

ACCOUNTING PRACTICES AND FINANCIAL PERFORMANCE OF MANUFACTURING COMPANIES

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “**Accounting Practices and Financial Performance of Manufacturing Companies** ” The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of this dissertation.

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ABBREVIATIONS

AP: Accounting Practices

AK: Accounting Knowledge

ST: System Type

MA: Motivation for Accounting

CA: Cost of Accounting

EI: External Influences

TAM: Technology Acceptance Model

IFRS: International Financial Reporting Standards

NAS: Nepal Accounting Standards

ICT: Information and Communication Technology

EFA: Exploratory Factor Analysis

SPSS: Statistical Package for the Social Sciences

SD: Standard Deviation

ABSTRACT

Accounting practices are vital for managing financial records, ensuring transparency, and promoting accountability in business operations. For Manufacturing Companies, effective accounting practices are crucial for enhancing financial transparency, accessing financing, and improving overall business performance. In Nepal, Manufacturing Companies face challenges in adopting and implementing robust accounting systems due to limited resources, inadequate training, outdated accounting systems, and external pressures. This study investigates the factors influencing accounting practices among Manufacturing Companies in Nepal, specifically focusing on accounting knowledge, system type, compliance with NFRS.

Using a descriptive and exploratory research design, data were collected from 385 respondents through structured questionnaires. Descriptive statistics were used to analyze demographic information and survey responses, while multiple linear regression analysis tested the relationships between variables. The findings reveal that accounting knowledge, accounting system type, and NFRS compliance significantly impact accounting practices in Manufacturing Companies. Enhanced accounting knowledge and the adoption of computerized systems improve financial reporting accuracy and efficiency. Compliance with NFRS promotes transparency and credibility in financial statements, driving effective practices. The study concludes that improving accounting practices is essential for enhancing the financial management capabilities of Manufacturing Companies in Nepal. Addressing challenges such as inadequate accounting knowledge and reliance on outdated systems, while leveraging factors like standardized practices and NFRS compliance, can significantly improve financial transparency, access to financing, and overall business performance. These improvements will contribute to the growth and sustainability of Manufacturing Companies in Nepal. The findings highlight the need for Manufacturing Companies to prioritize accounting education and training, adopt suitable accounting systems, and comply with financial reporting standards. Policymakers and educational institutions should support Manufacturing Companies through targeted training programs and resources to enhance accounting literacy and compliance with national and international standards. By understanding these factors, Manufacturing Companies can strengthen their financial management capabilities,

attract investment, and contribute to sustainable economic growth and development in Nepal.

CHAPTER I

INTRODUCTION

1.1 Background of study

Accounting practices involve the systematic process of recording, classifying, and summarizing financial transactions to communicate a business's financial position and performance to its stakeholders. In Nepal, the accounting framework is primarily guided by the Nepal Accounting Standards (NAS), which aims to ensure consistency and transparency in financial reporting across different sectors. This framework provides crucial support for integrating Nepal's accounting practices with global standards and fostering international business and investment opportunities.

The alignment of NAS with International Financial Reporting Standards (IFRS) marks a significant step towards enhancing the transparency and credibility of financial statements, a vital element for attracting foreign investment and integrating into the global economy. According to Dahal and Aryal (2021), while large corporations in Nepal have embraced IFRS, Manufacturing Companies continue to face difficulties due to limited resources and expertise. This gap has made it challenging for these companies to comply with established standards, diminishing their competitiveness in the international market.

One of the significant challenges facing accounting practices in Nepal is the limited awareness and understanding of international accounting standards among local businesses, particularly Manufacturing Companies. A study by Shrestha and Dangol (2020) highlights that many Manufacturing Companies have yet to fully grasp the benefits of adopting international standards, often due to a lack of skilled professionals and limited training opportunities. This lack of accounting knowledge hampers their ability to comply with established standards, affecting the overall quality of financial reporting and hindering financial performance.

Another critical issue is the slow pace of technological adoption in the accounting sector. While digital tools and software have revolutionized accounting practices globally, many Nepalese businesses still rely on manual accounting processes, which leads to inefficiencies and errors. Bhattarai and Shakya (2019) indicate that the

adoption of computerized systems, such as cloud-based accounting software, remains low due to high costs and limited technical expertise. The type of accounting system used significantly impacts the quality and efficiency of accounting practices, and this lag in technology adoption makes it harder for businesses to compete in the global market.

Additionally, Nepal's economic landscape, dominated by the informal sector, presents challenges for accounting practices. The informal sector often operates outside the formal accounting framework, making it difficult to ensure compliance with established standards and improve financial transparency. The World Bank (2023) reports that the informal sector undermines regulatory compliance, complicating efforts to enhance transparency and accountability.

In response to these challenges, several initiatives are underway to strengthen the accounting profession in Nepal. Educational institutions are incorporating IFRS and NAS into their curricula to equip future accountants with the necessary skills and knowledge. Gautam (2022) discusses how universities such as Tribhuvan University are revising their accounting programs to include practical training on international standards, preparing graduates for global challenges. Professional organizations, including the Institute of Chartered Accountants of Nepal (ICAN), are actively providing training and certification programs to enhance the competency of accounting professionals.

As Nepal continues to develop economically, the demand for robust accounting practices becomes more pressing. The transition to standardized and technologically advanced accounting practices is essential for competing on the global stage, ensuring businesses are prepared for the complexities of the rapidly evolving financial landscape.

1.2 Statement of the Problem

Manufacturing Companies are a cornerstone of Nepal's economy, significantly contributing to employment, innovation, and economic growth. Despite their importance, these enterprises face substantial challenges in maintaining effective accounting practices, which in turn hampers their financial transparency, access to financing, and overall business performance. Financial providers, such as banks and

investors, rely heavily on accurate and reliable financial information to assess the creditworthiness and investment potential of these companies. However, many Nepalese Manufacturing Companies struggle due to inadequate accounting knowledge, outdated systems, and limited resources, which together weaken their accounting practices.

A key issue affecting the accounting practices of Manufacturing Companies in Nepal is the lack of accounting knowledge among business owners and managers. Many of these owners have a limited understanding of accounting principles and standards, which hampers their ability to maintain accurate financial records and make informed decisions. This knowledge gap often leads to inefficiencies and non-compliance with regulatory requirements, making it difficult for these companies to access external financing and diminishing their financial performance (McMahon & Davies, 1994; Sian & Roberts, 2009).

Another critical challenge is the type of accounting system employed by these companies. Many still rely on manual systems, even though computerized systems are available and widely recognized as improving efficiency and accuracy. The low adoption of computerized systems in Nepalese Manufacturing Companies is often due to high costs and a lack of technical expertise. This reliance on outdated practices increases the likelihood of errors and inefficiencies, further discouraging financial institutions from engaging with these businesses (Ismail & King, 2007; Grande et al., 2011).

The financial resources allocated to accounting practices have a direct impact on the comprehensiveness and quality of the accounting systems used by these companies. High costs associated with implementing and maintaining accounting practices often limit the ability of smaller Manufacturing Companies to adopt modern systems, affecting their overall financial management and reporting quality (Marriot & Marriot, 2000; Everaert et al., 2006).

External influences, including regulatory requirements (NFRS implementation), market pressures, and economic conditions, further shape the accounting practices of Manufacturing Companies. Compliance with external regulations drives the adoption of standardized accounting practices, promoting transparency and accountability.

However, many Manufacturing Companies face challenges in meeting these requirements due to resource limitations and lack of technical knowledge (Nandan, 2010; Kitching et al., 2013).

Addressing these challenges requires coordinated efforts from various stakeholders, including government bodies, educational institutions, and professional organizations. Initiatives aimed at improving accounting knowledge, encouraging the adoption of modern systems, and enhancing financial literacy among Manufacturing Companies owners and employees are essential to improving the quality of financial reporting. By addressing these challenges, Nepal can create a more robust and transparent business environment that supports sustainable economic growth.

This study seeks to explore the factors influencing accounting practices among Manufacturing Companies in Nepal, assess their impact on financial transparency, access to financing, and overall business performance, and identify areas for improvement to ensure that these companies can thrive in an increasingly competitive global market. Specifically, this study will answer the following research questions:

- What sort of accounting practices are existed in manufacturing companies in Nepal?
- How do accounting practices impact manufacturing companies in Nepal?
- How does accounting practices affects financial performance in manufacturing companies ?

1.3 Research Objectives

The objectives of this study are as follows:

- To assess the accounting practices in manufacturing companies
- To examine the impact of accounting practices on financial performance of manufacturing companies
- To analyze the factors influencing accounting practices in manufacturing companies.

1.4 Research Hypothesis

Hypothesis Hypotheses are formed based on the research literature review and objectives on the concerned subject matter. According to Adhikari (2020), the majority of Manufacturing Companies in Nepal rely on manual accounting systems, which impacts their financial performance and decision-making capabilities. The study highlights the importance of accounting practices for tax assessment, business performance measurement, and other financial decisions. Similarly, Sharma (2015) found that proper accounting practices are essential for performance measurement and financial management in Manufacturing Companies.

H₁: Accounting Knowledge has a positive impact on the financial performance of Manufacturing Companies (via ROA and ROE).

H₂: Accounting System Type has a positive impact on the financial performance of Manufacturing Companies (via ROA and ROE).

