

Management Accounting Practices and Profitability of Micro-Businesses in Borongan City, Eastern Samar, Philippines

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Abstract

This study investigates the relationship between management accounting practices (budgeting, planning, and control) and profitability among micro-businesses in Borongan City, Eastern Samar, using a descriptive-correlational design with survey data from 306 business owners. Data was analyzed using frequency count, mean and Spearman's rho to examine correlations. Findings revealed that while some control practices are often practiced, overall budgeting and planning are seldom practiced. Despite these efforts, while estimated annual sales revenue generally exceeded P 100,000, annual net profits were typically below P 50,000, with some businesses earning over P 100,000. The key finding is that there is no statistically significant relationship between the level of these management accounting practices and the profitability of the businesses surveyed. It is recommended that business owners improve their budgeting and planning practices to strengthen management accounting practices. Even though these practices show no significant relationship with profitability, these practices are crucial for improving decision-making, efficient resource allocation, risk management and sustainable business growth. Additionally, the study recommends that the government should implement programs focused on improving financial literacy and management accounting skills among micro-business owners.

Keywords

Micro-Business, Management Accounting Practices, Profitability

1. Introduction

Micro-business in Philippines is defined as an enterprise or business engaged in

retail, services, manufacturing and including agribusiness whose total assets must have not exceed P 3,000,000 in value and employs one to nine employees.

In Philippines, micro-businesses play an important role in building the economic growth of the country. It also creates opportunities for employment for lower-skilled individuals who cannot land a job in larger or big firms. According to the data from the Philippine Statistics Authority (PSA) in its 2022 List of Establishment recorded an overwhelming 90.49% of microbusinesses nationwide and it contributes to employment by providing 32.69% of total jobs in the country. In Eastern Visayas, the region where Eastern Samar is situated, 99.90% of all businesses in the region are Micro-businesses and generate 92.16% of employment. Thus, micro-businesses underscore near-complete dominance in the local economy. Supporting and empowering them will promote their growth and sustainability, thereby contributing to the economic development of both the region and the entire Philippines.

In recent years, management accounting practices have become increasingly important in driving the profitability of micro-businesses. As micro-businesses represent a substantial portion of the economy, it is vital to grasp how management accounting practices relate to their financial performance for their growth and sustainability.

Diriba and Ray (2021) described management accounting as the presentation of accounting information in a manner to assist the management in developing policies and managing the day-to-day operation. It gives information for managers of the organization for planning, control and decision making. Drury (2013) posited that management accounting is focused on providing internal management with the information necessary to facilitate budgeting, strategic planning and performance measurement. It provides critical operational and financial information that helps business owners in making economic and informed decisions. Having effective management accounting practices can help micro-business enhance its operational efficiency and decision-making, thereby increasing its profitability.

Micro-businesses often faced significant challenges in establishing effective management accounting practices, primarily due to constrained resources and limited customer or market base. As a result, many micro-business owners rely on informal management approaches reactively rather than strategic planning strategies. This informal management approach can lead to operational inefficiencies, increased market vulnerability and missed business opportunities and thereby affecting profitability.

Although management accounting practices are important, they remain significantly used by many micro-businesses. The integration of robust management accounting practices is important for micro-businesses to navigate the complexities of financial management and enhance profitability. This study aims to assess the level of management accounting practices, specifically budgeting, planning, and control, and its relationship on profitability. It will give

insights to improve the financial performance of micro-businesses. And by determining this relationship, it will contribute to developing effective management accounting practices to help them promote sustainability and financial growth.

Objectives of the Study

The study seeks to answer the following questions:

1. Determine respondents' level of management accounting information practices in terms of:

1.1. Budgeting

1.2. Planning

1.3. Controlling

2. Determine the level of profitability of the respondents in terms of:

2.1. Annual sales revenue

2.2. Annual net profit

3. Find out the relationship between management accounting information practices and the level of profitability of the respondents.

2. Literature Review

2.1. Management Accounting

Drury (2013), management accounting uses financial and non-financial data to help managers make better decisions and improve organizational performance. It highlights the role of management accounting in guiding internal business operations and enhancing the overall effectiveness of the enterprise.

