

ACCOUNTANCY SERVICE REQUIREMENTS OF MICRO, SMALL, AND MEDIUM ENTERPRISES IN THE PHILIPPINES

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ABSTRACT

This study surveyed micro, small, and medium enterprises (MSMEs) to determine the type of accountancy services they require from individual CPAs or firms of CPAs who are engaged in public accountancy practice. The service requirements were deduced from the type of services the respondent SMEs currently outsource to these practising CPAs. The study found out that the service required by most respondents is taxation service and the least is internal audit. MSMEs also require consulting, accounting, and independent audit. Certain business profiles of the MSMEs like asset size, nature of business, form of business organization, and employment size were found related in varying degrees to the services that they require. Micro and small enterprises differ to a certain extent from the medium enterprises as they require fewer and simpler services. The practical implication of the findings of the study from the point of view of the practising CPAs is that micro and small enterprises represent a relatively small market. On the other hand, it can be inferred that these enterprises signify market challenges for the practising CPAs. Thus, this calls for appropriate strategic move on the part of the practising CPAs in terms of service development and marketing.

Keywords: accountancy service, MSMEs, service outsourcing, business profile

INTRODUCTION

Micro, small, and medium enterprises (MSMEs) perform multiple roles in the country and its economy. The Department of Trade and Industry (DTI) in the Philippines cited that MSMEs contribute to the generation of employment and income, both in rural and urban areas. The MSME sector has played a crucial role in the development of the Philippine economy through industrialization and development of rural areas; decentralization of industries; use of indigenous resources; creation of backward and forward linkages with existing industries; and improvement of entrepreneurial activities. More importantly, the sector provides the economy with a continuous supply of ideas, skills, and innovations necessary to promote competition and the efficient allocation of scarce resources.

Berry (2007, p.1) cited that small and medium enterprises (SMEs) are important to almost all economies in the world, especially to those in developing countries and, within that broad category, especially to those with major employment and income distribution challenges. The SME sector is the backbone of the economy in high-income countries, but as stated by Bouri, et.al. (2011, p.7) the sector is less developed in low-income countries. The Organisation for Economic Cooperation and Development (OECD, 2005) believed that encouraging entrepreneurship and facilitating the rapid growth of innovative SMEs are effective means of creating jobs, increasing productivity, and alleviating poverty.

The growth in the number of MSMEs has remained steady over the years. The OECD SME and Entrepreneurship Outlook - 2005 Edition reported that more than 95% of enterprises in the OECD area are SMEs. These enterprises account for almost 60% of private sector employment, make a large contribution to innovation, and support regional development and social cohesion. In the Philippines, there are 820,255 business enterprises as of 2011 count. Of these, 99.6% (816,759) are MSMEs and the remaining 0.4% (3,496) are large enterprises. Of the total number of MSMEs, 91.0% (743,250) are micro enterprises, 8.6% (70,222) are small enterprises, and 0.4% (3,287) are medium enterprises (DTI, 2014). Leano (2006, p.5) expressed that the Philippine government has been anticipating globally competitive SMEs in the new industrial economic environment. These are SMEs that have acquired distinctive competencies from harnessing efficient technologies and establishing strategic relationships with partners, market forces, suppliers, and even competitor producers.

While the varying roles of MSMEs cannot be discounted, a number of challenges on the sustainable development of the sector remain among nations. For instance, the implementation of policies that could facilitate the rapid growth of these enterprises is typically slow in a number of industrialized and developing countries alike. In addition, Lundström (2009, p.8) stated that the world is globalized and so is the world for entrepreneurs. Hence, global changes would affect the SMEs in different types of economies both on a national and regional perspective.

At the enterprise level, Thomola, et. al. (2010, p.25) cited that some factors contributing to failures of MSMEs include tax burden, lack of collateral for security in bank loans, unwillingness of the banks to grant loans, business asset utilization, and expense management. Indeed, the MSMEs are vulnerable to a lot of internal and external barriers. Hence, they need to be capacitated and be informed about the myriad of functions that they need to perform, primarily those in the aspect of managing their financial resources. This concurs the statement of Chandra (n.d., p.29) that apart from governmental support the MSMEs need an expansion of their network to seek support from the financial sector: bankers, financiers, domestic and foreign investors, and venture capitalists.

