LEVEL OF COMPLIANCE WITH PHILIPPINE FINANCIAL REPORTING STANDARDS FOR SMALL ENTITIES IN THE CITY OF BALIWAG, BULACAN

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Abstract

The purpose of this study is to determine the level of compliance with the Philippine Financial Reporting Standards for Small Entities (PFRS for Small Entities) in Baliwag, Bulacan. Furthermore, this study seeks to determine the major challenges that constraint compliance with the standards. A sample size of 15 small entities served as the respondents of this study. This study applied a descriptive-quantitative research design and used a survey questionnaire adapted from three different sources as a research instrument. Results showed that respondents' compliance with PFRS for Small Entities ranged from very high to high and that there is no significant difference in the level of compliance across industries. Furthermore, privacy and lack of knowledge were the major challenges that hinder compliance. The result of this study as well as the limitations it encountered warrant a different approach and future research. As such the researchers recommend that the management of small entities provide professional development opportunities to the preparers of financial reports.

Keywords: PFRS for small entities, level of compliance, challenges

Introduction

In 2018, the Philippine Securities and Exchange Commision (SEC) announced the adoption of the International Financial Reporting Standards for Small Entities (IFRS for Small Entities) and was known as Philippine Financial Reporting Standards for Small Entities (PFRS for Small Entities) to provide for an even more lenient financial reporting standards for small entities and to make financial reporting easier. Its effectivity constituted on January 1, 2019.

Despite the pandemic, small companies continued to emerge and gain a more apparent economic presence. Taking into account their growing numbers, it is important to measure how they are complying with the financial reporting standards set specifically for them. According to the Philippine Department of Trade and Industry 2020 MSME Stastistics report, 99.51% of the businesses operating in the Philippines belong to the Micro, Small, and Medium Enterprises, of which 10.25% or 98,126 are small enterprises. In terms of geographical spread, Region III ranked third with a total of 111,262 (11.68%) MSMEs. Within the MSMEs sector, small enterprises contributed the largest portion of added value of 20.5%. Consequently, there are bigger expectations on small enterprises in terms of compliance to related standards on financial reporting.

To help ease the burden on small enterprises when it comes to financial reporting, the Philippine Financial Reporting Standards (PFRS) for Small Entities. This framework provided financial reporting standards tailored to the needs of smaller enterprises and made possible less cumbersome compliance. Inventories, investment property, leases, equity-settled share-based payment transactions, defined benefit plans, deferred taxes, biological assets, and prior period adjustments are some of the topics simplified in this framework (Aranas, 2020). As the adoption of the PFRS for Small Entities is relatively new, a question arises as to how

small entities are responding to such changes. Greater attention is required for this area of concern because various studies have shown that most small to medium sized enterprises either have low levels of compliance to the governing accounting standards or low levels of uptake or awareness of such standards. Such evidence will be discussed further in the review of related literature.

This study is set around discerning the level of compliance to the Philippine Financial Reporting Standards for Small Entities (PFRS for Small Entities) in Baliwag City, Bulacan. It also aims to discover the challenges that hinder compliance and whether there is a significant difference in the level of compliance across industries.

Review of Related Literature

Previously published literature has mostly investigated the level of compliance, cost-benefit analysis, perceptions, and other factors concerning the International Financial Reporting Standards for Small and Medium-Sized Entities (IFRS for SMEs). Little to no evidence of past studies pertaining to small entities are available. This paper recognizes this gap and for the reasons stated above, the following literature would be closely affiliated to the related standards for Small and Medium-Sized Entities.

Small Entities in the Philippines

The Philippines' Securities and Exchange Commission (SEC) defines a small company as an organization with assets and liabilities totaling between P3 million and P100 million. If the said entity is a parent company, the sums mentioned above will be calculated using the consolidated data. Additionally, if the firm is exempt from the requirement outlined in Part II of SRC Rule 68 to submit financial statements, it is considered a 'small company'. The regulator's statement said that such firms are not in the process of compiling their financial accounts and do not possess secondary licenses from the relevant authorities.

The PFRS for Small Entities is the framework that all small entities are required to utilize for their financial reporting. However, entities that have operations or investments that are based in or conducted in a different country that uses a different functional currency shall not apply this framework. This is because these other countries use different functional currencies. These types of small entities may instead apply either the full PFRS or the PFRS for SMEs, depending on the circumstances:

1. A small entity that is a subsidiary of a parent firm and which reports financial information in accordance with the complete PFRS or the PFRS for SMEs;

2. A small entity that is a subsidiary of a foreign parent company and which will be transitioning towards IFRS or IFRS for SMEs in accordance with the foreign country's announced convergence plan;

3. A small entity that is part of a group that is reporting under the full PFRS or the PFRS for SMEs as either a substantial joint venture or affiliate is considered to be a component of that group;

4. A small entity that is a branch office or regional operating headquarter of a foreign corporation that reports financial information using the full IFRS or the IFRS for SMEs;

5. A small entity that meets the requirements for a small entity but has a short-term prognosis that indicates it will exceed the quantitative thresholds that have been established for small entities. It is anticipated that the breach will be significant and continuing because of the long-term impact it will have on the asset size of the organization.

