ISSUES ON THE NEW REVENUE RECOGNITION STANDARD (PFRS 15) BY CONTRACTORS IN CAGAYAN

Sunshine Manuel, Dindi Molina, Charlotte Palattao, Christopher Romero and Joshua Turaray

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ABSTRACT

The aim of this research was to determine the issues on PFRS 15 by contractors in Cagayan. PFRS 15 is the new revenue recognition standard that specifies how and when a PFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative and relevant disclosures. The researchers used the descriptive qualitative method through interviewing the accountants of the construction companies in Cagayan. Although PFRS 15 is mandatory, there are still businesses that are not aware of the accounting changes and have not yet started applying this standard. However, most of the entities already applying the standard find it difficult because of the timing of the adoption and unfamiliarity from the standard. Some accountants who needed to have clear understanding of the standard due to the complexity of its provisions attended seminars and trainings and did their own research. Despite the difficulty, respondents believe that the standard reflects the true nature, timing and amount of revenues to be recognized.

Keywords: *Revenue Recognition Standard, PFRS 15, Issues, Contractors*

INTRODUCTION

Businesses provide services and transfer promised goods to customers for their satisfaction which may give rise to an inflow of economic benefits in ordinary course of business. These inflows of economic benefits are the revenues that increase the wealth as presented in their financial performance. Increasing their wealth through these ordinary undertakings serve as their primary purpose. Because of the differing nature and strategies from business, they have different ways and processes on how to recognize this accretion of wealth, their revenues, to properly reflect the wealth they have accumulated in their financial statements. To provide uniformity and fair measurement of revenues, there are the so called generally accepted accounting standards which provide guidelines in preparing the entity's financial statements. The two most used accounting standards governing revenue recognition are the United States Generally Accepted Accounting Principles (US GAAP) and the International Accounting Standard (IAS) set by the Financial Accounting Standards Board (FASB) and International Accounting Standard Board (IASB).

However, entities experience difficulty in following either of these standards because they are different in some aspects and there are some issues that those standards have not taken into consideration. That is why the two standard setting bodies revised their standards and formulated the new revenue recognition standard that will govern revenue recognition and clarify these issues. The newly formulated standard is the International Financial Reporting Standards 15 (IFRS 15) or (Philippine Financial Reporting Standards 15 (PFRS 15) under the Philippine setting.

IFRS 15 was issued in May 2014 effective beginning January 2017, but earlier application is permitted, and with clarifying amendments issued on April 12. IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers (IFRS 15- Revenue from Contracts with Customers). This standard replaced the other standards governing revenue recognition. The Financial Reporting Standards Council (FRSC) is the one responsible in the implementation of such standards, with the assistance of the Philippine Interpretations Committee (PIC) and passed on to the SEC for approval. On August 15, 2017, the Securities and Exchange Commission (SEC) approved the adoption of PFRS 15 to improve the financial reporting of revenue of the contractors within the Philippines. This standard became effective for annual reporting periods beginning January 1, 2018. All contactors in the Philippines are mandated to use the new revenue recognition standard provided that they meet all the criteria given under PFRS 15 Paragraph 9. However, implementation of this new standard had been an issue in the world of financial reporting. Some researchers found some implication and impacts not only on the entity's financial reporting but also managing on the implementation of the said standard.

Oyedukon (2016) recommended that the users and preparers of financial statement should start in earnest, the training and understanding of IFRS 15 in readiness for its effective date January 1, 2017. Dani, et al. (2017) aimed to determine the quality on accounting information of construction companies in Brazil and found that early adoption of IFRS 15 helps to reduce the bias of non-comparability and inconsistencies that could exist previously due to the adoption of different criteria for accounting of revenues on construction contracts. Organizations that voluntarily adopt the rule in an attempt to account for and properly recognize customer contracts revenue have greater informational relevance and meet market expectations. However, Malaysian accountants are still not ready regarding the implementation of IFRS 15 and perceived that it is not easy to be applied across different sectors (Lim, Devi & Mahzan, 2015). In a research conducted in Egypt, Khamis (2016) showed that Egyptian accountants and auditors surveyed are still not ready to adopt and did not have sufficient knowledge about IFRS 15, as well as, they are afraid of the new revenue recognition requirement which increased discretion and professional judgment in revenue recognition and its potential impact on different industries. Furthermore, Peters (2016) revealed that Belgian entities already consider IFRS 15 an unnecessary change, notably because of its complexity and the implementation efforts it requires.