Clearly, one prevalent challenge faced by MSMEs is the optimum use of financial resources necessary to survive in a competitive environment. This entails generating meaningful financial information needed internally and by both shareholders and creditors. Indeed, corporate governance principles assert that enterprise management has the responsibility to come up with periodic financial statements that are fairly presented to provide reliable information to various types of users. In addition, the MSMEs need to comply with government regulations on financial reporting, taxation, employees' compensation, and the like. To achieve these requirements, the MSMEs either utilize their own accounting or finance units or contract out the services to professionals such as public accountancy firms and/or individual Certified Public Accountants (CPAs). A relatively large number of MSMEs have remained unaware of their own needs in the aspect of accounting and financial management and the professional services that CPAs can offer to them along these areas. Thus, it is necessary to document and probe the services which the MSMEs require from public accountancy firms and individual CPAs who are in a position to provide them with a wide array of services covered by the accountancy profession.

OBJECTIVES OF THE STUDY

This study was focused on the accountancy services that the MSMEs commonly require from the public accountancy firms and/or individual CPA in public practice. Specifically, it sought answers to the following questions: (1) What is the business profile of the respondent MSMEs in terms of the (a) asset size; (b) nature of business; (c) form of business organization; and (d) employment size? (2) What are the accountancy services which the respondent MSMEs commonly require from public accountancy firms and/or independent CPAs? (3) Is there a relationship between the business profile of the respondent MSMEs and the accountancy service requirements? and (4) Are there significant differences in the type of accountancy services that respondent MSMEs generally require when the respondents are grouped according to their business profile?

AREAS OF ACCOUNTANCY PRACTICE

Accountancy is defined by the Oxford English Dictionary as "the profession or business of an accountant." It refers to the discipline or branch of study dealing with the duties of an accountant. Said duties include accounting, auditing, and tax services. Mendoza (2012, p.30) cited that the work of accountants has recently expanded to include certain finance-related areas of management consulting. The scope of work of accountants has more or less uniform global classifications, although country or domestic practices vary to some extent. In the United Nations Statistical Division (2014), the Central Product Classification for goods and services has two service categories that correspond directly to the functions of an accountant: accounting, auditing and bookkeeping services (covered under Group 862) and taxation services (Group 863). In addition, Group 865 pertains to management consulting services where accountants can get involved in a sub-class called financial management consulting services (Subclass 86502).

In the Philippines, the practice of accountancy is governed by Republic Act (RA) No. 9298 titled "Philippine Accountancy Act of 2004." The said law limits the practice of accountancy to CPAs who have current license to practice. The scope of practice covers four major areas: commerce and industry, education or academe, government, and public practice. In the first three areas, the CPA is employed by a specific entity or organization that serves as the employer of the CPA. Public accountancy is quite different as it entails the provision of professional services to the public by a CPA who charges the client a fee as monetary remuneration for the services. A CPA in public practice may provide service in his/her individual capacity, a partner or a staff member in a public accountancy firm, also known as auditing firm.

The type and magnitude of services rendered by a CPA in public accountancy vary to a large extent depending on the service capacity, size of the practice, type of client, and geographical area. Understandably, public accountancy firms generally provide broader services than the individual practitioner. As a matter of fact, players in the public accountancy practice are categorized into big firms, medium practitioners, and small practitioners. The big firms cater their services to large entities, primarily those corporations with multinational operations and are publicly listed in the stock exchange.

On the other hand, the small and medium practitioners provide their service package to the MSMEs. Clearly, it is imperative that the service requirements of the MSMEs should be within the scope of service packages that the small and medium practitioners offer. In the same vein, the service offering of the small and medium practitioners should match the services which the MSMEs require. Thus, in the area of public accountancy practice, a parallel demand and supply situation should exist between the MSMEs as clients and the CPA practitioners.

RESEARCH FRAMEWORK AND METHODOLOGY

Operational Framework. This research is anchored on the attributes of accountancy as a profession and the services rendered by professional accountants to the MSMEs. It describes the business profile of the respondents (as independent variable) in four attributes: asset size, nature of business, form of business organization, and employment size. The research also identifies and describes the accountancy services (as dependent variable) that are commonly required by the MSMEs from public accountancy firms or individual CPAs.

Research Hypothesis. The study has the following hypotheses:

Hypothesis 1: There is no significant relationship between the business profile of the respondent MSMEs and the accountancy service requirements.

Hypothesis 2: There is no significant difference in the type of accountancy services that respondent MSMEs generally require when the respondents are grouped according to their business profile.

Methods of Data-Gathering and Analysis. The study surveyed 100 respondent-businesses in the CALABARZON Region in the Philippines, with their service requirements from public accountancy firms or individual CPAs based on the services that they currently outsource as the focus. The survey was supplemented by an interview of key informants. Data were analysed using percentages, ranks, chi-square test of independence, and one-way analysis of variance.

