
Comparative Analysis of Financial Reporting of Selected Small and Medium Enterprises (Smes) in Baguio City: Basis for a Financial Planning Model

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Abstract: This study aimed to determine the level of financial reporting compliance and comparative analysis of selected SMEs' financial statements to develop and propose a financial planning model as a tool for the financial decision-making of SMEs.

Descriptive and correlational research was utilized. Mean, Standard Deviation, T-test, ANOVA, and Pearson Product Moment Correlation used for data analysis.

The findings revealed that SMEs financial reporting compliance was not significantly different when grouped as to the length of existence, number of employees, asset capitalization, beginning liability, and position. The financial reporting compliance in terms of income, expense, asset, liabilities, equity, and earnings per share showed a significant relationship with financial statements analysis such as profit margin, dividends per share, inventory turnover, and total asset turnover of SMEs.

Keywords: Financial Reporting Compliance, Financial Statement Analysis, Financial Planning Model, Small And Medium Enterprises, Baguio City

INTRODUCTION

Small and Medium Enterprises (SMEs) are the lifeblood of a country's economy. They stimulate economic activity, generate employment, prompt innovation, heighten competition and contribute largely to the country's progress. However, Philippine SMEs continue to face serious difficulties and challenges in relation to their existence, development and competitiveness (Asian Development Bank Institute, 2016). The amount of activities of Small and Medium Enterprises are now significantly increasing because of globalization. SMEs have undertaken exports, imports, and international investments in large amounts in recent years (Ocloo, et al., 2014). Ploybut (2012) studied an increasing complexity of financial reporting requirements, especially on accounting standards which lead many countries to consider moving to simpler reporting requirements for small and medium enterprises (SMEs) in order to reduce reporting burdens. In response to such concerns, the International Accounting Standards Board (IASB) also released the IFRS for SMEs, an international accounting standards intended for SMEs worldwide.

The Securities and Exchange Commission (SEC) has eased financial reporting requirements for small businesses as part of a continuing government effort to facilitate entrepreneurship. The Commission has approved the adoption of the Philippine Financial Reporting Standards (PFRS) for Small and Medium-sized entities (SMEs) as part of SEC's rules and regulations on financial reporting. The SEC had required Small and Medium enterprises (SMEs) to observe uniform financial reporting standards that simplified the principles in the full PFRS for recognizing assets, liabilities, equity, income, and expenses. The changes in effect and simpler the reporting of small enterprises according to Securities and Exchange Commission Chairperson Teresita J. Herbosa, (2018). The adoption of PFRS for SMEs as standard for financial reporting is a pre-requisite for the financial analysis of financial statements of SMEs (Securities and Exchange Commission, 2018).

In preparing and presenting financial statements, up-to-date financial information must be reported and analyzed for making sound decisions which are very important and critical to the success and survival of SMEs. However, most SMEs have inadequacies in preparing their financial reports just for compliance with legal requirements. Due to the complexities in following International Financial Reporting Standards, many SMEs tend to use simple accounting standards which are inconsistent with tax rules. The International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs) was adopted for use in Philippine Financial Reporting Standards by Small and Medium-sized Entities (PFRS for SMEs) through the joint efforts of the Financial Reporting Standards Council (FRSC), the Board of Accountancy (BOA), Technical Working Group and Securities and Exchange Commission (SEC). On August 12, 2015, the FRSC has adopted the 2015 amendments to the IFRS for SMEs as 2015 amendments to the PFRS for SMEs which became mandatory for

annual periods beginning on or after January 1, 2017. PFRS for SMEs were adopted by the Financial Reporting Standards Council from the IFRS for SMEs issued by International Accounting Standards Board (IASB).

The role of financial reporting is to provide information about financial position, performance, and changes in financial position and performance of an enterprise that complied with accounting standards (International Accounting Standards Board Framework, 2017). The role of financial statement analysis is to help wide range of users in making economic decisions whether to invest, lend, and/or acquire and to make assessments such as rating and valuation of financial reports. It is very important to use the tool of Financial Statement Analysis such as Financial Ratios according to Corporate Finance Institute (2015 – 2019).

Studying financial reporting and analysis of SMEs provides baseline information to the people in Baguio City. This study aimed to determine the level of financial reporting compliance and comparative analysis of financial statements of selected SMEs in order to develop and propose a financial planning model as a tool for the financial decision-making of SMEs.

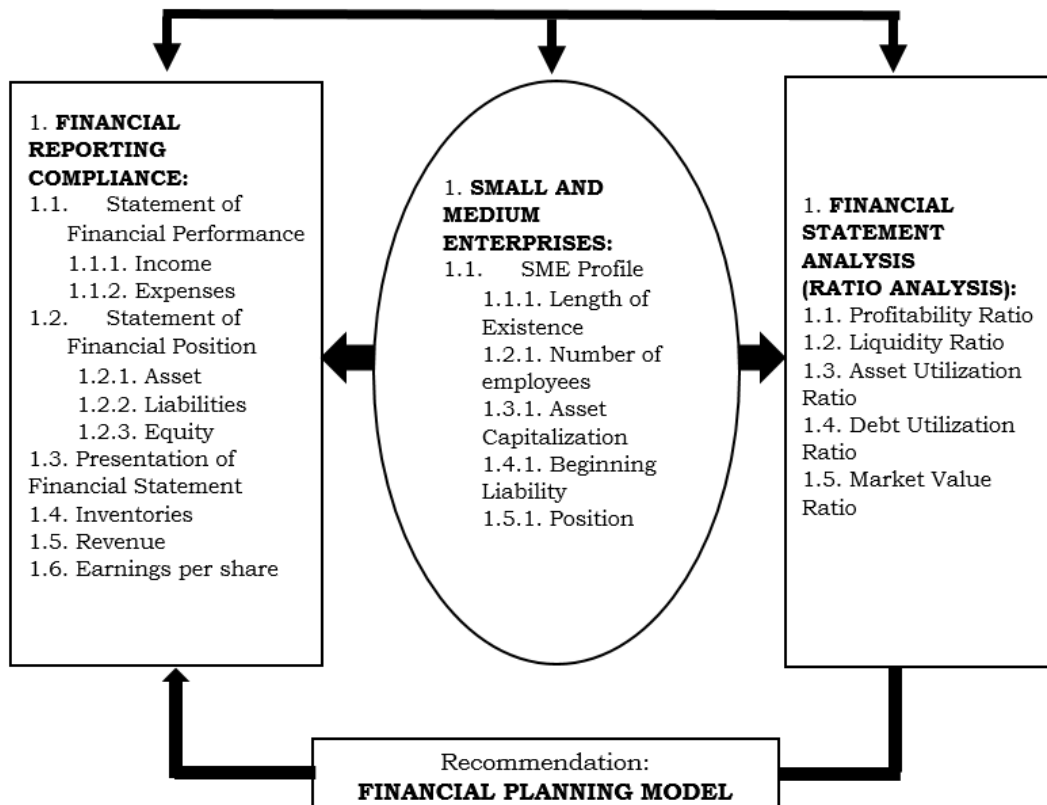


Fig.1: Conceptual Framework of SMEs Financial Reporting Compliance Financial Statement Analysis and Financial Planning Model