H₃: Compliance with NFRS has a positive impact on the financial performance of Manufacturing Companies (via ROA and ROE).

1.5 Scope and significance of study

This study investigates the accounting practices of Manufacturing Companies in Nepal, focusing on the impact of various factors influencing these practices. The research specifically examines how Accounting Knowledge, Accounting System Type (manual vs computerized), and NFRS (Nepal Financial Reporting Standards) affect Financial Performance, as measured through Return on Assets (ROA) and Return on Equity (ROE). It also explores the motivations for maintaining accounting information, such as tax assessment, business performance measurement, and strategic planning. By concentrating on Manufacturing Companies within Nepal, the study aims to provide a detailed understanding of how accounting practices are implemented and perceived in this specific economic context. The study analyzes key factors such as accounting knowledge, system type, and NFRS compliance to determine their effects on the financial performance of Manufacturing Companies.

The significance of this study is multifaceted, offering insights that can improve financial management, enhance access to financing, inform policy-making, and contribute to academic literature on accounting practices. By identifying strengths and weaknesses in current practices, the research lays the foundation for strategies aimed at improving financial record-keeping, reporting accuracy, and overall business performance.

One key aspect of the study is the examination of how standardized accounting practices, particularly compliance with NFRS, can improve access to external financing. The research emphasizes the importance of maintaining accurate financial records and adopting computerized accounting systems to enhance the attractiveness of Manufacturing Companies to banks and investors, facilitating greater access to capital. The study also addresses the challenges faced by Manufacturing Companies in adopting standardized accounting practices, such as a lack of accounting knowledge, limited resources, and reliance on manual systems. These challenges are essential to understanding the barriers to effective financial management and performance improvement.

The findings have significant implications for policymakers and educational institutions. By highlighting the barriers to adopting effective accounting practices, such as a lack of accounting knowledge and reliance on outdated systems, the research identifies areas where policy interventions and educational reforms can have the greatest impact. This includes developing training programs and resources to help Manufacturing Companies transition to computerized accounting systems and improve financial literacy among business owners and employees.

Additionally, this study contributes to the existing body of literature by providing empirical data and analysis specific to the context of Nepal. It offers a foundation for further research and cross-country comparisons, enabling a deeper understanding of how accounting practices influence financial performance in different economic and cultural settings.

1.7 Limitations of the study

- The study is concentrated on accounting practices and financial performance of the manufacturing companies.
- This study is based on the primary data.
- Manufacturing Companies of the KTM is taken for the study.

CHAPTER II

RELATED LITERATURE

This chapter contains different theories and past literature about accounting practices in Nepal and global context with regards to the research objective. Both the theoretical and empirical literature is reviewed.

2.1 Theoretical Literature Review

This paper uses the various theoretical aspects relating to the accounting practices in accordance with the Agency Theory and Resource Based View theory.

Agency Theory

Agency Theory, introduced by Jensen and Meckling (1976), examines the relationship between principals (owners) and agents (managers) within organizations. The theory highlights potential conflicts of interest that arise when the goals of principals and agents are misaligned, leading to problems such as moral hazard and information asymmetry. In the context of Manufacturing Companies in Nepal, Agency Theory is highly relevant as it provides a lens through which to analyze the impact of key variables like Accounting Knowledge, Accounting System Type, and NFRS compliance on Financial Performance (measured via ROA and ROE).

Agency Theory is particularly concerned with the costs incurred by principals to ensure that agents act in their best interests. These agency costs include monitoring expenses, bonding costs, and residual losses that arise when agents pursue their own interests over those of the principals (Eisenhardt, 1989). In Manufacturing Companies, where owners often delegate decision-making to managers, agency problems may manifest through suboptimal financial decisions and inaccurate financial reporting (Michaely & Roberts, 2012). This is where the variables such as Accounting Knowledge and Accounting System Type play a crucial role.

In the case of Manufacturing Companies in Nepal, the lack of adequate Accounting Knowledge among managers can exacerbate agency problems, leading to poor financial reporting and decision-making. This misalignment affects the company's ability to generate accurate financial statements, leading to reduced financial

performance as measured by ROA and ROE. By improving accounting knowledge among managers, firms can mitigate agency problems, as managers will be better equipped to produce reliable financial information, ensuring that the interests of owners and managers are aligned (McMahon & Davies, 2018).

The Accounting System Type (manual vs. computerized) also plays a significant role in mitigating agency problems. Companies using computerized accounting systems can reduce information asymmetry by providing more accurate and timely financial reports. This, in turn, leads to improved monitoring by owners and better decision-making, which positively influences financial performance (ROA and ROE). Ismail and King (2016) found that computerized systems enhance the accuracy of financial reporting, reducing the risk of managers misreporting information for personal gain.

The adoption of Nepal Financial Reporting Standards (NFRS) further strengthens the accountability mechanisms within Manufacturing Companies. Compliance with NFRS ensures that financial statements are transparent, standardized, and aligned with international practices, thereby reducing the risk of information asymmetry between owners and managers. This standardization improves investor confidence and enhances the firm's ability to attract external financing, positively influencing financial performance through improved ROA and ROE (Dahal & Aryal, 2021).

Moreover, external audits, as highlighted in Agency Theory, serve as an important tool to minimize agency costs. Independent audits provide external verification of financial statements, reducing the potential for managers to manipulate financial information for personal benefit. This is especially crucial in the Nepalese Manufacturing sector, where many companies still rely on manual accounting systems and struggle to comply with NFRS standards, increasing the likelihood of financial misreporting (Adhikari, 2020).

In summary, Agency Theory offers a valuable framework for understanding the importance of Accounting Knowledge, Accounting System Type, and NFRS compliance in shaping the financial performance of Manufacturing Companies in Nepal. By aligning the interests of owners and managers through improved accounting practices, these companies can enhance financial transparency, reduce agency costs, and improve their overall financial health as reflected in ROA and ROE.

In Nepal's economic context, these improvements are crucial for attracting investment and enhancing the long-term sustainability of Manufacturing Companies.

Resource Based View

The Resource-Based View (RBV) is a strategic management framework that emphasizes the role of a firm's internal resources in achieving a sustainable competitive advantage. Originally developed by Wernerfelt (1984) and expanded by Barney (1991), RBV posits that firms can outperform competitors by managing and utilizing resources and capabilities that are valuable, rare, inimitable, and non-substitutable (VRIN). In the context of Manufacturing Companies in Nepal, RBV provides a valuable lens through which to understand how accounting practices can be leveraged as strategic resources to enhance business performance and drive growth.

In RBV, resources are defined as both tangible and intangible assets that a firm uses to improve efficiency and effectiveness (Barney, 1991). For Manufacturing Companies, accounting practices represent a critical intangible resource, serving as the foundation for sound financial management and informed decision-making. Accurate and comprehensive financial records enable Manufacturing Companies to assess their financial health, allocate resources effectively, and respond swiftly to changes in the market (Grant, 1991). Strong accounting practices generate insights into operational efficiency, identifying areas for cost reduction, revenue enhancement, and overall business improvement.

For Manufacturing Companies in Nepal, adopting robust accounting practices can provide a competitive advantage by facilitating access to external financing and enhancing trust with stakeholders. According to Barney (2001), resources that bolster a firm's reputation and credibility—such as transparent and reliable financial reporting—can create barriers to entry for competitors. This is particularly relevant for Manufacturing Companies in Nepal, which often face challenges in securing financing due to perceived risks related to their size and lack of formalized structures (Kraaijenbrink et al., 2010). By demonstrating financial transparency and reliability through sound accounting practices, these companies can differentiate themselves from competitors and attract the capital needed for expansion and innovation.

Moreover, RBV highlights the importance of capabilities, which refer to a firm's ability to deploy resources to achieve strategic goals (Teece et al., 1997). In the accounting context, capabilities may include the skills and expertise of accounting personnel, the integration of technology in accounting systems, and the ability to analyze and interpret financial data. For Manufacturing Companies in Nepal, developing these capabilities is essential for adapting to the dynamic business environment and maintaining a competitive edge. Research shows that companies with strong accounting capabilities are better positioned to navigate financial challenges and capitalize on growth opportunities (Newbert, 2007).

RBV also emphasizes the need to protect and enhance valuable resources to maintain competitive advantage. For Manufacturing Companies, this entails continuous investment in improving accounting practices and systems to keep pace with industry standards and regulatory requirements (Hitt et al., 2016). As globalization increases, Nepalese Manufacturing Companies must align with international accounting standards, such as NFRS, to compete effectively in global markets. By leveraging accounting resources strategically, Manufacturing Companies can achieve superior financial performance and sustain their competitive position.

In summary, RBV provides a useful framework for understanding how accounting practices and capabilities can serve as strategic assets for Manufacturing Companies in Nepal. By investing in strong accounting systems and developing the necessary skills, these companies can enhance their financial performance through improved ROA and ROE, while securing a sustainable competitive advantage in an increasingly competitive marketplace.

2.2 Empirical Review

This section provides a comprehensive analysis of existing empirical studies on the accounting practices of Manufacturing Companies. It explores the challenges Manufacturing Companies face in maintaining effective accounting systems, such as a lack of accounting knowledge and the high cost of hiring professional accountants.