Management accounting, according to *Horngren, Datar, and Rajan (2009)*, is crucial for facilitating planning, controlling, and decision-making processes in organizations. It provides insights into the economic decisions and actions, enabling managers or owners to improve operational efficiency and achieve strategic goals.

Management accounting information refers to the financial and non-financial data that is gathered, analyzed, and used by managers within an organization to make informed business decisions, plan strategies, control operations, and evaluate performance. It covers budgeting, forecasting, cost analysis, control, planning, and performance management. This information helps managers or owners understand the business structure, allocate resources efficiently, assess profitability, and support long-term planning and decision-making processes.

2.2. Budgeting

Budgeting is a fundamental aspect of financial management in any business, serving as a tool for planning, controlling, and evaluating financial performance. By creating a budget, microbusiness owners can plan their income and expenses and set goals for sales targets, marketing expenses, and fixed costs. Budgeting is a crit-

ical process that micro businesses must undertake to achieve financial stability and growth. By taking the time to create and manage a budget, microbusinesses can identify and evaluate opportunities and challenges, set realistic financial goals, and help create sustainable financial growth.

Mulani, Chi, and Yang (2015) suggest that small and medium enterprises (SMEs) that lack clear goals face greater uncertainty in achieving their objectives. On the other hand, having clear goals reduces uncertainties in the budgeting process, leading to improved performance. When the organization has clarity on tasks and goals, it fosters a positive atmosphere. Furthermore, implementing a formal budgeting process has been found to have a positive impact on the performance of SMEs. SMEs that engage in more formal budgeting planning tend to experience higher growth rates in sales and profitability. Additionally, there is a strong positive relationship between the size of a company and its profit growth rate. As the size of firms increases, their profit growth rate tends to increase as well.

2.3. Planning

Business planning refers to the process of defining long-term objectives and setting short-term goals to guide business activities. Lussier and Halabi (2010) emphasize that comprehensive business planning is vital for small businesses as it helps in mapping out strategies, identifying risks, and preparing for future challenges. Planning allows business owners to assess potential opportunities and threats, establish clear financial and operational goals, and make informed decisions on resource allocation.

In the context of micro-businesses, planning goes beyond setting financial goals. It plays a crucial role in enhancing the operation and performance of the business. Chwolka and Raith (2012) suggest that strategic planning is linked to higher survival rates in micro-businesses because it enables entrepreneurs to focus on long-term success rather than short-term survival.

2.4. Control

Control systems in business involve monitoring, evaluating, and adjusting activities to ensure that objectives are met efficiently. Hertenstein and Platt (2000) highlight that businesses with robust control systems tend to have better financial outcomes, as these systems allow for early identification of discrepancies and timely corrective actions. For micro-businesses, control mechanisms often include monitoring sales trends, managing operational costs, and safeguarding assets.

2.5. Profitability

Profitability is a key indicator of a business's financial health, reflecting its ability to generate income that exceeds its operating costs. Peacock (2004) defines profitability as a firm's capacity to sustain its operations through effective revenue

generation, and cost control. For microbusinesses, profitability often serves as a measure of success and long-term viability.

For micro-businesses, net income or net profit is a clear indicator of financial health and the business's ability to generate surplus funds after covering all operational costs. [Horngren et al. \(2009\)](#) explain that annual net income provides a straightforward and comprehensive measure of profitability because it considers both revenue and expenses. For micro-businesses, this figure is crucial for assessing long-term sustainability, as it shows whether the business can generate profits after accounting for costs.

The businesses must evaluate both sales and net income to get a full picture of profitability. A business with high sales but low net income might be suffering from high operational costs or inefficiencies, whereas a business with modest sales but strong net income may be operating efficiently.

[Peacock \(2004\)](#) highlights the importance of comparing sales and net income to identify trends and areas for improvement in micro-businesses. While sales are an important metric for growth, net income ensures that growth is sustainable and profitable in the long term. Moreover, annual sales and annual net income are indicators of profitability for microbusinesses. Sales measure the volume of business activity, while net income reflects the business's ability to manage costs and generate profit. For micro-businesses, it is important to monitor both indicators to ensure financial health and long-term viability.

