MANAGEMENT ACCOUNTING PRACTICES OF THE PHILIPPINES SMALL AND MEDIUM-SIZED ENTERPRISES

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ABSTRACT

The use of appropriate and adequate management accounting techniques can solve everyday business problem and can become a source of competitive advantage. This study describes the managerial use of management accounting information in developing country using a greater number and extensive description of the SMEs demographic profile, the level of its usefulness and understandability about the function of each management accounting practices undertaken. The findings of the study suggest that in the present day's business environment, enterprises are in need of help more of accountants as their business partner. Small enterprises obtained higher appreciation about the use of statement of cash flow analysis and operating budgets while financial budgets, capital budgeting decisions, managing customers' relationship and operating budgets were the very useful tools for the medium enterprises. It was appropriate that medium firms utilized more tools due to the nature and complexity of their operations. Small-sized enterprises might not really need some of the tools investigated, as medium-sized would. Overall, small and medium manufacturing enterprises know the cost-benefit approach of utilizing each tool for the organization activities. It can be effective in some situations but may not be successful in others. Therefore, the appropriateness of management accounting information depends upon the resources, operating activities, strategies and the size of the organization.

Keywords: Accountant, Manager, Management Accounting; Management Accounting Tools (MATs); Small-Medium-Sized Enterprises (SMEs).

INTRODUCTION

Businesses are being force to deal with the effects of globalization. Even small and medium-sized enterprises (SMEs) across manufacturing, wholesale and retail trade, accommodation and food service activities, financial and insurance activities and professional, scientific and technical activities need to develop relevant ideas to manage the problems, issues and challenges every day. Thus, management accounting has probably plays an essential role to help managers measure, analyse and report financial and nonfinancial information relevant in making decisions (Horngren et al. 2015), allocating resources, monitoring, evaluating and rewarding performance (Atkinson et al. 2012).

According to Department of Trade and Industry (DTI), SMEs are the business activities or enterprises engage in industry whether single proprietorship, cooperative, partnership or corporation whose total assets are valued ranging from over P3 million to P100 million and employ no more than 200 employees. SMEs contributed almost 25.3% or 1,968,452 jobs by small enterprises and 6.8% or 530,784 by medium enterprises. Majority of the SMEs in operation as DTI declaration are in the manufacturing with 13,139 number of establishments, followed by wholesale and retail trade with 28,058, accommodation and food service activities with 13,940, financial and insurance activities with 6,113 and professional, scientific and technical activities with 2,008 business establishments (DTI, 2015).

Scapens (2006) mentioned that most of the current research in management accounting practices (MAPs) has focused on understanding the nature of management accounting and control systems (MACS) in large private and public organization. Therefore, given the challenges to grow and competing demands, this study emphasized more on managerial use of management accounting information in developing country using a greater number and extensive description of the SMEs demographic profile, the level of its usefulness and understandability about the function of each management accounting tools that make owners, managers and accountants effective in the work place.

LITERATURE REVIEW

Theoretical Framework of Reference

Historical studies have played a remarkable role in management accounting in the recent years. Holden, Fish and Smith (1941) performed an empirical studies of corporate organization and discovered that control is a prime responsibility of top management. Control serves as a monitoring process to identify if the operations objectives are being accomplished. It was predominantly oriented towards the determination of product cost. The focus on product costs was included in the budgets and the financial control of production processes. Management controls were oriented towards manufacturing and internal administration (Abdel-Kader & Luther, 2004). Management accounting tended to be reactive only when deviations from the business plan took place (Ashton et al. 1995).

Then, agency theory makes an important contributions to management accounting. It includes explicit recognition of the behaviour of the agent whose actions in the management accounting system seeks to influence control. Jensen and Meckling (1976) stated that the duty of the agent (manager) is to maximize the wealth of the principal (firm's owners). In general, a contract is used to specify the terms of a principal-agent relationship. This arrangement works well when the agent makes decisions that are in the principal's interest but doesn't work well when the interests of the principal and agent differ since agents are also concerned with their personal wealth. To manage this kind of behaviour the owner may supervise the agents' performance through an accounting information system (Jensen & Meckling, 1976).

Afterwards, contingency theory in management accounting describes how appropriate the management accounting information and control system can be designed to match the size of the organization. There is no one best way in organizing and leading the organization. An organizational leadership style that is effective in some situations may not be successful in others. In other words, the optimal organizational leadership style is contingent upon various internal and external constraints (Drury, 2000).

In 1990's, Björnenak, and Olson (1999) discovered that the focus of accountants shifted to the creation of value through the effective use of resources including technologies in manufacturing and service industries to successfully face global competition. In response to the criticisms made by Johnson and Kaplan (1987) that the lack of management accounting innovation in recent decades and its failure to respond to the changing environment resulted in a situation in the mid 1980's where firms were using management accounting systems that were obsolete and no longer relevant to the competitive manufacturing environment. Through this, the researchers identified the most recently developed management accounting tools or techniques such as: the business process reengineering, activity based costing; activity

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management and activity based management; local information system; balanced scorecard; life cycle costing and target costing and strategic management accounting (Björnenak & Olson, 1999). Over the last 50 years, the evolution was all about the manner through which management accounting is being used. Specially, research on management accounting change most relates to practices in central economies or developed countries.

The Tools Used and Not Used by SMEs in Practice

Lucas et al. (2013) worked on the UK SMEs and the number of employees (small – 50; medium – 250) was the criteria used to classify whether the business belongs to SMEs and had been in existence for more than 5 years using questionnaire and interview surveys to CEO/Owner-Managers and other senior managers (as cited in Legaspi, 2018, p.681-683).

Lucas et al. (2013) found out that product or service costs for pricing analysis, break-even analysis and working capital measures were the most useful financial information for SMEs. Then *some* of the small enterprises used budgetary planning and control systems, responsibility centres and cost-volume-profit analysis while it was used by *all* medium enterprises (as cited in Legaspi, 2018, p.681-683).

