

CHAPTER-1

INTRODUCTION

1.1 Background of the Study

Management accounting tools realties to the provision of appropriate information for people within the organization for helping them to make better decision. Management accounting as an accounting discipline provide essential information to every hierarchy of management for discharging its function. It is the presentation of accounting information in such a way as to assist management in the creation of policy and in the day to day operation of undertaking. It provides information to management for planning,controlling and decision making which can be done in an ordinary manner. It furnishes data and statistical information required for the managerial decision making that affects the survival and the success of the business. It provides information at periodical interval to meet the varying requirements of the different levels of management. The organizations have started adopting more sophisticated practices including target costing, activity-based costing, and balance scorecard methods in their working in order to ensure efficiency in their operations (Ittner&Larcker, 1998).

Accounting is a technique for effective planning for choosing among alternative business actions and controlling through the evaluation and interpretation of performance (Graner,2012:4).

Management accounting is a technique for effective planning for choosing among alternative business action and controlling thought the evaluation and interpretation of performance (Chowdhary,1982:4) Manufacturing companies use management accounting techniques to assess their operations. These include budgeting, variance analysis and breakeven analysis.

These methods help organizations to plan, direct and control operating costs and to achieve profitability. It is recognized that management accounting practices are important to the success of the organization (Horngren et al., 2009).

The main objective of management accounting is to help managers in overall managerial activities by providing information and helping them in planning and

decision-making. In most cooperatives firm management accounting has been strategic business partner in support in management role in decision making, planning and controlling(Hilton, 1998:6) Management accounting is concern with the accounting and fixation of responsibility.

The evaluation of further development, analysis and interpretation of data provide away to the management. In short it may be defined as the management and communication of finance and economics data for the guidance of make business decision.

The main aim of the management accounting is to help management in its function, planning, directing, controlling and areas of specialization included with the bounds of the management accounting. It supplies accounting information to the management for planning, formulating polices, controlling business operation and making decision. Among the various tools and techniques, management accounting tools have proved itself as a beneficial in every aspect of management activities from planning to decisions making and control. The main objective of the management accounting is to help managers in overall managerial activities providing roper information with in time and helping them in planning, controlling and decision making.

The main objectives of management accounting is to help manager in overall managerial activities by providing information and helping them in planning, controlling and decision making. In most corporate firms, management accounting tools helps in decision making planning and controlling(lucey,2013:15).

Management accounting helps in operational accounting system by providing necessary knowledge to management of planning and decisions making and it also helps to motivate and monitor people in organization.

During the 1950's the emphasis shifted from external users to the internal users of cost accounting data. As a result, the cost data used by management was accumulated in different manner from different sources of financial accounting. This shift in emphasis led to the emergence of the management accounting.

The concept of insurance is developed to reduce future risks. Insurance has provided itself as device that could be a safeguard against such uncertain things and unfortunate

happening. Insurance may be viewed as a cooperative device to spread the loss caused by particular risk over a number of persons who are exposed to it and who agree to insure themselves against the risk. Every risk involves the loss of one or other kind. Insurance house is growing on country. The growth and development of industrial unit rest upon the ability of insurance company to compensate risk and development of insurance company depend upon level of business activities.

The insurance has provided as a doubled weapon for socio-economic development of the nation. In one way it provides financial security against the uncertainties to the person, Industry commerce and other assets and in other way insurance business collects the scattered finance resource and invests the bulk amount of money in the productive sector, which helps for the growth of industrialization and commercialization.

Insurance is a cooperative device of distributing losses falling to individual or his family over the large number of person each bearing a nominal expenditure and felling secure against the heavy loss. Thus insurance is cooperative device to spread risk, the principle to save the loss of each member of the society, to spread risk over a number of persons who are insured against the risk.

Insurance is defined as a contract between two parties whereby one party called insurer undertakes, in exchange for fixed sum called premium, to pay the other party called insured on happening or non-happening of certain events.

Human being always wishes his present as well as future safe and secured. But modern mechanical complexities developed in course of the growth of human civilization make his/her future risky and unsafe. These all risk and unsafety is guaranteed by insurance companies.

1.2 Statement of the Problems

Nepal's insurance company is still in an early stage of development although its role is important in the industrial sector both in term of its share and growth.

The insurance sector contributes to national economy by providing employment opportunities, and by providing revenue to the government through regular

payments of tax. Therefore, insurance companies are selected in order to know the situation of practice of management accounting tools to help management in its functions; like planning, directing, controlling and area of specialization included within the bounds of management accounting.

There is the gap between the present research and the previous researches conducted on management accounting practices in Nepalese insurance companies. They were either a case study of a particular company or a comparative study of two different companies and findings of previous research were mostly based on the secondary data. The previous researches did not disclose which of the accounting tools are mostly practiced and which are not and why? Thus, to fill up these gaps the current research is conducted.

Profit doesn't just happen; profit has to be managed by the management. The management plays and manages its profit. The quality and ability of the management are often judged by the size of the profit figure at the end of the accounting period. Management accounting provides techniques to aid management function.

Lack of information, extra cost burden and cognizance about management accounting tools are the main factors causing problem in the application of management accounting tools. Lack of knowledge, lack of skilled manpower, lack of infrastructure development and extra cost burden are the main reasons behind not practicing new management accounting tools. There is lack of separate management accounting department and accounting expert. Some insurance companies still practice traditional method for evaluating investment proposal. Budget and plan is formulated by all companies according to their past events. In estimating cost and revenue for future period, companies take historical data for the base.

The study has tried to address the following research questions:

1. What are the present practices of management accounting system in selected Nepalese insurance companies?
2. To what extent are the management accounting tools applied in decision making?
3. What are the major difficulties in the application of management accounting system in selected Nepalese insurance companies?

4. Does management accounting systems impact to the organizational performance of selected Nepalese insurance companies?

1.3 Purpose of the Study

The general objective of the study is to examine the practice of management accounting tools in the selected Nepalese insurance companies. The specific objectives are:

1. To analyze the present practices of management accounting system in selected Nepalese insurance companies.
2. To examine the application of management accounting tools in decision making.
3. To examine the difficulties in practicing of management accounting systems in selected Nepalese insurance companies.
4. To analyze the impact of management accounting systems on organizational performance of selected Nepalese insurance companies.

1.4 Significance of the Study

Management accounting is an integral part of the system of management control. This study is designed to describe the different types of management accounting tools used by the Nepalese insurance companies. Besides that, this study is significant in the following ways.

1. It examines the application of management accounting tools in Nepal.
2. It explores the prospects and challenges of insurance enterprise. It can be useful to the potential investors, lenders, policy makers and decision making in Nepalese context.
3. It provides information on the application of the management accounting tools which can encourage using those tools properly in decision making of those growth companies who have used previously and who have not yet used any tools, for their better performance.
4. It provides the knowledge of management, which is necessary for planning and decision-making.

1.5 Limitations of the Study

Due to time and budget constraints, this study has been carried only in few management accounting practitioner of Nepalese insurance companies the present study has the following limitations.

1. The study has only been concerned with management accounting. It doesn't concern other aspects of the companies.
2. This study is focused only in insurance companies so the finding may not be applicable for non-insurance and other types of companies.
3. It only considers in practices of management accounting tools not implementation of those tools.
4. Time and budget constraints may limit the areas covered by the study.

1.6 Organization of the Study

The study has been designed and divided into five chapters. They are as follows:

Chapter I: Introduction

The introduction chapter contains management accounting statement of the problem, objectives of the study, Significant of the study and limitation of the study.

Chapter II: Review of Literature

The second chapter focused on review of literature. It contains the conceptual review and research review on profit planning and control area of management accounting.

Chapter III: Methodology

The third chapter deals on the methodology used in the study. It consists of research design, sources of data, data gathering procedure, research variables and data processing procedure.

Chapter IV: Result

The fourth chapter deals with presentation, analysis and interpretation of result, it consists of analysis of questionnaire, analysis with open-end opinions and major finding of the study.

Chapter V: Conclusion

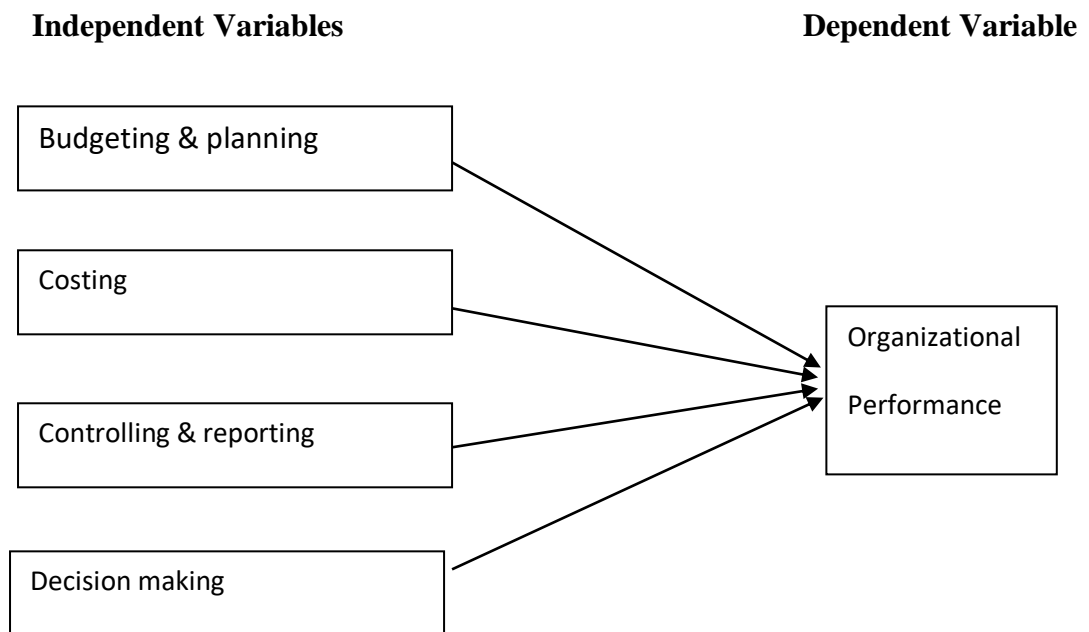
The last chapter covers conclusion it consists of discussion, conclusion and implication. Finally, references and annexes with reference to the materials used in the study is also added to the end of this study.

CHAPTER –II

LITERATURE REVIEW

2.1 Theoretical Framework

A dynamic business environment, which creates many new facts of management problem, is characterized by the presence of large scale production, research expansion, product improvement and diversification, widening of the market and cut throat competition leaving a narrow margin of profit. The existence of tremendous industrial growth marked by the increased volume, product improvement, diversification, cut throat competition etc. demanded increased operating efficiencies by modern techniques of control and supervision. Therefore, the need has been felt for budgeting and planning, costing, controlling and reporting and decision making.



Due to complex environment the old technique of management is no longer considered dependable. The modern management has realized that a slight error in policy and decision may lose a business may lose a business opportunity. Business is a risky game.

Opportunities may not come again. Therefore, performance is depended on proper budgeting & planning, costing, controlling & reporting and decision making.

2.1.1 Meaning and Definition of Management Accounting

Management Accountancy is the term used to describe the accounting methods, system and techniques which coupled with special knowledge, ability, assist management in its task of maximizing profits and minimizing losses (sunarni,2013:15). Management accounting is that branch of the accounting information system of business enterprises, which uses accounting information for planning, controlling and decision making. It uses partly financial accounting but mostly cost accounting.

Management accounting may be defined as the application of appropriate techniques in processing the historical and project financial and economic data of an organization with a view to formulate a plan of action and rational business decision.

It makes use of such techniques as budgetary control and standard costing, marginal costing, cash flow and funds-flow statement, ratio analysis, projected balance sheet and profit and loss account (Xiaosong, 2012:13).

It is stated that management accounting is the process of identifying, measuring, analysis, interpreting and communicating in pursuit of organization's goals (Plat and Hilton, 2010:21).

Management accounting is the accounting for management. It can be defined as the process of identifying, measuring, accumulating, analysis, presentation, interpretation, and communication of financial information which is used by management to plan, evaluate and control within an organization. It ensures the appropriate use of and accountability for organizations resources.

Management accounting is the presentation of accounting information to formulate the policies to be adopted by the management and its day to day activities. It helps the management to perform all its functions including planning, organization, staffing, directing and controlling. It presents to management the accounting information in the form of processed data which it collects from financial accounting (Yeshmin and Fowzia,2010.12).

Management accounting is used to describe the modern concept of accounts as a tool of management in contrast to the conventional annual or half yearly account presented

mainly for information of proprietors, the object being to so expand the financial and statistical information as to shed light on all phases of the activities of organization (Sunarni,2013:10).