LITERATURE REVIEW

Small and Medium Enterprises

International Accounting Standards Board (2017) describes small and medium-sized entities (SMEs) as those that meet the following criteria:

- (1) Total assets of between P3M to P350 Million or total liabilities of between P3M to P250 Million. If the entity is a parent company, these amounts shall be based on the consolidated figures;
- (2) Are not required to file financial statements under Part II of SRC Rule 68;5
- (3) Are not in the process of filing their financial statements for the purpose of issuing any class of instruments in a public market;
- (4) Are not holders of secondary licenses issued by regulatory agency, such as banks, investments houses, finance companies, insurance companies, securities broker/dealers, mutual funds, or pre-need companies; and
- (5) Are not public utilities.

The Securities and Exchange Commission entities meeting the prescribed criteria apply the PFRS for SMEs for the annual period beginning January 1 of the following year. The PFRS for SMEs were adopted on October 13, 2009 by the PFRS Council from the International Financial Reporting Standards for small and medium entities issued by the International Accounting Standards Board, (2017). Given the criteria of SMEs, is crucial foundation needed to study their financial reporting and analysis.

Financial Reporting Compliance of SMEs

Small and medium enterprises play an important role in any economy as they are capable of generating employment, promoting the growth of gross domestic product (GDP), embarking on innovations and stimulating other economic activities. Empirical results emphasize that better financial information means better control and a higher chance of success and good record keeping. The types of records maintained and management's understanding of the information could be correlated with business success on the one hand or the resistance to failure on the other. Therefore, prudent financial management practices and reporting skills are of paramount importance for the wellbeing of SMEs and strengthen their economic and social contribution (Organization for Economic Co-operation and Development, 2009).

Ploybut (2012) studied SMEs reporting in Thailand to ascertain their features and to evaluate costs and benefits to SME stakeholders. Overall, this interview and survey research concluded that SMEs in Thailand prepare and publish their financial reporting largely in order to meet legal requirements. They relied on their accountants in fulfilling these reporting obligations. For SME directors', the costs of reporting were not considered to be an undue burden. Tax authorities, entities' management and lenders, in that order, were perceived to be the most important users. Preparation of financial statements with tax motivation, limited disclosures and out-of-date information were identified as the main weaknesses in SMEs financial statements. Ploybut's analysis of SMEs financial statements showed that the majority accounting standards exists among many SMEs. The SMEs stakeholders generally give support using simpler accounting standards for SMEs. The IFRS for SMEs seemed to be too complicated many Thai SMEs, and inconsistency with tax rules is an issue. The findings of this study benefitted the standard setters and other SMEs stakeholders in Thailand and other countries as well as providing implications for SMEs, their accountants and their stakeholders.

Rathnasiri (2014) explored whether and to what extent Sri Lankan small and medium enterprises (SMEs) adopted financial reporting practices and how such practices were incorporated with prevailing information systems. A target sample of 60 SMEs registered in the Ministry of Industry and Commerce (MIC) from 2008 to 2013, operating their businesses in the manufacturing sector, in the western province were considered. A questionnaire was chosen as the data collection instrument. The study revealed that SMEs pay more consideration in preparation and monitoring of three components of financial statements: 1) balance sheet, 2) statements of profit and loss, 3) account and cash flow statements. It also showed that Sri Lankan SMEs prepared the reports which helped the owner/managers to control the financial position and performance of the business. It further demonstrated that the highest importance was placed on preparation and monitoring of cash flows of the businesses which is critical to the success and survival of SMEs. However, most of the SMEs have maintained the informal accounting systems, and lack a comprehensive set of financial reports. SMEs in Sri Lanka must cope with the uncertainty of the business environment, therefore up-to-date financial information for decision making is of paramount importance.

The study of Rathnasiri and Aldaba (2014) recommended that policy makers consider SMEs under a single ministry and stipulate specific, consistent policy focusing on the development of the sector, addressing the core constraints inhibiting the growth of the sector. Further educating SME owner/managers about the importance of prudent financial management practices for the long term success and survival is vital.

Financial Statement Analysis of SMEs

Drake (2010) defines financial statement analysis as the selection, evaluation, and interpretation of financial data, along with other pertinent information, to assist in investment and financial decision-making. Moreover, it is also the process of identifying financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account.

One of the tools in financial statement analysis is financial ratio analysis. As financial statements are usually lengthy, it will be more efficient and strategic to just pick up the figures that matter and plug them in pre-defined formulas developed through time by finance and accounting scholars.

Profitability Ratio shows the combined effects of liquidity management, asset management, and debt management on operating results (Brigham, 2008). Liquidity Ratios show the relationship of a firm's cash and other current assets to its current liabilities which means the ability to pay off its short-term debts obligations. Asset Utilization Ratios are a set of ratios that that measures how effectively a firm is managing its assets is called asset utilization ratio. The Debt Utilization Ratio measures how much of a company's operation comes from debt instead of other forms of financing like stock and personal savings. Market Value Ratios measure of shareholder value as reflected in the price of the firm's stock. Given the tools for financial analysis, these were very essential for decision-making of SMEs.

MATERIALS AND METHODS

Research Design

This study employed the descriptive-correlational research because it involved a description, analysis, and interpretation of the present nature, compliance and procedures of selected SMEs in Baguio City. Correlational

analysis was also used because it measured the independent variables such as level of financial reporting compliance with the dependent variables such as financial statement analysis of selected SMEs.

Research Environment

The study took place in Baguio City because there were nearly 9,000 SME establishments in 2015. About half (49.0 percent) of the business establishments in the Cordillera Administrative Region were in Baguio City with a count of 8872 establishments. The average employment per establishment in Baguio City was 8 workers. About two in three (64.8 percent) workers in CAR establishments were employed in Baguio City (Philippine Statistics Authority Cordillera Administrative Region, 2015).