Lucas et al. (2013) concluded that the used of formal budgeting was most useful for medium firms when decision making is decentralized and they used responsibility centres to assess each departments' performance while small firms most often decision making is being made by the same person and they do not need responsibility centre (as cited in Legaspi, 2018, p.681-683).

Then, Lucas et al. (2013) recognized the non-use of standard costing and variance analysis especially for smaller firms. According to the managers, it could be inappropriate to track all costs to aid an effective operational control. Standard costing and variance analysis was of little help for smaller firms to reduce costs and improve productivity due to small line of production similar to what John and Kaplan (1987) and Maskell and Baggley (2004) investigated.

Moreover, Lucas et al. (2013) pointed out the deficiency in using strategic management accounting for SMEs, most of them made an emphasis in applying tactical and operational management. Managers focused more on the necessity rather than planned that made strategic management tool less suitable (as cited in Legaspi, 2018, p.681-683).

Unexpectedly, Lucas et al. (2013) realized that capital expenditure appraisal techniques and relevant costs analysis for decision making were not used by any of the firm. For example, SMEs do not consider the use of net present value nor the payback period in dealing with capital expenditures, they simply made decision out of tactical reasons (as cited in Legaspi, 2018, p.681-683).

Also, relevant cost analysis considered unimportant for them even when making short term decision. The managers tended to make decisions without much management accounting information which is not the same method or approach suggested in the management accounting textbook. Lucas et al. (2013) studies was consistent with what Nandan (2010) concluded that SMEs failed to utilize much of the MATs into their practices (as cited in Legaspi, 2018, p.681-683).

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Likewise, Uyar (2010) explored the management accounting practices utilized by small and medium manufacturing companies operating in Istanbul, Turkey. The data was obtained from 13 small and 39 medium manufacturing companies in Istanbul using multiple choice and open-ended Like scale questions namely: textile industries (26), paper products and publication companies (9), chemical and plastics manufacturing firms (11), food industries (5), and miscellaneous industries (5) information technology, leather and shoes, constructions, metal, wood products and automotive (as cited in Legaspi, 2018, p.681-683).

Budget for planning and control system was considered as the most important management accounting tool by all SMEs However, the cost-volume-profit analysis, responsibility accounting, standard cost variance analysis, target costing and quality costing were considered by some Turkey's small-medium-sized firms but never the transfer pricing and activity based costing, balance scorecard, capital expenditure appraisal techniques and short-term decision support tools (as cited in Legaspi, 2018, p.681-683).

The result of study made by Uyar (2010) was somewhat consistent with the finding made by Lucas et al. (2013) in terms of budgets for planning and control, responsibility accounting and cost-volume profit analysis (cited in Legaspi, 2018, p.681-683).

On the other hand, Sunarni (2013) study was participated by management accountants who work in 30 medium-scale (20-99 employees) manufacturing companies throughout Yogyakarta Indonesia. Budgetary planning and control system and cost-volume profit analysis were considered as the most vital in managing their task which is slightly consistent with the findings of Lucas et al. (2013) However, total quality management and standard costing and variance analysis were included at the top-three most important tools but never used for Lucas et al. (2013) sample companies.

A review of management accounting literature suggest that there is gap in the development and implementation of MATs and systems were developed mostly in central economies but are not fully used in developing countries particularly by small to medium companies. Therefore, there is a need for research to examine the managerial use of management accounting information in developing country using a greater number and extensive description of the SMEs demographic profile, understandability of its use, and the behaviours about the use of management accounting tools that make owners, managers and accountants effective in the work place.

METHODOLOGY

Research Design

The researcher used descriptive research type. The primary sources of information were obtained through the use of questionnaire and interview surveys.

Research Instrument

The respondents offered a set of answers from which they can choose. The questionnaire consist of two parts. The *First Part* comprises of factual questions about the respondent's demographic profile such as: position, years of business operation, enterprise classification according to the number of employees, the types of business organization, average level of net income and average level of capital. Along with the place of business operations in the National Capital Region (NCR) well as the selected types of business activities classified and used by National Statistic Coordination Board – Philippine Standard Industrial Classification, 2009 (NSCB-PSIC).

The *Second Part* includes the most popular Management Accounting Tools (MATs) utilized that are being used and not used in practice by SMEs and the usefulness of each tools. The respondents were asked to identify the given MATs from 1 to 4 (Likert, 1932), the number indicated the degree to which the respondent considered how useful the management tools for the organization. The researcher gathered the management accounting tools used from the management accounting textbooks of Atkinson et al (2012) and Garrison et al. (2015). Then, the researcher asked respondents who are capable and willing to answer the questions about the use and not use of each management accounting tools in managing their day to day operation.

Respondents of the Study

The respondents are the owners, general managers, finance/accounting managers and accountants found from the list of establishment given by the DTI as of 2013 per city. As well as the list of establishment provided by the Security and Exchange Commission (SEC) using the SEC i-Register data base as of January 2018 per business sector.

Research Locale

The study was conducted based on the cities in the National Capital Region (NCR) of the Philippine: Caloocan, Las Pinas, Makati, Malabon, Mandaluyong, Manila, Marikina, Muntinlupa, Navotas, Paranaque, Pasay, Pasig, Quezon, San Juan, Taguig and Valenzuela.

Sampling Procedure

According to DTI's List of Establishments 2015, majority of the business operation can be found in the NCR and majority of the SMEs business sectors can be found in the manufacturing with 13,139 business establishments, followed by wholesale and retail trade with 28,058, accommodation and food service activities with 13,940, financial and insurance activities with 6,113 and professional, scientific and technical activities with 2,008 business establishments. The researcher had decided to get the sample subject on the above mentioned business place (NCR) as defined by the DTI and the major business sectors as classified and used by the DTI and NSCB-PSIC, 2009 using *purposive sampling* technique (Perez & Zulueta, 2010).

Then, Gay (1976) offers some minimum acceptable sizes depending on the types of research. Correlational research must have a minimum of 30 subjects. Therefore, the researcher desired sample size totaled 60 samples, 30 for small enterprises and 30 for medium enterprise. The number of employees was used as the criteria to classify whether the respondents belong to small or medium enterprises to be the most widely used criteria in the Philippines (DTI, 2015).