2.6. Relationship between Management Accounting Practices and Profitability

In a study, the aim was to better understand how budgeting impacts the performance of small and medium enterprises (SMEs). The findings revealed a positive correlation between budgetary participation and performance. The study emphasized the importance of prudent budgeting for companies, enabling them to efficiently and economically utilize their resources and labor, ultimately leading to increased profitability.

[Maritim \(2013\)](#) examined the budgeting process and performance measurement in small and medium enterprises (SMEs). She highlighted the importance of different factors such as formal planning, goal setting, budget mechanisms, and employee participation in influencing the performance outcomes of SMEs in their budgeting process.

As small and medium businesses adopt sound budgeting procedures, their profitability level rises ([Fortuna, 2021](#)). Detailed planning allows micro-business owners to monitor actual results against projected results and make any necessary adjustments to the budget. This helps to ensure that the micro business stays on track and does not spend more money than it can afford. Moreover, planning practices are vital in achieving success and longevity in micro-businesses. Engaging in strategic, operational, business, financial, risk, and human resources planning are some essential practices that enable micro businesses to identify their

strengths, weaknesses, and opportunities, create a roadmap for success, and manage risks effectively.

Dubilihla and Sandada (2014) found that strategic planning positively influences the performance of small businesses in South Africa. They further emphasized that the success of these enterprises largely depends on their capacity to effectively implement strategic planning practices. This underscores that long-term success and sustainability of small enterprises are rooted in their commitment to continuous and effective strategic planning.

Arasa and K'Obonyo (2012) highlighted the critical role of effective implementation, control, and evaluation of the strategic planning process in determining the success and overall performance of organizations. This suggests that merely formulating strategies is not sufficient; organizations must also focus on executing and monitoring the strategic plans to achieve desirable outcomes.

In a study conducted by Unam et al. (2014), it was found that strategy formulation is positively associated with the financial performance of small, medium, and micro enterprises (SMMEs). This implies that when SMMEs develop well-defined and effective strategies, it can have a beneficial impact on their financial performance. Both studies emphasize the importance of implementing and evaluating strategic plans, and they suggest a positive link between strategy formulation and financial performance in SMMEs. This highlights the significance of strategic planning in enhancing the overall success of organizations and its influence on financial outcomes in the context of SMMEs.

Micro-business owners should also implement control mechanisms to monitor spending and revenue and ensure that they are on track to meet their budget. Financial statements such as income or cash flow statements can help micro-business owners see how well their business is performing against the budget. In addition, employing control practices will ensure that micro businesses are using their resources effectively, meeting their goals, and managing risk. Consequently, micro businesses that embrace control practices are positioned to optimize their operations and become more competitive in their industries.

By performing regular budgeting, planning, and control, micro-business owners can stay on top of their finances and make informed decisions about the future of their business. This can help ensure profitability and long-term success.

The profit of a micro business is important because it allows owners and other stakeholders to continue operations, fund growth, and generate benefits for shareholders or employees. Determining the level of profitability of a micro business is essential for the owner to make informed decisions about growth, investments, and long-term planning. By analyzing and understanding key metrics, micro-business owners can create a roadmap for success, mitigate risks, and improve long-term profitability.

In contrast, Dahal (2022) revealed that management accounting practices did not have a significant relationship with operational performance among manu-

facturing firms in Nepal. This indicates that the application of management accounting practices alone does not necessarily translate into improved efficiency or productivity within firms. Dahal also observed that a strong focus on the adoption and use of management accounting techniques did not necessarily help managers enhance operational outcomes.

Tuan et al. (2022), citing Ittner et al. (2003), emphasize that the relationship between management accounting practices and firm performance is not always positive—certain control practices, if misapplied or overemphasized, can hinder rather than help business success.

Micro-businesses vary greatly in terms of their budgeting, planning, and control practices, as well as their profitability. However, studies have shown that budgeting, planning, and control can have either a positive or negative impact on the profitability of micro businesses.

