



## **Exploring the Financial Management of the Local Start Up Pharmacy Business**

***Apriel Lou S. Quiao<sup>1</sup>, Shaine E. Boltiador<sup>2</sup>, Alrose Mae T. Quilinggen<sup>3</sup>, Marlon B. Paguia<sup>4</sup>, Eligen H. Sumicad<sup>5</sup>, and Mylene P. Alfanta<sup>6</sup>***

College of Business Education, Saint Columban College, Philippines

<sup>1</sup>[apriellou.quiao@sccpag.edu.ph](mailto:apriellou.quiao@sccpag.edu.ph), <sup>2</sup>[shaine.boltiador@sccpag.edu.ph](mailto:shaine.boltiador@sccpag.edu.ph), <sup>3</sup>[alrosemae.quilinggen@sccpag.edu.ph](mailto:alrosemae.quilinggen@sccpag.edu.ph), <sup>4</sup>[marlon.paguia@sccpag.edu.ph](mailto:marlon.paguia@sccpag.edu.ph),

<sup>5</sup>[eligen.sumicad@sccpag.edu.ph](mailto:eligen.sumicad@sccpag.edu.ph), <sup>6</sup>[mpalfanta.cbe@sccpag.edu.ph](mailto:mpalfanta.cbe@sccpag.edu.ph)

### **ABSTRACT**

This research provides case studies of how the local start-ups pharmacy business owners prepare their financial aspect to their business, and to understand the challenges of day-to-day operational experiences. This is essential because it provides insights into the effectiveness in preparation and utilization which impact the decisions made by the owners and its function in examining the efficiency and effectiveness of financial data. The study unveils key themes such as, the awareness on financial accounting preparations, the use of accounting system and manual recording schedules, hiring professionals for financial, challenges in preparing financial statements, and the coping mechanism of the owners for those challenges. To gain further insight into the nature in their awareness and experiences, in-depth interviews were conducted with 8 participants. The qualitative research Merriam case study selected these individuals. It considers problems specific to business; these include challenges faced and lessons learned by these owners, which are pivotal elements for success. Their first-hand experiences provided invaluable insights into financial recording processes, professional advice, operational strategies, customer behavior, market fluctuations, operational hurdles, and strategic maneuvers employed by these owners. Forming a crucial foundation upon which their businesses can flourish. By leveraging these experiences, these entrepreneurs can make informed decisions, implement effective business practices, and adapt swiftly to the ever-changing dynamics of the pre-owned mobile phone market, ultimately positioning themselves for sustained growth and success.

**Keywords:** Local Start-ups, Experiences of business owners, Pharmacy Business

### **Introduction**

Peter Drucker's statement, "You cannot manage what you cannot measure," highlights the significance of quantifying performance to drive enhancements. By focusing on measurement, organizations can identify priority areas for improvement and ensure accountability (Buerkli, 2019). Tracking progress enables informed decision-making, efficient resource allocation, and alignment of team efforts toward shared objectives. Small business owners who have pharmacy stores have emphasized that they encounter challenges in the financial management aspect and in identifying appropriate financial ratios, which are significant in measuring the growth of the business (Pierzecka, 2023). Since many pharmacy owners may not possess formal education in business and accounting, they may lack the expert knowledge and practical experience that can help them recognize and avoid pitfalls such as insufficient cash flow, considerable leveraging, ineffectual use of resources, and poor financial planning (Sihombing, 2024). Significant and tumultuous shifts have shaped the domestic financial sector in the past two decades. Introducing foreign investments, acquisitions, and stricter prudential oversight necessitated substantial changes to foster a more effective and profitable financial industry (Desiyanti et al., 2023). Cash flow and profitability are narrowed down in the financial statement analysis, and they are understood as the key metrics in analyzing a startup pharmacy's performance. In the analysis, a pharmacy can only sustain cash flow with profitability. Maintaining and supporting a functioning accounting system would provide timely and accurate financial data in the pharmacy (Sykes, 2019).

### **Background of the Study**

Cash flow and profitability are narrowed down in the financial statement analysis, and they are understood as the key metrics in analyzing a startup pharmacy's performance. In the analysis, a pharmacy can only sustain cash flow with profitability. Maintaining and supporting a functioning accounting system would provide timely and accurate financial data in the pharmacy (Sykes, 2019). This is one of the key issues, and some new and emerging pharmacies need financial management that uses the fundamentals of financial statements to improve their financial performance (Grey et al., 2016).