6. A small entity that has made the decision to liquidate and has been compiling its financial statements in accordance with either the full PFRS or PFRS for SMEs;

7. Any further situations that the Commission could take into consideration as legitimate exemptions from the obligatory adaptation of PFRS for Small Entities.

8. Any small entity that claims an exemption based on one of the reasons described in the previous paragraphs is required to include a discussion of the facts that support its adoption of the full PFRS or the PFRS for SMEs rather than the PFRS for Small Entities in the notes to its financial statements.

Philippine Financial Reporting Standards for Small Entities

The Philippines adopted the IFRS-based standards as the Philippine Financial Reporting Standards (PFRS) in 2005 except on the aspect of revenue recognition for real estate companies. The PFRS gives the conceptual framework to assist the board in developing standards, help develop consistent accounting policies, and help all the parties to understand and interpret the standard. Additionally, it concisely explains the general purpose of financial reporting as well as its limitations. This standard enables the listed companies, large unlisted companies, financial institutions, and public utilities to meet the requirement to use the full PFRS which are nearly identical to the full IFRS.

As mentioned by Caclini (2021), Small and medium-sized businesses (SMEs) are essential to a nation's economy. They boost economic activity, create jobs, spur innovation, ratchet up competition, and significantly impact the nation's progress. Asian Development Bank Institute (2016) studied that SMEs are present in almost all socioeconomic activities and services across Southeast Asia. However, their sectoral composition varies greatly. While in Malaysia's service industry, SMEs are overwhelmingly present and are firmly represented in Cambodia's food, drink, and tobacco industries, Indonesia's agriculture, and Philippine wholesale and retail markets. However, due to the gap between large entities and relatively small and medium sized entities when

making their financial statement due to the complexity, the International Accounting Standards Board developed the IFRS for Small, Medium- Sized Enterprise. The PFRS for Small and Medium-sized Entities was adopted by the Security and Exchange Commission in 2010, which lessened the financial reporting burden for entities with simpler structures and transactions.

Although the PFRS for SMEs aims to ease and simplify the compliance of financial reporting for SMES, the feedback from the small and micro enterprises states that the compliance with PFRS for SMEs is still fairly difficult and complicated, especially for micro and small business owners. The Association of Certified Public Accountants in Public Practice (ACPAPP) developed the PFRS for Small Entities accounting framework in response to this criticism. The Financial Reporting Standards Council (FRSC), which establishes the nation's accounting standards, gave its approval to the framework in response to the Government's efforts to transform the country's economy to make it more inclusive, and to encourage micro entrepreneurs to comply with reportorial requirements by providing them with simplified financial reporting. The ACPAPP also created illustrative financial statements using the new framework to further facilitate compliance and for ease of use. PFRS for Small Entities was created to further simplify it for small and micro firms, even though PFRS for SMEs was thought to be the simpler framework as opposed to full PFRS.

There are key differences between PFRS for Small entities and PFRS for SMEs. One of the key differences is PFRS for small entities does not have the concept of other comprehensive income and does not require entities to present a statement of comprehensive income unlike PFRS for SMEs. On the other hand, the statement of income in PFRS for Small entities does not provide for a list of minimum items to be presented in the statement of income that results in this new financial reporting framework less prescriptive than PFRS for SMEs. PFRs for Small entities has fewer

disclosure requirements and one of those is that PFRS for Small entities does not require the disclosure of significant accounting judgements and estimates. In addition, PFRS for Small entities includes less stringent standards for adjustments to accounting procedures or the fixing of mistakes from earlier periods. For instance, they do not mandate the restatement of prior year balances for small firms. Only the opening balances of the financial statements for the current year will include any effects of the change in accounting policy or rectification of errors.

Also, as opposed to the "selling price less costs to complete and sell" concept under PFRS for SMEs, PFRS for Small Entities only requires the comparison of cost against the "probable selling price to willing buyers as of reporting date" (i.e., the market value) when measuring inventories (i.e., assessing whether they are impaired). Furthermore, the lack of the "finance lease" concept and the requirement that lease expenses and income be recognized on a straight-line basis during the period of the lease further simplify lease accounting under PFRS for Small Entities. Lessees and lessors are required to recognize lease expense or income in the period in which they are incurred or earned, respectively, under PFRS for Small Entities. As a last point, PFRS for Small Entities has extra policy alternatives for small entities. Small businesses can now evaluate their investment assets at cost or fair market value, as an example. Another is that small businesses now have the option of carrying biological assets at cost or at the going rate in the market. In all situations, PFRS for SMEs only permits the carrying of such assets at fair value.