3. Methodology

The study employed a descriptive-correlational research design and was conducted in the población area of Borongan City, Eastern Samar, where most micro-businesses are located. The respondents involved owners or managers of micro-businesses whose business is registered in the Business Permit and Licensing Office (BPLO). A sample of 306 respondents was selected through simple random sampling, using Slovin's formula. This selection criteria ensured that individuals with direct involvement in management and operations were included in the study.

A researcher-made questionnaire was used to address the research problem, with a questionnaire validity and reliability score of 0.72 using Cronbach's alpha test, indicating its acceptability. The survey questionnaire comprised of two parts. The first part focused on assessing the respondents' level of budgeting, planning, and control practices. The last part will ascertain the profitability level of micro-businesses, considering their sales income and net profit.

The management accounting practices are measured as ordinal data. It was assessed using a 5-point Likert Scale, 5 Fully Practiced; 4 Often Practiced; 3 Seldom Practiced; 2 Rarely Practiced; and 1 Not practiced. Meanwhile, the level of profitability is categorical data, which represents different ranges or degrees of business performance.

The researcher obtained the information on the population of registered micro businesses from the Borongan Licensing and Public Office (BLPO). Once the sample respondents are determined, a survey questionnaire was personally administered and retrieved by the researchers. Descriptive statistics such as mean were employed to answer the statement of the problem's numbers one, and two. Spearman was employed to determine the relationship between the level of management accounting information and the level of profitability of the respondents.

4. Results and Discussion

4.1. Level of Management Accounting Practices

Table 1 shows the level of management accounting practices of micro-business owners. The level of management of accounting practices includes budgeting, planning, and control practices.

Table 1. Level of management accounting practices.

	Mean	SD	Interpretation
Budgeting Practices			
1. I frequently review the budget of the business.	3.63	1.50	Often Practiced
2. I use spreadsheets or budgeting software.	2.07	1.39	Rarely Practiced
3. I create a detailed budget.	3.15	1.52	Seldom Practiced
4. I involve other key stakeholders in preparing the budget.	2.51	1.43	Rarely Practiced
5. I prepare a flexible budget.	3.53	1.49	Often Practiced
Total	2.98		Seldom Practiced
Planning Practices			
1. I engage in strategic planning to set long-term goals and identify the resources needed to achieve such goals.	3.69	1.46	Often Practiced
2. I focus on short-term goals and identify the resources needed to achieve them.	3.08	1.40	Seldom Practiced
3. I have created a business plan to develop a comprehensive document that includes the operating and strategic plans.	3.11	1.48	Seldom Practiced
4. I engage in financial planning to help manage business expenses and revenues.	3.40	1.45	Often Practiced
5. I manage to prepare for any unexpected events that can arise at any time.	3.37	1.39	Seldom Practiced
Total	3.33		Seldom Practiced
Control Practices			
1. I use financial controls to monitor the cash flow and prevent fraud such as the use of accounting and bookkeeping practices, setting budgets, and conducting audits.	3.58	1.45	Often Practiced
2. I often engage in inventory control such as forecasting demand based on customer purchasing patterns and adjusting inventory levels accordingly.	3.63	1.37	Often Practiced
3. I used quality control to ensure that the business is delivering high-quality products or services to the customers.	3.95	1.25	Often Practiced
4. I ensure that expenses are within the budget and meet specified quality standards.	3.76	1.33	Often Practiced
5. I protect and safeguard the assets of the business.	3.96	1.33	Often Practiced
Total	3.78		Often Practiced

The budgeting practices indicate that micro-business owners “Often Practiced”

the regular review of their budget ($M = 3.63$, $SD = 1.50$). This implies that micro-business owners engage in budget reviews, but it may not be done systematically or as frequently. Dolorso (2023) pointed out that micro-enterprises do not prepare financial plans on regular basis. In addition, Kiiru, Kamau, and Nzioki (2018) highlight that many small and medium-sized businesses do not create budgets, others do but do not do it frequently.

However, the use of spreadsheets or budgeting software ($M = 2.07$; $SD = 1.39$) was “Rarely Practiced”. It suggests that micro-business owners rely on manual methods or basic tools for budgeting. Lauriemccabe (2022) found that 50% of small businesses surveyed said that they don’t use accounting software because manual methods/spreadsheets have worked for them.