Administration of the Instrument

The written questionnaires were mailed (LBC), emailed and hand-delivered to the owners, general managers, finance/accounting managers and accountants of selected SMEs registered in the NCR, Philippines operating within 5 years and more. Then, filled out and returned through mailed (LBC), emailed and handed over to the researcher individually.

Statistical Treatment of Data

To arrive at the analysis and interpretation for objectives *one and two* the researcher used the frequency, percentage and mean. The weighted arithmetic mean is the most generally recognized measure of central tendency applicable to options of different weights (Calmorin & Piedad, 2009). Then, for research objective *three*, the researcher comprehend through the narrative analysis to know how management accounting information particularly the use and not use of each management accounting tools functioned in their day to day operation.

RESULTS AND DISCUSSION

The SMEs Profile

Table 4.1 illustrates the summary statistics of the SMEs profile. It displays the frequency (n) and percentage (%) distributions according to the size of the enterprise.

Table 4.1 Description of the SMEs Profile

SMEs Profile	Small Enterprises n = 150(%)	Medium Enterprises n = 150(%)
Place of Business Operation		
National Capital Region		
Caloocan	4 (2.7)	7 (4.7)
Las Pinas	1 (0.7)	3 (2.0)
Makati	23 (15.3)	23 (15.3)
Malabon	1 (0.7)	1 (0.7)
Mandaluyong	9 (6.0)	5 (3.3)
Manila	22 (14.7)	31 (20.7)
Marikina	4 (2.7)	3 (2.0)
Muntinlupa	3 (2.0)	1 (0.7)
Navotas	1 (0.7)	2 (1.3)
Paranaque	3 (2.0)	2 (1.3)
Pasay	3 (2.0)	3 (2.0)
Pasig	6 (4.0)	9 (6.0)
Quezon	62 (41.3)	52 (34.7)
San Juan	2 (1.3)	3 (2.0)
Taguig	5 (3.3)	4 (2.7)
Valenzuela	1 (0.7)	1 (0.7)
Total	150 (100.0)	150 (100.0)
Business Sectors		
Manufacturing	30 (20.0)	30 (20.0)
Wholesale and Retail Trade	30 (20.0)	30 (20.0)
Accommodation and Food Service Activities	30 (20.0)	30 (20.0)
Financial and Insurance Activities	30 (20.0)	30 (20.0)
Professional, Scientific and Technical Activities	30 (20.0)	30 (20.0)
Total	150 (100.0)	150 (100.0)

SMEs Profile	Small Enterprises n = 150 (%)	Medium Enterprises n = 150(%)
Position of the Respondents		
Owner	14 (9.3)	0 (0.0)
General Manager	94 (62.7)	18 (12.0)
Finance/Accounting Manager	30 (20.0)	21 (14.0)
Accountant	12 (8.0)	111 (74.0)
Total	150 (100.0)	150 (100.0)
Year of Business Operation		
5-10 years	126 (84.0)	108 (72.0)
More than 10 years	24 (16.0)	42 (28.0)
Total	150 (100.0)	150 (100.0)
Number of Employees		
Small: 10-99; Medium: 100-99	150 (100.0)	150 (100.0)
Business Organization		
Sole proprietorship	19 (12.7)	0 (0.0)
Partnership	76 (50.7)	1 (0.7)
Corporation	55 (36.7)	149 (99.3)
Total	150 (100.0)	150 (100.0)
Estimated Average Level of Net Income		
Less than P1 million	72 (48.0)	21 (14.0)
P1-10 million	78 (52.0)	71 (47.3)
P11-20 million	0 (0.0)	57 (38.0)
More than P20 million	0 (0.0)	1 (0.7)
Total	150 (100.0)	150 (100.0)
Estimated Average Level of Capital		
Less than P1 million	0 (0.0)	0 (0.0)
P1-10 million	80 (53.3)	13 (8.7)
P11-20 million	67 (44.7)	49 (32.7)
More than P20 million	3 (2.0)	88 (58.7)
Total	150 (100.0)	150 (100.0)

The 150 respondents of *small* enterprises were classified into owners (14), general managers (94), finance/accounting managers (30) and accountants (12), while the 150 *medium* enterprises were grouped into 18 general managers, 21 finance/accounting managers, 111 accountants and unfortunately none of them was the owner of the business.

The 126 *small* enterprises normally had 5-10 years of business operation and the rest of the 24 had the chance to progress and existed for more than 10 years. Whereas, 108 of the *medium* enterprises operated 5-10 years and 42 of them profitably conducted their businesses for more than 10 years.

The business was managed by 19 sole proprietorships, 76 partnerships and 55 corporations for *small* enterprises. However, it was more desirable to manage a *medium* enterprise for 149 corporations, one (1) partnership and not a single respondents had joined and managed the business as sole proprietorship.

In assessing the enterprise net income, 72 of the *small* enterprises believed that the benefits during the accounting period was less than P1 million, 78 of them belongs to P1-10 million and none for both P11-20 million and more than P20 million. Whereas, 21 of the *medium* enterprises favorably categorized themselves that the economic benefits were less than P1 million, 71 achieved the P1-10 million, 57 optimistically attained P11-20 million and unexpectedly one (1) enterprise with more than P20 million confidently disclosed the information.

The study is also concerned not only with the operating capability of the business but also with the benefits to increase the amount of invested capital used by the respondents. None of the 150 *small* enterprises belonged to less than P1 million, 80 enterprises for P1-10 million, 67 for P11-20 million and 3 for more than P20 million. Also, for *medium* enterprises, no one of the respondents had less than P1 million but 13 for P1-10 million, 49 for P11-20 million and 88 of the entities seek to maintain more than P20 million estimated ending capital.