According to Grey et al. (2016), in the UK, pharmaceutical services in primary care are offered by community pharmacies (CPs) and dispensing doctor practices (DPs). DPs are general medical practices that can provide pharmaceutical services to patients residing in rural areas more than one mile (1.6km)

from a pharmacy. Establishing a shared set of standards for CPs and DPAs would promote fairness in patient service delivery, irrespective of where they access pharmaceutical services. Startup pharmacies must be diligent in understanding financial measures and how these measures impact their bottom line. Considering opening a pharmacy from scratch, one should know how much money is needed to start a pharmacy and how long it takes until the pharmacy records a profit. Startup pharmacies must thoroughly understand financial metrics and their impact on profitability (Tömöri, 2021). By analyzing financial statements, pharmacies can evaluate their current situation and spot significant trends using benchmark data. Pharmacists interested in launching a pharmacy from the ground up should consider the initial capital required and the timeline for achieving profitability. Typically, pharmacies break even by the third year, so financial projections should reflect this time frame. This period of operating without profit highlights the need for sufficient initial funding (Schwartz, 2021). Startups often change their business models during the operation, and this is challenging to explore because many startups disappear before they get a chance to be studied, resulting in most research on business model development and business model innovation being conducted on established firms or more firmly established startups. Critical outcomes of financial analysis are various financial ratios such as debt, efficiency, profitability, liquidity, and working capital ratios (Tömöri, 2021). This new approach to assessing the financial health of community pharmacy technology businesses aims to contribute to their positive financial development, ensuring their maintenance and survival in the future (Hairach, 2023). Furthermore, organizational size is a significant factor influencing managerial challenges; the skills necessary to oversee small enterprises such as pharmacies differ significantly from those required for managing larger ones.

Financial inclusion has traditionally been measured using instruments like the Multidimensional Index of Financial Inclusion (MIFI). This harmonized index allows cross-country comparisons and facilitates analysis over different periods within the same country. The organization's competitiveness is a complex and comprehensive indicator, and its assessment cannot be reduced to the definition of a single indicator. This holistic evaluation allows for a comprehensive understanding of the management's impact at a specific time. By assessing manageability, organizations can identify strengths and weaknesses in their management practices, leading to more informed decision-making and improved performance (Hairach, 2023). Total quantity management (TQM) in pharmacy practice is recognized domestically and globally. Numerous standards for pharmacy quality performance are available worldwide to enhance patient care, optimize pharmacy operations, prevent medication errors, and reduce the financial strain on healthcare systems. The success of these measures can be influenced by the specific strategies employed, with one of the most impactful approaches being the optimization of pharmacy inventory management. For both established and newly launched pharmacies, it is essential to determine the optimal inventory range to ensure efficient operations and maximize profitability (Alomi et al., 2023).

More training resources and financial analysis and forecasting capabilities should be needed. However, opportunities exist that align with Saudi Arabia Vision 2030, the healthcare organization's Financial in Pharmacy program, and the potential for increased sales and profits by expanding services and products (Imani, 2015). The financial system must evaluate outcomes from accounting records, including budget, balance sheets, income, and cash flow statements. Additionally, financial services must determine the funding required for pharmacy expansion and identify the best investment opportunities within and outside the current business (Alonso, 2020). Education and training in pharmacy accounting and financial systems are crucial for undergraduate and postgraduate pharmacists (Volmir, 2019). The training program consists of five weeks of coaching divided into five modules: Accounting and Financial Cycle, Analysis of Pharmacy Financial Situation, Operational Accounting, Pharmacy Feasibility Study, and Pharmacy Accounting and Financial Quality Control. Each module outlines its objectives, outcomes, and required competencies (Alomi, 2023). Training can be conducted effectively and conveniently at the pharmacy location. While the accounting cycle is crucial in pharmacy practice, local and international literature on the subject has yet to be available. Implementing accounting cycle policies and procedures is essential for non-specialist and specialist accountants. Moreover, according to the International Journal of Pharmacology and Clinical Sciences, these guidelines are designed for financial professionals rather than pharmacists (Aljumah et al., 2023). The approach to pharmacy accounting and financial systems training has been positively received in the Saudi pharmaceutical sales sector, as stated in A New Initiative Project in Saudi Arabia. The Bologna Agreement aims to standardize European degree programs, facilitate student and staff exchanges, and shape European pharmacy education and training. This agreement was endorsed by education ministers from the European Higher Education Area countries, comprising 48 members, including the 28 EU member states, according to Pharmacy MDPI (Abou-Shaab, 2020). Companies not overly reliant on a single supplier are more likely to assume risks associated with higher returns on financial investments. This tendency may counterbalance the positive effects of such investments on earnings, which could be reflected in the regression estimates. Specifically, the corporate database examined was restricted to the Visegrad countries, each with various industry players, and only data from the most recently published financial statements were considered (Pierzecka, 2023).