This research was conducted in five provinces, namely: Cavite, Laguna, Batangas, Rizal, and Quezon, where the acronym CALABARZON was derived. It is more popularly known as the Southern Tagalog Region, the second largest contributor to the national gross domestic product. Due to its proximity to Metropolitan Manila, the country's national capital region, a large amount of urbanization has taken place over the years in the CALABARZON Region. Of the 816,759 MSMEs in the Philippines, 122,562 (or 15%) are in CALABARZON, making it second to Metro Manila with 211,974 or 26% of the total number of MSMEs (DTI 2014).

RESULTS OF THE STUDY

The findings of the study are presented in four parts: (1) business profile of respondents; (2) accountancy service requirements; (c) relationship of business profile and accountancy service requirements; and (d) tests of differences in the responses of the MSMEs.

Business Profile of Respondents. The study covered the business profile of the respondent MSMEs in terms of (a) asset size; (b) nature of business; (c) form of business organization; and (d) employment size (Table 1).

Table 1: Business Profile of the Respondent MSMEs

| Asset Size (in Philippine pesos) | Frequencies | Percentage |
|--------------------------------------|-------------|------------|
| Micro (P3 million and below) | 44 | 44 |
| Small (P3,000,001 to P15 million) | 28 | 28 |
| Medium (P15,000,001 to P100 million) | 28 | 28 |
| Total | 100 | 100 |
| Nature of Business | Frequencies | Percentage |
| Trading and Distribution | 38 | 38 |
| Services | 37 | 37 |
| Manufacturing | 20 | 20 |
| Agriculture | 3 | 3 |
| Real Estate Developer | 2 | 2 |
| Total | 100 | 100 |
| Form of Organization | Frequencies | Percentage |
| Single Proprietorship | 65 | 65 |
| Corporation | 32 | 32 |
| Cooperative | 2 | 2 |
| Partnership | 1 | 1 |
| Total | 100 | 100 |
| Number of Employees | Frequencies | Percentage |
| Micro (1-9) | 41 | 41 |
| Small (10-99) | 46 | 46 |
| Medium (100 – 199) | 13 | 13 |
| Total | 100 | 100 |

Grouped according to **asset size**, 44% of the 100 respondents have assets of up to P3,000,000; 28% have assets from P3,000,001 to P15,000,000 and the remaining 28% have assets from P15,000,001 to P100,000,000. In terms of the **nature of business**, the study revealed that 38% of the 100 respondents are engaged in trading and distribution, 37% in services, 20% in manufacturing, 3% in agriculture and only 2% in real estate. Majority (65%) of the 100 respondents are owned by single proprietors, 32% are corporations, while a minority (3%) are cooperatives and partnerships. When grouped according to **employment size**, the study found out that 46% of the 100 respondents provide work for 10 to 99 employees, 41% provide work for 1 to 9 employees, and 13% provide work for 100 to 199 employees.

Accountancy Service Requirements. Overall, 92% of the respondent MSMEs require tax services from public accountancy firms or independent CPAs (Table 2). It appears that of the five service areas in accountancy, taxation is the most prevalent and in-demand service among the MSMEs. More than half of the respondents require consulting services (58%) and independent

audit services (55%). A relatively large percentage (44%) also requires general accounting services while only 21% need internal audit services.

Table 2: Accountancy Service Requirements of Respondent MSMEs

| Accountancy Services | Percentage (n=100) | Rank |
|-----------------------------|-----------------------|------|
| Tax services | 92 | 1 |
| Consulting services | 58 | 2 |
| Independent audit services | 55 | 3 |
| General accounting services | 44 | 4 |
| Internal audit services | 21 | 5 |

Tax Services. Specifically, 90% outsource the preparation of annual tax returns to the public accountancy firms or individual CPAs while 84% avail assistance for tax computations and preparation of monthly and quarterly tax reports (Table 3). These were followed by 78% and 73% for the filing of tax returns and assistance in tax cases and settlements, respectively. Only around one-third of them avail of tax planning and tax education and information services.

Table 3: Tax Service Requirements of Respondent MSMEs

| Type of Tax Services | Percentage (n=100) | Rank |
|---|-----------------------|------|
| Preparation of annual tax returns and other tax reports | 90 | 1 |
| Assistance to tax computations | 84 | 2 |
| Preparation of monthly and quarterly tax reports | 84 | 3 |
| Filing of tax returns | 78 | 4 |
| Assistance in tax cases and settlements | 73 | 5 |
| Tax planning | 37 | 6 |
| Tax education and information | 35 | 7 |

Based on interview with key informants, it appears that the tax services required by the respondents generally entail compliance to tax regulations, primarily the submission of tax returns on a periodic basis. Understandably, the task of preparing the tax returns also entails determining the right amount of taxes and taking into account the various measures of tax exemptions and/or exceptions. The taxes commonly paid include income tax, percentage tax, value-added tax, and withholding taxes on compensation and similar transactions.