Based on the findings, the information was collected from different cities of the National Capital Region of the Philippines. The 150 *small* enterprises were found in Caloocan (4), Las Pinas (1), Makati (23), Malabon (1), Mandaluyong (9), Manila (22), Marikina (4), Muntinlupa (3), Navotas (1), Paranaque (3), Pasay (3), Pasig (6), Quezon (62), San Juan (2), Taguig (5) and Valenzuela (1).

While, the 150 *medium* enterprises were obtained from Caloocan (7), Las Pinas (3), Makati (23), Malabon (1), Mandaluyong (5), Manila (31), Marikina (3), Muntinlupa (1), Navotas (2), Paranaque (2), Pasay (3), Pasig (9), Quezon (52), San Juan (3), Taguig (4) and Valenzuela (1). Lastly, the 300 respondents were gathered from five (5) different sectors and distributed to both 30 *small* and 30 *medium* enterprises together with the SMEs different types of their activities (*see Appendix A for detailed discussion*).

According to the data, small enterprises are still run by some owners of the business and enough for them to hire and relied mostly from the knowledge of general managers, while medium enterprises nowadays are in need of the help more of accountants as their business partner. It is more desirable for medium enterprises to establish a business in a form of corporation rather than partnership unlike the small enterprises, they are open to set up a business largely as partnership.

Due to being small, majority of the respondents belongs to 5-10 years of business operation whereas, there are more medium enterprises who had reached the level to operate for more than 10 years. Clearly, the level of net income of small enterprises ranged only from less than P1 million to P10 million although the level of their ending capital are higher and range from P10M to P20M. Fortunately, considerable number of medium enterprises achieved the range of net income from less than P1 million to P20 million at present because of the larger level of the capital contributed to the business.

The Level of Usefulness of MATs used by SMEs

In this research, the level of usefulness of MATs are also analysed. Table 4.2 shows summary statistics as perceived by owners, general managers, finance/accounting managers and accountants of small enterprise. It displays the weighted arithmetic mean and verbal interpretation of the level usefulness of MATs used by enterprises.

Table 4.2 The Level of Usefulness of MATs used by Small Enterprises

Management Accounting Tools	WAM	VI
Statement of cash flow analysis	3.78	VU
Operating budgets	3.41	VU
Financial budgets	3.05	U
Managing customers' relationship	2.63	U
Financial statement analysis	2.55	U
Capital budgeting decisions	2.52	U
Product or service cost information	2.21	LU
Cost-volume-profit analysis	1.83	LU
Relevant costs for decision making	1.59	NU
Total quality management	1.53	NU
Benchmarking	1.43	NU
Standard costing and variance analysis	1.35	NU
Target costing for product planning	1.29	NU
Just-in-time	1.26	NU
Responsibility accounting	1.25	NU
Transfer pricing	1.23	NU
Activity-based costing	1.09	NU
Balance scorecard	1.01	NU
Kaizen costing	1.00	NU
Lean manufacturing	1.00	NU

Weighted Arithmetic Mean (WAM)
Verbal Interpretations (VI): 1.0 to 1.74 is Not Useful (NU); 1.75 to 2.49 is Less Useful (LU); 2.50 to 3.24 is Useful (U); 3.25 to 4.00 is Very Useful (VU)

According to the data, statement of cash flow analysis (3.78) and operating budgets (3.41) are the "very useful" tools among the particular MATs used by the 150 respondents of *small* enterprises. While, financial budgets (3.05), managing customers' relationship (2.63), financial statement analysis (2.55) and capital budgeting decisions (2.52), turn out to be the "useful" tools for them. However, kaizen costing (1.00) and lean manufacturing (1.00) are "not useful" tools for them.

Then, Table 4.3 illustrates summary statistics as perceived by owners, general managers, finance/accounting managers and accountants of medium enterprise. It displays the weighted arithmetic mean and verbal interpretation of the level usefulness of MATs used by the enterprises.

Table 4.3 The Level of Usefulness of MATs used by Medium Enterprises

Management Accounting Tools	WAM	VI
Financial budgets	3.59	VU
Capital budgeting decisions	3.52	VU
Managing customers' relationship	3.31	VU
Operating budgets	3.31	VU
Statement of cash flow analysis	3.18	U
Financial statement analysis	3.13	U
Product or service cost information	2.68	U
Relevant costs for decision making	2.38	LU
Total quality management	2.29	LU
Benchmarking	2.20	LU
Cost-volume-profit analysis	2.18	LU
Target costing for product planning	1.77	LU
Standard costing and variance analysis	1.69	NU
Responsibility accounting	1.65	NU

Management Accounting Tools	WAM	VI
Transfer pricing	1.64	NU
Activity-based costing	1.59	NU
Just-in-time	1.56	NU
Balance scorecard	1.47	NU
Kaizen costing	1.00	NU
Lean manufacturing	1.00	NU

Weighted Arithmetic Mean (WAM)
Verbal Interpretations (VI): 1.0 to 1.74 is Not Useful (NU); 1.75 to 2.49 is Less Useful (LU); 2.50 to 3.24 is Useful (U); 3.25 to 4.00 is Very Useful (VU)

Surprisingly, financial budgets (3.59), capital budgeting decisions (3.52), managing customers' relationship (3.31) and operating budgets (3.31) are the "very useful" tools among the particular MATs used previously by the 150 respondents of *medium* enterprises. Statement of cash flow analysis (3.18), financial statement analysis (3.13) and product or service cost information (2.68) are also "useful" tools for them. While, kaizen costing (1.00) and lean manufacturing (1.00) are "not useful" tools for the respondents.

The respondents pointed out the overall level of its usefulness. Only 8 out of 18 MATs for small enterprise and 12 out of 18 MATs for medium enterprises had its place to very useful and useful tools. Statement of cash flow analysis and operating budgets are very useful tools among the five (5) sectors of *small* enterprises. While operating budgets, financial budgets, capital budgeting decisions and managing customers' relationship are the very useful tools among the five (5) sectors of *medium* enterprises.

