

Relationship of Accounting Practices on Financial Performance in MSME's

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ABSTRACT

This study examines how accounting methods relate to financial performance and profitability, this study looked at Micro, Small, and Medium-Sized Enterprises (MSMEs) in Navotas City. The study specifically evaluated MSMEs' accounting procedures in terms of management accounting, financial reporting, and financial auditing and examined how these practices affected their financial performance. A structured questionnaire was used to gather data from thirty-eight (38) registered MSMEs as part of a descriptive-correlational study design. The data was analyzed using regression analysis, descriptive statistics, and Pearson correlation. The results showed that small firms largely involved in retail/trading and service-oriented operations make up the majority of MSMEs. With

all indicators evaluated as Agree, the results demonstrated that MSMEs typically implement accounting procedures linked to management accounting, financial reporting, and financial auditing. Strong and statistically significant correlations between accounting methods and profitability were found through correlation analysis. Regression study also showed that accounting procedures significantly improve MSMEs' financial performance, which accounts for a sizable amount of the variance in financial performance. Effective accounting procedures are essential for improving the financial performance and profitability of MSMEs in Navotas City, according to the study's findings. Better financial control and well-informed decision-making are facilitated by appropriate financial reporting, frequent audits, and the utilization of management accounting data. In order to improve MSMEs' accounting practices and understanding, the report suggests that government organizations and business support organizations offer training programs and that MSME owners fortify their accounting systems.

Keywords: *Accounting Practices, Financial Performance, Profitability, MSMEs, Management Accounting, Financial Reporting, Financial Auditing, Navotas City*

INTRODUCTION

According to Ahinful, Boakye, & Osei Bempah, 2023, The growth and survival of any business depend heavily on its financial performance, as even though MSMEs make a substantial contribution to the economy, the majority of them face numerous obstacles that impact their financial performance and cause

them to fail within a few months of starting their business because financial distress impairs their ability to operate and grow. Finance is the lifeblood of the enterprise and must be properly managed and controlled since it leads to business sustainability. Furthermore, poor management, low educational attainment, a lack of planning, a lack of inventory control, a lack of expertise in cash management techniques, infrastructure, marketing, technology, inadequate training, unfavorable government policies, corruption, and poor accounting procedures have been identified as the main factors influencing MSMEs' financial performance and ultimately leading to their closure.

A measure of the financial outcomes of corporate operations and policies is called financial performance (Kivaya, 2022). Additionally, it is seen as the financial health of a company over time, including how money is collected and spent (Fatihudin, 2018). The outcome of the several company operations carried out with the available financial resources is known as financial performance (Daud et al., 2022; Ichsan, Suparmin, Yusuf, Ismal, & Sitompul, 2021). It helps investors and financial organizations, and additional lenders in comprehending and evaluating the company's stance on the persistent issue. Furthermore, financial performance aids businesses in assessing how well resources are used to produce income in addition to their financial strengths and shortcomings (Ndirangu, 2017; Chelogoi, 2020). The financial results determine the success of a company and its financial health (Matar & Eneizan, 2018). It is an essential component of the business's operation and has a big impact on management of company operations (Bartolacci, Caputo, & Soverchia, 2020). Therefore, businesses with strong financial performance have more resources available for marketing, business operations, such raising production levels and conducting research. Additionally, metrics of financial performance include growth, earnings, and the primary goal of any business is to increase liquidity in order to maximize shareholders' wealth.

Consequently, the existence, survival, and their financial performance determines their financial stability. The economy of both third-world nations depends heavily on MSMEs as well as industrialized nations. The industry accounts for more than 90% of manufacturing. Businesses worldwide. Additionally, it is dependent upon the financial results of MSMEs' role in advancing technology, creating jobs, and generating income and additional social concerns.

METHODS

Research Design

This study will use a quantitative research method based on a descriptive-correlational research design. The descriptive aspect of the study is to record and evaluate the accounting practices employed by micro, small and medium-sized firms (MSME's) in Navotas City. The correlational methodology will be utilized to examine the relationship between the accounting methods utilized by MSMEs and their financial performance. Quantitative data will be gathered to determine the impact of accounting practices on the financial performance of MSMEs.