Therefore, as different countries have different perceptions on the adoption of IFRS 15, would contractors in the Philippines still perceive the same as they apply this standard? As provided by Peters (2016), the most likely affected industries are construction, telecommunication, pharmaceutical, food and beverages, merchandising, distribution, and retail. The proponents of this study conducted an exploratory research regarding the adoption and application of PFRS 15 focused on the issues on the adoption of PFRS 15 by construction companies in Cagayan. The construction companies chosen to be the respondents of the study focused on the business sectors that are most likely affected by the change in the revenue recognition standard.

Research Objective

With the recent adoption of the PFRS 15 in the Philippines, this study aimed to discuss the issues on the adoption of PFRS 15 by construction companies in Cagayan.

Significance of the Study

This study was conducted to contribute additional information that will serve various individuals and organizations. The findings of the study give idea to construction companies, potential contractors and current contractors on the possible loopholes or difficulties in application of the new PFRS 15 given the issues that this study will provide. These also help them identify problems which may lead to better strategies and programs for the improvement of their performance and work environment. The findings also give students, especially those studying business, additional knowledge on the aspect of the newly implemented revenue recognition for contractors. This study also gives insights to the accounting standard-setting bodies on the further improvement of the standard. This study adds to the body of knowledge regarding issues on the adoption of the PFRS 15 as the new revenue recognition standard for contracts.

Literature Review

IFRS 15: A New Revenue Recognition Standard

One of the standards under IFRS is the IFRS 15. IFRS 15 governs the revenue recognition on contracts. IFRS 15 as defined Revenue from Contracts with Customers establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity’s contract with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. It supersedes IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31. IFRS 15 helps to reduce the bias of non-comparability and inconsistencies that could exist previously, due to the adoption of different criteria for accounting of revenues on construction contracts. In addition, organizations that voluntarily adopt the rule in an attempt to account for and properly recognize customer contracts revenue have greater informational relevance and meet market expectations. Thus, it can be said that the early adoption of information on revenue from construction contracts have relevance to the capital market, impacting the stock price after the publication of financial reports (Deloitte Global Services Limited).

PFRS 15: Revenue from Contracts with Customers

PFRS 15 is the Philippine Adoption of IFRS 15. This was approved by the Securities and Exchange Commission (SEC) and effective to be mandatory applied on or after January 1, 2018 but prior application is permitted. PFRS 15 contains guidelines for transactions not previously addressed. It also improves guidance for multiple-element arrangements and requires enhanced disclosure about revenue. It uses a five-step model. The first step is to identify contracts with customers wherein the criteria set under the standard must be met in order to recognize the contract under PFRS 15. The second step is to identify performance obligation which may either be distinct goods or series of distinct goods and services. The third step is the determination of transaction price. The fourth step is the allocation of this price to separate performance obligations. The last step is recognizing revenue when satisfied overtime or at a point in time. This newly implemented revenue recognition standard which was adopted earlier by other countries gained criticisms and compliments (Deloitte Global Services Limited).

Application of Financial Reporting Standards

The implementation of standards under IFRS greatly changes the treatment of related transactions of different business in different countries. There are factors that affect the preparation of financial statements by accountants of established businesses. That is why modification to these standards by different countries has been made as they seem appropriate. In the study conducted by Felski (2017), the details of how countries modify IFRS make it clear that differences can exist in financial statements prepared in different countries both using IFRS. The users must be careful to understand how comparability may be impacted by these modifications. Some researchers studied the effect of mandatory adoption of IFRS. Soye & Raji (2014) showed that differences on the performance of the selected companies between pre and post IFRS periods are significant, suggesting a strong correlation between adoption of IFRS and performance of insurance companies in Nigeria. The levels of mandatory disclosures are value relevant (Tsalavoutas & Dionysiou, 2014).

However, other studies showed that adoption of IFRS is costly. Both the intended and the unintended consequences deserve further scrutiny to assess the costs and benefits of mandatory IFRS adoption (Brüggemann, et al., 2013). In addition, Quagli & Paoloni (2012) showed a substantial diversity among respondents. In particular, preparers demonstrate a strong opposition to the IFRS for SMEs, while users are more favorable concerning country classification, German-speaking countries and Latin countries show much less appreciation for that standard with respect to Anglo − Nordic countries. The study of Kim, et al. (2012) found that mandatory IFRS adoption had led to an increase in audit fees.