Interviews conducted showed that key informants have one common notion that seeking the help of the public accountancy firms and/or individual CPAs is primarily due to their desire to protect their business from faulty tax computations and avoid penalties. In essence, tapping the professional accountants is a measure that the MSMEs adopt to ensure that they comply with government regulations.

The survey revealed that (a) services related to tax matters are generally separated from purely accounting functions and (b) the respondents generally outsource tax services. On the separation of taxation services from accounting services, Williams, et. al. (2010, p.6) viewed the preparation of income tax returns as a specialized field within accounting. This is so because tax returns are based on financial accounting information to a large extent, although the information is often adjusted or reorganized to conform to income tax reporting requirements. However, they also opined that entities should comply with specialized legal requirements relevant to their responsibility to pay the appropriate amount of taxes. As such, tax services are generally separated from general or financial accounting. Such an arrangement agrees with the perspective of Anthony, et.al. (2011, p.5) that tax accounting rules differ from financial accounting rules. Thus, entities must keep separate tax accounting records for tax purposes in those areas where they have elected to use different accounting rules for tax accounting and general or financial accounting.

Consulting Services. The most availed consulting service is that of business establishment, organization, and registration (56%). Only 10% avail of consulting services regarding business expansion or branching out and 7% consult regarding share capital transactions and making investment decisions. Very few availed of services related to business problems on liquidity, profitability, etc.; business valuation, dissolution or liquidation; risk management; employee hiring, promotion and selection; preparation of project feasibility studies; business process design and improvement. The study also found out that the respondents are not vent into services dealing with mergers and consolidation; employee benefit plans; cost analysis; and capital expenditures evaluation.

The survey revealed that the respondents have sought the services of professional accountants to assist them in establishing, organizing, and registering their businesses. In the interview conducted, it appears that new entities, primarily the corporations, prefer to have an independent professional do the tasks related to incorporation and secure permits from the government agencies during the formation stage. The services of the consultants extend up to the aspect of determining the appropriate capital structure, finding the sources of funds, and preparing business plans.

Table 4: Consulting Service Requirements of Respondent MSMEs

| Type of Consulting Services | Percentage (n=100) | Rank |
|--|-----------------------|------|
| Business establishment, organization, and registration | 56 | 1 |
| Business expansion or branching out | 10 | 2 |
| Share capital transactions | 7 | 3-4 |
| Assistance in making investment decisions | 7 | 3-4 |
| Business problems on liquidity, profitability, etc. | 6 | 5 |
| Business valuation, dissolution or liquidation | 4 | 6 |
| Risk management | 3 | 7 |
| Employee hiring, promotion and selection | 2 | 8-10 |
| Preparation of project feasibility studies | 2 | 8-10 |
| Business process design and improvement | 2 | 8-10 |
| Mergers and consolidation | 0 | |
| Employee benefit plans | 0 | |
| Cost analysis | 0 | |
| Capital expenditures evaluation | 0 | |

While the nature of consulting services required by the MSMEs fall within the scope of accountancy services, it is far from those rendered by big auditing firms. Mendoza (2013, p.142) cited that the consulting service portfolio of large public accountancy firms (also known as the Big Four) entails helping organizations in planning, growing, and structuring their respective businesses to address key issues such as strategy, technology, and change management. These firms work closely with the clients to improve business performance, drive shareholder value, and create a competitive and sustainable advantage. Big firms also help their clients execute enterprise-wide performance information initiatives, including transformation of strategies into reality. Cabrera (2010, p.20) pointed out that the most sought-after types of consultancy work include business planning, information systems, business process improvement, marketing research, new product development, exporting and international market development, and the like. It appears that a wide disparity exists in the requirements of the MSMEs and the large corporations. This also implies that CPAs providing services to MSMEs have competency requirements that are far different from those in the large accountancy firms.

Independent Audit Services. The survey revealed that 55% of the respondents avail the services of professional accountants to perform independent audit, also known as external audit. The Association of Chartered Certified Accountants (ACCA) indicated that “the objective of an external audit is to enable the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework” (ACCA, 2012, p.4). Porter, et.al. (2008, p.7) specified that probably the best known and most frequently performed external audits are statutory audits of financial statements of companies and public sector entities.

