long-standing businesses with sustained survival in the market. Overall, the distribution reflects a mix of emerging and mature enterprises, providing a balanced perspective on bookkeeping practices and financial performance across different stages of business development.

### ***Number of Employees***

Table 3 shows the distribution of respondents according to the number of employees in their businesses. The findings reveal that a substantial proportion of the enterprises employ only a small workforce, with the majority having between one and five employees, indicating that most respondents operate as micro-sized businesses. This small workforce may allow closer supervision of operations and financial transactions, potentially enhancing control over bookkeeping activities. However, the limited number of businesses with more than ten employees suggests constrained expansion in terms of workforce growth. The highest frequencies are observed among firms with four employees (16.00%), two employees (15.30%), and one employee (14.00%), highlighting the labor-light nature of many SMEs in the study area. A gradual decline in frequency is evident as the number of employees increases, with only a small percentage of businesses employing more than ten workers. The predominance of small enterprises may also pose limitations, as many businesses may not have dedicated accounting personnel, which could affect the formality and consistency of their bookkeeping systems. Notably, a few respondents reported having a very large number of employees, reflecting the presence of outliers and suggesting variation in business scale within the sample. Overall, the distribution underscores that the respondent enterprises are predominantly small in size, which may influence the level of formalization and consistency of their bookkeeping practices and, consequently, their financial performance.

### ***Line of Business***

Table 4 shows the distribution of respondents according to their main line of business. The results indicate that the largest proportion of enterprises operates in the food and beverage sector, comprising 22.00% of the total respondents, which reflects the strong presence of consumer-oriented businesses in the study area. This is followed by retail stores at 8.00% and clothing and apparel businesses at 4.70%, suggesting that trading and retail-related activities are common among SMEs. Other sectors such as hardware and construction, salon and personal care services, automotive services, technology-related businesses, and various service-oriented enterprises each account for smaller but notable portions of the sample. Additionally, a significant percentage of respondents fall under the category of others or unclassified businesses at 25.90%, indicating a wide diversity of enterprise types not concentrated in a single industry. This variety allows for a broader understanding of bookkeeping practices across different industries. However, the high percentage of respondents categorized under “others” indicates a lack of concentration in specific industries, which may lead to variability in bookkeeping methods. Differences in operational characteristics across sectors may also result in inconsistent financial management practices. Overall, the distribution highlights the heterogeneous nature of SMEs in the area, which may lead to varying

bookkeeping practices and financial performance depending on the operational characteristics of each line of business.

### **Bookkeeping Practice in terms of:**

#### ***Record of Credit Sales***

Table 5 shows the respondents' level of bookkeeping practices in terms of recording credit sales. The results indicate a generally high level of compliance with proper credit sales recording, as reflected by the overall mean of 4.346, which is interpreted as Always. Among the indicators, keeping detailed records of all credit sales transactions obtained the highest mean, suggesting that most businesses consistently document their credit sales. The prompt recording of credit sales and the regular review of credit customers to monitor payments also received high mean ratings, indicating that respondents recognize the importance of timely and continuous monitoring of receivables. While issuing official receipts or invoices for every credit sale received a slightly lower mean and was interpreted as Often, it still reflects a relatively strong practice among the businesses. This slightly lower rating for issuing official receipts or invoices suggests that some businesses may not consistently comply with formal documentation requirements. Overall, the findings suggest that SMEs in the study area generally maintain effective credit sales records, which can contribute positively to financial control and cash flow management.

#### ***Record of Credit Purchases***

Table 6 shows the respondents' bookkeeping practices in terms of recording credit purchases. The results reveal a consistently high level of adherence to proper credit purchase documentation, as indicated by the overall mean of 4.348, which is interpreted as Always. Maintaining a complete record of all credit purchases obtained the highest mean, demonstrating that most businesses consistently document their obligations to suppliers. Proper documentation of supplier information and payment due dates, systematic filing of purchase orders and invoices, and verification of credit purchases before payment were also rated highly, reflecting strong internal control practices among the respondents. Additionally, the periodic review of outstanding payables suggests that businesses actively monitor their liabilities to avoid overdue balances. Despite these positive findings, some variability in filing systems and monitoring procedures may still occur, particularly among smaller enterprises that may rely on manual methods. Efficiency and long-term financial organization may be impacted by such restrictions. Overall, the findings indicate that SMEs in the study area practice effective credit purchase recording, which supports accurate financial reporting and sound cash flow management.