Small Entities in Baliwag City, Bulacan

Through the years of Spanish domination, Baliwag was predominantly agricultural. People had to depend on rice farming for their main source of livelihood. Orchards and tumanas yielded fruits and vegetables, which were sold in the public market. Commerce and industry also played important

contributions to the economy of the people. The local market also grew. During the early part of the 19th century, Baliwag was already considered one of the most progressive and richest towns of Bulacan. The growth of the public market has significantly changed the mode of economy of the town. Baliwag became the center of commercial activities due to its strategic geographical location. At present, it houses major business establishments like malls, supermarkets, fast food chains, cafes, restaurants as well as a number of hospitals and major educational institutions. Baliwag City, Bulacan is one of the centers of investments in the province and is expected to attract more investors as it continues to maintain its title as one of the fastest growing economies in the province of Bulacan that is now in pursuit of cityhood.

According to the list provided by the Business Permit and Licensing Office of the City of Baliwag, after receiving approval from the Office of the Mayor through the Archives Office, there are 3,705 registered entities in Baliwag, of which 448 are small entities (12%), 141 are medium entities (0.04%), and 3,116 are micro entities (0.84%). Retailers occupy the largest portion of small entities, having a number of 215 or 47.99 percent, followed by 103 service providers (22.99%), 65 banks and other institutions (14.50%), 28 lessors (6.25%), 14 manufacturers (3.13%), 10 wholesalers/distributors (2.23%), 9 "others" (2%), and 4 real estate developers (.89%).

Level of Compliance to Financial Reporting Standards

Kaya & Koch (2015) cited many reasons affecting the adoption of IFRS for Small and Medium-Sized Entities where one of the domineering roles of accounting in non-public environments is to attract external financing. This implies that where there is no public accountability, smaller entities tend to personalize the benefits of compliance to the related financial reporting standards. On the other hand, the rationale behind Philippines' adoption of the PFRS for Small Entities was to transfigure into a more inclusive economy

and to promote compliance by small and micro entities to the simplified financial reporting standards (Villanueva, 2018).

Previous studies on compliance to IFRS for SMEs show disappointing results. The study conducted by Rathnasiri (2014) indicates that the majority of Sri Lankan SMEs create financial statements to meet daily operational needs rather than fulfilling statutory requirements. Results show that a sizeable portion of the respondents maintained informal and insufficient reports rather than a complete and complete set of financial statements. Furthermore, the findings also reveal that the preparation and monitoring of cash flows are of the utmost importance to SMEs, as they are critical to their success and survival. Since SMEs in Sri Lanka operate in an uncertain business environment, having up-to-date financial information for decision-making is crucial. A study by Mazhindu and Mafuba (2013) showed that compliance, uptake, and awareness were seen to be low and that 80% of the participating SMEs did not maintain proper accounting records. While taking into account that the respondents of the aforementioned studies were small to medium sized entities, these evidences are perceived as justification enough of the need to assert the compliance of small entities to the related standards. Furthermore, the transition to cityhood of Baliwag opens up new business opportunities to the businesses it houses. The preparation of fairly presented financial reports would be useful in finding ways to expand the operations of businesses by communicating their current position and performance.

On the other hand, a study by Blay et al., (2019), which explored the level of compliance as well as firm attributes that influence the level of compliance, had better results by discovering that the average level of compliance of SMEs was at 77.9%. However, the authors still concluded that his figure is still "far from full compliance". Furthermore, a study by Zotorvie (2017) revealed that 57.3 percent of SMEs in Ho Municipality, Ghana did not keep proper accounting

records which led to difficulty in determining the financial performance and financial position of the business. In conclusion, the need for effective and efficient accounting practices is recognized along with the importance of good control procedures in the preparation of a complete set of financial statements.

Challenges that Constraint Compliance

SMEs face some challenges that constrain them from adopting IFRS for SMEs. Some organizations didn't keep accounting records because they didn't know how important accounting information was or that IFRS existed for SMEs, didn't have the resources to do so, or didn't have a clear line between ownership and management (Mazhindu & Mafuba, 2013). A study by Madurapperuma et al., (2016) found that due to a lack of accounting understanding and the expense of employing professional accountants, the majority of SMEs do not maintain full accounting records. Consequently, SMEs make ineffective use of accounting information to gauge their financial success. This makes it difficult for company owners to accurately evaluate their earnings. It also showed that their failure to maintain correct records was attributable to their (owners' or managers') lack of accounting expertise.