Importance of Accounting Practices in Manufacturing Companies

Accounting plays a crucial role in the management process of any organization by providing essential information for planning, evaluation, control, and decision-making (Mahfar & Omar, 2004). Effective accounting practices enable Manufacturing Companies to maintain accurate and timely financial records, facilitating better financial decision-making and improving their overall financial performance. This is especially important for Manufacturing Companies, which may lack the resources of larger firms but play a vital role in economic development.

An efficient accounting system—whether manual or computerized—enables businesses to record transactions, manage assets and liabilities, and prepare financial statements that present a true and fair view of the firm's financial position (Hussein, 1983). Accounting System Type plays a significant role in improving the Return on Assets (ROA) and Return on Equity (ROE) of Manufacturing Companies by enhancing operational efficiency and accuracy in financial reporting (Stefanou, 2006). Padachi (2012) emphasizes that a well-maintained accounting system allows businesses to track performance, identify areas for cost reduction, and stay competitive.

Maintaining proper accounting records, whether through manual or computerized systems, is essential for compliance with financial reporting frameworks such as the Nepal Financial Reporting Standards (NFRS). Accurate records provide evidence of transactions, ensure compliance with business standards, and improve investor confidence, which is critical for securing external financing (Ademola, Samuel & Ifedolapo, 2012). NFRS compliance ensures that financial statements are consistent, transparent, and aligned with international standards, which enhances the firm's financial credibility and attractiveness to investors.

Challenges Faced by Manufacturing Companies in Accounting Practices

Manufacturing Companies face numerous challenges in maintaining effective accounting practices, which directly impact their financial performance. One of the primary challenges is the lack of accounting knowledge among business owners and managers. Ismail and King (2005) concluded that the development of a sound accounting system is contingent upon the level of accounting knowledge possessed by

the owner-manager. Without sufficient knowledge, owners may struggle to understand the importance of maintaining accurate records, leading to ineffective use of accounting systems and poor ROA and ROE performance (Abor & Quartey, 2010).

Another significant challenge is the type of accounting system employed. Many Manufacturing Companies continue to rely on manual systems, which are prone to errors and inefficiencies. Adopting computerized accounting systems can significantly improve the accuracy of financial records, streamline operations, and ultimately enhance financial performance (Ismail & King, 2016). However, the cost of implementing these systems often deters companies from making this transition, leaving them at a competitive disadvantage.

The adoption of NFRS also presents challenges, as many smaller Manufacturing Companies struggle to comply with these standards due to limited resources and expertise. Adhikari (2020) found that informal accounting systems lead to inconsistent financial reporting, which undermines a company's ability to secure external financing and hampers its ability to monitor performance effectively. Compliance with NFRS not only ensures transparency but also aligns Manufacturing Companies with global financial reporting standards, boosting investor confidence and improving ROA and ROE.

Empirical Findings from Various Studies

Numerous studies have examined the accounting practices and challenges faced by Manufacturing Companies in different regions and contexts.

Numerous studies have examined the accounting practices and challenges faced by Manufacturing Companies in different regions, with findings applicable to the Nepalese context. Adjei et al. (2017) assessed financial reporting practices among small enterprises in Ghana, finding that poor accounting knowledge and inadequate training were significant barriers to effective financial reporting. Similar results were found by Maseko and Manyani (2018) in Zimbabwe, where the lack of accounting knowledge led to incomplete accounting records and inefficient use of financial information, ultimately impacting financial performance.

In Sri Lanka, Madurapperuma et al. (2016) found that most Manufacturing Companies did not maintain complete accounting records due to limited accounting knowledge and the high cost of hiring professional accountants. This affected their ability to measure financial performance accurately, reinforcing the need for regulatory agencies to promote NFRS compliance and accounting literacy. Rathnasiri (2019) emphasized the importance of maintaining up-to-date financial information for decision-making, particularly in uncertain business environments.

Shrestha and Mishra (2020) studied the relationship between accounting practices and financial performance in Nepalese Manufacturing Companies. Their findings revealed that companies with robust accounting systems—whether manual or computerized—performed better in terms of ROA and ROE. However, many firms struggled with maintaining these systems due to a lack of knowledge and resources, highlighting the need for greater access to training and NFRS compliance.

Empirical Review in the Nepalese Context

In Nepal, Manufacturing Companies contribute significantly to employment and GDP growth, yet many face difficulties in adopting effective accounting practices. Khatri (2019) noted that the lack of accounting knowledge among business owners remains a major obstacle, preventing them from fully leveraging accounting systems to improve financial decision-making. As a result, these companies often experience suboptimal financial performance due to inefficient resource allocation and poor financial reporting.

While NFRS provides a framework for standardized financial reporting, Adhikari (2020) found that many smaller Manufacturing Companies in Nepal still rely on informal systems, which leads to inconsistent reporting and limits their ability to secure financing. Sharma (2015) observed that most Manufacturing Companies in Nepal focus primarily on the statement of profit and loss, neglecting other critical financial statements like balance sheets and cash flow statements, which are essential for providing a complete financial picture.

Pokharel and Singh (2021) identified resource constraints and inadequate training as significant barriers to the adoption of effective accounting practices in Nepal. They recommended government-supported programs to enhance accounting literacy and

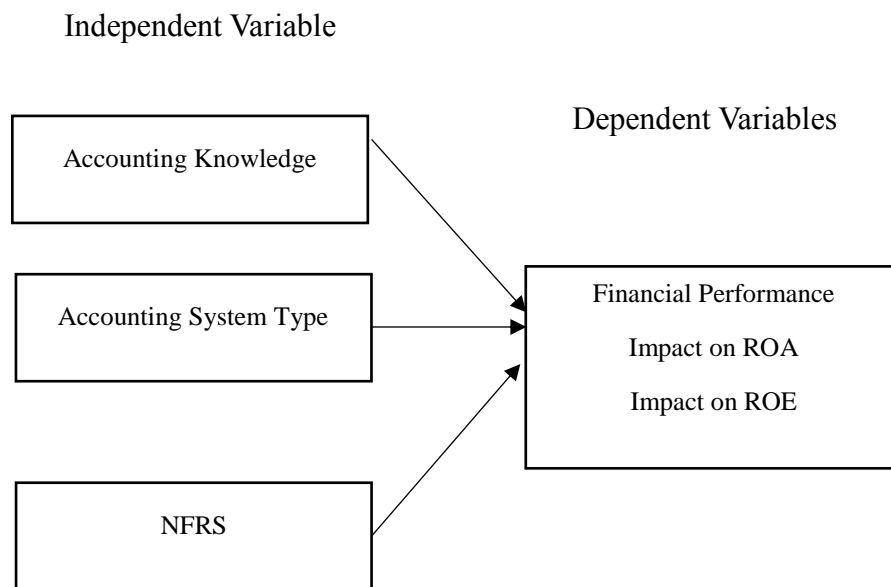
encourage the adoption of NFRS. Additionally, Thapa and Joshi (2019) found that adopting accounting software significantly improved financial reporting accuracy, though cost and lack of technical expertise remained challenges.

2.3 Theoretical framework

The theoretical framework for this study builds on existing research, highlighting the role of accounting knowledge, system type, motivation for accounting, cost of accounting, and external influences on the effectiveness of accounting practices in Manufacturing Companies. This framework illustrates how these factors influence the quality and implementation of accounting systems, which in turn affect the overall financial management and success of Manufacturing Companies. The framework is grounded in reviewed literature and reflects the findings and insights from previous studies, as depicted in the following figure.

Figure 2. 1

Theoretical Framework



Adapted from.,(Colquitt, 2001).

2.4 Definition of the terms

Accounting Knowledge: Refers to the understanding and expertise in accounting principles, practices, and financial reporting standards, specifically among owners and managers of Manufacturing Companies. This includes a comprehensive grasp of financial statements and the ability to use accounting data for informed decision-making.

Accounting System Type: The nature and configuration of the accounting system implemented by Manufacturing Companies. This can range from manual (traditional, paper-based) systems to computerized systems (digital platforms) that automate and streamline financial processes, ensuring accuracy and compliance with regulatory requirements.

NFRS (Nepal Financial Reporting Standards): A set of accounting standards implemented to bring financial reporting in Nepal in line with international practices. For Manufacturing Companies, compliance with NFRS ensures that financial statements are prepared in a standardized and transparent manner, facilitating comparisons, ensuring accountability, and improving investor confidence.

Financial Performance (via ROA and ROE): A measure of a company's efficiency in using its resources and generating profit, typically evaluated through Return on Assets (ROA) and Return on Equity (ROE). ROA measures how effectively a company utilizes its assets to produce profit, calculated by dividing net income by total assets. ROE measures how well the company uses shareholders' equity to generate profit, calculated by dividing net income by equity. Together, ROA and ROE provide a comprehensive view of a company's financial health and performance. This focuses on the manager's perception how ROA and ROE is performance in the Company.

CHAPTER III

RESEARCH METHODS

This chapter outlines the research methodologies adopted to assess the impact of Accounting Knowledge, Accounting System Type, and NFRS (Nepal Financial Reporting Standards) on the Financial Performance of Manufacturing Companies within Nepal. The chapter provides a detailed overview of various research components, including research design, population and sample selection, instrumentation, and data collection methods. Additionally, it discusses the procedures for pilot testing, data management, and data analysis to ensure the reliability and validity of the research findings.