#### ***Record of Income Expenses***

Table 7 shows the respondents' bookkeeping practices in terms of recording income and expenses. The results indicate a very high level of consistency in maintaining income and expense records, as reflected by the overall mean of 4.498, which is interpreted as Always. Recording all daily income received obtained the highest mean, suggesting that most businesses are diligent in tracking their cash inflows. The proper recording of all expenses, clear separation between business and personal expenses, and preparation of monthly income and expense summaries also received high mean ratings, demonstrating strong financial discipline among the respondents. Moreover, the use of financial records to monitor cash flow and guide budgeting decisions indicates that bookkeeping information is actively utilized for managerial purposes. However, smaller businesses may still rely on basic recording systems rather than advanced accounting tools. Overall, the findings suggest that SMEs in the study area exhibit sound income and expense recording practices, which are essential for effective financial management and improved financial performance.

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**Financial Performance in terms of:*****Profitability***

Table 8 shows the respondents' assessment of their business profitability. The results indicate a generally positive level of profitability among the SMEs, with an overall mean of 4.216 interpreted as Always. The indicator on generating sufficient profit to cover all operational costs obtained one of the highest mean scores, suggesting that most businesses are able to sustain their day-to-day operations through their earnings. Regular analysis of financial statements to assess profitability was also rated highly, reflecting the respondents' awareness of the importance of monitoring financial performance. Meanwhile, indicators related to increased profit over the past year, sales revenue exceeding total expenses, and improved profit margins were interpreted as Often, indicating consistent but varying levels of profitability across businesses. Although it may not be significantly low, this suggests that not all businesses consistently experience upward trends in profitability. Overall, the findings suggest that the respondent SMEs generally experience stable profitability, supported by active financial analysis and effective cost management.

***Firm Growth***

Table 9 shows the level of firm growth of the SMEs as perceived by the respondents based on selected indicators. The results reveal that the respondents generally perceive their businesses to be growing, with an overall mean of 4.006 interpreted as Often, indicating consistent positive development across various aspects of firm growth. The highest mean was recorded for the indicator stating that the business has achieved greater stability and competitiveness in the market ( $M = 4.28$ ,  $SD = 0.868$ ), followed closely by growth in sales volume or market share ( $M = 4.27$ ,  $SD = 0.818$ ), both interpreted as Always, suggesting strong market presence and sustained performance. Likewise, the increase in the number of customers or clients ( $M = 4.20$ ,  $SD = 0.912$ ) was also interpreted as Always, reflecting successful customer acquisition and retention. On the other hand, expansion in products, services, or operations ( $M = 3.88$ ,  $SD = 1.22$ ) and the increase in the number of employees or physical branches ( $M = 3.40$ ,  $SD = 1.44$ ) were interpreted as Often, indicating moderate growth in operational capacity and workforce. Overall, the findings suggest that while SMEs experience growth in market-related aspects, expansion in physical and human resources occurs at a relatively slower pace, reflecting a cautious but steady approach to business growth.

***Influence of Bookkeeping to the Financial Performance of SMEs in Potrero, Malabon***

Table 10 shows the influence of bookkeeping practices and the financial performance of SMEs in Potrero, Malabon using Pearson's correlation analysis. The results indicate a strong positive influence of bookkeeping practices to financial performance, as evidenced by a Pearson's  $r$  value of 0.652. This suggests that improvements in bookkeeping practices are associated with better financial performance among SMEs. The computed  $p$ -value of 0.001, which is lower than the standard level of significance of 0.05, indicates that the relationship is statistically significant. With 28 degrees of freedom, the findings imply that effective bookkeeping practices play a substantial role in enhancing the financial performance of SMEs in terms of profitability and growth. Therefore, the null hypothesis stating that bookkeeping has no significant influence on financial performance is rejected, while the alternative hypothesis is accepted. This underscores the importance of proper bookkeeping as a critical factor in supporting sound financial management and business sustainability. However, it is important to note that correlation does not imply causation, and other external factors may also influence financial performance.

## Linear Regression

### *Q-Q Plot*

The table above shows the results of the regression analysis examining the relationship between the variables included in the model and profitability among SMEs in Potrero, Malabon. The model fit measures indicate an R value of 0.632, reflecting a moderate to strong positive relationship between the predictor and profitability. The  $R^2$  value of 0.400 implies that 40% of the variation in profitability can be explained by the independent variable in the model. Given the sample size of 150 respondents, this proportion of explained variance suggests that the predictor contributes substantially to differences in profitability levels among the SMEs included in the study.