Since the new standard specifically provided for small entities was implemented only in 2018, it is hard for businesses to follow the standards for small entities if they do not know how it works. However, if they do, they choose not to comply with it, or they could be complying with the old standards. In a study conducted by Mazhindu and Mafuba (2013), where results showed that there is a low level of compliance by the chosen respondents, it was discovered that in terms of awareness, it turns out that most subjects are unaware of the existence of IFRS for SMEs. Hence, extensive awareness efforts or education may be required. In a similar study about the challenges of meeting the International Financial Reporting Standards (IFRS) for SMEs conducted by Khundadze and Amiredze (2017), almost half of the subjects respond that the new standard would only make accounting
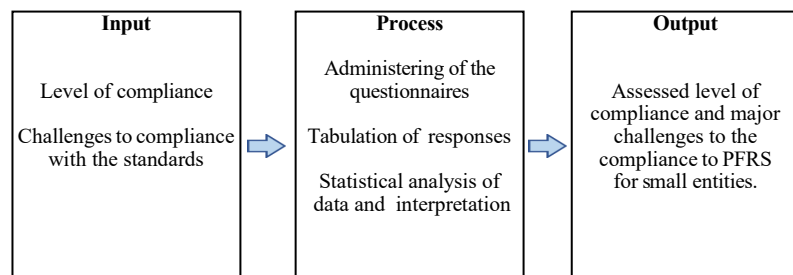
more complicated. The staff will need help in the form of training and consultancies in order to put the standards into practice. A distrustful attitude on the part of the owners, the expense of hiring qualified employees, and a fear of being taxed for disclosing all information also weigh in compliance (Gebremedihin, 2019).

Theoretical Framework

This study is anchored on the Institutional Theory adopted from Bakr (2020)'s study on the adoption of IFRS for SMEs in the Kingdom of Saudi Arabia. The institutional theory has been used in many different disciplines and as such, there are different interpretations for the theory. For this study, DiMaggio and Powell's (1983) concept of "institutional isomorphism or pressure" from which Meyer and Rowan's (1977) "new institutional theory" shall be used. The "new institutional theory" provides a blueprint for the socio-economic, legal, and political influences on the country and firm-level as well as the responses to them. Also termed "new institutional sociology" or NIS, it aims to explain the resemblances of the way organizations in similar settings operate and behave. Meyer and Rowan (1977) introduced institutional isomorphism, explaining that institutions tend to have similar structures due to macro environmental factors. On the other hand, the "structural isomorphism theory" was proposed by DiMaggio and Powell (1983). It includes three forms: (1) Normative isomorphism which explains that in order to reach institutional goals, institutions copy what they perceive to be best practices, (2) Coercive isomorphism which explains that institutions are structured in a particular way or comply with certain practices because of force coming from laws and regulations, and (3) Mimetic isomorphism which results from institutions imitating successful organizations and multinational institutions; they cope with uncertainties on their future by copying how successful organizations deal with similar obstacles. This study is set around examining how small entities respond to the standards on financial reporting set by governing bodies.

The institutional theory is used as the concept coercive isomorphism fits well with how organizations behave in response to financial reporting standards.

Conceptual Framework

Input		Process		Output
Level of compliance Challenges to compliance with the standards	⇨	Administering of the questionnaires Tabulation of responses Statistical analysis of data and interpretation	⇨	Assessed level of compliance and major challenges to the compliance to PFRS for small entities.

Figure 1. Conceptual Framework

The conceptual framework to be used in the study is the Input-Process-Output Model as shown in Figure 1. A process is seen in the IPO model as a collection of boxes (processing elements) joined by inputs and outputs. Based on a set of rules or decision points, information and material objects move through a series of tasks or activities. The general framework and direction of the investigation were supplied by the IPO model. The researchers developed the following model by substituting the study's variables into the IPO model.

The level of compliance and challenges that are associated with the PFRS for Small Entities will be described as the input for this study. The research process consisted of the administering of questionnaires, the tabulation of responses from small entities, the statistical analysis of data, and the interpretation of the results. The assessed level of compliance and major challenges to the PFRS for Small Entities will be the output product of the research.

Statement of the Problem

The Philippine Financial Reporting Standards for Small Entities (PFRS for Small Entities) was adopted to provide less burdensome financial reporting standards for small entities. However, the transition from the Full PFRS to PFRS for SMEs and finally to PFRS for Small Entities raise a question as to the ability of small entities to keep up with these changes. As such, there is a need to measure the level of compliance of small entities as well as the challenges that may hinder their compliance to the standards.