Management accounting systems (MAS) first appeared in the United States during the nineteenth century. These MAS employed both simple and sophisticated accounting methods. For example, the early management accounting measures were simple but seemed to satisfy the need of business owners and managers. Simple managerial accounting procedures created during the nineteenth century were used to monitor and evaluate the output of internally directed processes.

Cost accounts were used to ascertain the direct labor and overhead costs of converting raw materials into goods. The use of sophisticated accounting procedures also dates back to the nineteenth century. According to Sunarni(2013), some companies in the USA used sophisticated sets of cost accounts as early as the first quarter of the nineteenth century. During this period, new accounting systems were devised to control and record the disbursements of cash which provided management with timely and accurate reports on expenditures. A voucher system of bookkeeping which is used for controlling and recording disbursement was also created during the nineteenth century (Wood, 1895).

In comparison, before the industrial revolution, accounting was mainly used as a record of the external relations between business units. Information for decision making and control was usually acquired from market prices (Graner, 2012). During the nineteenth century cost accounting became more than just a tool for valuating internal conversion processes. It was also used as a means to assess the performance of subordinate managers. Moreover, internal accounting systems for evaluating costs, throughput, and working capital were developed during the nineteenth century. New cost measurement techniques for analyzing productivity and linking profits to products were developed during the late nineteenth and early twentieth century.

These techniques had a substantial impact on twentieth century accounting practices. Some of these techniques provided the basis for the development of standards to monitor labour and material efficiencies and costs. This was the time of the development of scientific management that concentrated on gathering accurate information regarding the efficiency of workers engaged in specified tasks.

Furthermore, the use of variance analysis of actual costs and standard costs for the purpose of controlling operations was also developed.

During the nineteenth century scientific management experts also developed new cost accounting procedures to evaluate and control physical and financial efficiency of tasks and processes in complex machine-making firms and to assess the overall profitability of the enterprise. Around the 1900s managers started paying attention to the productivity and performance of capital. The design of DU point management accounting procedure during that period facilitated the evaluation of the performance of capital; these gave significant attention to the application of return on investment among competing economic activities and the financing of new capital requirements (Chandler & Salsbury, 2013:25).

Bjornenak & Olson (2011) also echo this observation by suggesting that “over the last two decades there has been a rich supply of management accounting innovations in the literature”. The study goes further and argue that until the 1980s, “the adoption of the discounted cash flow approach for evaluating capital investment projects has been the main innovation in management accounting practice during the past sixty years”.

They emphasize that in the period between the 1920s and 1980s no new ideas or thoughts have affected the design and the use of cost management systems.

Given the number of recently developed cost and management accounting innovations during the last two decades, at this stage the current paper suggests that the cost and management accounting lag should not be considered a consequence of a shortage of cost and management accounting innovations.

The world recession in the 1970s following the oil price shock and the increased global competition in the early 1980s threatened the western established markets. Increased competition was accompanied and underpinned by rapid technological development which affected many aspects of the industrial sector. The use, for example, of robotics and computer-controlled processes improved quality and, in many cases, reduced costs. Also development in computers, especially the emergence of personal computers, markedly changed the nature and amount of data which could be accessed by managers (Ashton et al., 2012:25).

The challenge of meeting global competition was met by introducing new management and production techniques, and at the same time controlling costs, often through reduction of waste in resource used in business processes (IFAC,1998). In many instances this was supported by employee empowerment. In this environment there is a need for management information, and decision making, to be diffused throughout the organization. The challenge for management accountants, as the primary providers of this information, is to ensure through the use of process analysis and cost management technologies that appropriate information is available to support managers and employees at all levels.

In the 1990s world-wide industry continued to face considerable uncertainty and unprecedented advances in manufacturing and information – processing technologies (Ashton et al,2012). For example, the development of the world-wide web and associated technologies led to the appearance of E-commerce. The focus of management accountants shifted to the generation or creation of value through the effective use of resources. This was to be achieved through the use of technologies which examine the drivers of customer value, shareholder value, and organizational innovation (IFA,2012).

2.1.2 A Brief Review of Management Accounting Tools

Management accounting is concerned with the provision and interpretation of information which assists management in planning, controlling, decision making and appraising performance (Lucey,2013:19).

Tools and techniques provided by management accounting to discharge functions like, planning controlling and organizing can be identified as such.

a) Cost Concept

Cost is a foregoing or sacrifice measured in monetary terms, incurred or potentially to be incurred to achieve a specific purpose (wood,2012:9).

b) Cost Classification in a Manufacturing Firm

It is the process of grouping costs according to their common characteristics. The same cost figures sometimes can be classified according to direct ways of costing depending up on the purpose to be achieved and requirement of particular concern. The important ways of classification are: (Sullivan &Steven, 2014:197-198).

- a. By nature, or element
- b. By function
- c. By direct or indirect
- d. By variability
- e. By controllability
- f. By normality
- g. By capital or revenue
- h. By time
- i. According to planning and control
- j. For managerial decision

In management accounting with the purpose of managers in managerial task, costs are classified on the following ground: (Sunarni, 2014:27).

(I) Cost relating to Income Measurement

a) Product Cost

Those cost which attach or cling to units of finished goods are caused product cost. Traditionally, in cost accounting product cost will consist of: direct materials, direct labour and a reasonable share of factory overhead (Lucey,2013:198).

b) Period Cost

Period cost do not attach to products. They are incurred for a time period and are charged to profit and loss on that period. Non-manufacturing cost, selling and general and administrative costs- are generally treated as period cost.

c) Absorbed Cost and Unabsorbed Cost

Fixed cost helps to create value in the product. The benefit of fixed cost will lapse with the passes of time and must be absorbed by the revenue of the revenue of that period.

The part of fixed cost which is absorbed during the revenue of the particular period is known as absorbed cost. Absorbed cost is those cost which have been charged to production. Cost which remains unchanged is known as unabsorbed cost (Sullivan & Steven, 2014:63).

d) Expired cost and Unexpired Cost

Expired cost is the monetary value of the resources that have already been used in producing revenue. It does not have a future revenue producing potential.

Unexpired cost which still has a potential of generating revenue in future: an unexpired cost represents the monetary value of an unused resource (Wood, 2012:19).

e) Joint Product Cost and Separable Cost

Joint product costs are the costs of a single process or a series of processes that simultaneously produce two or more products of significant sales values. Such costs are attributable to different individual products until after a certain stage of production known as the split off point. Separable cost, in contrast, refers to any cost that can be attributed exclusively and wholly to a particular product, process, division or department (Sunarni,2013:11).

(II) Cost Relating to Profit Planning

Profit planning is concerned with decision making. Cost volume profit relationship is an integral part of profit planning, that is how the cost and profits vary with sales volume. Planning deals with future. The future costs are relevant costs. The relevant cost concepts are:

a) Fix Variable and Semi-Variables Cost

Fixed costs remain constant over wide ranges of activity for a specified time period. Fixed cost thus remains constant whether activity increases or decreases within a relevant range. Variable cost varies in direct proportion to the volume of activity. Double the level of activity double will be the total variable cost (Lucey,2013:12).

Cost including both fixed and variable component is semi variable cost. Semi variables costs are known as mixed cost as they consist both of fixed costs and variable cost. The fixed component of mixed cost represents the cost of providing capacity, whereas the variable component is caused by using the capacity. The first part is not affected by the changes in activity, while the latter part is influenced by the changes in activity (Sunarni,2013:15).

b) Methods of Mixed Cost Segregation:**Two Point Method (High-Low Method)**

As the name suggest, this method makes use of two observations rather than all the observations for drawing the cost line. The two points chosen are high cost point and low cost point corresponding to some specific volume (Khan,1994:154).

$$\text{variable rate} = \frac{\text{difference in cost}}{\text{difference in production}}$$

Least Square Method

It is located by means of solving the two linear equations based on the formula for drawing a straight line regression equation. It is used to segregate mixed cost in to fixed and variable (Plat and Hilton,2010:157).

$$Y = a + bx$$

Where, y = Total cost

a = fixed elements of mixed cost

b = variable cost to volume ration

x = any measure of volume

c) Analytical Method

This method is also known as degree of variability technique because the genesis of the method lies in measuring the extent of variability of cost with volume. In other words, the technique is based on a careful analysis of each item to determine how far the cost varies with volume (Plat and Hilton,2012:158).

$$\text{Variable overheads} = (\text{Budgeted Mixed Overheads} \times \text{degree of variability})$$

d) Graphic Method (Scatter Diagram)

The graphic method of dividing mixed costs in to their fixed and variable components makes use of all relevant past data pertaining to cost-volume relationship. Under this method, the data are plotted on a scatter graph.

e) Future Cost

Future costs are relevant costs in the profit planning function of management. Those costs which are reasonably expected to be incurred at some future date as a result of a current decision are called future costs. Since they deal with a future period, they are estimated costs based on expectations (Plat and Hilton, 2010:159).

f) Budget Cost

When an operating plan involving future costs is accepted, and incorporated formally in the budget for a specific period, such costs get converted to what may be referred to as budgeted costs. Budgeted costs are an important element in that they provide the basis for measuring the important input of responsibility accounting (Plat and Hilton, 2010:160).

(III) Cost for Control**a) Responsibility Cost**

Cost which is incurred due to the responsible person of the responsibility center is responsibility cost. This helps to localize the responsible person for the cause of cost when actual cost equals budgeted cost. For e.g.: purchase manager will be responsible for the purchase cost will be accountable in case actual cost equals budgeted cost. The budgeted cost is prepared by the head of management known as manager, and over which he has control or incurs (Plat and Hilton, 2010:161).

b) Controlled and Non Controlled Cost

Cost that is responsibly subject to regulation by the manager, with whose responsibility that cost is being identified for such cost the manager of the responsibility center should be made responsible is controllable cost.

Cost that is not subject of regulation by the manager of the responsibility center is classified as non-controllable cost. For uncontrollable cost, manager or responsibility center should not be made responsible.

c) Direct and Indirect Cost

Direct cost is a cost that can be easily and conveniently traced to the particular cost object under consideration.

Indirect cost is a cost that cannot be easily and conveniently traced to the particular cost object under consideration. It is also known as common costs.

(IV) Cost of Decision Making

a) Relevant\Irrelevant Cost

Any costs that are affected by the decision are relevant cost. Irrelevant costs are those costs that are not affected by decision. Costs that remain unchanged for all the alternative courses of action are irrelevant cost. Such cost might be ignored while taking decision.

b) Differential Cost

Any cost that is present under one alternative but is absent in whole or in part under another alternative is known as differential cost. Differential cost is also known as incremental cost. Any cost which increase between the alternatives are incremental cost while which decrease is decremental cost. Both incremental and decremental costs are relevant in decision making purpose (Lucey, 2013:43).

c) Out of Pocket Cost and Sunk Cost

Out of pocket cost is that cost that involves the cash out flows due to a particular management decision and a sunk cost is a cost that has already been incurred and that cannot be changed by any decision made now or in the future. Sunk costs are always results of decision taken in the past.

d) Opportunity Cost

Opportunity cost is the potential benefit that is given up when one alternative is selected over another. It is not usually entered in the accounting records of an organization. But it is a cost that must be explicitly considered in every decision a manager makes. Virtually every alternative has some opportunity cost attached to it.

(V) Cost Allocation and Apportionment Methods

There are two popular methods of allocating the cost of service department.

a) Step Method

It provides for allocation of a departments cost to other services departments as well as to producing department in a sequential manner. The sequence begins with the department that provides that greatest amount of services to other department. After its costs have been allocation, the process continues step by ending with the department providing the least amount of services other service departments.

b) Direct Method

Direct method of cost allocation ignores the cost of services between departments and allocates all services department costs directly to producing departments (Lucey, 2013:328).

c) Product Costing Method

There are two popular methods for product costing. They are variable costing and Absorption costing.

i. Variable (Direct/Marginal) Costing

Variable costing is a method of recording and reporting cost which regards as product costs only those manufacturing costs which tend to vary directly with volume of activity. Conventional costing, it will be recalled, considers all manufacturing costs fixed as well as variable as product costs (Lucey, 2013:256).

ii. Absorption Costing

Under absorption costing fixed manufacturing cost is also included in the cost of product. It absorbs all cost necessary to production. Absorption costing signifies that fixed factory overhead is inventoried (Lucey, 2013:488)

d) Use of Variable and Absorption Costing

Variable costing is used for internal management purpose are undoubtedly recognized by all. Like many other costing techniques, it suited to the decision making needs of management. The decision making potentialities of variable costing have been appreciated by top management and executives in the area of production, marketing and finance.