It appears that small enterprises focused much of their attention in two very useful tools to operate whereas the medium enterprises need more very useful tools to run their businesses. However, in analysing the utilization of the MATs, SMEs had the same particular MATs used but differ in the level of usefulness. For example, statement of cash flow analysis is very useful for small while useful only for medium enterprises. Then, financial budgets, capital budgeting decisions and managing customers' relationship are only useful tools for small although very useful for medium enterprise.

The Function of Each Management Accounting Tools Undertaken

The researcher asked 18 respondents who are capable and willing to answer the questions through telephone interviews. Eleven (11) respondents from *small* enterprises and seven (7) from *medium* enterprises as shown on Table 4.3.

Table 4.3 Number of Respondents Interviewed

Business Sector	Small	Medium	Total
Manufacturing	2	1	3
Wholesale and retail trade	2	2	4
Accommodation and food service activities	1	1	2
Financial and insurance activities	3	1	4
Professional, scientific and technical activities	3	2	5
Total	11	7	18

The information was derived from owners, accounting managers and accountants with uneven number of sectors such as: manufacturing (3), wholesale and retail trade (4), accommodation and food service activities (2), financial and insurance activities (4), and professional, scientific and technical activities (5).

A small number of medium enterprises specifically, financial and insurance activities and professional, scientific and technical activities gradually made use of *activity based costing.* Managers and accounts had positive reactions and claimed that “this information assisted our operation to identify the costs of supplying each resource capacity”. For example, accounting, bookkeeping, auditing & tax consultancy consist of various types of resources to serve their clients, such as: account managers, supervisors, audit staff, accounting staff, support staff, office space, telecommunication equipment and information technology equipment, etc.

The company billed their clients directly on how much would be the capacity cost rate of the audit staff and the capacity used by each activities they performed for clients. This process helped them to prepare more complete statement of resource consumption and costing and matched with the revenues to determine the profit or loss from each client. Managers can discover high-cost and inefficient processes, and use these information to improve operation and make better decisions about the products.

However, most of the small and some of the medium enterprises did not implement the use of *activity-based costing.* Respondents argue and said that “our company has been successful in the past using our existing cost system and there was no reason for us to change into new approach” especially for SMEs wholesale and retail trade sectors. They are running a distribution company with the basic “inventory-sale-receivable-cash” and “supply vs. demand”. Assigning of production cost to products was simple because companies had a much simpler product line, fewer delivery and packing options.

Likewise, most of the respondents of the SMEs considered that the *balance scorecard* is a newly developed management accounting tool to assess an organization’s performance, which made them unskilled of the important role and the use of balance scorecard for the business. Still, they are simply concerned about the basic procedures in evaluating the business. They used only too few financial measures such as: operating income and return on investment to motivate and evaluate performance (solvency, efficiency and profitability). These financial control measures are sufficient for measuring and evaluating company performance.

Subsequently, *benchmarking* was handled in simple context for all small enterprises. It was used by the organizations to look for the best practices of other organization and compare their current operations as an aid to guide and improve in conducting their business process. For instance, SMEs financial and insurance sectors used its function by way of measuring their products, services and practices against their toughest competitors. They can identify their company’s strength and weaknesses, then, they will think of some ideas on how to improve their business performance.

Whereas, for all the medium enterprise, it was often cost effective as they can save time and money by preventing the mistakes that other companies have made. It allows them to create more competitive products for consumer use.

Capital budgeting decision on the other hand, benefited most sector of small enterprises and all sector of medium enterprises. Example, by carefully selecting those investment that potentially provide the greatest future returns. It was most often used in the form of selecting and replacing equipment and cost reduction.

Similarly, SMEs made minor consideration on the use of *cost-volume-profit analysis*. Only during the time that companies want to reduce the organization risk especially the introduction of the new type of product in the market. It was an aid for them to understand the cost behaviour and associate the break-even sales with their beliefs about their product sales potential. For instance, cost-volume-profit analysis for SMEs wholesale and retail trade sector was used to determine the changes of cost and volume and how it could affect the company's operating income and net income. It allows the company to be cautious of the product cost and how would it be more profitable if the company adjust certain prices and expenses.

All organizations have limited resources. The planning process provides the information to make effective decisions about how to allocate the resources in a way that will enable the organization to reach its objectives. All sectors of SMEs respondents gained more on the use of *financial budgets*. They agreed that the tool was used as a technique to estimate the financial consequences of their investment, production and sales plan.

As well as *financial statement analysis* furthered all SMEs to evaluate their operating efficiency and profitability during a particular period of time and more of anticipating emerging problems that could influence the conduct of their business activities in the future. For example, the respondents were more concerned on the financial aspect of the company and accuracy of the reported account balances. *Financial statement analysis* was essential to see the reasons for sudden increase/decrease in the account balances compared to previous period. Through this, potential errors can be discovered and immediately corrected prior to closing the book for the particular period.

Conversely, *just-in-time* offered minor function for a few sectors of SMEs specifically for accommodation and food service activities where they can used it to make product only when the customers requires it. Whereas, most of the small-medium-sized enterprises hesitate to implement just-in-time because with no work-in-process inventory and finished goods inventory a problem anywhere in the system can stop all production and sales. They will lose profit because of the lost sales from their customers.

Unfortunately, all firms did not take the advantage of the benefit of *kaizen costing and lean manufacturing*. Owners was unaware of their use while the managers and accountants although were informed during their undergraduate studies as prescribed in the accounting textbooks that it could advance them to focus on reducing cost during the manufacturing stage of a product still, they were unwilling to apply because of the lack of understanding of their use.

Relatedly, all firms considered *managing customers' relationship* as a way to understand the customers' expectations about their products. For example, the tool worked for SMEs as a way to measure whether they are meeting or exceeding their customers' expectations in order to obtain an approach where they can offer special allowances that could encourage more prospective buyers to purchase products and build customers' loyalty to gain more market share and to remain competitive in the market.

Additionally, all sectors of SMEs exercised the important used of *operating budgets*. Agreeing that its function is to sum up the level of different activities such as sales that planned the level of sales for each product, the material purchasing plan for purchasing activities and production plan for labour hiring that specify the people in the organization must hire including the spending plan for equipment that must be purchase to meet the objectives. Productivity is maximized and resources are not wasted.