The City of Baguio is known as the Summer capital of the Philippines. This highly urbanized city is located in Northern Luzon and is visited by tourists all year round because of its cool climate and breathtaking nature destinations. It has become the center of business as well as the center of commerce in Northern Luzon and Cordillera Administrative Region (CAR). SMEs in Baguio City are booming and trending because of its strategic location and technology access (Estoque; Yuji, 2013).

Participants

The total number of corporation found listed with the SEC – Baguio Branch is 324. However, only 10 SME companies were considered as sample size based on the criteria set for SMEs in the study. The 30 respondents were selected from the SMEs managers and/or owners, accountants and auditors whose business establishments are registered with the Securities and Exchange Commission, Manila, Philippines. Each of the 10 SMEs had three respondents: the manager/owner as decision maker for financial statement, the accountant as preparer of financial statement, and the auditor as external audit.

Sampling Techniques

Purposive sampling was used in this study to focus on particular characteristics of the research sample group of SMEs chosen through a set of criteria.

In this study, the criteria used for selecting the sample SMEs were the following:

1. Those engaged in a service type of business activity or enterprise;
2. The form of business is a corporation registered in Philippine Securities and Exchange Commission;
3. The SMEs' total assets amount to between 3M Php to 100M Php or with total liabilities between 3M Php to 100M Php;
4. The SMEs have between 10 to 199 employees and must be duly registered in the Securities and Exchange Commission (SEC);
5. The SMEs must have a profit-oriented vision and goal in conducting business; and
6. The SMEs must have existed for at least 10 years and above; and
7. The SMEs must have issued annual reports or the so called financial statement for the use or information for managers or owners since its inception.

Research Instrument

The only data gathering instrument employed in this study was the questionnaire which was based from Ploybut (2012). The questions were modified to fit the conditions of the SMEs in Baguio City. It was composed of four parts namely: Part I was on respondents' profile; Part II was about the level of financial reporting compliance by SMEs; Part III was on the financial statement analysis using Ratio Analysis on financial reports of selected SMEs and Part IV was open-ended questions for follow-up interviews about financial planning model.

Statistical Treatment

To interpret the gathered data, the researcher used the following:

1. Frequency distribution and percentage to describe the profile of the respondents.
2. Arithmetic mean and standard deviation to describe the level of financial reporting compliance and financial statement analysis.
3. ANOVA and t-test to determine the comparable financial reporting standards with the profile of the respondents.
4. Pearson Product Moment Correlation to determine the correlation of financial reporting compliance with that of financial statement analysis.

For the financial reporting standard compliance, the research study employed the following scale:

Mean Range	Scale	Interpretation
3.26 – 4.00	4	Highly Complied
2.51 – 3.25	3	Moderately Complied
1.76 – 2.50	2	Slightly Complied
1.00 – 1.75	1	Not Complied

For the financial statement analysis, the respondents were instructed to compute using the formula given in the following ratios:

1. Profitability Ratio
2. Liquidity Ratio
3. Asset Utilization Ratio
4. Debt Utilization Ratio
5. Market Value Ratio

RESULTS AND DISCUSSION

Table 1: Frequency Distribution and Percentage of the SMEs Profile

Profile Particulars	Categories	F	%	
Business Started	1970s	6	20	
	1980s	6	20	
	1990s	3	10	
	2000s	3	10	
	Others	12	40	
	Total		30	100
Number of Employees	30 Full-time	3	10	
	50 Full-time	9	30	
	70 Full-time	3	10	
	100 Full-time	3	10	
	107 Full-time	3	10	
	120 Full-time	3	10	
	150 Full-time	6	20	
	Total		30	100
	Asset Capitalization	3,000,001 to 15,000,000 Php	15	50
15,000,001 Php to 100,000,000 Php		15	50	
Total		30	100	
Beginning Liabilities	3,000,001 Php to 15,000,000 Php	15	50	
	15,000,001 Php to 100,000,000 Php	15	50	
	Total	30	100	
Position	Owner	4	13.33	
	Manager	6	20	
	Accountant	10	33.33	
	Auditor	10	33.33	
	Total	30	100	

1. Profile of the Small and Medium Enterprises (SMEs)

1.1. **Length of Existence:** Most of the small and medium enterprises in Baguio City came from the item “other than 2000s” with a frequency of 12 or 40% of the total population. Some started in 1970s and 1980s with a frequency of 6 and 20%, while a few started in the 1990s and 2000s with a frequency of 3 and 10%. The findings indicate that the selected SMEs in Baguio are mostly new.

1.2. **Number of Employees:** Majority of the selected SMEs have 50 full-time employees (30%) for the Small enterprises while the Medium enterprises have 150 full-time employees (20%). This indicates that SMEs in Baguio City are classified according to the number of employees prescribed by the Securities and Exchange Commission.

1.3. **Asset Capitalization:** Half of the selected SMEs from the Small enterprises’ asset capitalization was between 3,000,001 Php to 15,000,000 Php (50%) while those from the Medium enterprises was between 15,000,001 Php to 100,000,000 Php (50%). Based on the survey, the respondents are in line with classification with the asset capitalization of SMEs as prescribed by the Securities and Exchange Commission.

1.4 **Beginning Liability:** The selected Small enterprises mostly have between 3,000,001 Php to 15,000,000 Php (50%) whereas the Medium enterprises have between 15,000,001 Php to Php100,000,000 Php (50%) as their beginning liability respectively. The findings revealed that the respondents’ businesses both fall within the allowed beginning liability of SMEs as prescribed by the Securities and Exchange Commission.

1.5 **Position:**Most of the selected SMEs employ accountants (33.33%) and auditors (33.33%), while some are managers (20%). These positions were highlighted due to their involvement in the financial transactions of business.