Based on the interviews conducted, most MSMEs engage CPAs to perform independent audit, primarily to comply with government regulations, specifically the National Internal Revenue Code. Such code, implemented by the Bureau of Internal Revenue requires “corporations, companies, partnerships or persons whose gross quarterly sales, earnings, receipts or output exceed P150,000 to have their books of accounts audited and examined yearly by independent CPA and their income tax returns accompanied with a duly accomplished Account Information Form.” This form is supposed to contain, among others, information lifted from certified balance sheets, profit and loss statements, schedules listing income-producing properties and the corresponding income therefrom, and other relevant statements. A number of respondents whose business is in the form of sole proprietorship also avail of the standard optional deductions in computing tax obligations. Doing so exempts them from filing audited financial statements.

Some key informants also put value to independent audit services for loan applications with banks and in securing credit line with suppliers. The respondents whose form of organization is a cooperative cited that independent audit is also required by the Cooperative Development Authority, the government body that regulates cooperatives in the country. For the corporations, the Securities and Exchange Commission requires the submission of audited financial statements. The interview also revealed that corporations rely on the external audit for the reliability of financial information that they disseminate to shareholders, particularly during the annual shareholders meeting.

General Accounting Services. Of the respondents requiring general accounting (also known as financial accounting) services, 26% avail monthly preparation of interim financial statements, 16% outsource the recording of transactions in specialized journals and general ledgers while 14% avail services for account reconciliation and preparation of documents for government remittances. The study also found out that only a small percentage of the respondents need services related to the preparation of account schedules; recording of transactions in subsidiary ledgers; preparation of tax remittance documents; quarterly preparation of interim financial statements; profitability analysis; sales or revenue analysis; problem account analysis; bank reconciliation; cost or expense analysis; and weekly preparation of interim financial statements.

Table 5: General Accounting Service Requirements of Respondent MSMEs

| Type of General Accounting Services | Percentage (n=100) | Rank |
|---|--------------------|-------|
| Monthly preparation of interim financial statements | 26.0 | 1 |
| Recording of transactions in specialized journals | 16.0 | 2-3 |
| Recording of transactions in general ledgers | 16.0 | 2-3 |
| Doing account reconciliation | 14.0 | 4-5 |
| Preparation of remittance documents to government | 14.0 | 4-5 |
| Preparation of account schedules | 11.0 | 6 |
| Recording of transactions in subsidiary ledgers | 10.0 | 7-8 |
| Preparation of tax remittance documents | 10.0 | 7-8 |
| Quarterly preparation of interim financial statements | 9.0 | 9-10 |
| Doing profitability analysis | 9.0 | 9-10 |
| Doing sales or revenue analysis | 8.0 | 11-13 |
| Doing problem account analysis | 8.0 | 11-13 |
| Doing bank reconciliation | 8.0 | 11-13 |
| Preparing cost or expense analysis | 3.0 | 14 |
| Weekly preparation of interim financial statements | 1.0 | 15 |

The key informants described two modes of performing general accounting among MSMEs: in-house accounting and outsourcing. Usually, the micro enterprises have their accounting services outsourced, that is, the whole accounting process is undertaken by an outside professional since transactions are very minimal and hiring employees on a full-time basis may not be logical. A number of them also outsource the recording process to a bookkeeper and engage a CPA to do the financial statements and related analytical works. On the other hand, the medium-sized enterprises have a specific unit that performs accounting and financial works. A number of the medium-sized enterprises also have internal audit that reviews the work of the accounting department.

Essentially, the general accounting function covers the whole accounting cycle. It is mostly captured in an accounting system which every enterprise, regardless of size, should aspire to put in place. As cited by Cabrera and Ocampo (2013, p. 60) all business entities have an accounting system, ranging from the very simple such as using the checkbooks to the very complex involving the use of networked computers. Cabrera and Ocampo (2013, p. 60) also stated that an accounting system is “the means by which a company records and stores the financial and managerial information from its transactions or economic events so that it can retrieve and report the information in an accounting statement.”

Key informants from corporations have recognized the value of accounting functions as they enabled the generation of financial reports which the shareholders needed. This impression concurs with Kieso, et.al. (2011, p.8) that capital providers or investors are the primary user group of the financial statements as they have the most critical and immediate need for information coming from the financial statements. Williams, et.al. (2010, p. 5) asserted that financial accounting is “designed primarily to assist investors and creditors in deciding where to place their scarce investment resources.” In fact, such decisions are important to society because they determine which companies and industries will receive the financial resources necessary for growth. The study ascertained that some analytical works on revenue, cost, profitability, and problem accounts are usually done by the persons who perform accounting works, hence, not much of them are outsourced to external parties.