The overall budgeting practices among micro-business owners are “Moderately Practiced” with a mean score of 2.98. This reflects that while micro-business owners recognize the importance of budgeting, their implementation is often inconsistent or lacks the depth and rigor that could make budgeting a more effective tool for business growth and stability.

The planning practices of micro-business owners revealed that they engage in strategic planning in setting their long-term goals and to identify the resources needed to achieve such goals ($M = 3.69$; $SD = 1.46$), indicating that strategic planning is “Often Practiced”. This suggests that many micro-business owners recognized the value of planning ahead and structuring their businesses for future growth and stability.

In contrast, when it comes to focusing on short-term goals and identifying resources needed to achieve them ($M = 3.08$; $SD = 1.40$) indicates that these practices are “Seldom Practiced”. The findings suggest that though micro-business owners do plan but many micro-business owners may opt not to prioritize creating detailed short-term planning. Micro-business owners tend to prioritize daily operations and immediate survival rather than short-term goal setting.

Overall, the findings revealed that planning practices of micro-business owners are “Seldom Practiced” with an overall mean score of 3.33. This suggests that while they engage in planning activities, still there may be gaps in execution, especially concerning more detailed, short-term, and business plans.

The control practices revealed that micro-business owners protect and safeguard the assets of their business ($M = 3.96$; $SD = 1.33$), indicated as “Often Practiced”. The findings suggest that micro-business owners are more consistent in protecting their assets. Asset protection is crucial to the sustainability of a business, especially in environments where theft, damage, or misuse of assets could lead to significant financial losses.

Moreover, the use of financial controls of micro-business owners to monitor the cash flow and prevent fraud, such as the use of accounting and bookkeeping practices, setting budgets, and conducting audits is “Often Practiced” as indicated by a mean score of 3.58 ($SD = 1.45$). The result suggests that while micro-business owners recognize the importance of financial control mechanisms, the

implementation of these practices is inconsistent. Kakuru (2016) emphasizes that small and medium enterprises should establish strong and efficient internal control systems, as these play a vital role in identifying and mitigating potential risks.

Overall, the control practices of micro-business owners are “Often Practiced” as indicated by a means score of 3.78. This implies that the current level of control practices among microbusiness owners shows some engagement, there is considerable room for improvement. To address these gaps, training, access to financial tools, and strategic support can significantly enhance the operational capabilities of micro-businesses and contribute to their overall success.

4.2. Level of Profitability

Table 2 shows the level of profitability of micro-business. The most notable finding is that 46.73% (143) respondents reported annual sales income above P 100,000. This indicates that nearly half of the respondents are experiencing relatively higher sales, which is encouraging for the sustainability of micro-business.

Table 2. Level of profitability.

	Frequency	Percentage
Estimated Annual Sales Income of the Business		
Below 50,000	77	25.16
50,000 - 60,000	16	5.23
60,001 - 70,000	9	2.94
70,001 - 80,000	12	3.92
80,001 - 90,000	12	3.92
90,001 - 100,000	34	11.11
Above 100,000	143	46.73
Did not answer	(3)	(0.98)
Total	306	100
Estimated Annual Net Profit of the Business		
Below 50,000	116	37.91
50,000 - 60,000	27	8.82
60,001 - 70,000	9	2.94
70,001 - 80,000	16	5.23
80,001 - 90,000	4	1.31
90,001 - 100,000	15	4.90
Above 100,000	116	37.91
Did not answer	(3)	(0.98)
Total	306	100

Conversely, 25.16% (77) of the respondents reported sales below 50,000. This suggests that some of the micro-businesses surveyed are struggling to generate sufficient income.

In terms of their estimated net profit, notably, 37.91% (116) highlights micro-businesses with net profit of below P 50,000 and Above P 100,000. The finding implies that a significant portion of micro-businesses struggle to exceed a relatively low-profit threshold, thus, they often face challenges that hinder their growth and profitability. In contrast, some micro-businesses have successfully attained a more moderate level of profitability, indicating that they have managed their business efficiently.