The coefficients table further demonstrates that the predictor has a statistically significant positive effect on profitability. Specifically, Firm Growth has an estimated coefficient of 0.533 with a standard error of 0.0537, yielding a t-value of 9.93 and a p-value of less than .001. This indicates that for every one-unit increase in firm growth, profitability increases by 0.533 units, holding other factors constant. The very low p-value confirms that this relationship is statistically significant. The intercept value of 2.274, which is also statistically significant ( $p < .001$ ), indicates the expected level of profitability when the predictor variable is at zero.

These findings suggest that higher levels of firm growth are associated with higher levels of profitability among SMEs. The positive and significant coefficient supports the view that improvements in business expansion, customer base, and market stability are closely linked with better financial outcomes. This result is consistent with the study's theoretical framework, particularly the Decision-making Theory discussed in Chapter 2, which emphasizes that sound financial practices and informed managerial decisions contribute to improved business performance. Likewise, Agency Theory highlights the importance of proper financial control mechanisms, such as accurate record-keeping, in promoting accountability and enhancing organizational outcomes.

Regarding the assumption checks, the Shapiro–Wilk test for normality produced a statistic of 0.862 with a p-value of less than .001, indicating that the residuals are not normally distributed. Although this suggests a violation of the normality assumption, the relatively large sample size of 150 respondents reduces the potential impact of this violation on the reliability of the regression estimates.

Overall, the regression results demonstrate a statistically significant and positive relationship between the variables examined in the model and profitability, indicating that variations in the predictor are meaningfully associated with differences in the financial performance of SMEs in Potrero, Malabon.

## CONCLUSION

Based on the findings of the study, the following conclusions are drawn:

The majority of Potrero, Malabon's SMEs are micro and sole proprietorship businesses that run on a shoestring budget. Because of this, the proprietors of these companies handle the majority of the bookkeeping procedures, underscoring the importance of the entrepreneur in keeping correct financial records. The study discovered that SMEs exhibit a high adherence to appropriate bookkeeping procedures despite these limitations, especially when it comes to tracking income, expenses, credit sales, and credit purchases. This suggests that company owners understand how crucial it is to have precise and well-organized financial records for both long-term planning and daily operations.

In terms of company development and profitability, the region's SMEs have typically performed well financially. This indicates their ability to maintain competitiveness in the local market as well as the stability of their operations. Effective and consistent bookkeeping leads to improved financial outcomes, as seen by the large and positive association between bookkeeping practices and financial performance found

in the survey data analysis. SMEs that keep thorough and organized financial records are better able to keep an eye on cash flow, manage expenses, assess profitability, and make wise business decisions.

The importance of accurate bookkeeping as a crucial management tool is shown by these findings. Beyond record-keeping and compliance, bookkeeping helps SMEs to evaluate performance trends, plan for expansion, and obtain funding when needed. The study essentially shows that when small businesses prioritize accurate and consistent bookkeeping methods, they may achieve sustainable financial success even with minimal resources. Encouraging SMEs to improve these procedures could improve long-term sustainability, profitability, and operational efficiency even more.

### **Recommendation**

In light of the findings and identified gaps of the study, several recommendations are proposed. SME owners and managers are encouraged to continue strengthening their bookkeeping practices by maintaining complete, timely, and accurate financial records. Given that most SMEs rely heavily on owners for record-keeping, delegating or outsourcing bookkeeping tasks, where feasible, may help reduce errors and improve efficiency. Owners should also maximize the use of financial records for decision-making, such as budgeting, cost control, and strategic planning, to fully leverage bookkeeping for profitability and sustainable growth. Moreover, the adoption of digital tools or accounting software is recommended to enhance the accuracy, organization, and accessibility of financial information.

Relevant government agencies and local authorities, including local government units and small business support organizations, are encouraged to provide comprehensive training programs and workshops. These should not only focus on basic bookkeeping skills but also emphasize the strategic use of financial data in business decisions. Initiatives that promote the adoption of digital bookkeeping and financial management tools can further support SMEs in improving operational efficiency and financial outcomes.

Educational institutions may consider incorporating practical, hands-on bookkeeping and financial management training into entrepreneurship and business programs to better prepare future SME owners. Researchers are also encouraged to expand on this study by examining additional variables such as technology adoption, financial literacy, and management practices, and to explore how these factors interact with bookkeeping to influence financial performance. Future studies may also employ longitudinal or mixed-method approaches to assess the long-term effects of consistent bookkeeping practices, while comparative studies across different locations, industries, or SME sizes can improve the generalizability of the findings. Additionally, investigating the role of computerized accounting systems, mobile applications, and other digital tools can provide insights into how SMEs can further enhance bookkeeping efficiency and financial outcomes.

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