Internal Audit Services. The study revealed that 16% of the respondents outsource financial audit, 15% outsource operations audit, 5% outsource compliance audit while only 2% outsource fraud audit. In an interview with key informants, it was noted that many MSMEs are not keen into outsourcing internal audit for various reasons. For a relatively large number of micro and small enterprises, internal audit is not treated as a key business activity because (a) of the smallness of their operations; (b) most of the owners also work in the business; and (c) the level of decentralization does not allow much powers and authorities to the lower echelon of the management structure. For the medium enterprises, internal audit has been integrated in the organizational structure as a vital function, hence, a number of them hire internal auditors as full-time employees.

The type of internal audit that the MSMEs perform varies largely. Yet most internal audits fall under four categories mentioned in Table 6. Financial audit (also called financial statement audit) performed by internal auditors deals mostly with processes and systems that cover the different aspects of recording transactions and reporting financial information. Leung, et. al. (2004, p. 36) underscored that this type of audit involves “obtaining and evaluating evidence about an entity’s financial affairs so as to establish the degree of correspondence between certain assertions and the established criteria.” Arens, et.al. (2006, p. 15) declared that “as businesses increase in complexity, it is no longer sufficient for auditors to focus narrowly on accounting transactions.” An integrated approach to auditing considers both the risk of errors and operating controls intended to prevent errors. Increasingly, this integrated approach incorporates a strategic perspective of the business entity.

Table 6: Internal Audit Service Requirements of Respondent MSMEs

| Type of Internal Audit Services | Percentage (n=100) | Rank |
|---------------------------------|--------------------|------|
| Financial | 16.0 | 1 |
| Operations | 15.0 | 2 |
| Compliance | 5.0 | 3 |
| Fraud | 2.0 | 4 |

The operations audit which the medium-sized enterprises perform evaluates the efficiency and effectiveness of any part of the business operating procedures and methods. Arens, et.al. (2006, p.14) cited that at the end of an operational audit, management normally expects recommendations for improving operations. They further stated that operational audit is not limited to accounting and should include the evaluation of organizational structure, computer operations, production methods, marketing, and any other area in which the auditor is qualified. In essence, Arens, et.al. (2006, p. 14) declared that operational auditing is more like management consulting than what is generally regarded as auditing. This agrees with the statement of Leung, et.al. (2004, p. 36) that this type of audit activity may also be called as performance audit, value for money audit, or management audit.

Compliance audit involves obtaining and evaluating evidence to determine whether certain financial or operating activities of an entity conform to specified conditions, rules or regulations (Leung, et.al., 2004, p. 36). On the other hand, fraud audit is a meticulous review of financial transactions when fraud is suspected. Some companies do them as a precaution---to prevent fraud from happening and to catch it before the offender goes a long way.

Relationship of Business Profile and Accountancy Service Requirements. To find out whether a statistically significant association exists between the respondent’s business profile and the accountancy service requirements, the chi-square test of independence was used. The results of the test provide answers to Hypothesis 1 posted earlier. The study found out that all of the four attributes of business profile are **significantly related** to one or more types of accountancy services, although the number of established relationship differs (Table 7).

Table 7. Summary of the Results of the Chi-Square Test of Independence (Relationship)

| Accountancy Services | Asset Size | Nature of Business | Form of Business Organization | Employment Size |
|------------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Tax Services | Not Related | Not Related | Significantly Related* | Not Related |
| Chi-square test statistic | 1.1273998 | 2.434157 | 4.820352 | 3.263175 |
| Probability value | 0.528877 | 0.2961 | 0.028126<0.05 | 0.195619<0.05 |
| Critical value, df=2 | 5.991 | 5.991 | 3.841 | 5.991 |
| Consulting Services | Not related | Not Related | Not related | Not Related |
| Chi-square test statistic | 0.118355 | 0.05709 | 2.734069 | 2.26945 |
| Probability value | 0.94254 | 0.971858 | 0.098229 | 0.321511 |
| Critical value, df=2 | 5.991 | 5.991 | 3.841 | 5.991 |
| Independent Audit Services | Not related | Significantly Related** | Significantly Related** | Significantly Related** |
| Chi-square test statistic | 2.029221 | 11.61391 | 21.2031 | 14.09173 |
| Probability value | 0.362544 | 0.003007<0.005 | 0.00000413<0.001 | 0.00871<0.005 |
| Critical value, df=2 | 5.991 | 5.991 | 3.841 | 5.991 |
| General Accounting Services | Not related | Not Related | Significantly Related** | Significantly Related* |
| Chi-square test statistic | 0.989838 | 2.565374 | 22.24148 | 9.989268 |
| Probability value | 0.60962 | 0.277291 | 0.0000024<0.001 | 0.006774<0.05 |
| Critical value, df=2 | 5.991 | 5.991 | 3.841 | 5.991 |
| Internal Audit Services | Significantly Related** | Significantly related* | Significantly Related** | Significantly Related* |
| Chi-square test statistic | 12.93065 | 7.837923 | 37.86628 | 10.14118 |
| Probability value | 0.001556<0.005 | 0.019862<0.05 | 7.58x10 ⁻¹⁰ <0.001 | 0.006279<0.05 |
| Critical value, df=2 | 5.991 | 5.991 | 3.841 | 5.991 |