This study aims to determine the level of compliance to the Philippine Financial Reporting Standards for Small Entities (PFRS for Small Entities) in Baliwag, Bulacan. It also aims to discover the challenges that hinder such compliance.

Specifically, this study aims to answer the following questions:

1. What is the demographic profile of the small entities in terms of:
   1.1 type of industry;
   1.2 position of the small entities' of financial statement preparer; and
   1.3 level of qualification of the small entities' financial statements preparer?

2. How may the level of compliance with PFRS for Small Entities be described in terms of:
   2.1 General Principles
   2.2. Presentation of Statement of Financial Position;
   2.3 Presentation of Statement of Income;
   2.4 Presentation of Statement of Cash Flows; and
   2.5 Presentation of Notes to Financial Statements?

3. Is there a significant difference in the level of compliance with PFRS for Small Entities across industries?

4. What are the major challenges that constraint compliance to the standards?

Hypothesis

Ho : There is no significant difference in the level of compliance to PFRS for Small Entities when industry is considered.

Method

Research Design

According to Abutabenjeh S. and Jaradat R. (2018), a research design is a road map that outlines how a study will go from the research purpose or questions through the outcomes. It is a thorough planning procedure used to gather and evaluate data in order to better understand a certain issue. Research designs are typically categorized into qualitative and quantitative categories. This study is quantitative hence the research questions must be answered by numerical data.

A type of study known as quantitative uses the techniques used in the natural sciences to get concrete data and numbers. Using mathematical, computational, and statistical techniques, it seeks to establish a causal link between two variables. Due to its ability to be properly assessed, the research is sometimes referred to as empirical research. The information that was gathered by the researcher can be categorized, ranked, or quantified in terms of measurement units. With the use of quantitative research, graphs and tables of raw data may be created, making it simpler for the researcher to analyze the findings. (Ahmad et al., 2019).

Three types of quantitative research design that are frequently used are experimental, quasi-experimental, and descriptive. The study used a descriptive research design to determine the compliance in financial statements of small entities in the City of Baliwag.

A descriptive research design is a theory-based research methodology that is developed through the collection, evaluation, and presentation of data. Descriptive research, according to Islamia (2016), describes events as they actually occur and is used to identify and gather data on characteristics of a specific topic, such as a community, group, or individual.

The questionnaires were distributed to the small entities in the City of Baliwag and the data were collected, tabulated, analyzed, and interpreted.

Respondents and Sampling Procedure

As cited by Blay et al., (2019), Ary et al., (2006) suggested that for descriptive-quantitative studies, the appropriate sample size ranges from five (5) to ten (10) percent of the population. The same is the case with Tanaka & Sithole's (2015) study which was conducted on ten percent of the total population. As at the date of the conduct of this study, the registered small entities in the City of Baliwag have a total population size of 448. Due to limitations on confidentiality and the small number of entities actually preparing financial statements, this study was conducted on 15 small entities in the city.

Due to certain limitations on the population in terms of whether the small entities are preparing financial statements or not and their willingness to disclose certain information on their reporting practices, it was deemed impossible to obtain a random sample from the population. Hence, the non-probability sampling procedure Convenience Sampling was used in determining the respondents of this study. According to McCombes (2022), a non-probability sampling method involves convenience which allows researchers to easily gather data. This study applies

specifically the Convenience Sampling method which is the easiest and the most convenient way for the researchers in gathering data from the respondents. Small entities who met the requirements of this study regardless of the industry in which they belong to served as this study's respondents. Findings in this method can have high internal validity with methodologically sound statistical procedures and if the data are analyzed properly (Andrade, 2021).

Research Instruments

Sathiyaseelan (2015) described research instruments as the data collection tools used by a researcher and further stated that research questions serve as bases for the instruments to be utilized in a study. Furthermore, the variables in a study are measured using the research instrument. For the purpose of this paper, a survey questionnaire was used as a means of gathering data from the participants. According to Yaya (2014), a questionnaire is a collection of structured and unstructured questions used by researchers to gather needed data from their respondents. Through the use of questionnaires, members of the sample population's perspectives on the research problem that a paper seeks answers for are captured and collected (Aina, 2004:348). Instead of a five-point scale, the research instrument was constructed using a four-point Likert Scale to avoid respondent neutrality while answering the survey questionnaire. Furthermore, the scale was modified in order to extract more substantial results.