Research Locale

This research was carried out in Navotas City, a coastal and highly urbanized city located in the northern portion of Metro Manila, Philippines. The city is popularly known as the Fishing Capital of the Philippines and has an economy largely driven by fishing, aquaculture, seafood processing, trading, and other related industries. Alongside these sectors, Navotas City accommodates numerous Micro, Small and Medium Enterprises (MSMEs) operating in retail, manufacturing, logistics, wholesale trade, and various service-based businesses.

Navotas City was chosen as the research site because of its wide and diverse concentration of MSME's, which allows for an in-depth assessment of the accounting practices employed by small and medium enterprises. These practices include bookkeeping systems, financial reporting, internal controls, and management accounting processes used in business operations. The city's active commercial

environment provides a suitable context for examining the relationship between accounting practices and the financial performance of MSMEs.

Moreover, the local government’s initiatives in promoting entrepreneurship, assisting business registration, and supporting regulatory compliance make it easier to reach potential MSMEs respondents. The existence of both well-established and newly established enterprises across barangays such as Bagumbayan, Navotas East, Navotas West, Tanza, Bangkulasi, San Jose, and Sipac-Almacen offers a valuable basis for comparing differences in accounting practice implementation and their effects on financial outcomes.

Sampling Technique

The study's population consisted of the 1,084 registered MSMEs in Navotas City. Slovin's algorithm was used with a 5% margin of error to get the right number of responders. This calculation indicated that 292 MSMEs were the necessary sample size. This indicates that 292 MSMEs were chosen to reflect the population in the study out of the 1,084 registered MSMEs in Navotas City.

A proportional distribution based on population share was used to estimate the number of MSMEs in NBBS Dagat-Dagatan (previously North Bay Boulevard South). According to the 2020 census, NBBS Dagat-Dagatan is home to 32,681 people out of Navotas City's total population of 247,543, or roughly 13.2% of the city's total population. NBBS Dagat-Dagatan received 13.2% of the calculated sample size of 292, assuming that MSMEs are distributed proportionately according to population size. This proportional distribution indicates that there are approximately 38 MSMEs in the barangay. Therefore, it was predicted that 38 respondents out of the 292 MSMEs in the sample came from NBBS Dagat-Dagatan.

RESULTS AND DISCUSSION

1. What is demographic profile of the respondents in terms of:

I. Type of Business

This table presents the distribution of the respondents according to their type of business. The results show that the majority of the respondents are engaged in Retail/Trading businesses (n = 16, 42.1%), indicating that this sector comprises the largest proportion of the sample. This is followed by respondents involved in Services (n = 13, 34.2%), suggesting a substantial representation of service-oriented enterprises among the respondents.

In contrast, Food and Beverage businesses account for a smaller portion of the sample (n = 6, 15.8%). Meanwhile, Junkshop, Manufacturing, and Retail/Trading combined with Services each represent the least number of respondents (n = 1, 2.6% each).

Table 1. *Presents the demographic profile of the respondents in terms of type of business.*

Type of Business	Type of Business	Percent %
Food & Beverage	6	15.8
Junkshop	1	2.6
Manufacturing	1	2.6
Retail/Trading	16	42.1
Retail/Trading, Services	1	2.6
Services	13	34.2
TOTAL	38	100

II. Years in Operation

This table shows the distribution of the respondents according to their years in operation. The findings indicate that the largest proportion of the respondents have been operating their businesses for 1 to 3 years ($n = 13, 34.2\%$), suggesting that many of the enterprises are relatively new. This is followed by businesses that have been in operation for 4 to 7 years ($n = 11, 28.9\%$), indicating a considerable number of moderately established businesses.

Table 2. *Presents the demographic profile of the respondents in terms of years in operation.*

Years in Operation	Frequency	Percent %
1 - 3 Years	13	34.2
4 - 7 Years	11	28.9
8 - 10 Years	6	15.8
Less than 1 Year	2	5.3
More than 10 Years	6	15.8
Total	38	100

III. Business Size

This table presents the distribution of the respondents according to business size. The results reveal that the majority of the respondents operate small enterprises with 10 to 99 employees ($n = 27, 71.1\%$), indicating that small businesses constitute the dominant segment of the sample. This is followed by micro enterprises with 0 to 9 employees ($n = 10, 26.3\%$), reflecting a considerable number of very small-scale business operations.