**relationship is significant at p-value less than 0.005

*relationship is significant at p-value less than 0.05

Test of Differences. This part answers the question “Are there significant differences in the type of accountancy services that are currently outsourced when the respondents are grouped according to their business profile?” To test whether significant differences exist, a one-way analysis of variance was performed.

Table 8 shows the means and standard deviations of the five outsourced accountancy services when the respondents were grouped according to business profile: asset size, nature of business, form of business organization, and employment size. The study found out that there is no sufficient evidence that there is a significant difference in the required accountancy services when the respondents are grouped according to asset size, nature of business, and form of organization. However, the study found out that there is **a sufficient evidence** that there is a significant difference in the accounting services when the respondents are grouped according to employment size.

Asset Size. When the respondents are grouped according to total assets, the computed value of the F-ratio statistic is 2.717 with an associated probability value of 0.071 which is greater than 0.05. Thus, there is **no sufficient evidence** that there is a significant difference in the outsourced accountancy services when the respondents are grouped according to total assets. When the services were detailed into **46 subsets** of service, Table 9 shows that the computed value of the F-ratio statistic is 0.414 with an associated probability value of 0.662 which is greater than 0.05. In the same vein as above, the study shows that there is **no sufficient evidence** that there is a significant difference in all outsourced accounting services when the respondents are grouped according to total assets. Thus, the respondent SMEs do not differ in the type of accountancy services that they commonly require whether they are categorized as micro, small, and medium.

Table 8. Test of Differences in Accountancy Services When Grouped According to Business Profile

| Asset Size (in Philippine pesos) | N | Mean | SD |
|--|----|--------|--------|
| Micro (P3 million and below) | 44 | 0.4053 | 0.154 |
| Small (P3,000,001 to P15 million) | 28 | 0.5060 | 0.195 |
| Medium (P15,000,001 to P100 million) | 28 | 0.4643 | 0.210 |
| Computed F (dfN=2, dfD = 97) | | 2.717 | |
| Probability value | | 0.071 | |
| Nature of Business | N | Mean | SD |
| Manufacturing* | 20 | 0.2000 | 0.089 |
| Agriculture | 3 | 0.1812 | 0.045 |
| Trading and Distribution | 38 | 0.2243 | 0.096 |
| Real Estate Developer (mean difference of -0.21304 is significant at 0.05 level) | 2 | 0.4130 | 0.184 |
| Services | 37 | 0.2162 | 0.103 |
| Computed F (dfN=4, dfD = 95) | | 2.296 | |
| Probability value | | 0.065 | |
| Form of Business Organization | N | Mean | SD |
| Sole Proprietorship | 20 | 0.202 | 0.0848 |
| Partnership | 1 | 0.217 | |
| Corporation | 38 | 0.235 | 0.126 |
| Cooperative | 2 | 0.207 | 0.769 |
| Computed value of F (dfN = 3, dfD = 96) | | 0.783 | |
| Probability value | | 0.506 | |
| Number of Employees | N | Mean | SD |
| Micro (1-9) | 41 | 0.4106 | 0.1585 |
| Small (10-99) | 46 | 0.5036 | 0.1842 |
| Medium (100 – 199) | 13 | 0.3590 | 0.1906 |
| Computed F (dfN=2, dfD = 97) | | 4.4944 | |
| Probability value | | 0.009 | |