Absorption costing is much more widely used than variable costing. All firms used absorption costing for external reporting purpose or tax purposes.

e) Cost-Volume-Profit Analysis

Cost- Volume-Profit Analysis is a management accounting tool to show the relationship between the ingredients of profit planning. Cost –Volume-Profit Analysis is also called as break even analysis.

Breakeven analysis is very much an extension, or even a part of marginal costing. Basically it is concerned with finding the point at which revenues and costs agree exactly –hence the term “break even”. The breakeven point is, therefore, the volume of output at which neither a profit is made nor a loss is

incurred (Lucey, 2013:252). Cost volume profit (CVP) analysis is the process of examining the relationship among revenue cost and profit for a relevant range an activity for a particular time from. It is one of the most important and powerful tools that managers have at their command in short term planning.

Planning controlling and decision making are the essential managerial functions. Cost volume profit analysis helps managers to plan for profit to control cost and make decision.

i. Profit Volume (P/V) Ration

P.V. ratio is a guide to the profitability of a business. This ratio shows the relationship between the contribution and the value of sales. Management has to aim at increasing the P.V. ratio. This may be done by reducing variable cost or by rising prices.

ii. Break Even Point

BEP is a point at which revenues and costs agree exactly. BEP is that volume of output at which neither a profit is made nor a loss is incurred. That point at which total expenses (fixed and variable) associated with a certain level of sales is exactly matched by revenues generated by the level of sales leaving no profit.

iii. Margin of Safety

“The excess of actual or budget sales over the breakeven sales is known as the margin of safety” (Plat and Hilton, 2010:57).

The margin of safety indicates the extent to which sales may fall before the firm suffers a loss. Larger the margin of safety, safer will the firm. A high margin of safety is particularly significant in times of depression when the demand for the firm’s product has been falling to low margin of safety may result for a firm which has a low contribution ratio. When both the margin of safety and P/V ratio is low, management should think of the possibilities of increasing the selling price, provided it doesn’t adversely affect the sales volume or reducing variable cost by bringing improvement in the manufacturing process (Plat and Hilton, 2010:59).

iv. Operating Leverage

In general terms, leverage may be defined as relative change in profit due to a change in sales. A high degree of leverage implies that a large change in profits occurs due to a relatively small change in sales. In

business leverage is used in two senses: i.e. financial leverage and operating leverage.

Operating leverage refers to the use of fixed costs in the operation of a firm. A firm will not have operating leverage if its ratio of fixed costs to total cost is nil. For such a firm a given change in sales would produce same percentage change in the operating profit or earnings before interest and taxes (EBIT). It would have operating leverage, and the percentage change in the operating profit –would be more for a given change in sales.

Operating leverage refers to the used of fixed costs in the operation of firm, and it accentuates fluctuations (increases or decrease) in the firms operating profit due to change is sales. Thus the degree of operating leverage (DOL) may be defined as the percentage change in operating profit (earnings before interest and taxes,EBIT) on account of change in sales.

$$DOL = \frac{\Delta EBIT}{\Delta Sales}$$

Where, Δ - Change

EBIT – Earning before interest and taxes.

$$\text{Alternatively, } DOL = \frac{\text{Contribution}}{EBIT}$$

Degree of operating leverage may be defined as the percentage change in operating profit resulting from a percentage change in sales.

f) Budgeting

Budgeting is a comprehensive plan of action prepared for achieving objectives. A budget is the detail plan outlining the acquisition and use of financial and other resource over some given time period. It represents the plan for the future expressed in formal quantitative terms. The act of preparing a budget is called budgeting. The use of budget to control is called budgeting. The use of budget to control firms activities are known as budgetary control (Plat and Hilton, 2010:62)

g) Planning Process

Planning is the continuous process. Business conditions do not remain static, they change rapidly and therefore plans should be revised and reformulated to

adapt to the changed conditions. Planning process involves the following four fundamental steps.

i. Objectives

Objectives are statements of broad and long-range desired state of the enterprise in the future. They represent purpose to which efforts of the enterprises should be focuses. They direct to motivate individual for attaining the organization goals. Long range objectives are generally the qualitative expressions of the future intentions.

ii. Goals

Goals represent the operational specifications of the broad objectives with time and quantity dimension. Goals are the quantified targets to be attained within a specified period.

iii. Strategies

Strategies lay down the foundation for attaining the objectives and goals of the enterprise. Strategies specify the ways to achieve the goals operationally.

iv. Budget

A budget or a profit is the formal expression of the firm's targets, stated in financial terms generally for one year. It is called the budget or the profit plan because it explicitly state the goals in terms of time expectation and expected financial results for each major segment of the entity (Plat and Hilton, 2010:41).

h) Elements of Budget

Budget is a comprehensive and coordinated plan, expressed in financial terms, for the operations and resources of an enterprise for some specific period in the future. The basic elements of a budget are:

a) Integrated Plan

A budget is the plan of the firm's expectations in the future. Planning involves the control and manipulation of relevant variables-controllable and non-controllable and reduces the impact of uncertainty. It makes active to influence the environment in the interest of the enterprise.

b) Financial Quantification

For, operational purposes, a budget are always quantified in financial terms. Initially the budget may be developed in terms of varieties of quantities, but finally they must be expressed in the monetary terms.

c) Operation and Resources

A budget is a mechanism to plan for the firm's all operations or activities. The two aspects of every operation are: revenue and expenses. The budget must plan for the quantify revenues and expenses related to a specific operation. Planning should not only be done for revenue and expenses, but the resources necessary to carry out operations should also be planned.

d) Time Element

Time dimension must be added to a budget. A budget is meaningful only when it is related to a specified period of time. The budget estimates will be relevant only for some specific period (Plat and Hilton, 2010:48).

e) Comprehensiveness

Budget must be in comprehensive terms i.e. all the activities and operations of an organization are included in it. Budget is prepared for each segment of an organization. Those are integrated into an overall budget for the entire organization (Plat and Hilton, 2010:47).

f) Co-ordination

Budgets are prepared for the different components of an organization so as to take care of the situations and problems of each component. The budgets for each of the components are prepared in harmony with each another. This is called coordination (Plat and Hilton. 2010:52).

i) Master Budget

Master budget is a comprehensive plan, a coordinated set of detailed financial statement of the operating plans and schedule for a short period, usually for a year. In master budget, normally consists of three types of budget.

i. Operating Budget

It relates to physical activities or operations of a firm such as sales, production, purchase, debtors' collection and creditors payment schedule.

a) Sales Budget

The sales budget is concerned with probable sales physical quantities and values for a future budget period.

The choice of method to employ for forecasting sales is influenced by a number of factors. The nature of the product, the method of distribution, the size of the business and the degree of competition exist some of the considerations (Wood, 2012:74).

Sales budget is prepared for sales forecast. A sales forecast encompasses potential sales for the entire industry as well as potential sales for the firm preparing the forecast. Factors that are considered in making sales included:

- Past experience in terms of sales volume.
- Prospective pricing policy
- Unfilled order backlogs
- Market research studies.
- General economic condition.
- Industry economic condition.
- Movement of economic indicators such as gross national product employment prices and personal income.
- Advertising and product promotion industry competition.
- Market share.

Sales results from prior years are used as a starting point in preparing a sales forecast (Wood, 2012:73)

b) Production Budget

The production or output is concerned with estimating the probable output of each product in the fourth coming budget period. Where standard products are made the problem is one of deciding how many units of each product can be made by the machines, equipment and other production facilities (Wood, 2012:80).

Production budget is a quantity budget, which lays down the quantity of units to be produced during the budget period. The main purpose of this budget is to maintain optimum balance between sales production and inventory position of the firm.

c) Purchase Budget

In the case of merchandising firm, instead of preparing production budget it would prepare a merchandise purchase budget showing the amount of goods to be purchased from its suppliers during the period.

The merchandise purchase budget is in the same basic format as the production budget, except that it shows goods to be purchased rather than goods to be produced.

d) Direct Material Budget

Material budget is prepared after the determination of production need. Sufficient raw material will have to be available to meet production needs and to provide for the desired ending raw material inventory for the budget period. Part of these raw material requirements will already exist in the form of a beginning raw material requirements will already exist in the form of a beginning raw material inventory. The remainder will have to be purchased from supplier.

e) Direct Labour Budget

It is also developed from production budget. Direct labour budget is calculated on the basis of labour hours required for budget production volume and labour hour rate for each type of labour force. For budgeted production volume the engineering and personnel department. Labour requirements are stated in total number of needed for given production volume.

f) Manufacturing Overhead Budget

It provides the schedule of the cost of production other than direct material and direct labour. All indirect cost likely to be incurred by the factory departments have to be included on it. It is the aggregate of indirect expenses of factory department.

g) Selling and Administrative Overhead Budget

Selling and administrative overhead budget contains a listing of anticipated expenses for the budget period that will be incurred in an area other than manufacturing. The budget will be made up of many. Smaller, individual budget submitted by various persons having responsibility for cost control in selling and administrative matters. If the

number of expenses items is very large. Separate budgets may be needed for the selling and administrative functions.

ii. Financial Budgets

Financial budgets are concerned with expected cash receipts/ disbursement, financial position and results of operations. The component of financial budget is mentioned below:

a) Budget Income Statement

Budget income statement is one of the key schedules in the budget process. It is the document that tells that profitable operations are anticipated to be in the forth- coming period. After it has been prepared, it stands as a benchmark against which subsequent company performance can be measured (Wood, 2012:31).

b) Cash Budget

Cash budget is a summary of the firms expected cash inflows and outflow over a projected time period. In other words, cash budget involves a projection of future cash receipt and cash disbursements over various times intervals. So it is also owed as cash receipts and cash disbursements budget. The cash budget is composed of four major sections.

- The receipt section
- The disbursement sections
- The cash excess or deficiency section.
- The financing section.

c) Budget Balance Sheet

Budget balance is a statement of assets and liabilities prepared after the preparation of functional and financial budgets. It is based on functional budgets, cash budget, projected income statement and the previous year's assets and liabilities (Plat and Hilton, 2010:26).

d) Budget Committee

A standing budget committee will usually be responsible for overall policy matters relating to the budget itself. This committee generally consists of the president vice-presidents in charge of various functions such as sales, production, purchasing and the controlling. Difficulties

and disputes between segments of the organization in matters relating to the budget are resolved by the budget committee. In addition, the budget committee approves the final budget and receives periodic reports on the progress of the company in attaining budget goals (Plat and Hilton, 2010:91).

e) Zero Based Budgeting

Zero based budgeting is a new approach to budgeting. It is defined as an “operative planning and budgeting process which requires each manager to justify his entire budget in detail from scratch and shifts the burden of proof to each manager to justify why he should spend any money at all.” This approach requires that all activities should be identified in ‘decision-packages’ which should be evaluated by systematic analysis and ranked in order of importance.

Zero based budgeting differs from traditional budgeting, in which budgets are generally initiated on an incremental basis; the managers stay with last year’s budget and simply add to it according to anticipated needs. The manager does not have to start at the ground each year and justify ongoing costs for existing programs. It is useful in many companies for improving management development, fostering innovations for better results and resolving problems in decision-making (Srinivasan, 1992:325).

f) Activity Based Budgeting

Activity based costing is a system that first accumulates the cost of each activity of an organization and then applies the costs of activities to the products, services, or other cost objects using appropriate cost drivers.

To apply activity based costing an organization must first engage in activity analysis; managers identify the major activities undertaken by each department and select a cost driver for each activity (Plat and Hilton, 2010:458).

g) Standard Costing

The word ‘standard’ means benchmark or yardstick. The standard cost is predetermined or expected cost which determines what each product or service should cost under given conditions. It is the expected cost of producing one unit.

The institute of cost and management accounts, England defines standard costing as “the preparation and use of standard costs their comparison with the actual costs, and the analysis of variances to their causes and the points of incidence”. Variance is the difference between standard and actual amount during a given period. Following steps are involved in standard costing.

- Preparation and use of standard.
- Comparison of actual costs with standard to determine the variances; and
- Investigating the variance and taking appropriate actions where necessary (Srinivasan, 1992:522).

h) Control through Standard Cost

In attempting to control costs, managers have two types of decisions to make decisions relating to prices paid and decision relating to quantities used. Managers are expected to pay the lowest possible prices, consistent with the quality of output desired, in attaining the objectives of their firms. In attaining, these objectives, managers are expected to consume the minimum quantity will lead to excessive cost and to deteriorating profit margins. Managers could personally examine every transaction that takes place to control price paid and quantity used, but this would be an inefficient use of management time. Thus, the answer to the control problem use in standard cost (Plat and Hilton, 2010:355)

i) Setting Standard Cost

It requires the combined thinking and expertise of all persons who have responsibilities over prices and quantities of inputs. The beginning point in setting standard cost is a rigorous look at past experience. The managerial accountant can be great help in this task by preparing data on the cost features prior year's activities at various levels of operations (Garrison, 1985:354). A standard for the future must be more than simply a projection of the past; however data must be adjusted and modified in terms of changing economics patterns, changing demand and supply characteristics and changing technology.

j) Analysis of Variance

Variance analysis is a control technique. The control process involves comparison of actual costs (AC) with standard costs (SC) variance represents the difference between AC and SC. They basically represent performance deviations. If AC is less than SC, the difference is referred to as unfavorable and represents a sign of inefficiency.