In contrast, only one respondent represents a medium-sized enterprise with 100 to 199 employees ($n = 1, 2.6\%$), making it the least represented business size category.

Table 3. *Presents the demographic profile of the respondents in terms of business size.*

Business Size	Frequency	Percent %
Medium (100-199)	1	2.6
Micro (0-9)	10	26.3
Small (10-99)	27	71.1
Total	38	100

IV. Accounting/ Bookkeeping Arrangement

This table presents the distribution of the respondents according to their accounting or bookkeeping arrangement. The findings indicate that the largest proportion of the respondents rely on outsourced accounting or bookkeeping services ($n = 14, 36.8\%$). This is followed by respondents who utilize both in-house and outsourced arrangements ($n = 10, 26.3\%$), indicating a blended approach to financial management.

Meanwhile, 21.1% of the respondents reported having no formal accounting or bookkeeping arrangement ($n = 8$). In contrast, respondents who manage accounting or bookkeeping in-house comprise the smallest proportion of the sample ($n = 6, 15.8\%$).

Table 4 . *Presents the demographic profile of the respondents in terms of accounting/bookkeeping arrangement.*

Arrangement	Frequency	Percent %
Both in-house and outsourced	10	26.3
In-house	6	15.8
None	8	21.1
Outsourced	14	36.8
Total	38	100

2. What accounting practices are adopted by Micro, Small and Medium Enterprises in Navotas City in terms of:

I. Financial Reporting;

This table presents the accounting practices adopted by small and medium enterprises in Navotas City in terms of financial reporting. The results show that all indicators obtained high mean scores, ranging from 4.03 to 4.11, with standard deviations between .68 and .76, all of which were verbally interpreted as Agree. This indicates that the respondents generally practice sound financial reporting procedures. The general mean of 4.07 (SD = .68) further suggests that financial reporting practices are consistently adopted by the respondents. Overall, the findings suggest that small and medium enterprises in Navotas City demonstrate a high level of adherence to financial reporting practices, reflecting an organized approach to financial documentation and reporting.

Table 5. *Presents respondents' perceptions on accounting practices in terms of financial reporting that MSMEs adopted on business.*

Item no.	Mean	Std. Deviation	Verbal Interpretation
1	4.0263	.67731	Agree
2	4.0263	.71610	Agree
3	4.0263	.67731	Agree
4	4.0263	.71610	Agree
5	4.1053	.76369	Agree
6	4.1053	.72743	Agree
7	4.1053	.72743	Agree
8	4.1053	.72743	Agree
General Mean	4.0658	.67767	Agree

II. Financial Auditing; and

This table presents the accounting practices adopted by small and medium enterprises in Navotas City in terms of financial auditing. The results indicate that all indicators were verbally interpreted as Agree, with mean scores ranging from 3.82 to 4.08 and standard deviations between .61 and .75. These findings suggest that the respondents generally implement financial auditing practices within their business operations. The general mean of 3.94 (SD = .61) reflects a high level of agreement among the respondents regarding the adoption of financial auditing procedures.

Table 6 .Present respondents' perceptions on accounting practices in terms of financial auditing that MSMEs adopted on business.

Item no.	Mean	Std. Deviation	Verbal Interpretation
1	3.8158	.60873	Agree
2	3.8684	.66459	Agree
3	3.8947	.64889	Agree
4	3.9211	.67310	Agree
5	3.9737	.67731	Agree
6	3.9211	.67310	Agree
7	4.0000	.69749	Agree
8	4.0263	.71610	Agree
9	4.0789	.74911	Agree
General Mean	3.9444	.61499	Agree

III. Management Accounting

This table presents the accounting practices adopted by small and medium enterprises in Navotas City in terms of management accounting. The results show that all indicators were verbally interpreted as Agree, with mean scores ranging from 3.89 to 4.08 and standard deviations between .65 and .74, indicating a generally high level of agreement among the respondents regarding the use of management accounting practices. The general mean of 3.99 (SD = .65) suggests that management accounting practices are consistently applied by the respondents.

Table 7 .Presents respondents' perceptions on accounting practices in terms of management accounting that MSMEs adopted on business.