The financial position statement examines the interplay between three components: pharmacy assets or resources like cash, accounts receivable, and equipment; pharmacy liabilities such as loans and accounts payable; and equity, which includes common stock and accumulated earnings. This report illustrates how these three relationships have evolved—whether they have grown or diminished—across time, as stated in (Alomi, 2023). Define financial management as the strategic administration of financial resources to attain an organization's financial goals and objectives. Further elaborated that effective financial management entails optimizing the use of economic resources within SMEs to efficiently achieve their business goals and objectives (Uduwaka & Dedunu, 2019). Financial difficulties in community pharmacies often stem from inefficient resource management and productivity losses. To address these issues, introducing financial management training at the undergraduate level in pharmacy faculties and offering vocational training through the Turkish Pharmacists' Association (TEB) are proposed as beneficial measures. Additionally, by collaborating with relevant institutions, TEB aims to develop and implement an effective accounting system tailored for community pharmacies (Sakinc & Bilgener, 2021). Financial management is essential for a company's survival because it helps business leaders manage their finances more effectively by identifying and cutting unnecessary expenses. The stages of financial management consist of planning, executing, and monitoring financial activities. Despite being highlighted in previous research, the lack of mechanisms to control medicine prices and regulate market competition remains a significant challenge for community pharmacists in Malaysia (Kho et al., 2018). To alleviate these pressures, protective measures have been proposed, such as restricting community pharmacy ownership

to registered pharmacists, limiting the establishment of chain pharmacies, fixing margins on controlled medicines, and requiring pharmacies to be located a certain distance from one another and in areas with sufficient population density (Račić, 2021). Startup companies, constituting approximately 20% of the workforce in OECD countries, play a significant role in job creation, responsible for nearly half of all new jobs on average. Throughout the COVID-19 pandemic, startups demonstrated remarkable agility and responsiveness, aiding many governments in implementing digital transformation initiatives, particularly in sectors such as education and healthcare. Entrepreneurs' responses to the pandemic varied depending on their industry, financial stability before the crisis, and existing debt levels (Dragamir et al., 2023). Although financial statements and analysis are essential for evaluating the performance of new pharmacy businesses, more needs to be understood about how these financial indicators actually affect business owners' decisions and planning. Existing literature predominantly focuses on the technical aspects of financial statement preparation and fundamental ratio analysis without sufficiently exploring their practical application and strategic implications in the dynamic environment of startup pharmacies. Therefore, empirical research is needed that investigates how local startup pharmacy owners interpret and utilize financial statements such as income statements and trial balances to assess profitability, identify strengths and weaknesses, and inform strategic decisions.

This research aims to fill this gap by providing insights into the effective utilization of financial performance indicators like inventory turnover and current and quick ratios to enhance financial management practices and foster sustainable growth in startup pharmacy businesses.

### ***Statement of the Problem***

The study assesses the understanding of Local Start-up Pharmacy Business Owners on financial metrics relevant to pharmacy financial management. It focuses on individual business owners who have micro pharmacies in Pagadian City and would be conducted during the school year 2024-2025.

- How do the local startup pharmacy business owners prepare financial statements?
- How do the local startup pharmacy business owners perform financial statement analysis?
- What are the challenges in preparing financial statements and performing financial analysis?
- How do the Local startup pharmacy business owners cope with their challenges?

### ***Significance of the Study***

The present study is significant to the financial indicators of financial management in the owners, pharmacists, pharmaceutical companies, distributors, healthcare providers, consumers, and other researchers.

Pharmacy Owners. These financial indicators put the owners in a position to decide how to balance their budgets, control their expenditures, increase revenues, and improve the overall well-being of their business. This situation would likely result in higher profitability, business sustainability, and potential new growth for the pharmacy business.