Accounting harmonization brings comparability benefits that enhance the usefulness of accounting data (Tan, et al., 2011). In contrast were the adverse effect of IFRS such as the research of Fearnley & Hines (2007) which suggested that the increasing perception is that IFRS is overly complex and is complicating the search for appropriate form of financial reporting for entities not covered by the EU Regulation. In particular, there is a difficulty in knowing the correct dividing point between large and small company accounting, and views on this have evolved over time. The needs of small and medium enterprises appear to have been ignored in the debates dominated by the requirements of global players. Under the study of Georgakopoulou, et al. (2010), the adoption of IFRS affects the magnitude of accounting ratios, such as the asset turnover ratio, the ratio of owner's equity to total assets, the ratio of total liabilities to total equity, and the ratio of owner's equity to total liabilities.

The Five-step Model Framework

The core principle of IFRS 15 is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework. Application of this guidance will depend on the facts and circumstances present in a contract with a customer and will require the exercise of judgment (Deloitte Global Services Limited).

Step 1: Identify the contract with the customer. A contract with a customer will be within the scope of IFRS 15 if all the conditions under the standard are met. If a contract with a customer does not yet meet all of the above criteria, the entity will continue to re-assess the contract going forward to determine whether it subsequently meets the above criteria. From that point, the entity will apply IFRS 15 to the contract (Deloitte Global Services Limited).

Step 2: Identify the performance obligations in the contract. At the inception of the contract, the entity should assess the goods or services that have been promised to the customer and identify as a performance obligation a good or service that is distinct or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer (Deloitte Global Services Limited).

Step 3: Determine the transaction price. The transaction price is the amount to which an entity expects to be entitled in exchange for the transfer of goods and services. When making this determination, an entity will consider past customary business practices. Where a contract contains elements of variable consideration, the entity will estimate the amount of variable consideration to which it will be entitled under the contract (Deloitte Global Services Limited).

Step 4: Allocate the transaction price to the performance obligations in the contracts. Where a contract has multiple performance obligations, an entity will allocate the transaction price to the performance obligations in the contract by reference to their relative stand-alone selling prices (Deloitte Global Services Limited).

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation. Revenue is recognized as control is passed, either over time or at a point in time. Control of an asset is defined as the ability to direct the use of and obtain substantially all of the remaining benefits from the asset. This includes the ability to prevent others from directing the use of and obtaining the benefits from the asset. If an entity does not satisfy its performance obligation over time, it satisfies it at a point in time. Revenue will therefore be recognized when control is passed at a certain point in time (Deloitte Global Services Limited).

Criticisms on IFRS 15

The research conducted by Khamis (2016) showed that Egyptian accountants and auditors surveyed are still not ready to adopt and did not have sufficient knowledge about IFRS 15, as well as, they are afraid of the new revenue recognition requirement which increased discretion and professional judgment in revenue recognition and its potential impact on different industries. Furthermore, Peters (2016) revealed that despite an overall limited progress in the implementation process, Belgian entities already consider IFRS 15 an unnecessary change, notably because of its complexity and the implementation efforts it requires. Moreover, the study conducted by Lim (2015) surveyed that generally, Malaysian accountants are still not ready to adopt IFRS 15 and they perceived that the standard is not easy to be applied across different business sectors.

Compliments of Using IFRS 15

Dani, et al. (2017) indicated that early adoption of IFRS 15 helps to reduce the bias of non-comparability and inconsistencies that could exist previously, due to the adoption of different criteria for accounting of revenues on construction contracts. In addition, organizations that voluntarily adopt the rule in an attempt to account for and properly recognize customer contracts revenue have greater informational relevance and meet market expectations. Thus, it can be said that the early adoption of information on revenue from construction contracts have relevance to the capital market, impacting the stock price after the publication of financial reports

METHODS

This research study utilized descriptive qualitative design. This study was conducted in Cagayan. The participants of the study were the contractors of the construction companies in Cagayan whose revenues from contracts with customers can be recognized under PFRS 15. Interview was used in gathering the data. Permission to conduct the study was properly sought from the office of the Vice President for Academics through a formal letter which was signed and noted by the research adviser and the SABH Academic Dean. Upon approval, the letter was sent to the Department of Trade and Industry in order to identify construction companies in Cagayan. From the list of contractors, the researchers chose the respondents through random sampling technique. The researchers personally interviewed the respondents. The respondents were informed first on the objectives of the research and were given enough time to prepare for the interview. A sample of interview question was given to them before the interview. The respondents were given enough time to answer the questions. Data gathered was analyzed using thematic analysis.

RESULTS AND DISCUSSIONS

Construction companies were identified, located and selected based on the list of registered contractors with PCAB (Philippine Contractors Accreditation Board) licenses as of November 2018. From the list, 39 contractors from Cagayan were identified. Out of 39, the researchers located 27 (19 from Tuguegarao City and the rest from Lasam, Iguig, Peńablanca, Claveria, Aparri, Amulung, and Abulug). Out of the 27 located contractors, only 20 construction companies were interviewed. This small number of respondents may not be representative of the whole population of construction companies in Cagayan.