Product or service cost information consistently supported the needs of the firms. The cost information was appreciated by most of the medium enterprises and some of the small enterprises. The tool was used by the respondents in terms of product planning, preparation of the budget and most importantly for pricing decision.

They can decide if their cost structure properly aligned whether the companies are engaged in manufacturing, wholesale and retail trade, accommodation and food service activities, financial and insurance activities, and professional, scientific and technical activities to set its selling price and compared on the market-demand price in order that they can compete profitably.

The *relevant cost for decision making* favoured more by medium enterprises. The owners, accounting managers and accountants said “our company used it as an aid particularly for special customer or occasion whether we need to accept or make the special orders at exclusive prices or what prices to charge”. Respondents are very cautious about the cost and benefits of their decisions that could have unfavourable effect in the financial performance of the business.

Even though, most of the medium enterprises preferred the use of *responsibility accounting* over all small enterprises, the tool was still slightly used. The implementation of responsibility accounting makes all the employees to work with complete dedication because they know that their work performance will be evaluated based on their unit.

For instance, supervisor makes several decisions in a work day, and with some companies, decision-making is encouraged among workers on the line. The manager or supervisor of an organizational unit will be responsible and held accountable for every decision made of the centre. However, the small business owner can respond effectively and quickly but mainly responsible for the ultimate outcome of all decisions with regards to the company.

Consequently, *standard costing and variance analysis* slightly supported the SMEs. This tool assisted the owners, accounting managers and accountants to understand the source of the differences – the variances – between actual costs and budgeted costs. The use was only to identify the main differences. Enterprises do not waste their time in setting standard per unit of material, rate per labour and overhead as prescribed in the textbook. They check mistakes that could tell them on how new challenges can be met or faced.

Correspondingly, *statement of cash flow analysis* helped all the SMEs sectors to draw attention about the major activities that are directly or indirectly impact the overall cash balance. SMEs owners, accounting managers and accountants managed cash for important reasons: to meet the daily operation and without an adequate balance of cash, company may fail to take the major investment opportunities offered in the market or may go into bankruptcy. For example, SMEs financial and insurance respondents wanted to make sure that the company have enough cash to accommodate borrowers and enough cash to pay short term loans from interbank transactions and pay dividends to its members.

Then, for SMEs wholesale and retail trade, cash flow analysis determined the liquidity of the business. Liquid asset like cash is very important, company cannot pay their obligations on time and expand their operation without cash. Using cash flow analysis, enterprises can maximize cash generated from their operations. Statement of cash flows answers questions that cannot be easily answered by looking at the income statement and statement of financial position.

On the other hand, *target costing for product planning* evenly supported most of the SMEs need. The tool was used by the respondents to help them meet the customers' expectation by means of setting a desired cost to manufacture a new product or to render a service.

SMEs gradually utilized the advantage of using *total quality management,* most importantly for accommodation and food service activities. One of the reasons why they are competitive in the market was their ability to focus their attention on improving goods and services from their customers' point of view that directly increased their customers trust and loyalty about their products. For example, providing "good service" in terms of how employees response in the event of problems or questions. Response time and attitude of employees is one of the primary characteristics desired by customers aside from quality and value.

Lastly, *transfer pricing* was slightly used by most of the SMEs because of less degree of interaction between and among the individual responsibility centre. This is applicable only when any two departments in the same organization transfer any product or service.

Each management accounting tool provides useful and relevant information to the management according to all SMEs respondents from different sectors. However, it corresponds to each specific management activity.

Planning and decision making were rated as the first and last activity that was being most affected by the use of management accounting tools. Using the tools during the planning aspect provides the company a "bird's eye view" of what to expect from a particular activity they seek to enter. Using the tools during the review and evaluation process helps the company's' understand what happened over the course of the operation and how they could improve their internal processes for the next period.

Planning is the most crucial among the management activities. It serves as the basis or foundation to be able to use the management tools effectively and efficiently. Without proper planning, it is less likely that the company would be able to control their operations, to make good decisions and to properly evaluate the business performance.

CONCLUSION

The SMEs Profile

Respondents of small enterprises are mostly general managers and finance/accounting managers with little participation of owners and accountants while, medium enterprises completely entrusted their involvement largely into the hands of accountants, not as much of finance/accounting managers and general managers and unfortunately unobtainable number of owners. Majority of the SMEs business operation primarily go through 5-10 years and gratefully there was small number of SMEs managed to move forward into more than 10 years. Positively, SMEs voluntarily participated to complete the 150 small and 150 medium participants as the sample size of the study. Respondents of small enterprise are mostly formed as partnership followed by corporation and lastly sole proprietorship. While a great number of corporations take part of the study and one (1) as partnership and none as sole proprietorship for medium enterprises.

Deciding whether the business is to be formed into sole proprietorship, partnership or corporation usually provides advantages over the other. Regardless of the enterprise sizes, whether small or medium, the information was accurately profited the respondents by means of revealing their estimated level of net income for the period. Majority of small partnerships and corporations line up to less than P1 million towards P1-10 million. Same is true with medium corporations which fall into line of less than P1 million up to P11-20 million.

For the reason that, SMEs expected to increase and confidently maintain their invested capital based on the information reported by them. Small sole proprietorships, partnerships and corporations are able to achieve P1-10 million on the way to P11-20 million ending capital. Whereas, medium partnership and corporations end in P1-10 million up to more than P20 million level of ending capital.

Due to the large number of business establishments listed according to information given by Philippine Statistics Authority (2016), Quezon City, Manila, and Makati take the greater part of the study whereas, Caloocan, Las Pinas, Malabon, Mandaluyong, Marikina, Muntinlupa, Navotas, Paranaque, Pasay, Pasig, San Juan, Taguig and Valenzuela also convey material information that be of importance to complete and to give a meaningful outcome of the study.