- Pharmacists. Pharmacists must be emphasized in the day-to-day running of a pharmacy business. Analysis of financial ratios can assist pharmacists in understanding how the business is performing and how their tasks impact the financial outcomes. This knowledge can enable pharmacists to make decisions that would enhance the efficiency and outcome of the assigned tasks.
- Pharmaceutical Companies. Pharmacy businesses have established significant relationships with pharmaceutical firms as their primary suppliers of products and services. The detailed evaluation of key financial ratios could help pharmaceutical companies analyze their clients' financial solvency and adjust their actions accordingly.
- Distributors. Distributors are significant players in pharmacy supply chain management. Knowledge of financial indicators helps determine clients' solvency, identify risks, and improve the distribution business's functioning in support of local startups in the pharmacy market.
- Healthcare Providers. Pharmacy businesses are crucial in meeting patients' clinical needs by delivering medical prescriptions and other health products. Healthcare providers can evaluate pharmacies' financial stability to guarantee continued access to essential medications and foster strong partnerships within the healthcare network.
- Consumers. Consumers refer to those who use pharmacy products and those who receive pharmacy services. This research into financial indicators can assist consumers in making decisions regarding how much they can rely on local startup pharmacy businesses to receive healthcare products and services.
- Other Researchers. Experts are essential contributors to the accumulation and development of the knowledge necessary for the functioning of the pharmacy industry. Suppose researchers analyze the financial performance of local startup pharmacy businesses. In that case, they can identify significant factors for consideration in financial management practices, which would enhance the art of pharmacy startup businesses.

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## **Methods**

### ***Research Design***

This study used a qualitative case study research design. The primary objective of this research was to gain a deep understanding and explore the experiences, challenges, and strategies faced by local startup pharmacy owners. To achieve this, the study utilized a case study approach, specifically opting for a single case study designed by Sharan B. Merriam. As a result, this research is descriptive, heuristic, and particularistic (Merriam, 1998). The design led the researchers to focus on the experiences of the local startup pharmacy owners. This research design was subjective to human experience and more interpretative. It allowed the researcher to provide a detailed and holistic understanding of local startup pharmacy owners' everyday realities, offering insights into their financial management struggles and the broader dynamics of the pharmacy industry.

### ***Research Environment***

The study concentrates on specific and newly opened establishments in the capital city of Zamboanga del Sur, Pagadian City. The unique features of the thriving and highly urbanized city of Pagadian City, which is an increasing population, consider the increasing demand for health solutions to foster the immediate necessity of well-being for individual treatments and other medical emergencies. It covers the demand for pharmacies in the city proper and the neighboring Municipalities where Pagadian City is the heart of the province and the center of business, trade, and healthcare services.

### ***Research Participants***

The research participants in this study include 8 startup pharmacy business owners from Pagadian City. The Participants are the owners of newly registered and established pharmacy businesses. The researcher focused on the period from 2019 to 2024, as this timeframe encompasses the emergence and development of startup pharmacy businesses among existing pharmacy enterprises, as per the records from the Pagadian City Licensing Office. The researchers consulted the Pagadian City Licensing Office's records from 2019 to 2024 to determine the number of startup pharmacy business owners. The researchers precisely identified pharmacies based on whether they operated independently or under hospital management. Participants must have a valid registration with the Food and Drug Administration (FDA) and be compliant with local licensing requirements as recorded by the Pagadian City Licensing Office. Pharmacies must still be actively operating at the time of the study to ensure that the data reflects current operational challenges and practices.

### ***Research Instrument***

In this qualitative study, the researchers would be the primary instrument, utilizing a semi-structured interview guide, field notes, data mining, and audio recording devices. The semi-structured interview format would enable the researchers to ask open-ended questions that are designed to be easily understood, allowing participants to express themselves freely. The adviser and panelists would review and approve these questions. To enhance the reliability and validity of the data, the researchers would employ data and investigator triangulation.

### ***Data Collection***

The data gathering procedure involved multiple methods, a letter signed by the research adviser and department dean to formally request permission to conduct the study. Additionally, another letter was sent to the city licensing office to acquire the list of pharmacies established between 2022 and 2024. The process involved identifying and verifying potential research participants based on the established criteria. Once participants were appropriately selected, the researchers took steps to inform them about the study. Participants also received a consent form to review and sign, ensuring they were fully informed about the terms and conditions of their participation in the research. The researcher initiated the data-gathering process by securing permission from the pharmacy owner to conduct interviews. Using a combination of recording devices and digital note-taking tools, the researcher meticulously documented the interviews to ensure comprehensive data collection. During the interviews, the researcher utilized a structured approach with predetermined questions, ensuring consistency and relevance in the information gathered.