The research instrument was adapted from three different sources. "Adoption of International Financial Reporting Standard for Small and Medium Enterprises in North Central Nigeria: Implications for Financial Reporting Quality." by Solanke et al. (2016) and "The Adoption of International Financial Reporting Standards for Small to Medium Enterprises in Zimbabwe" by Mazhindu & Mafuba (2013) provided the questionnaires on the demographic profile, level of compliance and challenges that hinder

compliance. The content checklist included in the research instrument was adapted from PwC Philippines' "PFRS for SMEs Disclosure and Content Checklist". The checklist was modified to reflect the provisions of the Philippine Financial Reporting Standards for Small Entities (PFRS for Small Entities). Furthermore, only the section pertaining to financial statement presentation was utilized in the study in order to establish coherence with the studies by Solanke et al. (2016) and Mazhindu & Mafuba (2013).

Furthermore, statements on the checklist were also modified into assertion forms to match the four-point Likert Scale which ranges from (4) Strongly Agree to (1) Strongly Disagree.

Data Gathering Procedures

For the purpose of this study, the researchers requested the assistance of the city government in order to gather a list of registered small entities. A formal letter of request was submitted to the city's Archives Office to obtain approval from the city mayor. Following the mayor's approval, the request was forwarded to the Business Permit and Licensing Office from which the official list of registered small entities would be acquired. The list was sent through electronic mail. A questionnaire is used for the collection of data, and an employee of the company was visited to answer the questionnaires. An online form was also utilized to reach the respondents in distant barangays in the city. After respondents provide their responses to the survey question within a predetermined time frame, the data was gathered and tallied by the researchers and was sent to a statistician for analyzed. The questionnaire includes questions such as the level of compliance and compliance challenges, with the Likert Scale serving as the grading scale for responses.

This study was conducted with integrity, transparency, and thoroughness. The researchers abide by the ethical standards expected from conducting a study. The

information acquired from both the City of Baliwag and small entities were used for the sole purpose of this study only and was treated with utmost care and confidentiality.

Data Analysis and Statistical Analysis

This study is characterized by a descriptive research design. As such, descriptive statistics was utilized to measure and interpret the level of compliance and challenges that hinder compliance. To achieve more substantial and generalized results, a survey questionnaire with a four-point Likert Scale was used. Data gathered were interpreted as follows:

Table 1. Interpretation of Likert Scale for Level of Compliance

Mean Value	Description	Verbal Interpretation
3.26-4.00	Strongly Agree	Very High
2.51-3.25	Agree	High
1.76-2.50	Disagree	Low
1.00-1.75	Strongly Disagree	Very Low

Table 1 shows the interpretation of the mean value and determines the level of compliance of the entities.

Table 2. Interpretation of Probability Value

P-Value	Interpretation	Reject or Accept Null Hypothesis
Less than 0.05	There is a significant difference	Reject
Greater than 0.05	There is no significant difference	Accept

Table 2 presents the interpretation of the p-value that determines any significant difference. Due to the limited number of respondents, a non-parametric test like Kruskal-Wallis was deemed appropriate to be used in determining whether there is a significant difference in the level of compliance across industries.

The Kruskal-Wallis test is used in determining the existence of a significant difference between three or more groups. It is a type of one-way ANOVA test that's is to be used when comparing the means of ordinal data or those that are ranked. It is a nonparametric analysis of variance that may be used as a substitute for the standard one-way ANOVA when dealing with a non-normal population (Elliot & Hynan, 2011) and yields more powerful results for unequal distributions of data (Hecke, 2012).

Frequency and percentages. Percentages and frequencies were used to describe the demographic profile of the participants in terms of industry, demographic profile of the persons in charge of preparing reports in terms of position in the company and highest level of qualification, and the major challenges that hinder compliance.

Results and Discussions

This section presents of the findings of the study and provides an analysis of the results. In this section, the data obtained from the study is presented. Further, it provides the interpretation and analysis that determine its implications and significance. The significance of the findings is explained and the results are compared to existing literature.

Table 3. Frequency and Percentage Distribution of Respondents according to Type of Industry

Type of Industry	Frequency	Percentage
Financing	4	26.7
Retail	7	46.7
Service	4	26.7
Total	**15**	**100.0**

The distribution of the respondents according to the type of industry is shown in Table 3. It can be seen that out of the 15 respondents, four (26.7%) are from the financing industry. Seven (46.7%) of them are from the retail industry. Lastly, there are four (26.7%) who are from the service industry.

Table 4. Frequency and Percentage Distribution of the Position of the Preparer of Financial Statements in the Company

Position	Frequency	Percentage
Accountant of the Business	5	33.3
External Auditor	2	13.3
External Bookkeeper	1	6.7
Manager of the Business	4	26.7
Owner of the Business	3	20.0
Total	**15**	**100.0**

Table 4 presents the profile of the companies based on the position of the preparer of financial statements. Among the 15 companies, five (33.3%) have an accountant in the business who prepares the financial statements. For two (13.3%) companies, an external auditor prepares the financial statements. One (6.7%) company has an external bookkeeper who prepares the financial statements. For four (26.7%) companies, the managers of the business take charge in performing the task. Meanwhile, for three (20.0%) of the companies, the owners themselves prepare the financial statements.