Control is a very significant function of management. Through control, management ensures that performance of the organization confirms to its plans and objectives. Analysis of variance is helpful in controlling the performance and achieving the profits that have been planned.

For, purpose of control, variance are classified into controllable and uncontrollable. If variance can be traced with the responsibility of a particular segment, it is said to be controllable if variance arises from causes beyond control of responsible individuals, it is said to be uncontrollable (Khan and Jain, 1993:642).

k) Decision Making

Decision making involves choosing between different courses of action. The tailoring of the data in line with the decision situations requires the application of different concepts which are not in consonance with the generally accepted accounting principles for external reporting purpose. All costs must, of course be covered in the long-run; otherwise, a firm will not survive. Nevertheless, in the short –run, some costs can be ignored. The cost concepts which are relevant to short term decision – making are opportunity cost, sunk cost, avoidable cost and incremental cost. Only cost that have bearing on the decision are applicable to the choice between alternatives decision making costs are the relevant costs, defined as the future costs that will change with the decision.

Decision Situations**I) Sales Volume Related Decision****a. Special Order**

Frequently, the opportunity arises for management to consider an order for a quantity of its regular product at a special price, when there is idle capacity,

such as offer may be attractive. If there is idle capacity, the special order is advantageous if the price amounts to more than out of pocket costs.

b. Disposing of Inventories

Pricing decision must consider the relative marketability of inventories. Due to damage or lack of demand, inventory may not be saleable through normal marketing channels or under normal operating conditions. In such cases, incremental analysis is appropriate for decision-making as all prior costs of producing inventory are sunk costs and therefore, irrelevant to the decision (Plat and Hilton, 2010:183).

c. Loss-leaders

Sometimes an item may be deliberately priced so low that the firm has to suffer loss in the expectation that additional sales will be generated which will offset the loss such sales are referred to as loss leaders (Plat and Hilton, 2010:184).

d. Sell or Further Process the Product

Short term incremental analysis also applies to sell or process further decision situation when an item of production process through various processes. It is saleable at different stages, i.e., at various physical stages of production. In deciding at what stage to sell the product; the two critical variables are: (i) identification of sunk costs, and (ii) calculation of incremental returns at various sales alternatives. All costs, whether fixed or variable, incurred before the sell or process further point should be treated as sunk and therefore, irrelevant costs. The incremental return relevant to the decision is the difference between the cost that are incurred beyond the decision point and the revenues.

If, however, the fixed resources would remain idle as a result of not processing the product further and if they could be diverted to some other use, opportunity cost would also become relevant to the decision analysis (Plat and Hilton, 2010:185).

e. Make or Buy Decision

Many firms have to choose between manufacturing certain components themselves and acquiring them from outside suppliers. Incremental analysis provides solutions to this kind of decision problems. The relevant input information is the committed/ avoidable costs if the firm has adequate idle

capacity to make the components. This is so because the firm would not be required to incur fixed costs or producing the components. If, however, there is need to enlarge the capacity of existing plant or the existing capacity of the plant is diverted for the production of the components, opportunity cost, in terms of lost contribution will be relevant to the decision analysis (Plat and Hilton, 2010:188).

f. Addition / Elimination of Product Lines / shift / Department

When a firm is divided into multiple sales outlets, product lines, divisions department (segment). It may have to evaluate their individual performance to decide whether or not to continue operations of each of these segments. The decision criterion would be the segment margin. The segment margin equals segment's contribution margin less fixed costs that are directly traceable to the segment (Plat and Hilton, 2010:180).

g. Short – term Use of Scare Resource

Incremental analysis can also be used to allocate resources that are limited in quantity. This requires that alternative courses of action be compared in a way that takes resource availability into account. The decision criterion in such a situation is the contribution margin per unit of the key factor. This will maximize the total contribution of the firm.

h. Joint Output of Common Processing Operations

A decision- situation faced by the management is whether to sell joint outputs at the split-off point or process them further. The decision criterion should be to choose the alternative which will maximize the total contribution of the various joint products to the common processing costs. As the common processing cost before the split off point are sunk costs that have already been incurred to create the joint products they are irrelevant and will be considered in decision making. The only relevant cost will be the additional common processing plan for joint products when the proportions of the outputs from the common processing costs can vary.

i. Operate or Shut Down

The decision criterion in such a situation will be based on the comparison of the shutdown losses and the losses associated with continuing operations (Plat and Hilton, 2010:186).

2.1.3. Pricing of the product and Services

Pricing decisions are decision that managers make about what to charge for the products and services they deliver. The pricing of product is not just marketing decision or a financial decision; rather it a decision touching on all aspects of firm's activities and as such of affects the entire of firm's activities and as such of affects the entire enterprise. As the prices charged on products largely determine the quantities customers are will to purchase the setting of prices dictates inflow of revenues consistently fail to cover all the costs of the firm and then in the long run, the firm cannot survive (Sunarni, 2013:199).

For pricing decision economists have their own view while accountant has their own perspective. Economic theories indicate that companies acting optimally should produce and sales units until the marginal revenue equal marginal cost the market price is the price that creates a demand for these optimal numbers of units. But economic theory of pricing based on marginal cost and revenue approach is subject to criticism.

On the ground that this model of pricing on marginal revenue and cost is not applicable to oligopolistic situation. Thus management account has different perspective regarding pricing decision. They consider cost as the key factor to pricing decision of the standard product (Sunarni, 2013:143-154).

Not all pricing decision can be approached in the way as economic theory describes. Some pricing of standard products that are sold to customers in the routine day to day conduct of business activities other pricing decision related a special order of standard or near standard products and still others related the pricing of the special products that have been taken on in an effort to fill out unused productive capacity.

The ways of pricing special products are:

- Cost Plus Pricing
- Target Cost Pricing
- Variable Cost Pricing
- Full (Absorption) Cost Pricing (Sunarni, 2013:150-157)

A) Cost Plus Pricing

Company uses various strategies to set price for their products. Demand is one side of the equation of pricing and supply is the other side. Since, revenue must cover the cost for the firm to make a profit, many companies start with cost to

determine the price of the product. Since cost is an important determinant of supply, it is known to the producer. Many companies base price on cost. Under cost base pricing method, a percentage mark-up is added to the estimated cost of product to provide a reasonable level of profit.

There are two approach of computing cost in cost plus pricing.

- Absorption approach
- Contribution approach

Under absorption approach in cost plus pricing while computing the cost both variable and fixed manufacturing overhead are taken in to consideration then add some mark up to the cost and thus arrive at target selling price.

Under contribution approach in cost plus pricing to computer the cost, only the variable manufacturing overhead are taken into consideration and then to add some markup percentage enough to cover fixed manufacturing overhead, selling and administrative overhead target selling price (Sunarni, 2013:143-146).

Under absorption approach, mark-up% is computed as such:

$$\text{Mark-up\%} = \frac{\text{Desired return on assets employed} + \text{selling and administrative expenses}}{\text{Volume in Units} \times \text{Unit Cost of Manufacture}}$$

Under contribution approach, mark-up% is computed as such

$$\text{Mark up \%} = \frac{\text{Desired return on assest emplyed} + \text{fixed cost}}{\text{Volume in Units} \times \text{Unit variable Expenses}}$$

B) Target Cost pricing

A target pricing is the estimated price for a product or service that potential customer will be willing to pay. This estimate is based on an underwriting of customers perceived value for a product and competitors responses. A target operation income per unit is the operating income that company wants to earn on each unit of a product sold. This target price leads to target cost. A target cost per unit is the estimated long run cost per unit of a product that when sold at the target price enables the company to achieve the target operation income per unit.

Subtracting the target operating income per unit from the target price desire target cost per unit.

Developing target prices and target cost required the following:

- Developing a product that satisfied the needs of potential customer.
- Choose a “target price” based on customers perceived value for the product and prices completions charge and a target operating.
- Income per unit
- Desire a target cost per unit by subtracting the operating.
- Income per unit from the target price.
- Perform value engineering to achieve target cost.

C) Variable Cost Pricing

Under variable cost pricing method, pricing of the product is determined by adding markup to the variables expenses, the conditions under which a price base down variable cost is appropriate are as follows:

- When idles capacity exists
- When order under distress conditions and
- When faced with sharp competition on particular orders a competitive bidding system.

D) Full Cost Pricing

Contrast to variable cost pricing, full cost pricing takes into account both product and period cost, reaching to the selling price. Under this approach total cost including fixed manufacturing cost is taken into account and then add markup and thus arrive at selling price (Yeshmin and Fowzia, 2010:51-57).

E) Transfer Pricing

Transfer prices are the amount charged by one segment/ division of an organization for a product or service that it supplies to another segment of the same organization. Transfer prices represent the value of goods are services furnished by a profit center to other responsibility centers within an organization.

Methods of transfer pricing

i) Market Based transfer pricing

Transfer price based on the market price /value of the product or service is known as market based transfer pricing. Under this method, the prevalent market price is adopted for the transfer of product.

ii) Cost –based Transfer pricing

Sub unit may choose a transfer price based on the cost of producing the product in question. Example includes variable manufacturing costs, manufacturing (Absorption) cost and full product costs. Full product costs include all production costs, as well as costs from other business functions such as research and development design, marketing, distribution and customer service. The cost used in cost –based transfer price can be actual costs or budgeted costs.

iii) Negotiated Transfer Pricing

Under this method, the transfer price is negotiated between the transferor and transferee units after considering all factors of supply and demand, quality and time of delivery and the price. That is, as an alternative to setting prices based on rules or formulates transfer prices could be set by negotiation between the buying and selling divisions.

iv) General Transfer Pricing

General transfer prices represent the value of goods or services furnished by a profit center to other responsibility centers within an organization. General transfer prices are the amount charged by one segment / division of an organization for a product or service that it supplies to another segment of the same organization.

2.2 Review of Related Studies:

Sharma (2002) had conducted research entitled Management accounting practices in listed companies of Nepal. He has focused his study to examine and study the practice of management accounting tools in listed companies of Nepal. Sharma's research study is based on primary data in his study he has pointed out various finding and recommendation, which are as follows.

Different types if management accounting tools which are taught in the colleges are not found applied by the listed companies of Nepal. Management accounting is to

help manage in overall managerial activities by providing information and helping in planning, controlling, and decision making.

Karki (2009) has conducted a research on “Management Accounting Practice in Joint Venture Bank of Nepal”. The data and other necessary information were collected by using primary sources and secondary sources of data. According to his research most of the commercial banks are using capital budgeting, ratio analysis and annual budgeting tools for planning, controlling and decision making and they used past trend method to make cost and revenue budget and recommended to practice zero based budgeting, market survey and statistical tools.

Bhatta (2010) has submitted the thesis on the topic of “Management Accounting Practices in Nepalese Manufacturing Companies”. The necessary data and information has been collected through primary as well as secondary sources of data.

Mr. Bhatta has pointed out the following finding in his research work.

- While examine the tools practiced by Nepalese manufacturing companies it was found that capital budgeting, cash flow, ratio analysis and annual budgeting were most practiced as management accounting tools.
- Nepalese manufacturing sector is infant stage in practicing management accounting tools. No one company has separate management accounting department and nowhere in the companies can find management accounting expert.
- Some manufacturing companies still practiced traditional methods because of lack of knowledge, Lack of skilled manpower, lack of infrastructure development and extra cost burden are the main reasons behind not practicing new management accounting tools.

Ghimire (2010) has submitted the thesis on the topic of “Management Accounting practices in Nepalese Listed Manufacturing Companies”. The necessary data and information has been collected through primary sources of data collection.

Mr.Ghimire has pointed the following findings in his research work.

- Regarding the practice of transfer price in the Nepalese manufacturing companies, it was found that 58% of the manufacturing companies practiced cost base transfer pricing, 23% of manufacturing companies practiced market based transfer pricing whereas 5% of the
- Manufacturing companies practiced negotiated transfer price for their product.