Table 2: Summary of the Mean, Standard Deviation and Verbal Interpretation of the Financial Reporting Compliance of the Selected SMEs

Financial Reporting Compliance	x	S.D.	V.I.
Income	3.31	0.402	Moderately Complied
Expenses	3.38	0.321	Moderately Complied
Assets	3.36	0.434	Moderately Complied
Liabilities	3.38	0.398	Moderately Complied
Equity	3.31	0.556	Moderately Complied
Presentation of Financial Statement	3.39	0.487	Moderately Complied
Inventories	3.32	0.405	Moderately Complied
Revenue/Sales	3.30	0.445	Moderately Complied
Earnings per share	3.08	0.526	Moderately Complied
Over-all Mean	3.31	0.442	Moderately Complied

2. Selected SMEs' Level of Compliance in Financial Reporting of Financial Statement

2.1 Statement of Financial Performance.

2.1.1 Income:Most of the SMEs obtained an overall verbal interpretation of “moderately complied” with a mean of 3.13 because of the newly adopted financial reporting standards or accounting standards with regards to income. The selected SMEs garnered a verbal interpretation of “highly complied” with an overall mean of 3.53 in the item “no offset accounting standards of income and expenses.” This indicates that the level of compliance of the selected SMEs in financial reporting of financial performance in terms of income were still under the adjustment period for businesses.

2.1.2 Expenses:Most of the selected SMEs was rated verbally as “moderately complied” in its financial reporting of financial performance in terms of expenses with an overall mean rating of 3.38. This shows that the selected SMEs complied with the requirements, policies and measurements in expenses as stated in the financial reporting standards.

2.2 Statement of Financial Position.

2.2.1 Assets:Most of the selected SMEs obtained an overall verbal interpretation of “moderately complied” with an overall mean rating of 3.36 regarding the financial reporting of financial position in terms of assets. This indicates that most of the selected SMEs complied with the definition, recognition, policies and measurement of financial reporting of assets.

2.2.2 Liability:Most of the selected SMEs obtained an overall verbal rating of “moderately complied (3.38)” in its financial reporting in terms of liability. This indicates that the selected SMEs complied with the definition, recognition, policies and measurement of liability in the financial position set in financial reporting standards.

2.2.3 Equity:Most of the selected SMEs “moderately complied” with the financial reporting of financial position in terms of equity when it obtained an overall mean rating of 3.31. This shows that most SMEs comply with the definition, recognition, policies, computations and measurement of financial reporting standards of equity.

2.3 Presentation of Financial Statement:As to the presentation of financial statement set by the Philippine Accounting Standards (PAS) No. 1, most of the selected SMEs “moderately complied” with a mean rating of 3.39. This implies that most of the selected SMEs’ present financial statements fairly, complied in a going concern basis, present financial statement annually, present financial statement consistently and comparatively, present financial statement separating current and noncurrent assets and liabilities, present financial statement disclosure of share capital and present financial statement method of recognizing expenses.

2.4 Inventories: Most of the selected SMEs obtained an overall verbal rating of “moderately complied” with a mean rating of 3.30 in its financial reporting of financial statement in terms of inventory. This implies that the financial reporting standards of inventory in use is that of the Philippine Accounting Standards (PAS) No. 2. Notable also is that most of the selected SMEs garnered a verbal rating of “highly complied (3.60)” in the definition of inventory as assets held for sale in ordinary course of business. Furthermore, it is indicative that these SMEs also complied in other definitions of inventory, in the inclusion of purchases, cost of conversion and other cost of incurrence, and in recognition, measurement and disclosures of inventory.

2.5 Revenu: Most of the selected SMEs obtained a verbal rating of “moderately complied” with a mean rating of 3.30 in the financial reporting of financial statement in terms of revenue. This implies that most of the selected SMEs complied with the definition, recognition, measurement, disclosure and policies as prescribed by the financial reporting standards, specifically, the Philippine Accounting Standards (PAS) No. 18.

2.6 Earnings Per Share: Most of the selected SMEs attained an overall verbal rating of “moderately complied” with a mean rating of 3.08 in its financial reporting of financial statement in terms of earning per share. Most SMEs complied with the definition, disclosure, computation and presentation of earnings per share in the financial statement as indicated in the financial reporting standards specified by the Philippine Accounting Standards (PAS) No. 33.

Table 2 shows that most of the selected SMEs moderately complied with the financial reporting standards in the preparation and presentation of different elements of the financial statement as seen in its over-all mean rating of 3.31. This implies that most of the selected SMEs are in compliance with the financial reporting standards as prescribed by Securities and Exchange Commission which they adopted during the transition or adjustment period of their businesses.

Table 3: Financial Statement Analysis of the Selected SMEs Using Ratio Analysis

Financial Statement Analysis	Ratio	Mean		Change	Description
		2019	2018	2019-2018	
Profitability Ratio:	Profit Margin (PM)	14.21%	14.90%	-0.69%	Decreased
	Return on Assets (ROA)	5.16%	3.98%	1.18%	Increased
	Return on Equity (ROE)	10.68%	9.42%	1.26%	Increased
Liquidity Ratio:	Current Ratio (CR)	1.70x	1.88x	-0.18	Decreased
Asset Utilization Ratio:	Receivable Turnover (RT)	1.75x	1.52x	0.23x	Increased
	Inventory Turnover (IT)	1.46x	1.34x	0.12x	Increased
	Total Asset Turnover (TAT)	0.39x	0.31x	0.08x	Increased
Debt Utilization Ratio:	Debt to Total Assets (DTA)	57.07%	48.82%	8.25%	Increased
	Equity to Total Assets (ETA)	49.29%	45.81%	3.48%	Increased
Market Value Ratio:	Earnings per Share	₱0.89	₱0.76	₱0.13	Increased
	Dividends per Share	₱0.43	₱0.40	₱0.03	Increased

3. Financial Statement Analysis of the Selected SMEs Using Ratio Analysis

Table 3 presents the summary of the Financial Statement Analysis of the using Ratio Analysis.

3.1 Profitability Ratio.

3.1.1 Profit Margin: The selected SMEs obtained an average profit margin of 14.21% in 2019 as compared to 14.90% in 2018. This shows that there was a decrease of -0.69% which, comparatively, is not a good indicator for profit-oriented businesses.

3.1.2 Return on Assets: Most of the selected SMEs had an average return on assets of 5.16% in 2019 as compared with 3.98% in 2018 and an increase of 1.18%. This indicates that there was a good return after utilizing assets of their businesses.

3.1.3 Return on Equity: The average return on equity of majority of the selected SMEs was from 9.42% in 2018 and 10.68% in 2019 which yielded an increase of 1.26%. This indicates a good return after financing their business operating activities.

3.2 Liquidity Ratio.

3.2.1 Current Ratio: Most of the selected SMEs received an average current ratio of 1.70 times in 2019 which was lower than the current ratio in 2018 of 1.88 times. There was a decrease by 0.18 times from 2018 to 2019. This means that most of the selected SMEs were not able to pay their current maturing liabilities with in short period of time.