Table 9. Test of Differences in All Subsets of Accountancy Services When Grouped According to Asset Size

| Asset Size (in Philippine pesos) | N | Mean | SD |
|--------------------------------------|----|--------|--------|
| Micro (P3 million and below) | 44 | 0.1957 | 0.0880 |
| Small (P3,000,001 to P15 million) | 28 | 0.2158 | 0.0961 |
| Medium (P15,000,001 to P100 million) | 28 | 0.2073 | 0.9962 |
| Computed F (dfN=2, dfD = 97) | | 0.414 | |
| Probability value | | 0.662 | |

Nature of Business. In testing the differences when the respondents are grouped according to the nature of business, **all the subsets** of accountancy services were used. The data were transformed into relative percentages by dividing the number of services by the total number of possible accountancy services. Table 8 shows that the computed value of the F-ratio statistic is 2.296 with an associated probability value of 0.065 which is greater than 0.05. Thus, it can be inferred that there is **no sufficient evidence** that there is a significant difference in all outsourced accounting services when the respondents are grouped according to nature of business. Multiple comparisons test reveals that the mean difference in outsourced accounting services between manufacturing and real estate respondents, -0.21304, is significant at 0.05 level.

Form of Business Organization. Results from the test show that the computed value is 0.783 with an associated probability value of 0.506 which is greater than 0.05. There is **no sufficient evidence** that there is a significant difference in all outsourced accounting services when the respondents are grouped according to form of organization.

Employment Size. The computed value of the F-ratio statistic is 4.4944 with an associated probability value of 0.009 which is less than 0.05. There is **a sufficient evidence** that there is a significant difference in the outsourced accounting services when the respondents are grouped according to number of employees. The post hoc analysis or multiple comparison in Table 10 shows that the mean of accountancy services of small businesses (with 10 to 99 employees) is significantly greater than those of micro businesses (with 1 to 9 employees), in a mean difference of 0.0931, and medium businesses (with 100 to 999 employees), with mean difference of 0.1447.

Table 10. Multiple Comparisons (Mean Differences) in Outsourced Accounting Services Among Respondents Grouped According to Number of Employees

| Number of Employees | Number of Employees | Mean Difference |
|---------------------|---------------------|-----------------|
| Micro (1-9) | Small (10-99) | -0.0931* |
| | Medium (100 – 199) | 0.0516 |
| Small (10-99) | Micro (1-9) | 0.0931* |
| | Medium (100 – 199) | 0.1447* |
| Medium (100 – 199) | Micro (1-9) | -0.0516 |
| | Small (10-99) | -0.1447* |

*mean difference is significant at 0.05 level

When all the 46 subsets of accountancy services were used, Table 11 shows that the computed value of the F-ratio statistic is 0.053 with an associated probability value of 0.949 which is greater than 0.05. Thus, it implies that there is **no sufficient evidence** that there is a significant difference in all outsourced accounting services when the respondents are grouped according to number of employees.

Table 11. Test of Differences in Outsourced Accounting Services When Grouped According to Number of Employees

| Number of employees | n | Mean | SD |
|------------------------------|----|-------|-------|
| Micro (1 – 9) | 41 | 0.209 | 0.106 |
| Small (10 – 99) | 46 | 0.216 | 0.106 |
| Medium (100 – 999) | 13 | 0.218 | 0.051 |
| Computed F (dfN=2, dfD = 97) | | | 0.053 |
| Probability value | | | 0.949 |

CONCLUSIONS AND RECOMMENDATIONS

The study confirms that the MSMEs undertake different services that are within the sphere of the accountancy profession. The study also found out that the MSMEs contract out some of these services to CPAs who are engaged in the practice of public accountancy. The extent by which the SMEs outsource the services varies according to the type of service. The study confirms that taxation service is the most commonly outsourced while internal audit is the least. Nonetheless, outsourcing applied in varying extent in consulting, independent audit, and accounting. In essence, MSMEs require these services from the practising CPAs who serve as external providers of services.

The study also shows that micro and small enterprises differ from medium enterprises in terms of the level of complexity of accountancy services; the former having simpler ways of doing their tasks and are not vent into exploring the other relatively complex methods and processes. The business profile attributes of the MSMEs, specifically asset size, nature of business, form of business organizations, and employment have something to do with the type and extent of services they undertake and outsource to practising CPAs.

The practical implication of these findings from the point of view of the practising CPAs is that MSMEs, with particular reference to micro and small enterprises, may represent a relatively small market for public accountancy practice. At the same time, limited types of services are demanded by these enterprises. On the other hand, the fact that these enterprises have yet to outsource other types of services could signify market challenges for the practising CPAs. Hence, the combination of service development and marketing could be the appropriate strategic move for the practising CPAs.

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