However, as Peters (2016) said in his dissertation, “Before presenting and commenting the provided answers, it is important to mention that the small number of respondents does not allow us drawing definitive and scientific conclusions about IFRS 15 (from a general and sectorial point of view), worth for the entire Belgian business world. However, this sample still enables us to make some trends emerge”.

Table 1: Issues on the Adoption of Philippine Financial Reporting Standard 15

Themes	Frequency	Percentage
Non-awareness	6	13.04%
Difficulty in the adoption of the five-step model	14	30.43%
Timing of adoption	7	15.22%
Unfamiliarity and unclear understanding	6	13.04%
Complexity of provisions	4	8.70%
Cost of adoption	4	8.70%
Unavailability of resources	1	2.17%
Efforts required by their business	2	4.35%
Training of employees	2	4.35%

Table 1 shows the themes of the issues on the adoption of PFRS 15 since the data gathered were thematically analyzed. The first and second issues were based on the current position of contractors regarding PFRS 15. There were six respondents who are not aware of the standard and not adopting it. These respondents belonged to the first theme which is the non-awareness of PFRS 15. The other 14 respondents are aware of PFRS 15 but only nine of them are adopting the standard in their business, however, they all belonged to the second theme because they are all having difficulty or seeing difficulty in the adoption of the five-step model of PFRS 15. They were also asked to rank each step in the five-step model which is shown in Table1.a.

Moreover, seven respondents said the timing of the adoption is one of their issues, the mandatory adoption is too early and they still need more knowledge regarding PFRS 15. According to them, they were accountants of their respective construction companies, years before the new standard, therefore, they are used to the previous revenue recognition. Other respondents said that they are not yet ready regarding their adoption of PFRS 15. This is not contrary to the study that Malaysian accountants are not ready to adopt IFRS 15 (Lim, 2015).

Respondents also supposed that familiarity and understanding of PFRS 15 also affects their adoption. Six respondents have unclear understanding of PFRS 15 and unfamiliar with some of its provisions. In the study of Khamis (2016), an analysis of the level of familiarity with IFRS 15 revealed that the participants are not familiar with IFRS 15 although the standard had been issued by the boards for more than a year.

In addition, four respondents agreed that theme 5 (complexity of the standard) is an issue on the adoption of PFRS 15. PFRS 15 provisions are also complex such as its provision on contract modification. The growth in such requirements also reflects the increasing complexity of many business transactions as well as the IASB’s desire (and that of business entities and their auditors) to ensure that IFRS deal with a large proportion of these transactions (Oncioiu & Tănase, 2016). Even those who are already adopting PFRS 15 are still challenged by the complex structure of the standard.

Four respondents also perceived that the cost of implementing the standard is also an issue affecting their adoption. Kim, et al. (2012) found that the IFRS-related audit fee premium increases with the increase in audit complexity brought about by IFRS adoption and decreases with the improvement in financial reporting quality arising from IFRS adoption. Understanding the new requirements may involve different costs for public/ non-public entities such as: costs for changing/ updating the software, costs for training the professional staff from accounting, sales, tax, juridical, or other departments, etc. (Oncioiu & Tănase, 2016).

Only one respondent said that availability of resources is one of the issues it expects with respect to the adoption of PFRS 15. The respondent said that his business is not a big construction company, so its resources might not be able to support the adoption of PFRS 15. The benefit it may get from the adoption might not compensate the cost if the business is to acquire additional resources. Two respondents said that the work of accountants of construction companies is requiring a lot of effort from the time a contract has been entered until the completion of services to be rendered and the efforts required to train bookkeepers and assistants are also a factor. The adoption of PFRS 15 in the business will elevate the effort that has to be exerted by the accountant, bookkeeper and employees of the construction company. Sammut (2016) recommends that Maltese construction companies should evaluate the impact such standard will have on their company by gaining a solid understanding of its principles and consulting an IFRS technical expert.

The last theme, training of employees, was seen to be an issue by two respondents. This is one problem with the adoption of new standards in the business world. Employees need to be updated and familiar with PFRS 15 to be effective in applying it in their transactions with their customers. This is an issue by the two respondents because this would require an outflow from the business to finance training expenses.

