

Research Article

Knowledge Gap in Applying Philippine Accounting Standard 2 (Inventories) Across Manufacturing Concerns in the Southern Manila District

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ABSTRACT

Philippine Accounting Standard (PAS) 2 governs the valuation and presentation of inventories, a crucial line item in the financial statements of manufacturing businesses. Despite the established framework, manufacturing firms in the Southern Manila District face challenges in implementing the standard, leading to discrepancies in financial reporting. This study examines the expectation gap between the perceived application and actual compliance of these businesses with PAS 2, particularly in inventory valuation and disclosure. Employing a quantitative approach, the study utilizes statistical analysis to assess discrepancies based on employees' academic attainment, job titles, and work experience. The findings reveal a significant knowledge gap in the application of PAS 2, indicating that while employees may understand the theoretical principles, practical implementation remains inconsistent. However, compliance with disclosure requirements appears to be better understood, suggesting that firms prioritize regulatory reporting over valuation accuracy. The study highlights the necessity of enhanced training programs and stricter regulatory oversight to bridge this knowledge gap and improve adherence to PAS 2. Strengthening compliance measures can lead to more accurate financial reporting, fostering transparency and informed decision-making within the manufacturing sector. By identifying key areas of misunderstanding and implementation challenges, this research provides valuable insights for policymakers, regulatory bodies, and industry stakeholders aiming to enhance financial reporting standards in the Philippines.

Keywords: Inventory Valuation, PAS 2 Compliance, Manufacturing Industry, Expectation Gap, Financial Reporting, Knowledge Gap

1. INTRODUCTION

Directly influencing the accuracy of financial statements and decision-making processes in businesses, Philippine Accounting Standard (PAS) 2 provides guidelines on the recognition, measurement, and disclosure of inventories to ensure consistency and transparency in financial reporting. However, despite the established regulatory frameworks, many manufacturing firms in the Southern Manila District face challenges in fully implementing PAS 2, leading to an expectation gap between theoretical application and actual compliance.

This expectation gap arises due to several factors, including employees' academic qualifications, job roles, and levels of experience in accounting and finance. A lack of comprehensive understanding of PAS 2's requirements can result in misstatements in financial reports, affecting business performance assessments and regulatory compliance. Moreover, inventory mismanagement can distort financial results, influencing business strategies and external stakeholder confidence.

Existing literature highlights that while large corporations often have structured training programs and regulatory oversight, small and medium-sized enterprises (SMEs) may struggle with compliance due to limited resources and expertise. Studies suggest that the knowledge gap among employees, particularly in SMEs, can lead to inconsistencies in inventory valuation methods, such as FIFO (First-In, First-Out), weighted average cost, and net realizable value assessments.

This study aims to examine the expectation gap between perceived and actual compliance with PAS 2 in the manufacturing

industry of the Southern Manila District. Through statistical analysis, the research will evaluate how employees' educational backgrounds, job positions, and work experience influence their understanding and application of PAS 2. The findings will help identify areas for improvement, emphasizing the need for enhanced training programs and stronger regulatory enforcement to ensure accurate financial reporting and transparency.

This study also aims to contribute valuable insights for manufacturing businesses, accounting professionals, and regulatory bodies, addressing potential challenges in applying PAS 2 and ensuring improved compliance with inventory disclosure standards.

By addressing these gaps, this study contributes to the broader discourse on accounting standard compliance, financial accuracy, and decision-making within the manufacturing sector.

2. MATERIALS AND METHODS

Due to the financial nature of the subject matter, the study employs a descriptive quantitative research design to assess the perceived application and compliance of manufacturing companies in the Southern Manila District with Philippine Accounting Standard 2 (PAS 2). The research methodology is partially adapted from Daraghma (2018), which investigated the expectation gap in applying IAS 2 (Inventories). The study primarily focuses on identifying discrepancies between the perceived and intended application of PAS 2 by analyzing responses from employees handling inventories in manufacturing firms. To achieve this, the research examines differences based on highest academic attainment (Bachelor's, Master's, or Doctorate), job title (Financial Manager, Internal Auditor, or Accountant), and length of work experience (1–10 years, 11–20 years, or more than 20 years).

Data was gathered through an online survey questionnaire, distributed via social media platforms, Telegram, LinkedIn, and email. The questionnaire was derived from Daraghma's (2018) study and includes 23 items, structured into four sections: demographics, application of PAS 2, and compliance with disclosure requirements under PAS 2. Responses were measured using a 7-point Likert scale, with 1 representing "Strongly Disagree" and 7 representing "Strongly Agree". The instrument's reliability was confirmed through Cronbach's alpha, with values of 90.0% for inventory accounting policy application and 91.6% for compliance with disclosure requirements.

The respondents were selected through purposive sampling, specifically maximum variation sampling, which ensures diversity in professional backgrounds while maintaining relevance to the study. The population was based on the Annual Survey of Philippine Business and Industry (ASPBI) 2023, which reported 25,279 manufacturing establishments in the country (Philippine Statistics Authority, 2023). To determine an appropriate sample size, Slovin's formula was applied with a 10% margin of error and a 95% confidence level, yielding a final sample size of 100 respondents. Eligible participants were Filipino professionals aged 18 and above, handling inventories for manufacturing businesses with gross sales exceeding ₱3,000,000.