By chance, the researcher achieved the main goal based on the particular business sector selected as the required sample size of the study. Each sector such as: *manufacturing* (food and beverages, dairy, bakery, paper, chemical, metal, textile products, wearing apparel, furniture and fixture, processing of meat and fish, canning and preserving of fruits); *wholesale and retail trade* (parts & accessories, maintenance, beverages, processed, household goods, automotive fuel, fruits and vegetables, meat and poultry products, fresh and dried fish and bakery products); *accommodation and food service activities* (hotels and restaurant, condominiums, dormitories, restaurants, cafes, refreshment stands, kiosk and counters, and catering & take-out activities); *financial and insurance activities* (credit granting, lending investor activities, pawnshop operations, financing company operations); and *professional, scientific and technical activities* (legal activities, accounting, bookkeeping, auditing & tax consultancy, business & management consultancy, advertising services, and architectural & engineering activities) provides different characteristics in which the researcher and the respondents are able to achieve the research objectives.

Demographics are important in designing a survey. It helps to assess who to survey and how to breakdown the overall survey response data into meaningful groups of respondents. Therefore, SME's profile descriptions provide a better insight and a wider perspective for issues including information that can be used not to miss the focus of the study. Questions about respondents' background appeared to be an important elements that helps to identify numbers of explanatory factors on the level of usefulness and types of management accounting practices undertaken.

The Level of Usefulness of MATs used by SMEs

The individual MATs investigated seems that budgets for operating (small) and operating and financial (medium) are the very useful management accounting techniques used for planning and controlling, which is similar to the studies made by the International Federation of Accountants (1998), Abdel-Kader and Luther (2004), Uyar (2010) and Sunarni (2013) that budgets for planning still are conventional management accounting tools that are useful for managers since 1950's

Everyone understands that the role of budgets in overall organization plans are used as a blueprint for operations. It helps companies to determine the means of achieving their goals and by outlining the level of sales, production or service cost, and expenses as well as income and cash flows anticipated for the coming year based on managers' near term projection.

Small enterprises believed that there is more essential activity to focus on other than the operating budgets alone and that is managing their cash flows. They need sufficient cash at the right times in order that they will not miss any obligation and expenses to pay. They need to manage those major activities that could directly and indirectly affect their cash balances, otherwise they may even go bankrupt.

Medium enterprises on the other hand, considered managing customers' relationship and capital budgeting decision as valuable analytical tools in addition to budgets. These tools are considered nowadays as part of their management accounting information necessary to conduct and manage their business operations successfully.

If the *medium* enterprises want to focus on improving customers performance to create customers satisfaction and loyalty, for example, creating a unique way of serving their customers for accommodation and food service, financial and insurance and professional, scientific and technical activities, they need to have a better calculation and analysis of the amount of capital they need to investment (capital budgeting decision). Specifically if their customers desire to have special features it could make their products or services highly customize that could lead to deteriorating financial performance.

However, statement of cash flow analysis is contrary to the two out of three findings made by Lucas et al. (2013). The research group found out that management accounting tools considered by all the enterprises to be the most important pieces of financial information were product or service costs for pricing analysis and break-even analysis except for the working capital measures of UK enterprises which is similar to the use of cash flow statement analysis in the Philippines.

At the present time, *small* enterprises also give an emphasis as to the usefulness of managing customers' relationship. Which is same as what the *medium* enterprises want to carry out. Again, in meeting the customers' needs and wants, *small* enterprises need to be knowledgeable and careful in making decisions, particularly in investing large amount of capital. To make it sure that capital budgeting decision is necessary, financial budget can support them to identify the expected financial consequences of activities and it can be examine through the use of financial statement analysis.

Capital of *small* enterprises usually lower than what the *medium* enterprises can provide. If they want to increase their sales potential by managing customers' relationship then, there is a tendency for them to borrow money in a bank. This kind of decision involves risks. Small enterprises should identify risks before they occur rather than react to unfortunate events (bankruptcy) that have already happened. These are the reasons why they levelled MATs as very useful and useful for them to use.

Then, *medium* enterprises correspondingly identified that product or service cost information tool helped them for product planning in order to decide on how much is the "price" that they could offer and it must be included in the preparation of the budget. Plans will be implemented and they will assess the financial health and future prospects of the company using statement of cash flow analysis and financial statement analysis.

Moreover, the utilization of total quality management, activity-based costing, balance scorecard and just-in-time although less useful for them, shows that today's business environment, SMEs started to have a step by step emphasis in using strategic management accounting to successfully achieved their long-term objective as compared to the study of Lucas et al. (2013) that most of the small and medium firms put more emphasis on using tactical and operational strategies.

Likewise, the result was in line from the theoretical framework (Björnenak & Olson, 1999) and in the literature contributed by International Federation of Accountants (1998) and Abdel-Kader and Luther (2004) as described under the evolution of management accounting that the focus of managers and accountants in 1990's changed to the creation of value for customer and shareholder through the effective use of resources. Internal process measures focused on things that the organization need to do, to meet customers' needs and expectations through product and service innovation (managing customers' relationship). Customers' measures lead to increase the value of the company in order for them to prosper, grow and survive.

This clearly shows that SMEs are concerned in improving customer satisfaction nowadays. SMEs must find alternative process that could reduce production cost and service time without reducing product and service quality.

The Function of Each Management Accounting Tools Undertaken

Virtually every company has primary purpose and selects the focus and scope of its strategy to add value to stakeholders. All organizations start in planning stage to make choices about what they will do and will not do. Through these, organization can set the target market and compete in those market. But once the strategy has been selected, they need management accounting tools to help them implement the strategy.

Through the conversation made with the respondents, statement of cash flow analysis, capital budgeting decisions, financial budgets, financial statement analysis, managing customers' relationship and operating budgets captured the SMEs beliefs that the use of these MATs are the driver of success in achieving organization's objectives, whether they belong to manufacturing, wholesale and retail trade, accommodation and food service activities, financial and insurance activities, and professional, scientific and technical activities. The role of MATs is essential for supporting decision making and solving problems.