Table 2: Difficulty in the adoption of the five-step model

Five-step model	Average
Step 1: Identify the contract with the customer	8.4
Step 2: Identify the performance obligations in the contract	8.6
Step 3: Determine the transaction price	6
Step 4: Allocate the transaction price to the performance obligations in the contracts	10.6
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation	8.4

Referring to the second issue on the adoption of PFRS 15, the fourteen construction companies who are aware of the new revenue recognition standard were asked to rank the steps in the five-step framework of PRFS 15 from the most to least challenging to implement (1 as the most difficult and 5 as the least difficult). Values were assigned to the rankings: the first was given 5, the second was given 4, the third was given 3, the fourth was given 2 and the fifth was given 1, then the result was averaged.

The table shows that Step 4 which is the allocation of the transaction price to the performance obligations in the contract is the most difficult to implement. In step 4, an entity will allocate the transaction price to the performance obligations in the contract by reference to their relative standalone selling prices. If a standalone selling price is not directly observable, PFRS 15 says that the entity will need to estimate it by using either the adjusted market assessment approach, expected cost plus a margin approach or residual approach.

The identification of the performance obligations in the contract was the second most difficult for the construction companies. It is in this step that the entity must assess the goods or services that have been promised to the customer and identify as a performance obligation. A contract may have a single or multiple performance obligation/s.

Identification of the contract with the customer and the recognition of revenue when the entity satisfies a performance obligation were ranked to be the third most difficult to implement. Step 1 identifies if the contract entered by an entity and its customer qualifies to be under PFRS 15. If it qualifies, the entity must recognize its revenue according to the provisions of PFRS 15 and if not, it must use other appropriate standards. In Step 5, revenue is recognized as control is passed, either over time or at a point in time.

The determination of the transaction price showed to be the least difficult for the respondents. According to some, the transaction price is already determined in the contract by them and their customer.

CONCLUSION

Based on the results of the study, issues on the adoption of PFRS 15 faced by contractors in Cagayan include the timing, complexity and cost requirements of adoption. Adoption is too early for them to adjust and familiarize the five-step model of recognizing revenue. Also, some provisions of the standard are complex in which they need to send their employees to seminars and trainings to equip them with good background of the new standard. This resulted to other issues which are the amount of effort to be exerted by the business to adopt PFRS 15 and the cost of its adoption. While there are construction companies adopting PFRS 15, there are still those that are not aware of the existence of the standard despite its adoption being mandatory.

RECOMMENDATION

Further study is recommended to dig more on why some construction companies are not adopting PFRS 15 despite its being mandatory. Focus on the provisions of the standard that businesses perceived to be inconsistent should be further clarified or revised and should also be included in the study. Furthermore, one of the issues identified is the availability of resources, hence, further study is recommended to elaborate the cost-benefit effect of adopting PFRS 15.

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FACTORS AFFECTING CUSTOMER SATISFACTION IN FAMILY RESTAURANTS

Trisha Donnabel B. Mabalay, Richard M. Bacud, Julie Mae Monreal, Glendfrey J. Gacusana and Fresnhan A. Valdez

ABSTRACT

The restaurant business is one of the sectors that tries different experiments in respect to meet customer satisfaction towards delivered services. Restaurants are highly dependent on customer experience and engagement. In business cycle, customer satisfaction is the core part for the growth of an organization. The level of customer satisfaction in various time, phase, terms and conditions are changing. Better customer satisfaction helps to maintain profitability of company, goodwill of company and valuable customers. The study aimed to determine the factors affecting customer satisfaction in family restaurants. This study used descriptive quantitative research method and the respondents of the study were the customers who have experienced dining in restaurants here in Tuguegarao City. Findings revealed that majority of the respondents are within the age bracket of 17 to 21 and are female. Moreover, majority of the respondents are single. On the different factors affecting satisfaction, it showed that the respondents are strongly satisfied.

Keywords: *Factors, Customer Satisfaction, Family Restaurant, Services*

INTRODUCTION

The restaurant business is one of the sectors that tries different experiments in respect to meet customer satisfaction towards delivered services. Restaurants are highly dependent on customer experience and engagement. In business cycle, customer satisfaction is the core part for the growth of an organization. The level of customer satisfaction in various time, phase, terms and conditions are changing. Better customer satisfaction helps to maintain profitability of company, goodwill of company and valuable customers (Kotler & Keller, 2012).

As consumers are increasingly interested in higher quality food, healthier food choices, better physical eating conditions, and better customer service, the fast casual dining segment, which falls between the “quick service” and “full service” segments, has been a contemporary trend in the foodservice industry (Anderson, 2003 & Sloan, 2002; Tillotson, 2003). Approximately one-third of operators say their customers are looking for a wide range of food choices from restaurants, while 19% say customers are seeking healthy alternatives, by the National Restaurant Association’s 2008