4.3. Relationship between Level of Management Accounting Practices and Profitability

Table 3 shows the relationship between the management accounting practices, specifically budget practices, planning practices, and control practices, and the level of profitability in Borongan City. The results of the statistical analysis, particularly the correlation coefficients and *p*-values, indicate no significant relationship between these accounting practices and profitability at 5% significant level.

Table 3. Relationship between the level of management accounting practices and profitability.

Management Accounting Practices	Level of Profitability	Correlation Coefficient	<i>p</i> -value	Interpretation
Budgeting Practices	Annual Sales Revenue	-0.042 ^{ns}	0.640	Not Significant
Planning Practices		0.099 ^{ns}	0.199	Not Significant
Control Practices		0.091 ^{ns}	0.236	Not Significant
Budgeting Practices	Annual Net Profit	-0.086 ^{ns}	0.263	Not Significant
Planning Practices		0.068 ^{ns}	0.381	Not Significant
Control Practices		0.016 ^{ns}	0.834	Not Significant

ns. Not Significant at $\alpha = 0.05$.

Budgeting Practices indicates no significant relationship with annual sales revenue (*p*-value = 0.640) and annual net profit (*p*-value = 0.263). The findings contradict with the study of Fortuna (2021) that profitability level of small and medium enterprises is significantly correlated with their budgeting practices. He denotes that good budgeting practices affect the level of profitability. The study denotes that the operations of micro-businesses are less complex, which can lessen the perceived need for detailed budgeting. Consequently, the adoption of budgeting practices may not translate into higher revenues or profits because their operations do not require the same level of financial planning and control as larger businesses.

Planning Practices showed no significant relationship with annual sales (p -value = 0.199) and annual net profit (p -value = 0.381). The findings imply that for many micro-businesses, the primary goal is survival rather than growth. This often leads to focus on maintaining current operations rather than engaging in forward-looking planning aimed at increasing sales and profit. Planning efforts, if undertaken, may be oriented toward managing immediate cash flow needs or handling operational challenges rather than pursuing long-term strategies that drive revenue growth or profitability. As a result, planning practices do not necessarily translate into increased sales or net income, as the focus is not on expansion but on sustaining the business.

Control Practices of micro-business owners revealed no significant relationship with annual sales (p -value = 0.236) and annual net profit (p -value = 0.834). The findings imply that for micro-businesses which typically have fewer employees, fewer transactions, and simpler business models, the potential gains from rigorous control practices may be minimal. It may not be needed for complex control systems because the operations are easily managed through direct oversight by the owner. The simplicity of micro-business operations means that the impact of control practices on sales revenue and net profit is not prevalent.

In addition, there are other factors that contribute to the results. Cele, Nyide and Stainbank (2022) found that management accounting practices were perceived to be used mainly in assisting planning and in assessing business performance. Factors affecting the use of management accounting practices were lack of management accounting knowledge, education and skills. This suggests that the lack of technical skills on management accounting practices can meaningfully drive profit.

Jaradat et al. (2021) indicated that effective implementation of management accounting practices requires adequate financial capacity. The result of the interview of the study highlighted that a lack of financial resources was a major constraint that hindered the adoption and consistent use of management accounting practices in their organizations. Ittner et al. (2003) support this notion by emphasizing that the use and sophistication of management accounting practices are influenced by both environmental and organizational factors. Environmental factors may include market competition, economic conditions and regulatory requirements, while organizational factors encompass firm sizes, management style, business strategy and financial capability.

5. Conclusion

Micro-business plays a vital role in the growth of the economy. Micro-business owners somewhat reviewed their budgets and made limited use of spreadsheets or budgeting tools. However, they seldom incorporated budgeting into their business practice. While some engaged in strategic planning for long-term goals to some extent, they were more focused on short-term objectives, with planning practices seldom applied overall. Micro-business owners often implemented measures to

protect and safeguard their business assets and practiced financial controls to a limited degree. The estimated annual sales revenue for micro-business owners exceeds P 100,000. Furthermore, many owners report an annual net profit below P 50,000, while some earn over P 100,000. Notably, there is no significant relationship between the level of management accounting information, particularly budgeting practices, planning practices, and control practices and profitability. In conclusion, micro-businesses may need to develop more adaptable and straightforward approaches to management accounting practices that directly address to enhance profitability.

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Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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