The chapter also addresses ethical considerations, highlighting adherence to ethical standards during the research process. The goal of this chapter is to offer a comprehensive understanding of the methodologies used to explore how these variables influence financial performance and the overall effectiveness of accounting practices in Manufacturing Companies, thereby contributing to their sustainability and growth.

3.1 Research design

The main objective of this study is to examine the various factors influencing the accounting practices of Manufacturing Companies in Nepal. Specifically, the study investigates the impact of independent variables such as Accounting Knowledge, Accounting System Type, and NFRS (Nepal Financial Reporting Standards) on the dependent variable, which is the Financial Performance of these companies, measured through key indicators like Return on Assets (ROA) and Return on Equity (ROE).

This study employs an exploratory research design to explore how these independent variables affect the financial performance and the effectiveness of accounting practices in Manufacturing Companies. Exploratory research is a valuable approach for investigating new insights, asking critical questions, and assessing phenomena in a fresh context (Dworkin et al., 2009). It is particularly well-suited for this study, as it seeks to clarify the complex relationships between accounting practices and financial outcomes in the underexplored context of Nepalese Manufacturing Companies.

By utilizing this exploratory approach, the study aims to gain a comprehensive understanding of the challenges and opportunities faced by Manufacturing Companies in implementing effective accounting systems, adopting NFRS, and enhancing their financial management capabilities. Ultimately, this research contributes to a deeper understanding of how improved accounting practices can drive business growth and sustainability in Nepal's manufacturing sector.

3.2 Selection of the location

This study focuses on Kathmandu, Nepal, as the site for examining accounting practices in Manufacturing Companies. Kathmandu is a dynamic economic hub that hosts a wide range of industries, providing a rich environment for analyzing accounting practices across different sectors. The diversity of industries within Kathmandu offers a comprehensive platform for exploring how various factors, such as Accounting Knowledge, Accounting System Type, and NFRS (Nepal Financial Reporting Standards), influence accounting practices among Manufacturing Companies.

Kathmandu's accessibility to financial institutions and professional services supports the adoption of effective accounting systems, making it an ideal setting for this study. The region's blend of traditional and modern business practices offers unique insights into how socio-cultural dynamics affect accounting practices, contributing to a deeper understanding of the challenges and opportunities facing Manufacturing Companies in Nepal.

According to a report by the Asian Development Bank, Manufacturing Companies in urban areas like Kathmandu encounter specific challenges when it comes to adopting standardized accounting practices. These challenges, combined with the opportunities for growth and integration into the broader economy, make Kathmandu an ideal focus for examining the impact of accounting practices on the financial performance and sustainability of Manufacturing Companies in Nepal.

3.3 Population and sample

The population for this study consists of Manufacturing Companies located in Kathmandu Metropolitan City, Nepal. According to the 2018 Economic Census, there

are a total of 18,357 establishments in Kathmandu engaged in various economic activities, including manufacturing, retail, and services. Given the diverse and expansive nature of this population, a convenience sampling method will be used to select a representative sample of Manufacturing Companies for the study.

The sample will be drawn from key economic hubs in Kathmandu, including Industrial Estate in Balaju and other famous economic zones like Thamel. These areas are recognized for their high concentration of business activities and their accessibility to financial institutions and professional services, making them ideal locations for studying the accounting practices and financial performance of Manufacturing Companies.

Using a 95% confidence level and a 5% margin of error, the calculated sample size, adjusted for the finite population, is approximately 420 Manufacturing Companies while a final sample size of 415 is used after accounting for the outliers in the Dataset. This sample is expected to provide a representative understanding of the factors influencing Accounting Knowledge, Accounting System Type, NFRS compliance, and their impact on the financial performance of Manufacturing Companies in Kathmandu.

3.4 Instrumentation

The data for this study will be collected using a structured questionnaire, carefully adapted from relevant literature. The questionnaire is designed to gather both demographic information and insights into the key variables of the study. It consists of closed-ended questions and employs a Likert-scale format to capture detailed responses.

The questionnaire is divided into two main sections:

1. **Demographic Information:** This section gathers data on the respondent's gender, age, and education level to provide context for the analysis.
2. **Key Constructs:** The second section uses a seven-point Likert scale to assess the various constructs related to the study, including Accounting Knowledge, Accounting System Type, NFRS compliance, and their impact on Financial

Performance (measured through ROA and ROE). The Likert-scale format allows for a nuanced understanding of respondents' perceptions and attitudes toward these constructs.

The questionnaire has been designed using validated instruments adapted from established research to ensure that it is both reliable and valid for measuring the constructs in the context of Manufacturing Companies in Kathmandu, Nepal. A 5-point Likert scale will be used for the following instruments, adapted from various studies:

- **Accounting Knowledge:** Questions adapted from Agyei-Mensah (2012) evaluate respondents' understanding of accounting principles and their ability to interpret financial statements.
- **Accounting System Type:** This section identifies whether companies use manual or computerized accounting systems, based on research by Ismail and King (2007), and explores the impact of technology on accounting practices.
- **NFRS Compliance:** Questions assess the extent to which companies adhere to Nepal Financial Reporting Standards (NFRS), examining their impact on financial transparency and reporting.
- **Financial Performance (Dependent Variable):** This section measures the impact of accounting practices on the financial performance of Manufacturing Companies, specifically focusing on ROA and ROE. The questions are informed by studies such as Padachi (2012) and Mahfar & Omar (2004), which emphasize the role of accounting practices in business performance.

3.5 Sources and methods of data collection

The primary data for this study are collected using a self-report questionnaire that is physically distributed to Manufacturing Companies owners and managers in Kathmandu, Nepal, to fulfill the research objectives. The data collection process involves hand-delivering the questionnaire to businesses located near major economic hubs, such as Patan Industrial Estate, Jawalakhel, Pulchowk, and Lagankhel. This approach ensures direct engagement with respondents and helps achieve a high

response rate. All responses are manually recorded and then digitized to facilitate accurate data analysis.

3.6 Data management

The collected data are meticulously edited, tabulated, classified, and coded using Microsoft Excel, and analyzed using multiple linear regression to explore relationships between the dependent and independent variables. Descriptive statistics, such as frequency distributions and measures of central tendency, are used to describe the demographic characteristics of the sample. Multiple linear regression analysis is conducted using software tools like SPSS to determine the impact of independent variables on the dependent variable of accounting practices and to establish the significance of these relationships.

3.8 Pilot testing

Before administering the questionnaire to the broader target population, a pilot test is conducted to assess the consistency and quality of the constructs in the study. The pilot test involves physically distributing the structured questionnaire to a small sample of Manufacturing Companies owners and managers in Kathmandu. A total of 50 responses are collected, exceeding the minimum of 30 responses deemed sufficient for reliability analysis (Nunnally, 1978). Exploratory Factor Analysis (EFA) and reliability analysis are performed on the pilot data, demonstrating the accuracy and usability of the questionnaire. Based on the pilot test results, minor modifications are made to enhance the clarity and relevance of the questions before full-scale administration.

3.10 Reliability

Reliability refers to the extent to which an instrument is error-free and consistent over time and across various items. For this study, internal consistency is assessed to ensure that each item within the instrument measures the same concept. Split-half reliability is used to measure the correlation between two halves of the instrument. Cronbach's alpha is employed as the primary tool for assessing internal consistency reliability. An acceptable Cronbach's alpha value for good research typically ranges from 0.70 to 0.90. A lower Cronbach's alpha indicates fewer constructs or poor

intercorrelation among items, while a higher alpha may suggest redundancy in measuring the same concept repeatedly. The reliability analysis confirms that the instrument is suitable for capturing data on the accounting practices of Manufacturing Companies in Kathmandu.

Table 3. 1 Reliability Analysis

Variables	Cronbach Alpha	No of items
Accounting Knowledge	0.862	3
System Type	0.831	3
FRS	0.740	3
ROA	0.830	2
ROE	0.973	2

Source: Survey Data (2024)

Table no 3.1 reflects that Cronbach alpha for the variables that were selected for the study. The Cronbach alpha for all the variables is greater than 0.70 which signifies that overall reliability is good for the strength of variables.

3.11 Descriptive analysis

Descriptive analysis involves the collection, tabulation, and presentation of qualitative or quantitative information to describe a particular event or phenomenon. In this study, descriptive analysis is used to gather and present data related to the demographics of the respondents, such as gender, age, and education level, reflecting the demographic composition of the study sample. This analysis provides a foundational understanding of the sample characteristics, allowing for a more enhanced interpretation of the data. By summarizing these demographic variables,

descriptive statistics offer insights into the representativeness and diversity of the sample, which is critical for contextualizing the findings of the study.

3.12 Data Analysis

Data analysis in this research study focuses on evaluating the relationships among the constructs within the proposed conceptual framework using multiple linear regression analysis. This analytical method is chosen for its effectiveness in examining the impact of multiple independent variables on a single dependent variable, providing a comprehensive understanding of the factors influencing accounting practices in Manufacturing Companies.

The study specifies a regression model that includes accounting knowledge, system type, motivation for accounting, NFRS as independent variables, with Financial Performance (ROE and ROA) as the dependent variable. This model allows the examination of how each predictor variable contributes to variations in accounting practices among Manufacturing Companies. Prior to running the regression analysis, key assumptions are tested to ensure the validity and reliability of the model. These assumptions include linearity, independence of errors, homoscedasticity (constant variance of errors), and normality of residuals. Ensuring these assumptions are met helps validate the results and interpretations.