3.3. Asset Utilization Ratio.

3.3.1 Receivable Turnover: Majority of the selected SMEs drew an average receivable turnover in 2019 which was 1.75 times greater than in 2018 which was 1.52 times. There was an increase of 0.23 times from 2018 to 2019. This indicates that the higher receivable turnover, the more efficient the business will be in terms of collecting credit from the customers or clients.

3.3.2 Inventory Turnover:For most of the selected SMEs, they incurred an average inventory turnover of 1.46 times in 2019 which was greater than 1.34 times in 2018. There was an increase from 2018 to 2019 by 0.12 times. This is a good indication that the higher inventory turnover, the more the business can quickly sell its inventory to their customers or clients.

3.3.3 Total Asset Turnover:The mean average total asset turnover of the selected SMEs was 0.39 times in 2019 while it was 0.31 times in 2018. It is clear that there was an increase by 0.08 times. This indicates that most of the selected SMEs can generate sales using its assets but not have a high ratio. The 2019 total asset turnover ratio of 0.39 means that each peso of asset generates 39 centavos of sales or revenue.

3.4. Debt Utilization Ratio.

3.4.1 Debt-to-total Assets:For the majority of the selected SMEs, their average debt-to-total assets was 57.07% in 2019 and 48.82% in 2018 which was an increase of 8.25%. This indicates that both of the debt-to-total asset ratios in 2018 and 2019 exceeded the ideal ratio of 40% or lower which is considered as a good debt ratio. Furthermore, most SMEs run a greater risk that the business will not generate enough cash flow to service its debt which is very costly.

3.4.2 Equity-to-total Assets:The selected SMEs mostly incurred 49.29% in 2019 and 45.81% in 2018 which was an increase of 3.48%. This indicates that the shareholders or investors' financing was lower in 2018 than 2019, an inverse of debt-to-total assets since most of the SMEs are financed by creditors. Most SMEs have lower equity-to-total assets ratio means that lesser financing by shareholders however the business have less sustainable and high risk for future loans.

3.5 Market Value Ratio.

3.5.1 Earnings Per Share (EPS):The average EPS from 2018 was 0.76 Php which then increased to 0.89 Php in 2019. The 17% increase indicates that there was a small growth rate in the EPS but it cannot be considered as a strong profit growth.

3.5.2 Dividends Per Share (DPS):The average DPS in 2019 was 0.43 Php from 0.40 Php in 2018. There was a 7% increase in the DPS within the range of 0% to 35% which is considered good dividend payout.

Summary of the Financial Statement Analysis of SMEs Using Ratio Analysis\

Table 4: Summary of SMEs' Test Statistics of Financial Reporting Compliance When Grouped With Business Profile

Business Profile	Test Statistics	p-value	V.I.
Length of Existence	F = 0.418	P = 0.794 > 0.05	Not Significant
Number of Employees	F = 0.527	P = 0.782 > 0.05	Not Significant
Asset Capitalization	t = -0.843	P = 0.409 > 0.05	Not Significant
Beginning Liabilities	t = -0.843	P = 0.407 > 0.05	Not Significant
Position	F = 2.336	P = 0.097 > 0.05	Not Significant

4. Significant Difference in the Level of Financial Reporting Compliance When Grouped According to Business Profile

4.1. Length of Business Existence.

The comparison between the selected SMEs' financial reporting compliance with the overall Philippine Accounting Standards (PAS) was not significant to its length of business. It indicates that regardless of the SMEs' age or years of existence, it does not affect its level of compliance with PAS or PFRS. This supports the study Demir and Bahadir, (2014) of company age are not significant in explaining the level of disclosure compliance with IFRSs.

4.2. Number of employees.

The overall analysis using the Philippine Accounting Standards on the selected SMEs' compliance with financial reporting standards where the number of employees did not differ with the financial reporting compliance of SMEs. This implies that the number of employees, whether it is small or medium size, is not significant with the financial reporting compliance with PAS or PFRS for SMEs. This finding supports the study ERIA, (2017) where they said that the number of employees is not significant in explaining the level of disclosure compliance with PFRS for SMEs.

4.3. Asset capitalization.

The overall analysis using the Philippine Accounting Standards on the selected SMEs' compliance with financial reporting standards where the asset capitalization did not differ with the financial reporting compliance

of SMEs. This implies that the asset capitalization, whether it is small or medium size, is not significant with the financial reporting compliance with PAS or PFRS for SMEs. This finding supports the study Demir and Bahadir, (2014) where they said that the company size is not significant in explaining the level of disclosure compliance with IFRSs.

4.4. Beginning Liability:The financial reporting compliance of the selected SMEs when grouped with the beginning liabilities did not differ. This implies that the compliance of the selected SMEs with its overall financial reporting standards did not matter whether the beginning liabilities amounted to the debt ranging from 3,000,001 Php to 15,000,000 Php.

4.5. Position:The selected SMEs' level of financial reporting compliance in terms of overall financial reporting standard do not differ when grouped according to position. This implies that the business position does not affect the selected SMEs' financial reporting compliance in terms of overall financial reporting standards.

Table 5: Relationship Between the Level of Financial Reporting Compliance with the Financial Statement Analysis

Financial Reporting Compliance	Statistics	Profitability Ratios			Liquidity Ratio	Asset Utilization Ratios			Debt Utilization Ratios		Market Value Ratios	
		PM	ROA	ROE	CR	RT	IT	TA	DTA	ETA	EPS	DPS
Income	r	0.269*	0.029	0.042	0.403*	0.189	0.312*	-0.190	-0.229	0.191	0.237	.319*
	V.I.	Low	Negligible	Negligible	Low	Negligible	Low	Negligible	Low	Negligible	Low	Low
	Sig.	0.038	0.828	0.752	0.001	0.147	0.015	0.145	0.078	0.143	0.069	0.013
Expenses	r	0.057	-0.101	-0.098	0.345*	0.087	0.314*	-0.228	-0.120	0.121	0.102	0.148
	V.I.	Negligible	Negligible	Negligible	Low	Negligible	Low	Low	Negligible	Negligible	Negligible	Negligible
	Sig.	0.664	0.445	0.458	0.007	0.507	0.015	0.079	0.360	0.357	0.438	0.259
Assets	r	0.164	0.120	0.108	0.290*	0.005	0.256*	-0.264*	-0.179	0.150	0.13	0.182
	V.I.	Negligible	Negligible	Negligible	Low	Negligible	Low	Low	Negligible	Negligible	Negligible	Negligible
	Sig.	0.209	0.361	0.411	0.025	0.971	0.049	0.041	0.172	0.252	0.324	0.165
Liabilities	R	0.178	0.157	0.189	0.295*	-0.011	0.211	-0.367**	-0.113	0.091	0.094	0.118
	V.I.	Negligible	Negligible	Negligible	Low	Negligible	Low	Low	Negligible	Negligible	Negligible	Negligible
	Sig.	0.175	0.232	0.149	0.022	0.934	0.105	0.004	0.392	0.488	0.476	0.369
Equity	R	0.173	0.148	0.167	0.264*	-0.089	0.235	-0.286*	-0.151	0.138	0.128	0.181
	V.I.	Negligible	Negligible	Negligible	Low	Negligible	Low	Low	Negligible	Negligible	Negligible	Negligible
	Sig.	0.186	0.258	0.203	0.042	0.500	0.071	0.027	0.249	0.295	0.330	0.167