### ***Data Analysis***

The researchers would utilize Merriam's (1998) method of data analysis to thoroughly explore and interpret the financial management practices of local startup pharmacies. This approach involves extracting detailed information from participant responses and categorizing the data into meaningful groups or classes to uncover significant patterns and themes. Data would be gathered through interviews, triangulation, and observations, focusing on the work experiences and financial strategies of pharmacy owners and managers.

### ***Ethical Considerations***

The study used several considerations while following several legislations of Data Privacy Act of 2012, the researchers obtained and possess a voluntary agreement from individuals after fully informing them about the study's purpose, procedures, risks, and benefits. Personal information and academic performance data were securely stored and used only for research and addresses the privacy of each participant in good faith. The purpose of reducing harm is to protect against physical, emotional, or psychological damage to the participants. Researchers took precautions to minimize potential distress or discomfort during data collection and analysis. Competence is the researcher's knowledge and skills for practical study, and researcher integrity involves maintaining honesty and ethical conduct throughout the research process and the researchers prioritized the welfare and interests of participants above all else.

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## **Results and Discussions**

### ***Preparation of Financial Statements as a Pharmacy Owner***

The preparation and utilization which impact the decisions made by the owners and its function in examining the efficiency and effectiveness of financial data. This system does not just impact the present data needed. However, it plays a vital role in business performance and the application of operational proficiency and organizational success using Point of Sales. Point of Sale (POS) software processes transactions in some retail environments. "We base everything on the sales inputted into our POS (Point of Sale) system. With the help of the POS (Point of Sale) system, our workload in the financial aspect is slightly reduced. The system quickly shows the summary of daily transactions, which makes things more manageable" P2. "As an owner, you naturally calculate how much capital you invested, how much profit you make from retail, and what your gross profit or total sales are. To do this, we regularly check our POS (Point of Sale) system to see our daily sales" P3. "Transactions are now faster, and we can create financial reports more efficiently. We still handle the recording of financial transactions ourselves" P4.

Based on the pharmacy owners, they do not have knowledge of financial statements because it is not the course they graduated from. Their understanding of business is focused on making a profit, seeing daily changes, recovering capital, or monitoring changes every recording period. For them, this is enough to succeed in the future. It only matters that they are growing, a positive output of what they expected, that is the right time, and that the business is surviving despite the competition.

The cashier acknowledges the importance and relevance of using an Accounting System and points to Sales in retail businesses such as local start-up pharmacies in the local area. One of the cashiers further discussed making the job more efficient and less efficient, quickly scanning barcodes and calculating day-to-day transactions. With clear navigation and easy process, the smooth process and order, avoiding any mistakes.

Participants highlighted how important bookkeepers are for small businesses, especially in managing taxes and ensuring accurate finances. Many rely on bookkeepers mainly for tax assessments and to avoid penalties, finding their expertise crucial for navigating complex regulations. While some businesses engage bookkeepers only for specific tasks due to budget constraints, they still value their help in reviewing sales and expenses. A few participants also mentioned learning from their bookkeepers, which helps them understand financial matters better. "We have hired a bookkeeper, but they handle the tax assessments only in terms of monthly or quarterly remittance so that we won't incur penalties; their guidance is a big help. We handle the listing of invoice sales manually in the journal entries ourselves" P1. "Our bookkeeper only takes care of tax-related matters only, he no longer handles the data from our POS (Point of Sale) or the daily transactions in our pharmacy. His focus is solely on tax remittance and manages our records specifically for BIR tax remittance" P4.

"Additionally, I hire a bookkeeper to review the records from the POS (Point of Sale) system to ensure everything is accurate. His work is simple; he checks the balances and reviews our sales for the month to see if they are enough to cover our expenses, which sometimes increase. He only comes monthly, primarily to assist with tax remittances, as we rely on his help in that area since I'm not very familiar with it" P6

Based on the interview with one of the cashiers, it has been observed that a bookkeeper in the business is evidently needed; it plays a significant motivating factor for owners in everyday financial transactions. "We also have a daily report, and we assign a cashier who totals the cash versus the total sales at the end of each day. We do it this way so that we can easily access the data we need as our small business grows daily. We print out the transactions from each day, and that's how we manually monitor everything" P1. "By the end of the day, we can monitor the sales, and we print out a report every month. At the end of the month, we also review the daily summary report to see which days had the highest sales, which days were average, and which days were slow" P2