Table 5. Frequency and Percentage Distribution of the Levels of Qualification of the Preparer of the Financial Statements

Qualification	Frequency	Percentage
College Graduate	9	60.0
Licensed CPA	5	33.3
Master's Degree Holder	1	6.7
Total	**15**	**100.0**

Table 5 shows the levels of qualification of the preparer of the financial statements in the companies. Nine (60.0%) companies have college graduates as preparers of financial statements. Five (33.3%) have licensed CPAs who are doing the said task. Meanwhile, one (6.7%) company has a Master's degree holder who prepares the financial statement.

Table 6. Mean and Standard Deviation Interpretation of the Compliance with the Philippine Financial Reporting Standards for Small Entities

Area	N	M	SD	Interpretation
General Principles	15	3.55	.425	Very High
Presentation of Statement of Financial Position	15	3.34	.537	Very High
Presentation of Statement of Income	15	3.30	.528	Very High
Presentation of Statement of Cash Flows	15	3.45	.550	Very High
Presentation of Notes to Financial Statements	15	3.54	.534	Very High

Table 6 presents the mean and standard deviation of the compliance with the Philippine Financial Reporting Standards for small entities. The results show that the companies have a very high level of compliance with the General Principles (M = 3.55, SD = .425, N > 59). They also have a very high level of compliance with the indicators under Presentation of Statement of Financial Position (M = 3.34, SD = .537, N > 59) and under Presentation of Statement of Income (M = 3.30, SD = .528, N = 15). Furthermore, the companies have a very high level of compliance when it comes to the indicators under Presentation of Statement of Cash Flows (M = 3.45, SD = .550, N = 15) and Presentation of Notes to Financial Statements (M = 3.54, SD = .534, N = 15).

Table 7. Mean Ranks of the Compliance with the Philippine Financial Reporting Standards per Type of Industry

Variable	Industry	N	Mean Rank
General Principles	Financing	4	7.88
	Retail	7	7.00
	Service	4	9.88
	Total	15	
Presentation of Statement of Financial Position	Financing	4	6.25
	Retail	7	6.86
	Service	4	11.75
	Total	15	
Presentation of Statement of Income	Financing	4	5.75
	Retail	7	7.29
	Service	4	11.50
	Total	15	
Presentation of Statement of Cash Flows	Financing	4	6.88
	Retail	7	6.79
	Service	4	11.25
	Total	15	
Presentation of Notes to Financial Statements	Financing	4	7.38
	Retail	7	7.07
	Service	4	10.25
	Total	15	

In order to perform Kruskal – Wallis tests, mean ranks of the compliance with the Philippine Financial Reporting Standards were determined per type of industry.

Under General Principles, the service industry got the highest mean rank (MR = 9.88, N = 4), followed by the financing industry (MR = 7.88, N = 4), and the retail industry (MR = 7.00, N = 7). For the indicators under Presentation of Statement of Financial Position, the service industry got the highest mean rank (MR = 11.75, N > 8), followed by the retail industry (MR = 6.86, N > [1]), and then the financing industry (MR = 6.25, N > 8). For the indicators under Presentation of Statement of Income, the service industry got the highest mean rank (MR = 11.50, N = 4), followed by the retail industry (MR = 7.29, N = 7), and then the financing industry (MR = 5.75, N = 4).

For the indicators under Presentation of Statement of Cash Flows, the service industry again got the highest mean rank (MR = 11.25, N > 8), followed by the financing industry (MR = 6.88, N > 8), and then the retail industry (MR = 6.79, N > 7). Lastly, for the indicators under Presentation of Notes to Financial Statements, the service industry again got the highest mean rank (MR = 10.25, N = 4), followed by the financing industry (MR = 7.38, N = 4), and then the retail industry (MR = 7.07, N = 7).

Table 8. Kruskal-Wallis Test for Compliance with the Philippine Financial Reporting Standards across Types of Industry

PFRS Areas	Statistical Treatment	
General Principles	Kruskal-Wallis	1.158
	df	2
	Sig.	.561
Presentation of Statement of Financial Position	Kruskal-Wallis	3.917
	df	2
	Sig.	.141
Presentation of Statement of Income	Kruskal-Wallis	3.998
	df	2
	Sig.	.135
Presentation of Statement of Cash Flows	Kruskal-Wallis	2.939
	df	2
	Sig.	.230
Presentation of Notes to Financial Statements	Kruskal-Wallis	1.526
	df	2
	Sig.	.466

A series of Kruskal-Wallis tests was used to determine whether there are significant differences across the groupings based on industry types in terms of the five areas in the Philippine Financial Reporting Standards. Due to the limited number of respondents, a non-parametric test like Kruskal-Wallis was deemed appropriate to be used.