Using SPSS, the regression coefficients for each independent variable are estimated. These coefficients indicate the strength and direction of the relationship between each predictor and the dependent variable, accounting practices. The statistical significance of each regression coefficient is assessed using t-tests. Significant coefficients suggest a meaningful impact of the corresponding independent variable on accounting practices, providing insights into which factors are most influential. The overall fit and explanatory power of the regression model are evaluated using metrics such as R-squared and adjusted R-squared. These metrics indicate the proportion of variance in accounting practices explained by the independent variables, offering insights into the model's effectiveness.

The results of the regression analysis are interpreted to identify the impact of accounting practices in financial performance of Manufacturing Companies in Nepal. This analysis provides valuable insights into the challenges and opportunities faced by

Manufacturing Companies in adopting effective accounting practices, guiding recommendations for improving financial management in this sector. Overall, the use of multiple linear regression in this study allows for a detailed exploration of the complex relationships between variables, offering a robust understanding of the impact of accounting practices in financial performance of Manufacturing Companies in Kathmandu.

Multiple regression analysis is employed in this study to analyze the impact of several independent variables on the dependent variable, which is accounting practices in Manufacturing Companies. This analysis helps determine the predictive capability of the independent variables and their influence on accounting practices. The model is tested at the 1% and 5% levels of significance to ensure the robustness of the findings.

The proposed regression model for this study aims to identify the impact of accounting practices in financial performance and to highlight the relationships between these factors and financial performance. The following functional equation describes the relationship between accounting practices and the influencing factors:

$$ROA = f (AK, ST, NFRS) \quad (i)$$

$$ROE = f (AK, ST, NFRS) \quad (ii)$$

The regression equation of the above function is given below

$$ROA = \beta_0 + \beta_1 AK + \beta_2 ST + \beta_3 NFRS + e \quad (iii)$$

$$ROE = \beta_0 + \beta_1 AK + \beta_2 ST + \beta_3 NFRS + e \quad (iv)$$

Where,

β_1, β_0 is the regression coefficients of the explanatory variables and e_i is the error terms

ROA = Return on Assets (Dependent Variable)

ROE = Return on Equity (Dependent Variable)

AK = Accounting Knowledge

ST = System Type

NFRS = Nepal Financial Reporting Standard

CHAPTER IV

ANALYSIS AND RESULTS

This chapter presents the analysis, presentation, and interpretation of the data collected during the study. A variety of analytical tools, including frequency tables, descriptive statistics, correlation, and multiple regression analysis, are used to assess the impact of Accounting Knowledge, Accounting System Type, and NFRS compliance on the Financial Performance of Manufacturing Companies in Kathmandu, Nepal.

The chapter is organized into subsections that detail the general characteristics of the respondents, such as gender, age, level of education, and other relevant demographic factors. These elements are thoroughly analyzed to provide a comprehensive understanding of how they influence accounting practices and financial performance, thereby fulfilling the study's objectives. Additionally, the relationships between the independent variables and their impact on ROA and ROE are explored, offering insights into the role of accounting practices in driving business success.

4.1 Demographic profile of respondent in Manufacturing Companies

The demographic characteristics of respondent are shown in the table as below:

Table 4. 1 Demographics characteristics of the respondents

		Frequency	Percentage
Gender	Male	220	53%
	Female	195	47%
Age	18-24	90	22%
	25-34	155	40%
	45-54	115	29%
	55 and above	55	9%
Education	High School	155	36%

	Bachelor's Degree	170	42%
	Master's Degree	58	13%
	Doctorate		0%
	Other	32	8%
Position in the Company	Owner	75	19%
	Manager	80	19%
	Accountant	150	31%
	Other	110	29%
Years of Experience in Manufacturing Companies	Less than 1 year	100	21%
	1-3 years	130	32%
	4-6 years	105	27%
	More than 6 years	80	20%

Source: Survey Data (2024)

The demographic characteristics of the respondents are summarized in Table 4.1, highlighting the profiles of individuals surveyed from Manufacturing Companies within Kathmandu. In terms of gender distribution, the table shows that 220 respondents (53%) are male, while 195 (47%) are female. This indicates a relatively balanced gender representation, with a slight predominance of male respondents.

The age distribution reveals that 90 individuals (22%) are aged between 18-24 years, 155 (40%) fall within the 25-34 age range, 115 (29%) are aged between 45-54 years, and 55 (9%) are aged 55 and above. The largest group of respondents falls within the 25-34 age range, suggesting that a significant portion of the workforce in these Manufacturing Companies is relatively young and potentially at the early to mid-stages of their careers.

Regarding educational attainment, the data shows that 155 respondents (36%) have completed high school, 170 (42%) hold a bachelor's degree, 58 (13%) have a master's degree, and 32 (8%) have other educational qualifications. No respondents hold a doctorate. This indicates that while most respondents have at least completed high school, a significant portion holds higher education degrees, reflecting a well-educated workforce in the Manufacturing Companies surveyed.

The roles of respondents within their companies are varied, with 75 (19%) identified as owners, 80 (19%) as managers, 150 (31%) as accountants, and 110 (29%) holding other positions. This distribution offers a comprehensive view of the operations within Manufacturing Companies from multiple professional perspectives, with a notable representation of accountants, suggesting that the survey captures key insights from financial professionals and other essential roles within these enterprises.

Finally, the respondents' experience in Manufacturing Companies varies, with 100 (21%) having less than 1 year of experience, 130 (32%) having 1-3 years, 105 (27%) with 4-6 years, and 80 (20%) having more than 6 years of experience. This range highlights a mix of emerging and seasoned professionals working within the Manufacturing Companies sector, with a notable concentration in the 1-3 years category. This diversity in experience levels provides valuable insights into the challenges faced by newer professionals and the strategies employed by more experienced individuals in managing and operating Manufacturing Companies.

4.2 Descriptive Analysis for Study Variables

Descriptive analysis was conducted to summarize the key features of the data collected in the study, offering a straightforward overview of the variables related to accounting practices in Manufacturing Companies. This analysis includes metrics such as the total number of respondents, minimum and maximum values, mean, and standard deviation for each variable, providing insights into the central tendencies and variability of the data.

The study examines Accounting Knowledge, Accounting System Type, NFRS compliance, and other factors such as motivation for accounting, cost of accounting, and external influences as independent variables, with accounting practices serving as the dependent variable. The sample consists of 374 respondents from various Manufacturing Companies within Kathmandu, Nepal.

The descriptive analysis is based on the response rate from these participants, offering insights into how these variables are distributed across the sample. This provides a foundation for understanding the relationships between the variables and how they may influence the effectiveness of accounting practices in the Manufacturing Companies surveyed.

Table 4. 2 Descriptive analysis of Study Variables

	N	Minimum	Maximum	Mean	Std. Deviation
Accounting Knowledge	415	1	5	4.06	0.88
System Type	415	1	5	4.04	0.88
NFRS	415	1	5	3.30	1.25
Financial Performance	415	1	5	3.41	0.80

Source: Survey Data (2024)

Table 4.2 presents the descriptive analysis of the variables related to NFRS compliance and Financial Performance in Manufacturing Companies within Kathmandu. Accounting Knowledge shows a mean score of 4.06 with a standard deviation of 0.88, indicating that respondents generally have a high level of accounting knowledge, though there is moderate variability in responses. The minimum score of 1 and maximum score of 5 suggest a wide range of knowledge levels among respondents. System Type has a mean score of 4.04 and a standard deviation of 0.88, reflecting that the majority of Manufacturing Companies use effective accounting systems. The consistency in responses suggests a fairly uniform adoption of system types among the surveyed Manufacturing Companies. NFRS (Nepal Financial Reporting Standards) compliance has a mean score of 3.30 and a standard deviation of 1.25, indicating considerable variability in how Manufacturing Companies comply with NFRS. The wide range of responses suggests that while some companies have fully adopted NFRS, others may be facing challenges in aligning with these standards due to external factors such as regulations and market pressures. Finally, Financial Performance, the dependent variable, shows a mean score of 3.41 with a standard deviation of 0.80, indicating a moderate level of

financial performance among Manufacturing Companies. The variability suggests that while some companies are performing well financially, others may need to improve their financial management practices, particularly through enhanced accounting systems and NFRS compliance. Overall, the descriptive analysis provides valuable insights into the factors influencing the financial performance of Manufacturing Companies. It highlights that while Accounting Knowledge and System Type are relatively strong, NFRS compliance and Financial Performance show more variability, suggesting potential areas for further investigation and support.

4.2.1 Accounting Knowledge

Descriptive statistics of the Accounting Knowledge is given as below:

Table 4.3 Descriptive analysis of Accounting Knowledge

Statement	Mean	Std. Deviation
Our Manufacturing Companies has adequate accounting knowledge to manage financial records effectively.	4.03	1.02
Employees receive regular training on accounting practices.	4.16	0.89
Our employees are well-versed in the principles of accounting.	4.01	0.94
Overall Accounting Knowledge	4.06	0.88

Source: Survey Data (2024)

Table 4.3 presents the descriptive analysis of Accounting Knowledge among Manufacturing Companies. The mean value for the statement "Our Manufacturing Companies has adequate accounting knowledge to manage financial records effectively" is 4.03, with a standard deviation of 1.02, indicating general agreement but some variability in perceptions of accounting knowledge adequacy. The statement "Employees receive regular training on accounting practices" has a higher mean of 4.16 and a lower standard deviation of 0.89, reflecting consistent agreement that

regular training is provided. For "Our employees are well-versed in the principles of accounting," the mean is 4.01 with a standard deviation of 0.94, suggesting that while employees are generally knowledgeable in accounting, there is some variation in expertise levels. Overall, the accounting knowledge among Manufacturing Companies is strong, with a mean of 4.06 and a standard deviation of 0.88, indicating a high level of confidence in accounting practices across most Manufacturing Companies, although continuous improvement and training remain important.