Presentation	R	0.118	0.160	0.187	0.179	-0.137	0.148	-0.249	-0.112	0.101	0.105	0.157
	V.I.	Negligible	Negligible	Negligible	Negligible	Negligible	Negligible	Low	Negligible	Negligible	Negligible	Negligible
	Sig.	0.370	0.222	0.153	0.172	0.296	0.259	0.055	0.395	0.443	0.425	0.232
Inventories	R	0.160	0.109	0.107	0.092	0.000	0.047	-0.057	-0.099	0.079	0.126	0.175
	V.I.	Negligible	Negligible	Negligible	Negligible	Negligible	Negligible	Negligible	Negligible	Negligible	Negligible	Negligible
	Sig.	0.222	0.406	0.415	0.484	0.997	0.719	0.667	0.453	0.547	0.338	0.182
Revenue	R	0.251	0.225	0.211	0.195	0.002	0.138	-0.169	-0.155	0.132	0.126	0.156
	V.I.	Low	Low	Low	Negligible	Negligible	Negligible	Negligible	Negligible	Negligible	Negligible	Negligible
	Sig.	0.053	0.083	0.105	0.135	0.988	0.292	0.196	0.238	0.316	0.338	0.235
Earnings per Share	r	-0.009	-0.132	-0.062	.409**	0.092	.354**	-0.291*	0.052	-0.056	-0.012	-0.032
	V.I.	Negligible	Negligible	Negligible	Substantial	Negligible	Low	Low	Negligible	Negligible	Negligible	Negligible
	Sig.	0.945	0.313	0.639	0.001	0.483	0.006	0.024	0.695	0.670	0.925	0.811

5. Relationship Between the Level of Financial Reporting Compliance With the Financial Statement Analysis

5.1 Profitability Ratio: There was low correlation of financial reporting compliance in terms of income with the profitability ratio in particular the profit margin. This indicates that profit margin has a low relationship with financial reporting compliance of SMEs in terms of income and it is significant. There is an effect of profit margin with that of level of financial reporting compliance in terms of income, however, weak relationship. The compliance in PFRS for SMEs does not mean to improve financial performance but to give reliable and relevant financial information to users (Ferrer, 2016). Also, there was a low correlation of financial reporting compliance in terms of revenue with the profitability ratios such as profit margin, return on assets and return on equity as seen in Table 5. This shows that profit margin, return on assets and return on equity have a low relationship with financial reporting compliance of SMEs in terms of revenue but not that significant. The reason for this is that the selected SMEs moderately complied with the set of financial reporting standards of revenue and that there was a low profitability of the small and medium enterprises analyzed in their financial statement. This implies that there is no assurance that complying with financial reporting will yield to a high profitability. The level of compliance in financial reporting in terms of revenue leads to low profitability.

However, the return on assets and return on equity is not related with financial reporting compliance in terms of income, expenses, assets, liabilities, equity, presentation, revenue, inventories and earnings per share. This is related to the findings of Ferrer and Ferrer (2011) where they proved that there was no significant relation between company profitability, as measured by the Return on Assets, Return on Equity, Basic Earnings per Share, Return on Sales, and Revenues, and the degree of compliance to PFRS. However, their study was proven for large corporations but not the SMEs.

5.2 Liquidity Ratio: Table 5 shows the selected SMEs' financial reporting compliance in terms income, expenses, assets, liabilities and equity obtained a low correlation with that of financial statement analysis in terms of liquidity ratio in particular the current ratio (CR). Also, the earnings per share has substantial relationship with current ratio. This means that liquidity ratio such as current ratio is significantly related with financial reporting compliance in terms of income, expenses, assets, liabilities, equity, and earnings per share. This result is different from the findings in the study of Ferrer and Ferrer, (2011) that current ratio has no

significant effect on the financial variables cited based on the computed t-statistics whose p-values are greater than the level of significance ($\alpha = 0.05$). The financial reporting compliance in terms of presentation, revenue and inventories has no relationship with that of liquidity ratio such as current ratio. This support the study of Ferrer and Ferrer, (2011) that liquidity ratio has no effect of IFRS when expressed in terms of Balance Sheet and Income Statement indices. Moreover, the current ratio has no significant effect on PFRS or PAS for presentation, revenue and inventories.

5.3 Asset Utilization Ratio: There was a low correlation of inventory turnover with that of financial reporting compliance of income, expenses, assets, earnings per share and it was found to be significant as presented in Table 5. This contradicts the study of Terzi, Oktem, Şen, (2013) that inventory turnover ratios based on International Financial Reporting Standards (IFRS) financial statements were not significant from the stated ratios of local Generally Accepted Accounting Principles (GAAP) financial statements. Total asset turnover has low correlation with that of financial reporting compliance in terms of assets, liabilities, equity and earnings per share and it was found to be significant. These results support the study of Terzi, Oktem, Şen, (2013) that asset turnover ratios based on IFRS financial statements were statistically and significantly distinguished from the stated ratios of local GAAP financial statements.

5.4 Debt Utilization Ratio: There was no correlation between the debt utilization ratios such as debt-to-asset and equity-to-asset with the level of financial reporting compliance of selected SMEs as shown in Table 5. This implies that there was no relationship that exists between debt utilization ratios with that of financial reporting compliance specifically income, expenses, asset, liability, equity, presentation, revenue, inventories, and earnings per share. This contradicts the study of Abor (2007) in which his results indicate that capital structure, especially long-term and total debt ratios, negatively affect the performance of SMEs.