As written in the literature review, Atkinson et al. (2012) and Garrison et al. (2015) introduced new measurements and systems due to innovation in management accounting practices around the world. Once the small enterprise became medium enterprise and later on will become large enterprise, they need valuable information through the application of new strategies as companies became more complex and new competitors appeared. Authors would like to encourage and let them know that if one country can successfully use it, other countries can effectively use it too.

Throughout this suggestion, other than the very useful MATs used by SMEs, some enterprises are gradually applying the other tools, for example the introduction of benchmarking, target costing for product planning, relevant costs for decision making, product or service cost information, standard costing and variance analysis, cost-volume-profit analysis, balance scorecard, just-in-time, total quality management, transfer pricing, activity-based costing, and responsibility accounting.

However, the introduction of new measurements and systems based on the conversation made again with the respondents, produces emotional reactions to the individual. This is not surprising. If owners, managers and accountants redesign cost and performance, the people familiar and comfortable with it will resist change. They often resists new ideas and change. Believing that using a more recent model cannot guarantee to solve all of the company costing and financial problems. To manage the risk of changing the old tool into the new one, SMEs must be ready to provide an analysis of the behavioural and organizational reactions to the measurement.

Overall, the results bring up to date the development on the useful of management accounting tools for SMEs as supported by the studies made by Abdel-Kader and Luther (2004) and IFAC (1998) and proved that starting from 1965 up to the present day's business environment, the additional management accounting tools that have been introduced and prescribed by textbook authors and academic scholars gradually help firms to develop, communicate, and implement strategy that delivers long-term value to their stakeholders.

There might be some delays in the application of the management accounting tools among countries possibly because of the differences in terms of implementation of innovation between central economies and emerging countries. Nevertheless, remember that management accounting information creates value for all type of organizations (Atkinson et al. 2012 and Garrison et al. 2015). The owners, managers and accountants usually encountered different problems related to the application of management accounting tools. Some are lack of qualified employees and still unaware of the potential contribution of its use. It can also be lack of knowledge or understanding of its use although there are theories and concepts to learn management accounting as prescribed by accounting textbooks or its use are not deem necessary as to the nature and size of the enterprise operations including the type of each business sector.

To recall Drury's (2000) contingency theory in management accounting, that the appropriateness of the management accounting information and control system depends on how to match the size of the organization, differences among resources and operating activities, managerial assumptions about employees, strategies and mission, technologies used and how it adapts to its external environment.

It can be effective in some situations but may not be successful in others. These contingencies are regarded as important determinants of the design of the most appropriate management accounting system (Mitchell, 1998). Perhaps, the respondents are the one who knows the cost-benefit approach of applying each tool in their organizations. Planning, controlling, decision making and performance evaluation may differ across different types of organizations. Therefore, the study is all about the manner through which management accounting tools is being used.

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APPENDIX A

Detailed Discussion of the SMEs Types of Activities per Business Sector

Activities	Small	Medium	Total
Manufacturing			
Food and beverages	9	6	15
Dairy products	2	3	5
Bakery products	7	1	8
Wearing apparel	2	0	2
Paper products	2	5	7
Furniture and fixture	4	0	4
Processing of meat and fish	3	2	5
Canning and preserving of fruits	0	2	2
Chemical products	0	7	7
Metal products	0	4	4
Textile	1	0	1
Total	30	30	60
Wholesale and retail trade			
Retailing of motor vehicles parts & accessories	5	7	12
Wholesaling of motor vehicle parts & accessories	5	2	7
Beverages wholesaling	3	5	8
Beverages retailing	5	5	10
Processed food wholesaling	2	1	3
Wholesale of household goods	0	3	3
Retail sale of automotive fuel	0	1	1
Fruits and vegetables retailing	1	1	2
Meat and poultry product retailing	2	1	3
Fresh and dried fish retailing	1	0	1
Bakery products retailing	2	0	2
Retail trade except of motor vehicles and motor cycles	4	4	8
Total	30	30	60
Accommodation and food service activities			
Hotels and restaurant	8	9	17
Condominiums	3	3	6
Dormitories	4	2	6
Restaurants	3	6	9
Cafes	1	3	4
Refreshment stands, kiosk and counters	5	4	9
Catering & take-out activities	6	3	9
Total	30	30	60

Activities	Small	Medium	Total
Financial and insurance activities			
Credit granting	11	9	20
Lending investor activities	10	8	18
Pawnshop operations	5	0	5
Financing company operations	4	13	17
Total	30	30	60
Professional, scientific and technical activities			
Legal activities	4	0	4
Accounting & bookkeeping	5	0	5
Auditing & tax consultancy	7	14	21
Business & management consultancy	8	12	20
Advertising services	4	1	5
Architectural & engineering activities	2	3	5
Total	30	30	60

Appendix A shows the detailed results of the SMEs types of activities and the frequency distribution per sector, namely: *Manufacturing* - food and beverages (15), dairy products (5), bakery products (8), wearing apparel (2), paper products (7), furniture and fixture (4), processing of meat and fish (5), canning and preserving of fruits (2), chemical products (7), metal products (4) and textile (1).

Then for *Wholesale and retail trade* - retailing of motor vehicles parts & accessories (12), wholesaling of motor vehicle parts & accessories (7), beverages wholesaling (8), beverages retailing (10) processed food wholesaling (3), wholesale of household goods (3), retail sale of automotive fuel (1), fruits and vegetables retailing (2), meat and poultry product retailing (3), fresh and dried fish retailing (1), bakery products retailing (2) and retail trade except of motor vehicles and motor cycles (8).

Followed by *Accommodation and food service activities* – hotels and restaurant (17), condominiums (6), dormitories (6), restaurants (9), cafes (4), refreshment stands, kiosk and counters (9), and catering & take-out activities (9). *Financial and insurance activities* - credit granting (20), lending investor activities (18), pawnshop operations (5), financing company operations (17). Lastly, *Professional, scientific and technical activities* - legal activities (4), accounting & bookkeeping (5) auditing & tax consultancy (21), business & management consultancy (20), advertising services (5), and architectural & engineering activities (5).