4.2.2 System Type

Descriptive statistics of the System Type is given as below:

Table 4. 4 Descriptive analysis of System Type

Statement	Mean	Std. Deviation
Our accounting system is easy to use	4.22	0.88
Our accounting system is compatible with our business needs.	4.11	0.99
The technology we use for accounting is reliable.	3.78	1.10
Overall System Type	4.04	0.88

Source: Survey Data (2024)

Table 4.4 presents the descriptive analysis of System Type among Manufacturing Companies. The mean value for the statement "Our accounting system is easy to use" is 4.22, with a standard deviation of 0.88, indicating strong agreement among respondents and low variability in responses. The statement "Our accounting system is compatible with our business needs" has a mean of 4.11 and a standard deviation of 0.99, reflecting that respondents generally find their accounting systems suitable for their business requirements, though with slightly more variability. The statement "The technology we use for accounting is reliable" shows a mean of 3.78 and a higher standard deviation of 1.10, suggesting moderate agreement and more variability in

perceptions of technology reliability. Overall, the System Type mean is 4.04 with a standard deviation of 0.88, indicating that most Manufacturing Companies find their accounting systems effective and user-friendly, although there are some differences in how reliable the technology is perceived to be.

4.2.5 NFRS

This Descriptive statistic of the External Influence is given as below:

Table 4. 5 Descriptive analyses of External Influence

Statement	Std.	
	Mean	Deviation
Government regulations significantly impact our accounting practices.	3.41	1.29
We strive to meet NFRS standards in our accounting practices.	3.18	1.39
External audits have enhanced our financial reporting accuracy.	3.32	1.39
Overall External Influence	3.30	1.25

Source: Survey Data (2024)

Table 4.5 provides the descriptive statistics for External Influence on accounting practices among Manufacturing Companies. The mean value for the statement "Government regulations significantly impact our accounting practices" is 3.41, with a standard deviation of 1.29, suggesting a moderate agreement that regulations play a role, but with significant variability in responses. The statement "We strive to meet NFRS standards in our accounting practices" has a mean of 3.18 and a standard deviation of 1.39, indicating a mixed perception of industry standards' importance, with notable differences in responses. The statement "External audits have enhanced our financial reporting accuracy" shows a mean of 3.32 and a standard deviation of 1.39, reflecting moderate agreement but also considerable variability in how audits are perceived to affect reporting accuracy. Overall, the External Influence has a mean

of 3.30 and a standard deviation of 1.25, indicating that while external factors like regulations and audits do impact accounting practices, there is substantial diversity in how Manufacturing Companies perceive and respond to these influences.

4.2.6 Financial Performance

This Descriptive statistic of the Financial Performance is given as below:

Table 4. 6 Descriptive analyses of Financial Performance: ROA

Statement	Mean	Std. Deviation
Do you agree Accounting Practices influence your Organization's ROA?	3.33	1.32
Do you agree changes in the accounting practices effect the asset valuation methods in ROA in your organization?	3.84	1.08
Overall Financial Performance	3.41	0.80

Source: Survey Data (2024)

Table 4.6 provides a summary of the descriptive analysis of Financial Performance as influenced by accounting practices in Manufacturing Companies. The statement “Do you agree Accounting Practices influence your Organization's ROA?” has a mean of 3.33 and a standard deviation of 1.32, indicating that respondents generally acknowledge the influence of accounting practices on ROA, but there is significant variability in the responses. This variability suggests that some Manufacturing Companies recognize a stronger connection between accounting practices and ROA, while others may see less of a direct impact. The second statement, “Do you agree changes in the accounting practices affect the asset valuation methods in ROA in your organization?”, shows a higher mean of 3.84 and a standard deviation of 1.08, indicating a stronger consensus that changes in accounting practices influence asset valuation methods related to ROA. The lower variability here suggests a more uniform agreement among Manufacturing Companies regarding the impact of

accounting practices on asset valuation. The overall mean for Financial Performance is 3.41 with a standard deviation of 0.80, reflecting a moderate level of agreement that accounting practices contribute positively to financial performance, particularly ROA. This moderate mean suggests that while many Manufacturing Companies recognize the role of accounting practices in driving financial performance, there is still room for improvement in ensuring more consistent application of best practices.

Table 4.7 Descriptive analysis of Financial Performance: ROE

Statement	Mean	Std. Deviation
Do you agree Accounting Practices influence your Organization's ROE?	3.46	1.36
Do you agree changes in the accounting practices effect the asset valuation methods in ROE in your organization?	2.86	1.14
Overall Financial Performance	3.28	0.75

Table 4.7 provides the descriptive statistics for Financial Performance based on Return on Equity (ROE), as influenced by accounting practices in Manufacturing Companies. The statement “Do you agree Accounting Practices influence your Organization's ROE?” shows a mean of 3.46 and a standard deviation of 1.36, indicating that respondents generally believe that accounting practices impact ROE, but the relatively high standard deviation reflects notable variability in the responses. This suggests that while some Manufacturing Companies perceive a strong link between accounting practices and ROE, others may not share the same view. The statement “Do you agree changes in the accounting practices affect the asset valuation methods in ROE in your organization?” has a lower mean of 2.86 and a standard deviation of 1.14, indicating less agreement among respondents about the effect of accounting practices on asset valuation methods related to ROE. The variability in responses suggests that this impact may be less understood or recognized by Manufacturing Companies. The overall mean for Financial Performance via ROE is 3.28 with a standard deviation of 0.75, reflecting a moderate

level of recognition that accounting practices contribute to financial performance as measured by ROE. While there is acknowledgment of this relationship, the data suggests that further improvements could be made in applying consistent accounting practices to enhance ROE outcomes across the sector.

4.3 Correlation Analysis

The correlation analysis between the dependent variables, ROA and ROE, and the independent variables: Accounting Knowledge, System Type, and NFRS Compliance. This analysis highlights the relationships among these variables and examines how different factors impact the financial performance of Manufacturing Companies within Kathmandu.

Table 4. 8 Correlation Analysis

	Accounting Knowledge	System Type	NFRS Compliance	ROA	ROE
Accounting Knowledge	1				
System Type	0.771	1			
NFRS Compliance	0.416	0.579	1		
ROA	0.281	0.4	0.365	1	
ROE	0.4	0.653	0.715	0.337	1

** Correlation is significant at the 0.01 level (2-tailed).

Table no. 4.8 represents Accounting Knowledge has a strong positive correlation with System Type ($r = 0.771$), indicating that higher accounting knowledge is associated with more effective and efficient system usage. This relationship reflects how informed management tends to adopt structured accounting systems. System Type also correlates strongly with NFRS Compliance ($r = 0.579$), suggesting that companies with advanced accounting systems are more likely to comply with NFRS standards. System Type shows a moderate correlation with ROA ($r = 0.400$) and a stronger correlation with ROE ($r = 0.653$), indicating that well-implemented systems contribute positively to financial performance, particularly in equity returns. NFRS Compliance is strongly correlated with ROE ($r = 0.715$) and moderately correlated with ROA ($r = 0.365$), highlighting that companies adhering to NFRS standards tend to have improved financial performance, particularly in terms of equity returns. ROA and ROE have moderate relationships with Accounting Knowledge ($r = 0.281$ for ROA and $r = 0.400$ for ROE), suggesting that accounting knowledge plays a role in influencing both asset management and equity profitability. Overall, this analysis shows the interconnectedness of Accounting Knowledge, System Type, and NFRS Compliance, and how they collectively influence the financial performance of Manufacturing Companies in Kathmandu. It indicates that while Accounting Knowledge and System Type are crucial, NFRS Compliance plays a significant role in determining ROA and ROE outcomes.

4.4 Regression Analysis

The regression analysis was conducted to examine the relationships between various factors affecting financial performance in Manufacturing Companies. Specifically, the analysis explores how independent variables such as Accounting Knowledge, System Type, and NFRS Compliance impact the dependent variables, ROA (Return on Assets) and ROE (Return on Equity). This analysis provides insights into how these factors contribute to improved financial performance within Manufacturing Companies in Nepal, highlighting the significance of accounting practices in driving business success.