5.5 Market Value Ratios: Table 5 shows the selected SMEs' market value ratios such as dividends per share obtained a low correlation with that of financial reporting compliance in terms of income. This implies that the SMEs income has a significant relationship with the dividends per share paid to its shareholders. As a rule of thumb by corporate finance institute, the higher income, the higher dividends per share. In this study, income was related with its dividend per share.

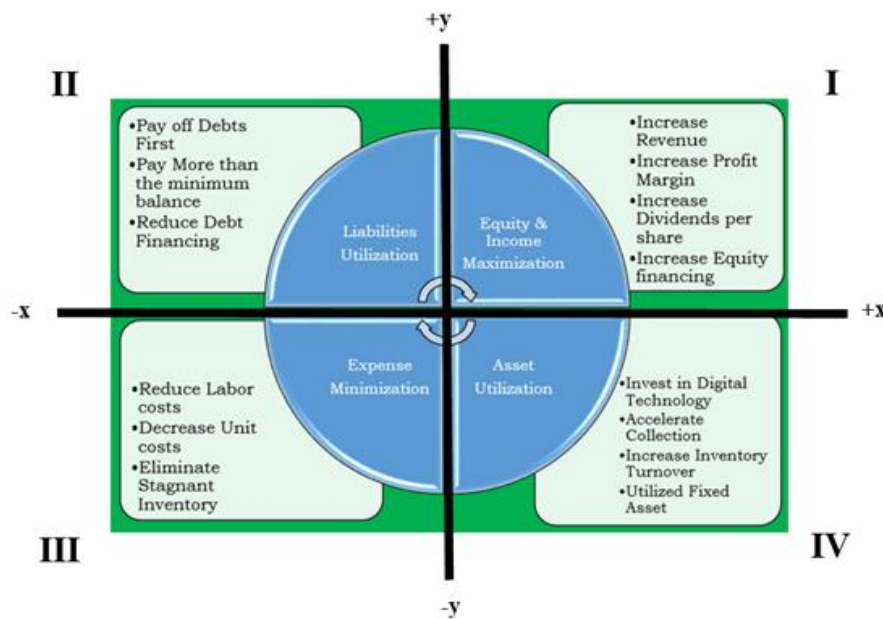


Fig.2: Proposed Financial Planning Model for SMEs' Tool for Decision-Making

6. Developed and Proposed Financial Planning Model for Decision-Making of SMEs in Baguio City

Figure 2 shows that the developed and proposed financial planning model that could help selected SMEs in Baguio City for financial decision making. The table comprises of financial goals and financial objectives that best fit the significant factors from the financial reporting compliance and financial statement analysis of the selected SMEs.

In financial management of Block, Hirt and Danielsen (2009), SMEs must start with financial goals such as income maximization, shareholders' maximization of wealth, asset utilization, liabilities utilization, and expense minimization. Each financial goals have financial objectives.

1. To maximize income, SMEs financial objectives must increase revenue and increase profit margin. Increasing sales and increasing profit margin is a good indication that SMEs are profitable.

2. To maximize shareholders' wealth, SMEs financial objectives must increase dividends per share and increase equity financing. The increase dividends per share is a good indication that SMEs are growing and thus it can attract more investors to acquire more capital financing.
3. To utilize asset, SMEs need to invest in digital technology, and accelerate collections, increase inventory turnover and total asset turnover because these are good indicators of effective and efficient asset utilization.
4. To minimize expenses, SMEs need to consider reduction of labor costs, reduction of unit cost and elimination of stagnant inventory. These are necessary to minimize expenses thus contributes to profit maximization.
5. To utilize liabilities, SMEs must pay off the most expensive debt first, paying more than the minimum balance and reduce the debt financing. These are good indication that SMEs are liquid and solvent.

CONCLUSION

The selected SMEs in Baguio City complied with the set criteria of the Securities and Exchange Commission. Therefore, they must continually adapt Philippine Financial Reporting Standards for SMEs. Most of the selected SMEs complied with the financial reporting standards in moderation as these are good ways of starting a business.

Most SMEs were found to have a better financial statement analysis in terms of return on asset, return on equity, receivable turnover, inventory turnover, total asset turnover, debt-to-total assets, equity-to-total assets, earnings per share, and dividends per share as these are good indicators for more access to funding with other investors whether government or other private investors.

The selected SMEs' financial reporting compliance is not affected regardless of the business profile. Thus, SMEs should add more business profile may affect their financial reporting compliance.

SMEs' financial reporting compliance in terms of income, expense, and asset showed a significant relationship with its profit margin and inventory turnover; their financial reporting compliance in terms of income was found to have a significant relationship with its dividends per share. Their financial reporting compliance in terms of assets, liability, equity, and earnings per share has a significant relationship with its total asset turnover. Thus, the level of compliance in the financial reporting of selected SMEs provides reliable and relevant financial information to the users and determines what financial ratios to improve.

The financial planning model was developed and proposed as a tool for SMEs in decision-making and managing finances of their business activities based on the financial reporting compliance, which is significant with the financial statement analysis. Therefore, they should adopt the financial planning model as a tool for a more successful business operation of their short-term and long-term financial goals such as profitability, liquidity, efficiency, solvency, and growth.

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DECLARATION OF CONFLICTS OF INTEREST

There is no conflicting interest of this study. I declare the compliance of this study to the relevant ethical guidelines in the Institutional Ethics Review Committee (IERC) of Centro Escolar University, Mendiola, Manila, Philippines.

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Table 1: Frequency Distribution and Percentage of the SMEs Profile

Profile Particulars	Categories	F	%
Business Started	1970s	6	20
	1980s	6	20
	1990s	3	10
	2000s	3	10
	Others	12	40
	Total		30
Number of Employees	30 Full-time	3	10
	50 Full-time	9	30
	70 Full-time	3	10
	100 Full-time	3	10
	107 Full-time	3	10
	120 Full-time	3	10
	150 Full-time	6	20
	Total		30
Asset Capitalization	3,000,001 to 15,000,000 Php	15	50
	15,000,001 Php to 100,000,000 Php	15	50
	Total	30	100
Beginning Liabilities	3,000,001 Php to 15,000,000 Php	15	50
	15,000,001 Php to 100,000,000 Php	15	50
	Total	30	100
Position	Owner	4	13.33
	Manager	6	20
	Accountant	10	33.33
	Auditor	10	33.33
	Total	30	100

Table 2: Summary of the Mean, Standard Deviation and Verbal Interpretation of the Financial Reporting Compliance of the Selected SMEs