- Regarding the decision- making and control process followed by Nepalese manufacturing firm, it was found that 69% of Nepalese manufacturing companies practiced control during the work period. 18% practiced control before work has to be started, where as 5% practiced controls after finishing the work.
- Regarding the cost and revenue estimation practice of Nepalese manufacturing firm, it was found that 78% of the manufacturing companies practiced historical trend for cost and revenue estimation while 18% manufacturing firm practiced market survey. Whereas, no one companies practiced zero based budgeting and judgment analysis for their cost and revenue estimation purpose.
- Regarding the area where management accounting tools is effective in practicing management accounting tools; 29% said marketing area is effective and 11% said financial area is effective.
- Regarding the practice for the issue of inventors in Nepalese manufacturing companies, it was found that 68% manufacturing companies practiced FIFO method while, 18% practiced weighted average and only 5% practiced specified items by law for the issue of inventory.

Yeshmin and Fowzia (2010) had emphasized on the label of usage of fourteen management accounting techniques in managerial performance by banking and service industries of Bangladesh.

Pandey (2011) has submitted the thesis on the topic of “A Survey of Management Accounting Practices in the Nepalese Banking and Financial Companies.” The necessary data and information has been collected through primary sources of data collection.

Mr.Pandey has pointed the following finding in his research work.

- Regarding the tools practiced in the Nepalese banking and financial companies for decision making, planning and controlling it was found that annual budgeting, capital budgeting, cash flow, ratio analysis were the major management accounting tools in carrying out operational activities.

- Similarly, zero based budgeting, standard costing, activity based budgeting, responsibility accounting were almost unused tools in Nepalese banking and financial companies.
- In case of long term investment decision making, Nepalese banking and financial companies mostly practiced pay period and net present value technique. Almost 84% of those companies practiced these tools while making capital budgeting decision.
- While examining the budget preparation system, almost 60% of the companies prepared the budget. In 32% of those companies, chief of finance division prepared the budget. Similarly, in 24% of the companies, separate planning department prepared the budget, whereas in 12% of those companies, the budget was prepared by outside experts.
- While examining different banking and financial companies, 88% of those practicing judgmental analysis, 36% of those companies were practicing judgmental analysis and 20% of those companies were practicing market survey technique to estimate cost and revenue.

Regarding the role of management accounting tools, out of total Nepalese banking and financial companies, 64% of those companies accepted management accounting tools as a voluntary role and 36% among them were expressed their view as not applicable for their companies. None of the companies expressed their opinion for record keeping role of management.

Hilton and Platt (2011) stated that management accounting is the process of identifying measuring, analyzing, and interpreting and communication information in pursuit of organization's goal. Management accounting is integral part of management process. The study also stated that management accountants are important strategies partners in an organization's domestic and international management teams. Usually, the larger the organization is the greater is management's need for information. The term management accounting is consisting of two wards 'management' and 'accounting'.

Gnawail (2012) was conducted research on "management accounting practices in private hospital in Nepal". According to his research there was still gap between the theory and practical accounting tools in the private hospitals. And he also stated that the main problem of not applying management accounting tools was cost burden.

XiaosongZheng (2012) had conducted a research on the topic "Management accounting practices in china: current key problem and solutions" Social research 2012 4(29), 91-98. He stated that a management accounting system has been developing in china in the last three decades. In recent year china is quickly stepping into a market –oriented economy which requires many facets of its economy and society to be changed. Management accounting is one of the fields currently undergoing a rapid change.

This paper introduces management accounting practices in China. The focus is laid on management accounting practices in small and medium size enterprises. It further discusses a few key factors and problems affecting the adoption and application of management accounting system in China. For each of key problem suggested solutions are presented and discussed. It is foreseen that the quality of management accounting practices will be significantly improved in the near future in line with China's privatization and the open market process.

Sunarni (2013) had conducted a research on the topic "Management accounting practices and Role of management account: Evidence from banking companies' through Yohyakarat, Indonesia." He stated that management accounting practices in banking companies were dominated by traditional management accounting practices. He also stated that, the most important management accounting practices was profit improvement for medium and budgeting for scale companies but budgeting was most important management accounting tools for both two groups.

Sullivan & Steven (2014) studied on Economics: Principles in Action, Upper Saddle River. The study had defined standard cost as "a predetermined cost which is calculated from management's standards of efficient operations and the relevant necessary expenditure." They are predetermined costs on technical estimate of material labor and overhead for a selected period of time and for a prescribed set of working conditions. In other words, a standard cost is a planned cost for a unit of product or service rendered. Standard costing is a system of cost ascertainment and control in which predetermined standard costs and income for products and operations are set and periodically compared with actual costs incurred and income generated in order to establish any variances. Standard costing is a management control technique for every activity. It is not only useful for cost control purposes but is also helpful in

production planning and policy formulation. It allows management by exception. Standard costing in preparation of standard costs and applying them to measure the variations from standard costs and analyzing the causes of variations with a view to maintain maximum efficiency in production. This technique is complementary to the actual costing can be historical costing system. The system of standard costing can be used in all types of industries but it is more commonly used in industries production standardized products, which are repetitive nature. Standard costing systems are very expensive to develop and maintain; they were also designed for traditional manufacturing systems in which direct labor and direct materials are the most important costs, recent years have seen a decline in the use of such systems as companies become less labor intensive.

Ahmad and Leftsi (2014) conducted an exploratory study on "The level of sophistication of management accounting practice in Lybian banking companies." According to their study, most of Lybian banking were rely haveily on traditional management accounting techniques, the adaption rate of recently developed or advance tools were rather low, slow, and similar to other developing countries. It also shows that sophistication level of management accounting was in first and second stage.

Duwadi (2014) had submitted a thesis on the topic "A study on Management Accounting Practices in Joint Venture Banks." For this study Duwadi collected the data from six joint venture banks with the head office located in Kathmandu valley. Data required for the study was based on primary data. Information was collected through schedule questionnaire and discussion. The main objective of the study was:

- To study and analysis the practices of management accounting tools being used in joint venture banks.
- To identify the areas where management accounting tools can be applied.
- To study the method used in evaluation of investment proposals and the types of securities accepted in providing loan.
- To make recommendations to overcome from the difficulties in applying management accounting tools.

The major findings of the research work were:

Almost 100% of banks break even analysis and responsibility accounting were practiced about 83% and 33% respectively whereas the tools like activity base

costing, standard costing, long term and zero based budgeting were unusual in joint venture banks. While preparing the budget there was no practice of taking consultancy service. The committee and the chief of finance division prepared the budget. While evaluation loan proposal all the JVB focused on valuation of assets, propose of loan, analysis of customer back ground with customer social status and the chances of loan recovery. JVBs mostly accepted the securities like land and banking, government bonds, treasury bills, shares and debentures, gold and other valuable assets. Some remarkable recommendations of the research work were: Techniques like high-low point method, average method and analysis method should be used to segregate costs. Joint venture needs to use responsibility accounting for the cost control and performance Evaluation. Use of outside expert should be used by JVBs for the budget preparation. JVBs were not found practicing cash budget. So, they should practice cash budget which gives all details about sources and uses of cash.

Baral (2014) had conducted a research entitled "Management Accounting Practice in Nepalese Insurance Companies." He has focused his study to study and examine the contemporary practice of management accounting in Nepalese Insurance Companies. Baral's research is based on primary data. In his study, 17 Nepalese Insurance Companies are included. He has pointed out various findings are recommendation in his study. Of them, some remarkable findings are: Now management accounting techniques like Zero-based budgeting and Activity Based Costing are recommended to use instead of traditional techniques it is recommended that banks should create an atmosphere of interaction between the academicians and the banks. The banks can be benefited from academicians acknowledge about new tools and techniques of management accounting. Management Accounting Information System (MAIS) should be maintained properly for the better application of management accounting tools.

Shrestha (2015) had conducted a research on the topic "Management Accounting Practices in the Public Financial Sector in Nepal." The main objective of this study was the practice of MA tools in financial sectors in Nepal. His Finding from the study was that almost all the Nepalese public financial sectors practices operational budget where as some prepared master budget and most of the PFS practice cash and program budget.

2.3 Research Gap

There is a gap between the present research and previous researches. Previous researches conducted on profit planning and control and cost volume profit analysis, converted only the budgeting practices and measuring managerial efficiency. Thus to fill of those gaps the current research has been conducted on insurance companies in Nepal.

There is the gap between the present research and the previous researches conducted on management accounting practices in Nepalese companies. They were either a case study of a particular company or a comparative study of two different companies. The findings of the previous researches were mostly based on the secondary data. The previous researches did not disclose which of the accounting tools are mostly practiced and which are not and why? The previous researchers had not made the theoretical framework of management accounting system with organizational performance. They also did not show the relationship between management performances. They also did not show the relationship between management accounting systems with organizational performance. Thus, to fill up these gaps the current research is conducted. This research is a survey type of research. It is completely based on the primary sources of data and even secondary data too. It examines the current practice of management accounting tools. In the listed companies of Nepal, it has disclosed the reason about the tools which are not practicing by the companies and has suggested applying new tools. Market survey in managerial activities of planning, controlling and decision making probably the new research study made in present study. Thus, present study will be fruitful to those interested person, parties, scholars, professor, student, businessmen and government for academically as well as policy perspective.

CHAPTER-III

METHODOLOGY

This research is conducted with the view to examine the present practice of management accounting tools in selected Nepalese Insurances Companies with the help of different types of questions.

3.1. Research Design

This research study has attempted to examine and evaluate the present practices of management accounting systems, and it has also tried to shows the relationship between management accounting systems on organizational performance. Hence, a correlation, descriptive and survey research design have been used.

3.2. Population and Sample

The research work is designed to study the present practice of management accounting tools by Nepalese Insurances Companies. The total 39 Insurance Companies in Nepal whereas, 18 life insurance, 20 non-life insurance and 1 reinsurance company, (copyright@ BEEMASAMITI- Insurance Regulatory Authority of Nepal, all rights Reserved) are the population of the study. Among them the companies which are in existence and head office located in Kathmandu valley has been considered as the target population for the study. Out of them, 12 (30.77%) companies have been chosen for the study purpose using judgmental sampling.

| Total number Insurance companies | Number of Responding companies | Rate of respondents (%) |
|-------------------------------------|-----------------------------------|----------------------------|
| 39 | 12 | 30.77 |

Source: Field Survey, 2018

3.3. Nature and Sources of Data

To fulfill the objective of this study primary data have been used. Primary data has been collected through questionnaire. They are classified and tabulated in the required from.

3.4. Research Variables

This research study has tried to show the present practices of management accounting systems in selected Nepalese insurance companies. It has also tried to show the

impact of management accounting systems on organizational performance. Hence, budgeting and planning, costing, controlling and reporting. Decision making and organizational performance are the major research variables of this study.

3.5. Data Processing Procedure

Data collected information from questionnaires was in raw form. The data are tabulated into various tables according to the subject requirements. The data has been processed using the sophisticated SPSS programme.

3.6. Data Analysis Procedure

Data collected from various sources has been managed, analyzed and presented in proper tables and formats. Such tables and formats has been interpreted and explained as necessary. Management accounting tools such as cost volume profit analysis, budgeting, standard costing, ratio analysis, capital budgeting, activity based budgeting, zero based budgeting and pricing techniques are also used as research variable.

CHAPTER - IV

RESULTS

This chapter presents data and analyzes them by using appropriate statistical methods. The first part of the chapter contains the analysis of primary data and major findings.

4.1. Practice of management accounting tools in selected Nepalese insurance companies

Management accounting is an integral part of management concerned with identifying, presenting and interpreting information used for formulating strategy, planning and control activities. It is primarily concerned with data gathering, analyzing, processing, interpreting and communicating the resulting information for use within the organization. So that management can more effectively plan, make decisions and control operations.

The basis objective of the study is to examine the present practice of management accounting tools in selected Nepalese insurance companies and to identify the area where management tools and accounting tools and accounting tools could be applied to strengthen the company.

Table 4.1: Practitioner of management accounting tools in the selected Nepalese insurance companies

| S. N | Tools | Number of respondents | Number of practitioner | Percent |
|------|--|-----------------------|------------------------|---------|
| 1 | Cost segregation into fixed and variable | 12 | 10 | 83.33 |
| 2 | Break even analysis | 12 | 6 | 50 |
| 3 | Standard costing | 12 | 9 | 75 |
| 4 | Long term budgeting | 12 | 10 | 83.33 |
| 5 | Short term budgeting | 12 | 12 | 100 |
| 6 | Responsibility accounting | 12 | 5 | 41.67 |
| 7 | Capital budgeting | 12 | 8 | 66.67 |
| 8 | Ratio analysis | 12 | 12 | 100 |
| 9 | Cash flow statement | 12 | 12 | 100 |
| 10 | Activity based costing | 12 | 2 | 16.6 |

Source: Field Survey, 2018

Table 4.1 show that 100% of the selected Nepalese insurance companies are practicing cash flow, ratio analysis and short term budgeting. There after they use cost segregation into fixed and variable, long term budgeting are practice (83.33%), standard costing (75%), capital budgeting (66.67%), break even analysis (50%), responsibility accounting (41.67%), activities based costing (16.6%). Responsibility accounting, activities based costing are not too much in practices rather than other management accounting tools.