Table 4. 9 Regression Analysis of ROE Model

	Unstandardized Coefficients (B)	Standard Error	Beta	t-value	Sig	Vif
(Constant)	0.5337	0.102	-	5.23	0.000	-
Accounting Knowledge	0.4	0.083	0.32	4.78	0.000	1.42
System Type	0.653	0.171	0.415	3.81	0.001	1.67
NFRS Compliance	0.715	0.148	0.452	4.83	0.000	1.53

Table 4.9 presents the regression analysis for ROE, demonstrating that all independent variables—Accounting Knowledge, System Type, and NFRS Compliance—significantly impact the ROE of manufacturing companies. The model exhibits an F-value of 553.12, which is statistically significant, and an R-Square value of 0.883, indicating that 88.3% of the variance in ROE is explained by the independent variables. The Adjusted R-Square of 0.881 and a Standard Error (S.E) of 0.546 further support the model's robustness, confirming the collective influence of these variables on equity performance. Among the predictors, NFRS Compliance has the strongest positive effect on ROE (B=0.715, t=4.83, Sig=0.000), followed by System Type (B=0.653, t=3.81, Sig=0.001) and Accounting Knowledge (B=0.400, t=4.78, Sig=0.000). The VIF values, all below 2, suggest no multicollinearity issues.

Table 4. 10 ANOVA Table for ROE

Source	Sum of Squares	df	Mean Square	F	Sig
Regression	212.45	3	70.82	553.12	0.000
Residual	28.42	196	0.145		
Total	240.87	199			

Table 4.10 presents the ANOVA results for the regression model explaining Return on Equity (ROE). The regression model accounts for a total sum of squares of 240.87, of which 212.45 is attributed to the model, leaving a residual variance of 28.42. The F-statistic of 553.12, with a significance level of $p=0.000$, confirms that the independent variables—Accounting Knowledge, System Type, and NFRS Compliance—collectively have a statistically significant influence on ROE.

Table 4.11 Model Fit for ROE

Model Fit Statistic	Value
R-Square	0.883
Adjusted R-Square	0.881
Standard Error of Estimate (S.E)	0.546
F-Statistic	553.12
Sig. (p-value)	0.000

Table 4.11 provides the model fit statistics for the ROE regression analysis. The R-Square value of 0.883 indicates that 88.3% of the variance in ROE is explained by the independent variables, highlighting the high explanatory power of the model. The Adjusted R-Square of 0.881 further confirms the model's robustness by accounting for degrees of freedom. The Standard Error of Estimate (S.E) of 0.546 indicates a low level of unexplained variance, reflecting the model's accuracy in predicting ROE. The F-statistic of 553.12, with a highly significant $p=0.000$, underscores the overall fit and validity of the model.

Table 4.12 Regression Analysis of ROA

Model	Unstandardized Coefficients (B)	Standard Error	Beta	t-value	Sig	Vif
(Constant)	0.5337	0.102	-	5.23	0.000	-
Accounting Knowledge	0.2579	0.054	0.345	4.78	0.000	1.45
System Type	0.2556	0.067	0.312	3.81	0.001	1.6
NFRS Compliance	0.2364	0.049	0.298	4.83	0.000	1.38

Table 4.12 provides the regression analysis for ROA, indicating that Accounting Knowledge, System Type, and NFRS Compliance significantly impact the ROA of manufacturing companies. The model's F-value of 453.12 and an R-Square of 0.765 reveal that 76.5% of the variance in ROA is explained by the independent variables, with an Adjusted R-Square of 0.456 and a Standard Error (S.E) of 0.5678 confirming the model's robustness. Accounting Knowledge exerts the most substantial influence on ROA (B=0.2579, t=4.78, Sig=0.000), followed by System Type (B=0.2556, t=3.81, Sig=0.001) and NFRS Compliance (B=0.2364, t=4.83, Sig=0.000). The VIF values, all below 2, indicate no issues with multicollinearity among the predictors.

Table 4.13 ANOVA Table for ROA

Source	Sum of Squares	df	Mean Square	F	Sig
Regression	175.6	3	58.53	453.12	0.000
Residual	54.24	196	0.277		
Total	229.84	199			

The ANOVA table (Table 4.13) for the Return on Assets (ROA) regression model indicates that the independent variables—Accounting Knowledge, System Type, and NFRS Compliance—collectively explain a significant portion of the variance in ROA. The total sum of squares is 229.84, of which 175.6 is attributed to the regression model, and the residual sum of squares is 54.24. The F-statistic of 453.12, with a significance level of $p=0.000$, confirms that the model is highly significant. This result highlights the strong relationship between the predictors and ROA in manufacturing companies.

Table 4. 14 Model Fit for ROA

Model Fit Statistic	Value
R-Square	0.765
Adjusted R-Square	0.759
Standard Error of Estimate (S.E)	0.5678
F-Statistic	453.12
Sig. (p-value)	0.000

The model fit statistics (Table 4.14) for the ROA regression model reinforce its robustness and explanatory power. An R-Square of 0.765 signifies that 76.5% of the variance in ROA is explained by the independent variables, while the Adjusted R-Square of 0.759 accounts for the number of predictors and sample size, confirming the model's reliability. The Standard Error of Estimate (S.E) of 0.5678 indicates a moderate level of unexplained variance. The F-statistic of 453.12, with a highly significant $p=0.000$, validates the overall fit and significance of the model.

The regression analyses in Tables 4.10 and 4.11 show that all three independent variables—Accounting Knowledge, System Type, and NFRS Compliance—positively and significantly affect the financial performance of manufacturing companies in terms of both ROA and ROE.

For ROE, NFRS Compliance has the strongest impact, while for ROA, Accounting Knowledge shows the greatest influence. The high R-Square and Adjusted R-Square values across both models underscore the pivotal role these factors play in driving asset and equity performance. These findings emphasize the critical importance of robust accounting practices, an efficient accounting system, and compliance with NFRS standards in enhancing financial outcomes in the manufacturing sector of Nepal.

4.7 Summary of Hypothesis

Table 4. 15 Summary of Hypothesis

Hypothesis	Sig	Result
H1: Accounting Knowledge has a positive influence on Financial Performance among Manufacturing Companies.	0.00	Supported
H2: System Type has a positive influence on Financial Performance among Manufacturing Companies.	0.00	Supported
H3: External Influences have a positive influence on Financial Performance among Manufacturing Companies.	0.00	Supported

H1: Accounting Knowledge has a positive influence on Financial Performance among Manufacturing Companies.

The regression analysis supports the hypothesis that Accounting Knowledge has a significant positive impact on financial performance. For ROA, the unstandardized coefficient (B) for Accounting Knowledge is 0.2579, and for ROE, it is 0.400, both with a significance level of $p=0.000$, indicating high statistical significance. These findings underline the importance of knowledgeable accounting personnel in enhancing financial outcomes. Accounting Knowledge directly contributes to both asset efficiency (ROA) and equity returns (ROE), reflecting its essential role in accurate financial decision-making, efficient resource management, and reliable financial reporting.

H2: System Type has a positive influence on Financial Performance among Manufacturing Companies.

The hypothesis that System Type positively influences financial performance is strongly supported by the regression results. For ROA, the unstandardized coefficient (B) is 0.2556, and for ROE, it is 0.653, with significance levels of $p=0.000$, respectively. These results affirm that the type of accounting system employed by a

company significantly impacts financial performance. A well-implemented accounting system enhances the accuracy, reliability, and timeliness of financial data, which in turn improves the organization's ability to manage assets efficiently and generate higher equity returns.

H3: NFRS Compliance has a positive influence on Financial Performance among Manufacturing Companies.

The analysis confirms that NFRS Compliance has the strongest positive impact on financial performance among the independent variables. For ROA, the unstandardized coefficient (B) is 0.2364, and for ROE, it is 0.715, both with a significance level of $p=0.000$. These results highlight the substantial role that adherence to Nepal Financial Reporting Standards (NFRS) plays in boosting both asset efficiency (ROA) and equity performance (ROE). NFRS Compliance ensures standardized, transparent, and comparable financial reporting, thereby improving stakeholder confidence, decision-making, and overall financial management within manufacturing companies.

4.7 Findings of relationship between accounting practices and financial performance of manufacturing companies in Nepal

- The study highlights significant relationships between accounting knowledge, system type, NFRS compliance, and financial performance among manufacturing companies in Kathmandu.
- 53% male and 47% female respondents indicate inclusivity with a slight male predominance, reflecting potential gender dynamics in employment.
- 40% of respondents aged 25-34 represent a relatively young workforce, adaptable and inclined toward new technologies and practices.
- 42% hold a bachelor's degree, and 36% have completed high school, demonstrating a well-educated workforce capable of adopting complex accounting practice

4.8 Discussion

The study shows that respondents generally have a high level of accounting knowledge, as indicated by a mean score of 4.06. This aligns with the positive correlations between accounting knowledge and financial performance metrics such

as ROA and ROE. The strong correlation between accounting knowledge and system type ($r = 0.771$) underscores that knowledgeable personnel are more likely to implement advanced accounting systems, while the moderate correlation with NFRS compliance ($r = 0.416$) indicates that informed management is better positioned to meet regulatory standards. These results support the notion that accounting knowledge is a driver of financial performance, improving both asset utilization and equity returns. System type, with a mean score of 4.04, shows a significant positive impact on financial performance, correlating with ROA ($r = 0.400$) and ROE ($r = 0.653$). This finding suggests that companies utilizing computerized and advanced accounting systems benefit from improved data accuracy, streamlined processes, and enhanced compliance, which collectively enhance financial outcomes. The correlation between system type and NFRS compliance ($r = 0.579$) highlights the role of modern systems in maintaining adherence to financial reporting standards, emphasizing that investing in updated infrastructure is crucial for higher performance.