To ensure statistical validity, the study performed assumption tests before conducting analyses. The Kolmogorov-Smirnov test revealed that both dependent variables (Application of PAS 2 and Compliance with Disclosure Requirements) were not normally distributed ($p < .001$). Levene's Test for Homogeneity of Variances showed that while some groups met the assumption of equal variances, others did not, requiring adjustments in statistical techniques. As such, the study employed Welch's ANOVA, One-Way ANOVA, and Kruskal-Wallis H test, based on whether the assumptions of normality and homogeneity were met.

The data collection process involved several stages. This began with respondent acquisition, wherein the researchers sent survey invitations to eligible professionals in the manufacturing industry. This was followed by data retrieval from the respondents, whereafter responses were compiled and verified. The process was reiterated until the target sample size was met. Finally, the collected responses were subjected to data analysis, applying the statistical methods mentioned above.

The researchers ensured compliance with ethical research standards. Respondents were informed of the study's purpose, scope, and objectives before participating. A written consent form was obtained, guaranteeing their confidentiality, anonymity, and right to withdraw at any time. Data privacy was upheld by securing all responses and using them solely for research purposes. Additionally, the online survey was designed to be user-friendly, including an audio version of questions for visually impaired participants.

3. RESULTS AND DISCUSSIONS

The study examined the perceptions of employees in manufacturing firms regarding the application of inventory accounting policies and methods under PAS 2, as well as their knowledge of compliance with disclosure requirements. The demographic profile revealed that the majority of respondents hold a Bachelor's degree (88%), work as Accountants (60%), and have 1–10 years of experience (70%).

Regarding perceptions of PAS 2 application, respondents partially agreed (MW = 4.82, SD = 2.13), suggesting moderate familiarity with inventory accounting policies. The highest-rated item was the application of the lower of cost or fair market value approach (MW = 5.18, SD = 2.14), while respondents were indifferent to whether NRV is disallowed for market value measurement (MW = 4.38, SD = 2.14).

For knowledge of compliance with disclosure requirements, respondents agreed overall (MW = 5.91, SD = 1.32), demonstrating a strong understanding of disclosure regulations. The highest-rated item was the adoption of accounting policies in inventory measurement (MW = 6.14, SD = 1.36), while the lowest-rated was the reversal of a write-down to NRV (MW = 5.72, SD = 1.41).

Statistical tests revealed significant differences in perceptions when grouped by highest academic attainment and job title, but not by work experience. Specifically, those with a Bachelor's degree had lower understanding of PAS 2 application, while those with a Master's degree had the highest knowledge of compliance requirements. Similarly, Accountants reported a lower understanding of PAS 2 application than Financial Managers and Internal Auditors. However, no significant differences were found in either PAS 2 application or compliance knowledge when grouped by work experience.

Variable	Grouping Variable	Statistical Test	p-value	Decision	Interpretation
Application of PAS 2	Highest Academic Attainment	Kruskal-Wallis H	0.026	Reject H_0	Significant
Compliance with Disclosure		Kruskal-Wallis H	0.004	Reject H_0	Significant
Application of PAS 2	Job Title	Welch's ANOVA	0.007	Reject H_0	Significant
Compliance with Disclosure		Kruskal-Wallis H	0.284	Fail to Reject H_0	Not Significant
Application of PAS 2	Work Experience	One-Way ANOVA	0.093	Fail to Reject H_0	Not Significant
Compliance with Disclosure		Kruskal-Wallis H	0.184	Fail to Reject H_0	Not Significant

These findings suggest that educational background and job role play a role in understanding PAS 2, whereas work experience does not significantly affect perceptions. This highlights the importance of formal education and training programs in improving compliance and application of inventory accounting policies in manufacturing firms.

4. CONCLUSION

The study examined employees' perceptions of the application of inventory accounting policies under PAS 2 and their knowledge of compliance with disclosure requirements in manufacturing firms. Findings revealed that while respondents had moderate familiarity with PAS 2 application, they demonstrated a stronger understanding of compliance requirements. Significant differences were observed based on academic attainment and job title, with Master's degree holders showing higher compliance knowledge and Accountants displaying lower understanding of PAS 2 application. However, work experience did not significantly affect perceptions, indicating that education and job roles play a more crucial role in shaping knowledge of inventory accounting.

Based on these findings, it is recommended that companies implement targeted training programs to improve employees' understanding of PAS 2, particularly for Accountants. Encouraging further education through scholarships or tuition support can also enhance compliance knowledge. Tailored training based on job roles, standardized compliance procedures, and regular assessments should be introduced to ensure consistent application of inventory accounting policies. By adopting these measures, manufacturing firms can strengthen compliance, improve financial reporting accuracy, and enhance overall inventory management practices..

Financial institutions may also consider studying cryptocurrency in a perspective similar to other investments. Together with regulators and policymakers, financial institutions may begin looking into the possibility of integrating cryptocurrencies into the mainstream financial system. In relation to this, the Bangko Sentral ng Pilipinas, the Securities and Exchange Commission and Bureau of Internal Revenue, should jointly look into the regulation so that cryptocurrency gains may be properly reported and disclosed, and the whole of Philippine society may benefit from the value generated by cryptocurrency transactions, not only a select few..

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