4.1.1 Practicing of capital budgeting

Table 4.2: Practice of Capital Budgeting For Making Long Term Investment Decision

| S.N | Tools | Number of Respondent | Number of practitioner | Percent |
|-----|------------------------------|----------------------|------------------------|---------|
| 1 | Payback period(PBP) | 12 | 4 | 33.3 |
| 2 | Average rate of return (ARR) | 12 | 5 | 41.7 |
| 3 | Net present value (NPV) | 12 | 2 | 16.7 |
| 4 | Internal rate of return(IRR) | 12 | - | - |
| 5 | No response | 12 | 1 | 8.33 |

Source: Field Survey, 2018

Table 4.2 shows that (41.7%) of the selected Nepalese insurance companies are practicing (ARR). There after they use payback period (33.3%), net present value (16.7%). From the above table it is no one is practicing internal rate of return (IRR). Therefore, from the above table it is concluded that average rate of return (ARR) is the most practiced tools by the selected Nepalese insurance companies in comparison of (PBP), (NPV) for long term capital budgeting or investment decisions.

Table 4.3: Budget practiced by the selected Nepalese Insurance Companies

| S.N | Tools | Number of respondent | Number of practitioner | Percent |
|-----|-----------------------|----------------------|------------------------|---------|
| 1 | Cash budget | 12 | 3 | 25 |
| 2 | Operational budget | 12 | 2 | 16.7 |
| 3 | Overall master budget | 12 | 6 | 50 |
| 4 | Other | 12 | 1 | 8.3 |

Source: Field Survey, 2018

From Table 4.3, It was found that (50%) of the selected Nepalese Insurance Companies are practicing overall master budget (25%) are practicing cash budget, (16.7%) are practicing operational budget and (8.3%) are only practicing other's budget. So it can be said that overall master budget is mostly practicing tools by the selected Nepalese insurance companies for overall future planning revenue planning, cost planning and profit planning.

4.1.2 Tools Practiced by the selected Nepalese Insurance Companies

Table 4.4: Tools Practiced by the selected Nepalese Insurance Companies

| S.N | Tools | Number of respondent | Number of practitioner | Percent |
|-----|------------------------------------|----------------------|------------------------|---------|
| 1 | Profit or loss made by the company | 12 | 7 | 58.3 |
| 2 | Budgetary control | 12 | 3 | 25 |
| 3 | Standard costing | 12 | 2 | 16.7 |
| 4 | Breakeven point | 12 | - | - |

Source: Field Survey, 2018

Table 4.4 shows that the tools practiced by the selected Nepalese Insurance Companies for measuring and controlling overall performance profit and loss made by the company (58.3%), budgetary control (25%) and (16.7%) are practicing standard costing. It is concluded that the selected Nepalese Insurance Companies take their decision and evaluate their organizational performances on the basis of profit and loss account.

Table 4.5: Practice of Pricing Decision in Selected Nepalese Insurance Companies

| S.N | Tools /Techniques | Number of respondent | Number of practitioner | Percent |
|-----|-----------------------|----------------------|------------------------|---------|
| 1 | Cost plus pricing | 12 | 1 | 8.3 |
| 2 | Target return pricing | 12 | 4 | 33.3 |
| 3 | Going rate pricing | 12 | - | - |
| 4 | Breakeven point | 12 | 5 | 41.7 |

Source: Field Survey, 2018

Table 4.5 shows that the technique practiced by the selected Nepalese Insurance Companies for pricing of the product and service. From the above table it is cleared that (41.7%) of the companies are practicing breakeven point. There after (33.3%) are target return pricing, (8.3%) are only cost plus pricing and (16.7%) are not practicing any pricing techniques for pricing decisions. Therefore, from the above table it is concluded that breakeven point techniques are widely used by selected Nepalese Insurance Companies.

4.1.3 Practices of Joint Cost Allocation

Table 4.6: Practice of Joint Cost Allocation in Selected Nepalese Insurance Companies

| S.N | Tools | Number of respondent | Number of practitioner | Percent |
|-----|-------------------------------------|----------------------|------------------------|---------|
| 1 | Unit or product methods | 12 | 1 | 8.3 |
| 2 | Sales value method (monetary value) | 12 | 4 | 33.3 |
| 3 | Other | 12 | 3 | 25 |
| 4 | No response | 12 | 4 | 33.3 |

Source: Field Survey, 2018

Table 4.6 shows that 33.3% companies are practicing sales value method for allocation of joint cost tools. There after (8.3%) are practicing unit or production methods and (25%) of the selected Nepalese Insurance Companies have their own methods for allocation of joint cost, such as ratio method department wise method etc. Moreover 33.3% does not give any response to the question. It is concluded that the selected Nepalese Insurance Companies are mostly using their sales value methods.

Table 4.7: Transfer Pricing Practiced by the Selected Nepalese Insurance Companies

| S.N | Techniques | Number of respondent | Number of practitioner | percent |
|-----|--------------------|----------------------|------------------------|---------|
| 1 | Marked based price | 12 | 2 | 16.7 |
| 2 | Cost based price | 12 | 2 | 16.7 |
| 3 | Negotiated | 12 | 4 | 33.3 |
| 4 | Other | 12 | - | - |

Source: Field Survey, 2018

Table 4.7 shows that (33.3%) of selected Nepalese Insurance Companies are practicing negotiated and (16.7%) are practicing their market based price and cost based price. (33.3%) are not practicing the above transfer pricing techniques. The study concluded that cost based pricing and their own methods of pricing are mostly practiced by selected Nepalese Insurance Companies.

4.1.4 Practice of Decision-Making and Control Process

Table 4.8: Practices of Decision Making and Control process in Selected Nepalese Insurance Companies

| S.N | Methods | Number of respondent | Number of practitioner | Percent |
|-----|-------------------------------------|----------------------|------------------------|---------|
| 1 | Control before work has to be start | 12 | 6 | 50 |
| 2 | Control during the work period | 12 | 5 | 41.7 |
| 3 | Control after finished the work | 12 | 1 | 8.3 |

Source: Field Survey, 2018

From the table 4.8 the selected Nepalese Insurance Companies are practicing control before work has to be start is practicing (50%). Whereas control during the work period (41.7%) and control after finished the work is (8.3%). The study is concluded that control before work has to be start is mostly practiced techniques for decision making and control process such as cost, quality risk and uncertainty etc. in selected Nepalese Insurance Companies.

Table 4.9: Cost and Revenue Estimation Practiced by the Selected Nepalese Insurance Companies

| S.N | Methods | Number of respondent | Number of practitioner | Percent |
|-----|---------------------|----------------------|------------------------|---------|
| 1 | Historical base | 12 | 7 | 58.3 |
| 2 | Zero base budgeting | 12 | - | - |
| 3 | Market survey | 12 | 2 | 16.7 |
| 4 | Judgmental analysis | 12 | 3 | 25 |

Source: Field Survey, 2018

Table 4.9 shows that cost and revenue estimated practiced by the selected Nepalese Insurance Companies. The (58.3%) of the selected Nepalese Insurance Companies are practicing historical base, (25%) are practicing judgmental analysis and (16.7%) are

practicing market survey. No companies has practiced zero base budgeting for their cost and revenue estimation purpose. It is concluded that the selected Nepalese Insurance Companies are mostly practicing traditional methods of management accounting as far as new approaches of management accounting tools or techniques.

4.1.5: Problem Faced by the Selected Nepalese Insurance Companies in Implementation of Management Accounting Tools

Table 4.10: Problems in Implementation of Management Accounting Tools

| S.N | Problems | Number of respondent | Number of practitioner | Percent |
|-----|-----------------------|----------------------|------------------------|---------|
| 1 | Manpower problem | 12 | 3 | 25 |
| 2 | Financial problem | 12 | 1 | 8.3 |
| 3 | Technical problem | 12 | 3 | 25 |
| 4 | Lack of proper policy | 12 | 5 | 41.7 |

Source: Field Survey, 2018

From the table 4.10, the present problems faced in implementation of management accounting system in selected Nepalese Insurance Companies are lack of proper policy (41.7%), manpower problem and technical problem are same i.e. (25%), and financial problem (8.3%). It is concluded that lack of proper policy and lack of efficient manpower are the major problems in selected Nepalese Insurance Companies for implementation of management accounting systems.

4.1.6 Problems Faced by the Selected Nepalese Insurance Companies in Decision Making

Table 4.11: Problem Faced by the Selected Nepalese Insurance Companies in Decision Making

| S.N | Problem | Number of respondent | Number of practitioner | Percent |
|-----|----------------------|----------------------|------------------------|---------|
| 1 | Lack of knowledge | 12 | 3 | 25 |
| 2 | Undefined objectives | 12 | 4 | 33.3 |
| 3 | Infrastructure | 12 | 2 | 16.7 |
| 5 | Skilled Manpower | 12 | 3 | 25 |

Source: Field Survey, 2018

Table 4.11 show that regarding the present problems faced by selected Nepalese Insurance Companies in decision making process majority of them (33.3%) are facing the problem of undefined objective (25%) lack of knowledge and skilled manpower are same and (16.7%) infrastructure problems. The study concluded that undefined objectives are major problem faced by selected Nepalese Insurance Companies in decision making process.

Table 4.12: Area Where Management Accounting Tools is Effective in Practice to Make Strength of the Companies

| S.N | Area | Number of respondent | Number of practitioner | Percent |
|-----|------------------|----------------------|------------------------|---------|
| 1 | Production area | 12 | 3 | 25 |
| 2 | Financial | 12 | 2 | 16.7 |
| 3 | Marketing | 12 | 6 | 50 |
| 4 | Skilled manpower | 12 | - | - |

Source: Field Survey, 2018

Table 4.12 shows the area where management accounting tools is effective in practice to make strength of the companies. The response in marketing are (50%) followed production area (25%) and financial area (16.7%). The study concluded that marketing and production area are the major area where management accounting tools is effective is selected Nepalese Insurance Companies.

Table 4.13: Practicing for Issuing of Inventory by the Selected Nepalese Insurance Companies

| S.N | Methods | Respondents | Practitioner | Percent |
|-----|---------------------------|-------------|--------------|---------|
| 1 | Last in first out (LIFO) | 12 | 3 | 25 |
| 2 | First in first out (FIFO) | 12 | 1 | 8.3 |
| 3 | Weighted average | 12 | - | - |
| 4 | Specific field | 12 | - | - |

Source: Field Survey, 2018

From the table 4.13 it is cleared that majority of selected Insurance Companies (66.7%) are not practicing any of above method for issuing of inventory. Only (25%) of companies are practicing LIFO method and (8.3%) companies are practicing FIFO

methods for issuing of inventory. It is concluded that there are not issuing and purchasing of inventory in Insurance Companies

4.1.7 Difficulties for Applying of Management Accounting Tools in Selected Nepalese Insurance Companies.

Table 4.14: Difficulties for Applying Management Accounting Tools in Selected Nepalese Insurance Companies.

| S.N | Difficulties | Number of respondent | Number of practitioner | Percent |
|-----|---------------------|----------------------|------------------------|---------|
| 1 | Manpower problem | 12 | 5 | 41.7 |
| 2 | Financial problem | 12 | - | - |
| 3 | Infrastructure | 12 | 2 | 16.7 |
| 4 | Undefined objective | 12 | 5 | 41.7 |

Source: Field survey, 2018

As regarded to difficulties for applying of management accounting system in selected Nepalese Insurance Companies majority of Insurance Companies i.e. (41.7%) are facing both manpower problem and undefined objectives whereas (16.7%) are facing infrastructure. Hence manpower problem and undefined objectives are the great issue for management accounting system in selected Nepalese Insurance Companies.