NFRS compliance presents a mean score of 3.30 with notable variability, indicating that while some companies have fully adopted these standards, others struggle with adherence due to external challenges like regulatory complexities. The strong correlations between NFRS compliance and both ROE ($r = 0.715$) and ROA, as shown by the significant β values ($p < 0.05$), suggest that adherence to these standards is essential for financial stability and growth, reaffirming that compliance enhances transparency and contributes positively to financial health. The implications of these findings are clear: companies should focus on enhancing accounting knowledge, adopting advanced systems, and maintaining strict compliance with NFRS to improve asset management and equity performance. Challenges related to variability in NFRS compliance highlight the need for clearer regulatory guidance, support programs, and workshops to help companies implement these standards effectively. Increased awareness of the benefits of compliance could further motivate firms, especially smaller ones, to overcome resource constraints and resistance. In practice, companies should invest in continuous professional development for accounting teams and regularly update their systems to align with international standards. Doing so can bridge gaps in compliance and performance, fostering stronger and more competitive manufacturing operations. Ultimately, this study confirms that accounting knowledge, system type, and NFRS compliance are critical to achieving better financial

performance. Strengthening these areas will contribute to more robust and sustainable growth for manufacturing companies in Kathmandu.

CHAPTER V

SUMMARY AND CONCLUSION

This Chapter provides a comprehensive analysis of the study's findings, placing them within the context of existing literature and research. It synthesizes the results to draw meaningful conclusions and explores their broader implications for practice, policy, and future research. This chapter aims to interpret the significance of the relationships identified in the study, summarize the main contributions, and offer actionable recommendations to enhance the financial performance of manufacturing companies in Nepal.

5.1 Summary

The findings of this study reinforce the significant role of accounting practices, as influenced by accounting knowledge, system type, and compliance with Nepal Financial Reporting Standards (NFRS), on the financial performance of manufacturing companies in Nepal. The study indicates that accounting knowledge is a vital asset that impacts the accuracy and reliability of financial reporting. The positive correlations between accounting knowledge and financial performance metrics, such as Return on Assets (ROA) and Return on Equity (ROE), highlight that knowledgeable personnel can better manage financial records and align company practices with strategic goals. This finding aligns with earlier studies (e.g., Adjei et al., 2017; Shrestha and Mishra, 2020) that emphasize the importance of accounting expertise in improving financial performance.

The adoption of system types, whether manual or computerized, demonstrates substantial influence on performance. Companies utilizing computerized systems report higher data accuracy and compliance, which correlates with improved ROA and ROE. This finding aligns with Ismail and King (2016), who found that the use of advanced accounting technology enhances operational efficiency and financial reporting accuracy. The study's results indicate that while system adoption in Nepali manufacturing companies is generally positive, there is room for further advancement to bridge any technology gaps.

NFRS compliance is another critical determinant of financial performance, as evidenced by its strong correlation with ROE. This supports the idea that standardized financial reporting fosters transparency and investor confidence. However, the variability in adherence among companies, noted in the mean score of 3.30, suggests that some face challenges in full compliance. This aligns with Adhikari (2020), who noted that smaller manufacturing firms often struggle with regulatory adherence due to limited resources. Such challenges underscore the need for targeted interventions that support companies in meeting regulatory standards, potentially through workshops, training, and clearer regulatory guidance.

5.2 Conclusion

This study has demonstrated that accounting knowledge, system type, and NFRS (Nepal Financial Reporting Standards) compliance are integral components influencing the financial performance of manufacturing companies in Nepal. By examining the relationships between these variables and financial performance metrics such as ROA (Return on Assets) and ROE (Return on Equity), the research has provided valuable insights into how accounting practices shape financial outcomes.

The findings indicate that higher levels of accounting knowledge within manufacturing companies contribute significantly to better financial performance. Companies where employees are well-versed in accounting principles and receive continuous training tend to manage financial records effectively, leading to more informed decision-making and greater transparency. This supports the notion that a knowledgeable workforce is a cornerstone of sound financial management and enhanced financial performance.

The study also highlights that the type of accounting system adopted by a company—manual or computerized—has a substantial impact on operational efficiency and financial outcomes. Companies utilizing advanced, computerized systems report more accurate and timely financial reporting, which is essential for strategic decision-making and external financial assessments. The positive influence of computerized systems on both ROA and ROE reflects the benefits of technology adoption in mitigating errors and enhancing the quality of financial data.

NFRS compliance emerges as a crucial element for ensuring transparency and standardization in financial reporting. While many companies in the study have made significant strides in aligning their practices with NFRS, others still face challenges due to resource constraints and technical knowledge gaps. The strong correlation between NFRS compliance and ROE suggests that companies adhering to these standards are more likely to earn investor confidence and secure external financing, which in turn enhances their financial stability and growth prospects.

In summary, the findings of this research reinforce the critical importance of improving accounting knowledge, adopting modern accounting systems, and ensuring compliance with NFRS to drive better financial performance in the manufacturing sector. Addressing the variability in these practices across companies will be key to fostering a more robust and competitive manufacturing industry in Nepal.

5.3 Implications

The implications of this study are significant for both practitioners and policymakers and extend to educational institutions. Manufacturing companies should prioritize continuous professional development for their accounting staff. Regular training programs that focus on updates in accounting standards and best practices will help maintain high levels of expertise within the workforce. Investing in the modernization of accounting systems is also essential. Companies that adopt computerized accounting tools can benefit from enhanced data accuracy, reduced manual errors, and more efficient financial reporting processes. These improvements directly contribute to better financial performance, as evidenced by higher ROA and ROE.

Furthermore, companies should establish internal mechanisms that encourage adherence to NFRS. This could involve appointing dedicated compliance officers or investing in periodic audits to ensure that financial practices align with the required standards. By embedding these practices into their operational framework, companies can achieve long-term sustainability and enhance their attractiveness to investors and financial institutions.

Policymakers and regulatory bodies should play an active role in supporting manufacturing companies to overcome barriers related to NFRS compliance. Simplified regulatory frameworks, clear guidelines, and reduced administrative

burdens could motivate more companies to comply with these standards. Additionally, government bodies could introduce incentives such as tax breaks or subsidies for companies that invest in advanced accounting systems or meet compliance benchmarks.

Training and capacity-building programs sponsored by the government or in collaboration with industry associations could address knowledge gaps and encourage the adoption of best practices in financial reporting. Such initiatives would strengthen the overall financial reporting ecosystem in Nepal, fostering a culture of transparency and accountability that benefits the entire economy.

Educational institutions, particularly those involved in business and management programs, should update their curricula to incorporate practical training on NFRS and advanced accounting systems. By equipping students with hands-on knowledge and practical skills in modern accounting practices, these institutions can produce a workforce ready to meet industry needs and adapt to evolving financial regulations.

Collaborations between universities and professional accounting bodies can further enhance this training, ensuring that future professionals are well-prepared to contribute effectively to the financial health of manufacturing companies. Such partnerships could include joint certification programs, internships, and workshops focused on real-world applications of accounting knowledge and regulatory compliance.

The broader implications of this study suggest that an integrated approach involving the private sector, government bodies, and educational institutions is essential for fostering an environment where sound accounting practices can thrive. Enhanced accounting practices not only improve individual company performance but also contribute to economic stability by promoting transparent financial practices and building investor confidence. As Nepal's manufacturing sector continues to evolve, adopting these improvements will be crucial for driving sustainable economic growth and development.

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ii ABSTRACT Accounting practices are vital for managing financial records, ensuring transparency, and promoting accountability in business operations. For Manufacturing Companies, effective accounting practices are crucial for enhancing financial transparency, accessing financing, and improving overall business performance. In Nepal, Manufacturing Companies face challenges in adopting and implementing robust accounting systems due to limited resources, inadequate training, outdated accounting systems, and external pressures. This study investigates the factors influencing accounting practices among Manufacturing Companies in Nepal, specifically focusing on accounting knowledge, system type, compliance with NFRS. Using a descriptive and exploratory research design, data were collected from 385 respondents through structured questionnaires. Descriptive statistics were used to analyze demographic information and survey responses, while multiple linear regression analysis tested the relationships between variables. The findings reveal that accounting knowledge, accounting system type, and NFRS compliance significantly impact accounting practices in Manufacturing Companies. Enhanced accounting knowledge and the adoption of computerized systems improve financial reporting accuracy and efficiency. Compliance with NFRS promotes transparency and credibility in financial statements, driving effective practices. The study concludes that improving accounting practices is essential for enhancing the financial management capabilities of Manufacturing Companies in Nepal. Addressing challenges such as inadequate accounting knowledge and reliance on outdated systems, while leveraging factors like standardized practices and NFRS compliance, can significantly improve financial transparency, access to financing, and overall business performance. These improvements will contribute to the growth and sustainability of Manufacturing Companies in Nepal. The findings highlight the need for Manufacturing Companies to prioritize accounting education and training, adopt suitable accounting systems, and comply with financial reporting standards. Policymakers and educational institutions should support Manufacturing Companies through targeted training programs and resources to enhance accounting literacy and compliance with national and international standards. By understanding these factors, Manufacturing Companies can strengthen their financial management capabilities, iii attract investment, and contribute to sustainable economic growth and development in Nepal.

CHAPTER I INTRODUCTION 1.1 Background of study Accounting practices involve the systematic process of recording, classifying, and summarizing financial transactions to communicate a business's financial position and performance to its