There is a consistent emphasis on the manual practice and its relevance to the updated and more detailed data, which is relatively important for gathering and summarizing, including the sales, demand, and profits within that day. In this case, the researchers employed both participant's responses and their cashier, who is the frontline of every cash inflow and outflow in the pharmacy business, in supporting these statements. Professional advice in recording process, calculations, budgeting, and for regulatory purposes. This observation sheds light on the intrinsic and practical motivations that drive pharmacy owners toward this field of study.

#### ***Performing Financial Statements Analysis of a Pharmacy Business Owner***

It is critical to keep track of your profits because it would give you the information you need to manage and expand your company, making it easier and faster for you to file your tax return, and increase your chances of obtaining a loan or mortgage. "Comparing the monthly sales with the previous month's sales, In this way, we can determine if there are indeed changes in our performance, which would motivate us to strive harder and continue. Without comparing our previous performance, we wouldn't be able to assess if our business is still feasible" P1. "Focus on profit and comparing net profit each month to the previous month's net profit. Sometimes I notice a decrease, but most months there's an increase" P8

The cashiers unanimously agreed that implementing a POS system would be an efficient system that not only streamlines operations but also has the potential to boost transactions in the most reliant way. They recognized its pivotal role in ensuring a smart sale recording process, reducing any potential risk of data loss, and ultimately enhancing the overall customer experience. "Usually comparing this month's sales to last month's sales. This approach would be very helpful in determining if our business can still survive in the increasingly competitive market as we continue to grow" P2.

The comparative analysis of sales involves evaluating and identifying the potential and growth in a specific timeframe. It also provides data broken down to be utilized and determines which periods are performing well and which need improvement in the analysis of forecasting the strengths, not the weaknesses.

"We analyze our assets and whether they can cover our expenses, and so far, our assets are greater than our liabilities. So far, our assets can cover our expenses and liabilities every month. Our daily income isn't large, but we can still meet the needs of the pharmacy. Based on that data, as an owner, I

realized how beneficial it is to have a POS system (Point of Sale) because it provides accurate data. It also ensures you can properly monitor the flow of item and inventory” P3.

The participant also notes the upward trend in monthly sales while recognizing occasional shortfalls, which are managed through external income sources. This resourceful strategy ensures financial stability and highlights a comprehensive understanding of balancing income and expenses in the context of running a small business. Based on the interview with one of the cashiers, it has been noticed that there are different end-of-day reports regarding sales. The number of sales is not totally average in everyday transactions using the POS or manual recording. Typically, due to the high number of small pharmacy businesses in the locale area, small pharmacy businesses emerged to compete.

The findings highlight three primary aspects of comparative analysis among pharmacy owners: profit, sales, and assets/expenses. In terms of profit, owners regularly compare their monthly earnings to previous periods, allowing them to identify trends and assess whether their pharmacy is generating profit or incurring losses. This practice motivates them to work harder to ensure business viability.

These findings align with Prospect Theory, which highlights how individuals make decisions based on perceived gains and losses rather than objective outcomes. The pharmacy owners' emphasis on comparing profits, sales, and asset management reflects key aspects of this theory. For instance, loss aversion drives owners to avoid losses by regularly monitoring performance and taking corrective actions when trends indicate potential downturns.

### Conclusions

The summary of the findings guided the researchers to conclude that the awareness and experiences of local start-up pharmacy business owners. In conclusion, the study highlighted the diverse approaches that start-up pharmacy owners use in preparing financial statements. It underscored the importance of adopting appropriate strategies, whether through the use of an accounting system, hiring a bookkeeper, or relying on manual record-keeping methods. The study also emphasized the value of financial statement analysis, particularly in conducting comparative analyses of profit, sales, assets, and expenses, to better understand business performance.

However, the study revealed that many start-up pharmacy owners faced significant challenges, particularly a lack of knowledge in preparing financial statements and performing financial analyses. To address these challenges, the study identified three key strategies: active involvement in the business, attending seminars on financial management, and pursuing self-education. These approaches empowered business owners to develop their financial literacy and better manage their businesses. Ultimately, these strategies helped new pharmacy owners navigate the complexities of financial management, paving the way for more informed decision-making and business growth.

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