Financial Reporting Compliance	x	S.D.	V.I.
Income	3.31	0.402	Moderately Complied
Expenses	3.38	0.321	Moderately Complied
Assets	3.36	0.434	Moderately Complied
Liabilities	3.38	0.398	Moderately Complied
Equity	3.31	0.556	Moderately Complied

Presentation of Financial Statement	3.39	0.487	Moderately Complied
Inventories	3.32	0.405	Moderately Complied
Revenue/Sales	3.30	0.445	Moderately Complied
Earnings per share	3.08	0.526	Moderately Complied
Over-all Mean	3.31	0.442	Moderately Complied

Table 3: Financial Statement Analysis of the Selected SMEs Using Ratio Analysis

Financial Statement Analysis	Ratio	Mean		Change	Description
		2019	2018	2019-2018	
Profitability Ratio:	Profit Margin (PM)	14.21%	14.90%	-0.69%	Decreased
	Return on Assets (ROA)	5.16%	3.98%	1.18%	Increased
	Return on Equity (ROE)	10.68%	9.42%	1.26%	Increased
Liquidity Ratio:	Current Ratio (CR)	1.70x	1.88x	-0.18	Decreased
Asset Utilization Ratio:	Receivable Turnover (RT)	1.75x	1.52x	0.23x	Increased
	Inventory Turnover (IT)	1.46x	1.34x	0.12x	Increased
	Total Asset Turnover (TAT)	0.39x	0.31x	0.08x	Increased
Debt Utilization Ratio:	Debt to Total Assets (DTA)	57.07%	48.82%	8.25%	Increased
	Equity to Total Assets (ETA)	49.29%	45.81%	3.48%	Increased
Market Value Ratio:	Earnings per Share	₱0.89	₱0.76	₱0.13	Increased
	Dividends per Share	₱0.43	₱0.40	₱0.03	Increased

Table 4: Summary of SMEs' Test Statistics of Financial Reporting Compliance When Grouped With Business Profile

Business Profile	Test Statistics	p-value	V.I.
Length of Existence	F = 0.418	P = 0.794 > 0.05	Not Significant
Number of Employees	F = 0.527	P = 0.782 > 0.05	Not Significant
Asset Capitalization	t = -0.843	P = 0.409 > 0.05	Not Significant
Beginning Liabilities	t = -0.843	P = 0.407 > 0.05	Not Significant
Position	F = 2.336	P = 0.097 > 0.05	Not Significant

Table 5: Relationship Between the Level of Financial Reporting Compliance with the Financial Statement Analysis

Financial Reporting Compliance	Statistics	Profitability Ratios			Liquidity Ratio	Asset Utilization Ratios			Debt Utilization Ratios		Market Value Ratios	
		PM	ROA	ROE	CR	RT	IT	TAT	DTA	ETA	EPS	DPS
Income	r	0.269*	0.029	0.042	0.403*	0.189	0.312*	-0.190	-0.229	0.191	0.237	.319*
	V.I.	Low	Negligible	Negligible	Low	Negligible	Low	Negligible	Low	Negligible	Low	Low
	Sig.	0.038	0.828	0.752	0.001	0.147	0.015	0.145	0.078	0.143	0.069	0.013
Expenses	r	0.057	-0.101	-0.098	0.345*	0.087	0.314*	-0.228	-0.120	0.121	0.102	0.148
	V.I.	Negligible	Negligible	Negligible	Low	Negligible	Low	Low	Negligible	Negligible	Negligible	Negligible
	Sig.	0.664	0.445	0.458	0.007	0.507	0.015	0.079	0.360	0.357	0.438	0.259
Assets	r	0.164	0.120	0.108	0.290*	0.005	0.256*	-0.264*	-0.179	0.150	0.13	0.182

	V.I.	Negligible	Negligible	Negligible	Low	Negligible	Low	Low	Negligible	Negligible	Negligible	Negligible
	Sig.	0.209	0.361	0.411	0.025	0.971	0.049	0.041	0.172	0.252	0.324	0.165
Liabilities	R	0.178	0.157	0.189	0.295*	-0.011	0.211	- .367**	-0.113	0.091	0.094	0.118
	V.I.	Negligible	Negligible	Negligible	Low	Negligible	Low	Low	Negligible	Negligible	Negligible	Negligible
	Sig.	0.175	0.232	0.149	0.022	0.934	0.105	0.004	0.392	0.488	0.476	0.369
Equity	R	0.173	0.148	0.167	0.264*	-0.089	0.235	- .286*	-0.151	0.138	0.128	0.181
	V.I.	Negligible	Negligible	Negligible	Low	Negligible	Low	Low	Negligible	Negligible	Negligible	Negligible
	Sig.	0.186	0.258	0.203	0.042	0.500	0.071	0.027	0.249	0.295	0.330	0.167
Presentation	R	0.118	0.160	0.187	0.179	-0.137	0.148	-0.249	-0.112	0.101	0.105	0.157
	V.I.	Negligible	Negligible	Negligible	Negligible	Negligible	Negligible	Low	Negligible	Negligible	Negligible	Negligible
	Sig.	0.370	0.222	0.153	0.172	0.296	0.259	0.055	0.395	0.443	0.425	0.232
Inventories	R	0.160	0.109	0.107	0.092	0.000	0.047	-0.057	-0.099	0.079	0.126	0.175
	V.I.	Negligible	Negligible	Negligible	Negligible	Negligible	Negligible	Negligible	Negligible	Negligible	Negligible	Negligible
	Sig.	0.222	0.406	0.415	0.484	0.997	0.719	0.667	0.453	0.547	0.338	0.182
Revenue	R	0.251	0.225	0.211	0.195	0.002	0.138	-0.169	-0.155	0.132	0.126	0.156
	V.I.	Low	Low	Low	Negligible	Negligible	Negligible	Negligible	Negligible	Negligible	Negligible	Negligible
	Sig.	0.053	0.083	0.105	0.135	0.988	0.292	0.196	0.238	0.316	0.338	0.235
Earnings per Share	r	-0.009	-0.132	-0.062	.409**	0.092	.354**	- .291*	0.052	-0.056	-0.012	-0.032
	V.I.	Negligible	Negligible	Negligible	Substantial	Negligible	Low	Low	Negligible	Negligible	Negligible	Negligible
	Sig.	0.945	0.313	0.639	0.001	0.483	0.006	0.024	0.695	0.670	0.925	0.811