4.1.8 Impact of Management Accounting System on Organizational Performance

Table 4.15: Response of the Respondents towards Management Accounting Systems on Organizational Performance

| Statements | | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|-----------------------------------|---|-------------------|----------|---------|---------|----------------|
| | | 1 | 2 | 3 | 4 | 5 |
| (a) Budgeting and planning | | | | | | |
| i. | Proper budgeting and planning helps to maximize the profit and minimize the risk and uncertainty. | 1(8.3) | - | - | 3(25) | 8(66.7) |
| ii. | Efficiency in workplace can be made by proper budgeting and planning. | - | 2(16.7) | - | 7(58.3) | 3(25) |
| iii. | Proper budgeting and planning helps to maintain corporate governance. | 1(8.3) | 1(8.3) | 4(33.3) | 4(33.3) | 2(16.7) |
| iv. | Budgeting and planning helps to take long term and short term investment decision. | - | 2(16.7) | 1(8.3) | 3(25) | 6(50) |
| v. | Budgeting and planning helps to use optimal resources and control the economic activities. | - | - | 5(41.7) | 4(33.3) | 3(25) |
| (b) Costing | | | | | | |
| i. | Classification of cost | - | 1(8.3) | 3(25) | 4(33.3) | 4(33.3) |

| | | | | | | |
|--------------------------------------|---|--------|---------|---------|---------|---------|
| | helps to identify fixed cost, variable cost and semi variable cost. | | | | | |
| ii. | Effective costing control over wastage and loss of material during production. | - | 1(8.3) | 5(41.7) | 4(33.3) | 2(16.7) |
| iii. | Costing helps to ascertain the profitability of different product, jobs or work orders. | - | 3(25) | 4(33.3) | 4(33.3) | 1(8.3) |
| iv. | Costing helps to predict total cost and sales revenue at any activity. | - | 2(16.7) | 2(16.7) | 7(58.3) | 1(8.3) |
| v. | Costing provide reliable information and statistical data for framing the future plan and policies. | - | - | 5(41.7) | 5(41.7) | 2(16.7) |
| (c) Controlling and reporting | | | | | | |
| i. | Controlling and reporting helps to maximize the profit and minimized the extra burden cost. | - | 3(25) | 2(16.7) | 5(41.7) | 2(16.7) |
| ii. | Controlling and reporting system adjusts to changes in the environment. | - | 2(16.7) | 5(41.7) | 4(33.3) | 1(8.3) |
| iii. | Controlling ensure that proper utilization of budget and planning. | - | 1(8.3) | 1(8.3) | 5(41.7) | 5(41.7) |
| iv. | Controlling of cost helps to grow business activities. | 1(8.3) | 2(16.7) | 3(25) | 3(25) | 3(25) |

| | | | | | | |
|--|--|--------|---------|---------|----------|---------|
| v. | Monitoring of activities and feedback are provided by controlling and reporting. | - | 2(16.7) | 1(8.3) | 7(58.3) | 2(16.7) |
| (d) Decision making | | | | | | |
| i. | Cost can be minimized and profit can be maximized through effective decision making. | - | 1(8.3) | - | 6(50) | 5(41.7) |
| ii. | Decision making helps to optimal use of available resources and enhance future activities. | - | - | - | 10(83.3) | 2(16.7) |
| iii. | Effectiveness and efficiency of the organization depends upon good decision making. | - | 1(8.3) | 1(8.3) | 5(41.7) | 5(41.7) |
| iv. | Decision making helps to develop of optimal products mix. | - | 1(8.3) | 2(16.7) | 8(66.7) | 1(8.3) |
| v. | Decision making helps to motivate the different stakeholders. | - | 1(8.3) | 3(25) | 6(50) | 2(16.7) |
| (e) Organizational performance. | | | | | | |
| i. | Management accounting system has helped to increase the productivity. | 1(8.3) | - | 5(41.7) | 5(41.7) | 1(8.3) |
| ii. | Management accounting system has helped to increase profitability. | 1(8.3) | - | 3(25) | 7(58.3) | 1(8.3) |
| iii. | Management accounting | 1(8.3) | - | 4(33.3) | 7(58.3) | - |

| | | | | | | |
|-----|--|--------|---------|---------|-------|--------|
| | system has helped to increase ROL/ROE and EPS. | | | | | |
| iv. | Management accounting system helps to motivate and monitor people in organization. | 1(8.3) | 2(16.7) | 5(41.7) | 3(25) | 1(8.3) |
| v. | Management accounting system helps to take competitive advantage over competitor. | 1(8.3) | - | 2(16.7) | 6(50) | 3(25) |

Source: Field Survey, 2018

Value in parenthesis indicates percentage.

The following values have been calculated from above table 4.15 using SPSS model.

Table 4.16: Model Summary

| Model | Correlation (R) | Adjusted R Square | Sig. F Change |
|-------|-----------------|-------------------|---------------|
| 1 | 0.719 | 0.242 | 0.219 |

Predictors: (constant), Decision making, Budgeting and Planning, Controlling and Reporting, Costing.

- 1) The value of correlation is (0.719) which is caused to (+1). It means there is high degree of positive correlation between dependent variables Organizational performance, and the joint effect of independent variables budgeting and planning, Costing, Controlling and reporting and Decision making on dependent variable Organizational performance.
- 2) The value of adjusted R Square is (0.242).It means 24.2% of total variation on organizational performance is explained by the variables Budgeting and planning, Costing, Controlling and reporting and Decision making and the remaining 75.8% by the other variables.
- 3) The value of sig F change is (0.219). It means the value of sig. F change is very low. Thus the degree of correctness is very high. It is concluded that 78.1% correct decision has been made.

The following vales have been calculated from above table 4.15 using SPSS model.

Table 4.17: Coefficients

| Model | Unstandardized Coefficient (B) | Collinearity Statistics Variance inflation Factors (VIF) |
|---------------------------|---------------------------------------|---|
| Constant | 6.253 | |
| Budgeting and planning | -0.351 | 2.487 |
| Costing | 0.079 | 2.614 |
| Controlling and reporting | 0.866 | 1.659 |
| Decision making | -1.229 | 1.332 |

Source: Field Survey, 2018

Dependent variable: Organizational performance.

1. When budgeting and planning change by (1%) then Organizational performance has changed by (-0.0351%). It means that there is negative relationship between Organizational performance with budgeting and planning. It is concluded that budgeting and planning has no effect the organizational performance of the selected Nepalese Insurance Companies.
2. When costing change by (1%) then organizational performance of the selected Nepalese Insurance Companies has changed by (0.079%). It means that there is positive relationship between Organizational performance and Costing. It is concluded that proper Costing has helped to increase the Organizational performance of the selected Nepalese Insurance Companies.
3. When Controlling and reporting change by (1%) then Organizational performance has changed by (0.866%). It means that if controlling and reporting increase by (1%) then organizational performance of selected Nepalese Insurance Companies has increase by (0.866%). It is concluded that there is positive relationship between Organizational performance with Controlling and reporting.

4. When decision making variable increase by (1%) then Organizational performance of the selected Nepalese Insurance Companies has changed by (-1.229%). It means that if Decision making increases by (1%) then Organizational performance has decrease by (1.229%) and vice- versa.
5. The value of variance inflation factor (VIF) of independent variables Budgeting and planning is (2.487), Costing is (2.164), Controlling and reporting is (1.659) and Decision making is (1.332). The value of each variable is less than (12) thus it indicates that there is significant positive contribution in overall Organizational performance.

4.2 Major Finding of the Study

Based on the above analysis, the major findings are follows:

1. Regarding the practice of management accounting tools Cash flow, Ratio analysis and Short term budgeting are mostly practiced tools in selected Nepalese Insurance Companies. But large numbers of selected Nepalese Insurance Companies are practicing Cost segregation, Long term budgeting, Standard costing, Capital budgeting. Whereas Break even analysis, Responsibility accounting and Activity based costing are less practiced tools. The main reason behind not practicing too much these new management accounting tools are lack of knowledge, lack of skilled manpower, lack of resources, lack of proper policy and separate management depart.
2. Regarding the practice of capital budgeting tools in the selected Nepalese Insurance Companies, from the study it was found that ARR is mostly practiced tools i.e. (41.7%). While PBP, NPV and IRR are the less practiced tools for long term investment decision.
3. As regards to type of budget Nepalese Insurance Companies practice 50% of the Overall master budget, (25%) are practicing Cash budget, (16.7%) are practicing operational budget for operating activities, and (8.3%) are only practicing others. Thus it is cleared that overall master budget is widely popular tools for overall future planning, revenue planning, cost planning and profit planning.
4. Regarding the tools practiced by the selected Nepalese Insurance Companies for measuring and controlling their overall performance, (58.3%) of the selected Insurance Companies measure their performance on the basis of Profit and loss

made by them during the year. While (25%) of the companies are using Budgetary control and (16.7%) are practicing Standard costing but Breakeven point methods are not in practice.

5. Regarding the techniques practiced by selected Nepalese Insurance Companies for pricing of the product and services (41.7%) of the selected Insurance Companies are practicing Breakeven pricing (33.3%) are practicing target return pricing (8.3%) are practicing cost pricing and no on company has practicing going plus pricing. Whereas (16.7%) are not practicing any pricing methods. They are using their own pricing methods as per Insurance board of directions.
6. Regarding the joint cost allocation tools 33.3% (highest) of the selected Nepalese Insurance Companies are practicing sales value methods and 8.3% (lowest) companies are practicing unit or production method. Whereas (25%) companies are practicing their own methods like ratio methods and department wise methods for allocation of joint cost.
7. As regarding to the practicing of transfer price the selected Nepalese Insurance Companies are practicing only (33.3%) negotiation pricing. Market price based and cost based price are less practiced price by the selected Insurance Companies i.e. (16.7%), whereas (33.3%) are not practicing any kinds of pricing techniques because of lack of knowledge, skill, resources and manpower etc.
8. Relating to decision making and control process followed by selected Nepalese Insurance Companies (50%) of selected Companies are practicing control before work has to be start, (41.7%) are practicing control during the work period and (8.3%) are practicing control after finished the work. These indicate that majority of selected Nepalese Insurance are interested in control before work has to start.
9. Regarding the cost and revenue estimation practice (58.3%) of the selected Nepalese Insurance Companies are practicing historical base, (25%) are practicing judgment analysis and (16.7%) are practicing market survey. No one company has practiced zero base budgeting for their cost and revenue estimation.
10. Regarding the present problems faced in implementation accounting system in selected Nepalese Insurance Companies lack of proper policy is the major problem. Whereas technically and manpower problem are good in implementation of management accounting systems.
11. Regarding the present problem faced by the selected Nepalese Insurance Companies in decision making process, (33.3%) of the total are facing undefined

objectives, (25%) of lack of knowledge and skills of manpower and (16.7%) of infrastructure problem. This indicated that undefined objectives is the main problem among all of the following problems. Such as lack of knowledge, skills of man power and infrastructure etc.

12. Regarding the area where management accounting tools is effective in practice to make strength of the companies, (50%) of the selected Nepalese Insurance Companies chooses marketing are, (25%) choose production area and (16.7%) choose financial area. whereas (8.3%) are not practice any management accounting tools is effective to make strength of the companies. It indicated that management accounting tools is often used in marketing and production area rather than financial area to make strength of the selected Insurance Companies.
13. Regarding the practices of issuing the inventory in selected Nepalese Insurance Companies majority i.e. (66.7%) of total selected insurance companies are not practicing any kind of inventory issuing methods. Whereas only (33.3%) are practicing LIFO and FIFO methods rather than weighted average and specific items methods. It is concluded that in the insurance companies there is less uses of inventory issuing methods.
14. As regarded to difficulties for applying of management accounting systems in selected Nepalese Insurance Companies majority of insurance companies i.e. (41.7%) are facing both manpower problem and undefined objective and (16.7%) are facing infrastructure. Hence undefined objective and manpower problems are the great issue for applying of management accounting system in selected Nepalese Insurance Companies.
15. Regarding the model summary table, it was found that there is high degree of positive correlation between dependent variable Organizational Performance and joint effect of independent variables Budgeting and Planning, Costing, Controlling and reporting and decision making on dependent variable Organizational performance. And the adjusted (R) square shows that (24.2 %) of total variation on dependent variable is explained by the independent variables. The remaining (75.8%) explained by the other variables. The value of Sig. F change is (.219). Thus, it can be said that the degree of correctness is (78.1%).
16. Regarding the table of coefficient, it was found that when (1%) changes in Controlling & reporting and Costing Then Organizational performance has changed by (0.866%) and (0.079%) respectively. It means there is positive

relationship between Organizational performance, with Costing and Controlling & reporting. In other hand (1%) changes in Budgeting & planning and Decision making then organizational performance has change by (-0.351%) and (-0.229%) respectively. It means there is negative relationship between Organizational performance with Budgeting & planning and Decision making.

17. As regard to the Variance inflation factor (VIF) of independent variables budgeting & planning is (2.487), Costing is (2.614), Controlling and reporting is (1.659) and decision making is (1.332). The value of each variable is less than (12) thus, it indicates that there is significant positive contribution in overall Organizational performance of the selected Nepalese Insurance Companies.

CHAPTER – V

CONCLUSIONS

5.1 Discussion

Management accounting is concerned with the provision and interpretation of information which assists management in planning, controlling, decision making and appraising performance. Management effectively achieves organizational objectives through the efficient use of scarce resources. Environment is changing and future is uncertainly exists in all business situations and the information supplied by the management accountant must reflect the uncertainties and variability of the situation. Good management is effective weapon to reduce risk.