Item no.	Mean	Std. Deviation	Verbal Interpretation
1	4.0526	.69544	Agree
2	3.8947	.68928	Agree
3	3.9211	.67310	Agree
4	3.9211	.71212	Agree
5	4.0263	.71610	Agree
6	4.0789	.67310	Agree
7	4.0000	.73521	Agree
8	4.0000	.69749	Agree
9	4.0263	.67731	Agree
General Mean	3.9912	.65167	Agree

3. Is there a significant relations between accounting practices in:

I. Financial Reporting in Profitability

Coefficient (r)	P-value	Decision	Conclusion
.971	.000	Since P-value <.05, reject null hypothesis	Significant

This table presents the results of the correlation analysis between financial reporting practices and profitability among micro, small and medium enterprises in Navotas City. The findings reveal a very strong positive relationship between financial reporting and profitability, $r = .97, p < .05$. Since the computed p-value is less than the level of significance, the null hypothesis is rejected. This result indicates that enterprises with stronger financial reporting practices tend to exhibit higher levels of profitability.

II. Financial Performance in Profitability

Coefficient (r)	P-value	Decision	Conclusion
.917	.000	Since P-value $< .05$, reject null hypothesis	Significant

This table presents the results of the correlation analysis between financial auditing practices and profitability among micro, small and medium enterprises in Navotas City. The findings indicate a very strong positive relationship between financial auditing practices and profitability, $r = .92, p < .05$. Since the computed p-value is less than the level of significance, the null hypothesis is rejected. This result suggests that enterprises that consistently implement financial auditing practices tend to achieve higher profitability.

III. Financial Auditing in Profitability

Coefficient (r)	P-value	Decision	Conclusion
.959	.000	Since P-value $< .05$, reject null hypothesis	Significant

This table presents the results of the correlation analysis between financial auditing practices and profitability among micro, small and medium enterprises in Navotas City. The findings reveal a very strong positive relationship between financial auditing and profitability, $r = .96, p < .05$. Since the computed p-value is less than the level of significance, the null hypothesis is rejected. This result indicates that enterprises with more established financial auditing practices tend to report higher levels of profitability.

IV. Management Accounting in Profitability

Coefficient (r)	P-value	Decision	Conclusion
.956	.000	Since P-value $< .05$, reject null hypothesis	Significant

This table presents the results of the correlation analysis between management accounting practices and profitability among micro, small and medium enterprises in Navotas City. The findings show a very strong positive relationship between management accounting practices and profitability, $r = .96, p < .05$. Since the computed p-value is less than the level of significance, the null hypothesis is rejected. This result suggests that enterprises that actively implement management accounting practices tend to achieve higher profitability.

4. What is the impact of accounting practices on the financial performance of Small and Medium Enterprises in Navotas city?

Beta	R² (R squared)	P-value	Decision	Conclusion
.561	.841	.027	Since P-value <.05, reject null hypothesis	Significant

The table presents the results of the regression analysis examining the impact of accounting practices on the financial performance of small and medium enterprises in Navotas City. The findings indicate a positive impact of accounting practices on financial performance, with a regression coefficient (β) of .561, an R^2 value of .841, and a p-value of .027. Since the p-value is less than .05, the null hypothesis is rejected, indicating that the effect is statistically significant.

The R^2 value of .841 suggests that 84.1% of the variation in financial performance can be explained by accounting practices, demonstrating a substantial influence of financial reporting, auditing, and management accounting on overall business performance. Overall, the results imply that the effective implementation of accounting practices significantly enhances the financial performance of micro, small and medium enterprises in Navotas City.

This study looked at how accounting procedures affected Navotas City's Micro, Small, and Medium-Sized Enterprises' (MSMEs') financial performance. The majority of respondents (42.1%) work in the retail/trading industry, followed by services (34.2%) and food & beverage (15.8%), according to the demographic profile. This distribution shows that Navotas City's MSME landscape is dominated by commercial and service-oriented businesses. Accurate accounting systems are crucial for these kinds of firms since they usually include daily cash flows, inventory movement, and frequent transactions. The majority of companies have been in business for one to three years (34.2%) and four to seven years (28.9%), respectively, indicating that many MSMEs are relatively new operations. Additionally, small businesses make up 71.1% of the respondents, microbusinesses make up 26.3%, and medium-sized businesses make up just 2.6%. This demonstrates that tiny, resource-constrained businesses make up the majority of the MSME sector in Navotas City, underscoring the significance of structured financial management systems. It is noteworthy that 21.1% of MSMEs reported having no formal accounting arrangement, suggesting that some continue to function without established financial systems, even while a sizable portion rely on outsourced accounting services (36.8%) or a combination of in-house and outsourced systems (26.3%).