Results showed that the groups do not significantly differ in terms of their compliance to general principles domain [$H(2)$ = 1.158, p > .9⁰5], presentation of statement of financial position [$H(8)$ = 3.917, p > .585], presentation of statement of income [$H(8)$ = 3.998, p > .579], presentation of statement of cash flows [$H(8)$ = 2.939, p > .674], and presentation of notes to financial statements [$H(8)$ = 1.526, p = .466].

These results indicate that based on the data gathered, the type of industry where a company is a part of does not affect its compliance to PFRS. Thus, the null hypothesis is accepted. This is in agreement with the results of Solanke, A.A. (2016)'s study which stated that there is no distinction in the compliance with the standards with regard to the industry type of the respondents.

Table 9. Identification of the Major Challenges that Constrain the Compliance to the Standards of the Small Entities

Major Challenges	Frequency (N = 15)	Percentage
The entity wants to keep its privacy and fears disclosing financial information.	10	66.7
The person preparing financial statements lack the knowledge/awareness on the existence of PFRS for Small Entities.	9	60.0
The cost of hiring qualified employees from the market.	8	53.3
There is a lack of accounting personnel.	5	33.3
There is a lack of accounting skill needed to prepare financial statements.	4	26.7
The entity sees no need to prepare financial statements.	1	6.7

Table 9 presents the frequency and percentage distribution of the major challenges that constrain the compliance to the standards of the small entities.

The first major challenge identified by the majority of the respondents is that the entity wants to keep its privacy and fears disclosing financial information (n = 10, 66.7%). The next major challenge is that the person preparing financial statements lack the knowledge/awareness on the existence of PFRS for Small Entities (n = 9, 60.0%). The third

challenge is the cost of hiring qualified employees from the market (n = 8, 53.3%).

Meanwhile, only five (33.3%) of the 15 companies agreed that the lack of accounting personnel also serves as a challenge. Also, there are four (26.7%) out of the 15 companies who identified that there is a lack of accounting skill needed to prepare financial statements. Lastly, only one (6.7%) company said that they see no need to prepare financial statements.

Conclusions

Small entities play a vital role in the growth of the Philippine economy. To aid them in their financial reporting practices, the PFRS for Small Entities, which is tailored to ease the burden of financial reporting for small entities, was adopted. As this is a relatively new standards and monitoring is less strict when it comes to smaller entities, it has become an area of concern how they are keeping up with such changes and whether they are complying with the requirements of PFRS for Small Entities. Based on the results of the analyses performed, the following conclusions were drawn:

In terms of Financial Statement Presentation, the respondents were rated with Very High levels of compliance with the General Principles as well as with the presentation of the Statement of Financial Position, Statement of Income, Statement of Cash Flows, and the Notes to Financial Statements.

There was no significant difference in the level of compliance with the presentation requirements across the service, retail, and financing industries. This suggests that the industry where a small entity belongs to is not a determining factor of the level of its compliance with presentation requirements of PFRS for Small Entities.

The survey on the challenges that hinder complies showed that the fear of disclosing financial information with 10 responses, the lack of knowledge on the existence of PFRS for Small Entities with 9 responses, and the cost of hiring qualified employees with 8 respondents are the major challenges that may hinder compliance with the standards.

Recommendations

The result of this study as well as the limitations it encountered warrant a different approach and future research. As such the researchers suggest the following recommendations:

In order to address the major challenges that hinder compliance with the standards, the researchers recommend that the management of small entities provide professional development opportunities to the preparers of financial reports. This is also to keep them in track of the updates or changes in the standards. Additionally, the researchers recommend that the small entities employ professionals with the required credentials to prepare their reports as this would help them avoid the major challenges that hinder compliance.

Because of the limitations encountered during the data gathering process, that is, the large number of small entities not preparing financial statements, the researchers recommend that the city government of Baliwag pay closer attention to the small entities' compliance with the reporting requirements. The researchers also recommend ways to promote compliance, such as emphasizing that fairly presented financial reports are requisites for tax compliance and by providing the benefits that the entities could reap from complying with the standards.

In relation to the results of the study, the researchers recommend that future studies dealing with similar variables

incorporate qualitative approaches in order to get a complete view of the level of compliance with the related standards.

The researchers encourage future researchers to determine first the current situation of the adoption of the standards as this would pose less limitations on the data gathering process and because the researchers believe that respondents would be more willing to participate in the study. This approach would also lead to a measure of the relative portions of the population who do and do not adopt the standards.

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