Effective management process requires managers to plan, organize, direct co-ordinate, motivate, control, report and communicate divergent activities pursued by an organization towards the attainment of organizational goal effectively in a changing environment. Management principles account can be applied at all organizations and at all levels of an organization.

Corporate firm that carryout the economic activities. Economic activities are the backbone of the economy. They impact the whole economy. Every organization has limited resources. To utilize the limited resources in a better way, different tools and techniques have been developed. Among the various tools and techniques management accounting have proved beneficial in different aspects of managerial activities. The main objectives of management accounting are to help managers in overall managerial activities by providing information and helping in planning controlling and decision making.

Management accounting primarily concerned with data gathering (from internal and external source) analyzing, processing interpreting and communicating the resulting information for use within the organization so that management can plan more effectively make quick decisions and control the operations efficiently. Accounting data and information are used to represent the underlying economic activities of the organization, which include buying material, selling products, Insurance and financial the organization. Accordingly, it is essential that the record of past performance and the information derived from the record which is used to guide future planning and

decision making represent the underlying economic realities in a clear and unambiguous manner, unfettered by accounting conventions.

The main objectives of the present study are to examine the present practice of management accounting tools in the Nepalese Insurance Companies. As per the nature of the study, survey type of research design is followed which is descriptive and analytical in nature. Survey of different companies are made. Questionnaires were distributed and table talks were made to gather information. Information is tabulated as per the requirement of the study.

Costing, budgeting and planning, decision making and controlling and reporting are the integral parts of the management accounting systems. The selected Nepalese Insurance Companies have too much practicing costing and controlling and reporting rather than budgeting and planning, decision making. Budgeting and planning, decision making is very less in practice. Thus, contribution of costing is negative on organizational performance whereas, the contribution of costing and controlling and reporting is positive. It means costing, controlling and reporting helps to increase the performance of the selected Nepalese insurance companies.

From the analysis it is found that management accounting tools such as cash flow analysis, short term budgeting and ratio analysis are mostly practiced tools by selected Nepalese insurance companies. But large number of selected insurance companies are practicing cost segregation, standard costing, long term budgeting, capital budget. Whereas the tools like break even analysis, responsibility accounting and activity based costing are less practiced or unused tools. The main reason behind not practicing too much these new management accounting tools are lack of knowledge, lack of proper policy, lack of skilled manpower, lack of resource and lack of separate management accounting department.

5.2 Conclusions

Management accounting has shift its emphasis from mere recording of transaction to their analytical and interpretative aspect as well as a change of perspective with rigorous to the objective of accounting, which now help the management secure better results.

Nepalese insurance companies are in infant stage in practicing the accounting tools. No one of the companies has a management accounting expert. They think management account is similar to financial accounting. The different types of management accounting tools which we have learned are not being practiced by the selected Nepalese insurance companies. It shows the gap between theory and practice. Tools like capital budgeting, cash budget, ratio analysis, cash flow and standard costing are in practice but application of new tools of management accounting is not in practice. New tools and techniques such as zero based budgeting, break even analysis, activities based costing target costing and value engineering has been developed around the global but less in practice. In, selected Nepalese insurance companies lack of information, and ignorance about management accounting tools are the main factors causing problem in the application of such tools. Beside these limited market, nature of business, objectives of business, size of business, and extra cost burden were also the factors causing difficulties in the implementation of the tools.

Budgeting and planning, costing, controlling and reporting and decision making are the core things of the management accounting systems. Costing, controlling and reporting are very important factor of the management accounting systems to increase the overall performance of the selected Nepalese insurance companies rather than budgeting and planning and decision making.

Thus, it can be concluded that management accounting is a new thing and it is still in a developing stage. In the context of Nepal, the decisions that take place are usually based on intuition for behavior of the strategic manager. It can be said that the role of management accounting is yet to be recognized by Nepalese Insurance Companies.

5.3 Implications

Management accounting concept emerged to resolve the complexity that has appeared today's business decision making process. Its aim is to simplify the planning the decision making process and to provide support to achieve better organization outcomes. It is for every level of management because every manager has to be involved in some sort of business decision-making process.

Nepalese Insurance Companies should fit with the global environment. Best-fit managerial strategies should be developed. The managers should think in a global

prospective. Information should be update for utilization of limited resource and achieving goal through cut throat competition. Application of advance management accounting tools can be a great helpful for this. The following are the recommendations based on the findings of the present research study to improve the application of management accounting tools.

1. While examine the tools practiced by selected Nepalese Insurance Companies, it was found that cash flow statement, ratio analysis, short term budgeting, cost segregation in fixed and variable, long term budgeting, standard costing, capital budget were most practiced tools. The zero based costing, activity based costing, breakeven analysis was less used or unused tools in selected Nepalese Insurance Companies. So, academicians should put effort to bring the new techniques and tools in this light.
2. No one company has separate management accounting department and nowhere in the companies can find management accounting expert till now. So, training institute should be developed to produce such manpower. The information about the new and advance techniques should be conveyed through different media. Similarly, companies should be carried out to increase awareness about use of such tools and techniques.
3. Different type of seminars, workshop should be conducted for company's manager in order to acquainted them with new tools and its usages and benefits.
4. In the selected Nepalese Insurance Companies, it was found that budgeting and planning, and decision making were very less in practice rather than costing and controlling and reporting. So it requested that those Nepalese insurance companies who are not practicing budgeting and planning and decision making methods of management accounting system. They should try to focus on practice of budgeting and planning, decision making method of management accounting system.

Reference for future study.

1. This study has been only focused on the insurance companies of Nepal. But this topic is appropriate for all kinds of organizational like, manufacturing, service, financial institutions, NGOs and INGOs etc. Thus it is requested that those future

researchers who will be interested to do their research work on this topic this study will be appropriate for them to take as a reference.

2. In this study only 12 Nepalese Insurance Companies have been taken as sample from entire population. So it is requested that those future students or researcher who will be conducting their study on this topic more than 12 Nepalese insurance companies are appropriate to take as sample if time and cost is possible.

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QUESTIONNAIRE

Dear Sir/Madam,

I would like to introduce myself as the student of Tribhuvan University, M.B.S. (final semester). In order to fulfill the partial requirement of Master's Degree in Management, I am conducting a research work entitled "**Application of Management Accounting Practices in Nepalese Insurance companies.**" I would very much appreciate if you kindly spare few of your busy & valuable time for completing my research work. Your views are purely used for my academic purpose only. I anticipate your suggestions as soon as possible.

Samjhana Shrestha
MBS Fourth Semester
Kirtipur, Kathmandu

Name of Organization:

Name of Respondent (optional):

Age:

Department:

Gender:

Experience:

Tick in the box/ alternative as response to the following questions.

1. Which of the following mentioned management accounting tools are practiced by your company for planning controlling and decision making purpose?

Management accounting tools
Practices

Yes No

- | | | |
|--|--------------------------|--------------------------|
| a. Cost segregation in fixed and variable..... | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Break even analysis..... | <input type="checkbox"/> | <input type="checkbox"/> |
| c. Standard costing (cost estimation)..... | <input type="checkbox"/> | <input type="checkbox"/> |
| d. Long term budgeting..... | <input type="checkbox"/> | <input type="checkbox"/> |
| e. Short term budgeting | <input type="checkbox"/> | <input type="checkbox"/> |
| f. Responsibility accounting..... | <input type="checkbox"/> | <input type="checkbox"/> |
| g. Capital budgeting..... | <input type="checkbox"/> | <input type="checkbox"/> |
| h. Ratio analysis..... | <input type="checkbox"/> | <input type="checkbox"/> |
| i. Cash flow statement..... | <input type="checkbox"/> | <input type="checkbox"/> |
| j. Activity based costing..... | <input type="checkbox"/> | <input type="checkbox"/> |

2. While making investment decision which of the following basis does your enterprises usually consider?

- a. The length of period with in which the investment is recovered.
b. The average returns that the investment is expected to earn.

- c. The discounted value of cash flows which the investment is expected to generate.
 - d. The rate of return which is generated by discounted cash flows.
3. Which of the following budget and your company practice?
- a. Cash budget
 - b. Operational budget
 - c. Overall master budget
 - d. Other's
4. How does the company measure and control the overall performance at the end of the accounting years?
- a. Profit/loss made by the company
 - b. Budgetary control
 - c. Standard costing
 - d. Break even point
5. Which technique does the company practice in pricing decision?
- a. Cost plus pricing
 - b. Target return pricing
 - c. Cost plus pricing (competitive)
 - d. Break even pricing
6. Which techniques does the company follow to allocate joint cost?
- a. Unit or production methods
 - b. Others
 - c. Sales value method (monetary value)
7. What transfer pricing technique is practiced in your company?
- a. Market-price based
 - b. Cost based
 - c. Negotiated
 - d. Other's
8. For decision making and control process, which of the following method is usually followed by your company?
- a. Control before work has to be start.
 - b. Control during the work period
 - c. Control after finished the work
9. On what basis does your company estimate cost and revenue?
- a. Historical base
 - b. Zero based budgeting
 - c. Market survey
 - d. Judgment analysis
10. What type of problem does the company usually face in implementing Management accounting tools?
- a. Man power problem
 - b. Financial problem
 - c. Technical problems
 - d. Lack of proper policy

11. In decision making process what types of problems frequently faced by your company?
 - a. Lack of knowledge
 - b. Undefined objectives
 - c. Infrastructure
 - d. Skills of man power
12. In which area management accounting tools is effective in practice to make strength of the company?
 - a. Production area
 - b. Marketing area
 - c. Financial
 - d. Other's
13. What method followed by the company for issuing:
 - i. Raw material inventory
 - a. Last in the out (LIFO)
 - b. First in first out (FIFO)
 - c. Weighted average
 - d. Specific items
 - ii. Finish goods inventory
 - a. Last in first out (LIFO)
 - b. First in first out (FIFO)
 - c. Weighted average
 - d. specific items
14. What are the major difficulties in applying management accounting tools in Nepalese Insurance enterprise?
 - a. Manpower problem
 - b. Financial problem
 - c. Infrastructure
 - d. Undefined objectives

Please read each of the following statements and put a tick mark that comes close to your opinion.

| 15. are the statements related with: a. Following Budgeting and planning b. Costing c. Controlling and reporting d. Decision making and e. Organizational performance | Strongly disagree | Disagree | Neutral | Agree | Strongly Agree |
|--|-------------------|----------|---------|-------|----------------|
| | 1 | 2 | 3 | 4 | 5 |
| (a) Budgeting and planning | | | | | |
| Proper budgeting and planning helps to maximize the profit and minimize the risk and uncertainty. | | | | | |
| Efficiency in workplace can be made by proper budgeting and planning. | | | | | |
| Proper budgeting and planning helps to maintain corporate governance. | | | | | |
| Budgeting and planning helps to take long term and short term investment decision. | | | | | |
| Budgeting provide reliable information and statistical data for framing the future plan and policies. | | | | | |
| (b) Costing | | | | | |
| Classification of cost helps to identify fixed cost, variable cost and semi variable cost. | | | | | |
| Effective costing control over wastage and loss of material during production. | | | | | |
| Costing helps to ascertain the profitability of different product, jobs or work orders. | | | | | |
| Costing helps to predict total cost and sales revenue at any activity. | | | | | |
| Costing provide reliable information and statistical data for framing the future plan and policies. | | | | | |
| (c) Controlling and reporting | | | | | |
| Controlling and reporting helps to maximize the profit and minimized the extra burden cost. | | | | | |
| Controlling and reporting system adjusts to changes in the environment. | | | | | |
| Controlling ensure that proper utilization of budget and planning. | | | | | |
| Controlling of cost helps to grow business activities. | | | | | |
| Monitoring of activities and feedback are provided by controlling and reporting. | | | | | |

| | | | | | |
|--|--|--|--|--|--|
| (d) Decision making | | | | | |
| Cost can be minimized and profit can be maximized through effective decision making. | | | | | |
| Decision making helps to optimal use of available resources and enhance future activities. | | | | | |
| Effectiveness and efficiency of the organization depends upon good decision making. | | | | | |
| Decision making helps to develop of optimal products mix. | | | | | |
| Decision making helps to motivate the different stakeholders. | | | | | |
| (e) Organizational performance. | | | | | |
| Management accounting system has helped to increase the productivity. | | | | | |
| Management accounting system has helped to increase profitability. | | | | | |
| Management accounting system has helped to increase ROA/ROE and EPS. | | | | | |
| Management accounting system helps to motivate and monitor people in organization. | | | | | |
| Management accounting system helps to take competitive advantage over competitor. | | | | | |