According to the accounting practice results, MSMEs in Navotas City often use management accounting, financial auditing, and financial reporting at a high level. With an overall mean score of 4.0658, which can be orally translated as "Agree," financial reporting shows that respondents regularly create financial statements and keep well-organized financial records. This implies that the majority of MSMEs understand how critical it is to keep track of their financial situation and record financial activities. A high overall mean of 3.9444 was also reported for financial auditing techniques, suggesting that businesses heavily rely on internal controls and auditing processes. The results show that MSMEs recognize the importance of financial responsibility and verification, even though they are somewhat below financial reporting. An overall mean of 3.9912 for management accounting procedures indicates that financial planning, cost control, and budgeting are widely used. MSMEs should incorporate reporting, auditing, and managerial accounting tools into their operations, as indicated by the tight range of the three general means, which shows a balanced adoption of accounting procedures.

Strong favorable correlations between accounting practices and profitability were found by the correlation study. With p-values of .000, which are below the 0.05 level of significance, the correlation coefficients for financial reporting, financial auditing, and management accounting were $r = .971$, $r = .959$, and $r = .956$, respectively. The null hypotheses are rejected in light of these results, which show statistically significant connections. The remarkably high correlation coefficients indicate a substantial relationship between increased profitability and better accounting methods. To put it another way, MSMEs that regularly use appropriate auditing, management accounting, and financial reporting procedures typically see increases in profitability. These findings corroborate the study's theoretical underpinnings, especially Agency Theory, which highlights accurate reporting and transparency for better financial results, and Resource-Based View Theory, which views internal systems like accounting procedures as strategic resources that boost competitive advantage.

The substantial influence of accounting procedures on financial performance was further validated by the regression analysis. A positive link is indicated by the calculated beta coefficient of .561, which shows that better accounting procedures result in better financial performance. Accounting procedures have a significant explanatory power, as indicated by the R^2 value of .841, which indicates that they account for 84.1% of the variation in financial performance. The null hypothesis is rejected because the result is statistically significant with a p-value of .027, which is less than 0.05. This suggests that accounting procedures have a significant role in determining the financial performance of MSMEs in Navotas City and are not only supporting activities.

All things considered, the study's conclusions unequivocally show that better financial stability and profitability are greatly influenced by accounting procedures. Better financial results are achieved by MSMEs that use strong management accounting practices, efficient auditing systems, and organized financial reporting. The existence of companies without official accounting arrangements, however, suggests that there are still weaknesses in financial management procedures. MSMEs' financial performance may be further improved by bolstering accounting systems, raising financial literacy, and promoting expert bookkeeping assistance. According to the findings, accounting procedures are crucial managerial instruments that support accountability, openness, effective resource allocation, and the long-term viability of Navotas City businesses.

CONCLUSION

It is possible to draw the conclusion that accounting procedures have a major impact on the financial performance of MSMEs in Navotas City based on the study's findings. The findings showed that the majority of MSMEs are small companies that mostly operate in the service and retail/trading industries, many of which are still in their infancy. The high mean scores across all factors indicate that, despite their size and developmental stage, most respondents consistently adopted management accounting, financial auditing, and financial reporting processes.

Businesses with more robust financial reporting, auditing, and management accounting systems typically have greater levels of profitability, according to the correlation analysis, which verified a very strong and statistically significant association between accounting practices and profitability. Additionally, the regression study demonstrated that accounting procedures significantly improve overall financial performance, accounting for 84.1% of the variance in MSMEs' financial performance. This significant explanatory power emphasizes how important accounting systems are to the performance of businesses.

Thus, it can be said that accounting procedures are strategic managerial instruments that directly improve sustainability, financial stability, and profitability rather than just being compliance measures. MSMEs may make well-informed judgments, efficiently manage expenses, precisely track their financial health, and formulate long-term growth plans by fortifying their accounting systems. In the end, one of the

main factors influencing the better financial performance of MSMEs in Navotas City is the efficient application of good accounting principles.

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