

**MANAGEMENT ACCOUNTING PRACTICES AND
ORGANIZATIONAL PERFORMANCE OF MANUFACTURING
FIRMS IN NEPAL**

A Thesis Proposal

By

PUJA BIST

Central Department of Management

Roll. No.: 1203/17

TU Registration No.: 7-3-28-156-2016

Submitted in Partial Fulfilment of the Requirement of Degree of

Masters of Business Studies (MBS)

in the

Faculty of management

Tribhuvan University

Kirtipur, Kathmandu

September, 2019

Table of contents

	Page No:
1.1 Background of the study	1
1.2. Statement of Problem	4
1.3. Purpose of the study	5
1.4. Conceptual framework	5
1.5. Significance of the study	6
1.6. Limitation of the study	6
1.7. Literature review	7
1.8. Research methodology	8
1.8.1 Research design	8
1.8.2 Population and sample	8
1.8.3 Nature and Source of data	8
1.8.4 Data collection and analysis procedure	9
1.9. Chapter Plan	9

1.1 Background of the study

In every business enterprise, various transactions and events take place every day; sales are affected, purchases are made, expenses are met or incurred, payments are received and made, assets are sold and acquired. Those events, arising out of the decision and actions of management, exercise their effects and impact on the operational efficiency and position of the enterprise. Most of those transactions and events have money values or can be measured and expressed in money values. Since they effect the operation and position of the enterprise, they need to be measured, recorded and analyzed and reported to the management so that the management can evaluate their effect upon the enterprise.

Management accounting concern with providing information to managers and users within the organization directly and provides the organization the necessary basic information through the preparation of various types of reports, some of them related to performance and comparison with that is planned and other frequently and periodically, analytical reports to investigate specific problems facing the organization (Garrison, et al, 2012). Management accounting also comprises the preparation of financial reports for non-management groups such as shareholders, creditors, regulatory agencies and tax authorities (Smith, 2014).

Management accounting is concerned with providing both financial and non-financial information that will help decision makers to make good decisions. It is relates to the provision of appropriate information for people within the organization for helping them to make better decision. Management accounting is an emerging discipline. With the changing environmental factors and cutthroat competition in the international market, the demand for the thoughtful decision making is highly appreciable. The main theme of management accounting is to simplify the planning and decision .making process and to provide support to achieve better organizational outcomes. It is important for every level of management because every manager has to be involved in some sort of decision making, planning and controlling process (Shah and Ojha, 2016).

Companies use management accounting techniques to assess their operation. These include budgeting, variance analysis and breakeven analysis. Theses method help organization to plan Driect and control operating cost and achieve profitability. It is

recognized that management accounting practices are important to the success of the organization (Horngren, et al,2009).

Management accounting is the application of appropriate techniques and concepts in processing the historical and projected economic data of an entity to assist management in establishing a plan for reasonable economic objectives and in the making of rational decisions with a view towards achieving these objectives.

Management accounting is the management for management. It can be defined as the process of identifying, measuring, accumulation, 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 organizational resources. Management accounting is a technique for effective planning, for choosing among alternative business actions and controlling through the evaluation and interpretation of performance (Chowdhary, 1982: 4).

Management accounting measures, analyzes, and reports financial and non financial information that helps managers make decisions to fulfill the goals of an organization. Managers use management accounting information to develop, communicate implement strategy. They also use management accounting information to coordinate product design, production and marketing decisions to evaluate performance (Horngren and Datar, 2013). Management accounting is the process of measuring and reporting information about economic activity within organization, for use by managers in planning, performance evaluation and operational control (kalpan, 2012).

Management accounting is concerned with providing both financial and non-financial information that will help decision makers to make good decisions. It is relates to the provision of appropriate information for people within the organization for helping them to make better decision. Management accounting is the process of identifying, measuring, analyzing, interpreting and communicating information for the goals of the company. Management accounting is an integral part of the management process and management accountants are important strategic partners in the company's management team. (Hilton, 2002)

Management accounting is an emerging discipline. With the changing environmental factors and cutthroat competition in the international market, the demand for the thoughtful decision making is highly appreciable. Therefore, Management Accounting is useful, essential and beneficial to all the aspects of the management activities such as planning, decision making etc.(Adhikari,2010)

The main aim of management accounting is to help management in its functions planning, directing, controlling and areas of specialization included with the bounds of management accounting. It supplies accounting information to the management for planning, formulating policies, controlling business operation and making decisions. Management accounting helps in operational accounting system by providing necessary knowledge to management of planning and decision 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 management accounting (Gautam and Bhattarai, 2014).

1.2 Problem statement and research question

Nepal's manufacturing is still in an early stage of development although its role is important in the industrial sector both in terms of its share and growth. The manufacturing sector contributes to national economy by providing employment opportunities, and by providing revenue to the government through regular payments of tax. Therefore, manufacturing companies are chosen in order to know situation of practice of management accounting tools to help management in its functions, planning, directing, controlling and area of specialization included with the bounds of management accounting.

As today's business environment increasingly competitive, business organizations are becoming more aggressive and dynamic in identifying strategies that will ensure profitable existence. Competition amongst business organization may compel the management to develop business techniques and strategies that would guide and

organization towards the maximization of profit. This may be achieved through increased sales and reduced cost of production. Profit doesn't just happen; profit has to be managed by the management.

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, intensive decision, lack of skilled manpower, lack of infrastructure development and extra cost burden are the main reasons behind not practicing new management accounting tools. Nepalese manufacturing companies are infant stage in practicing management accounting tools. There is lack of separate management accounting department and accounting expert. Some manufacturing companies are still follow traditional method of management accounting tools. Budget and plan is formulated by all manufacturing companies as well as non- manufacturing companies according to their past events. Hence the business complexity can be changed into opportunity by using various tools and techniques of management accounting. (Tamang, 2014) This study will try to address the following research question:

1. what is the management accounting practices in Nepalese manufacturing companies?
2. What is the management accounting practices on performance of Nepalese manufacturing firms?

1.3 Purpose of the study

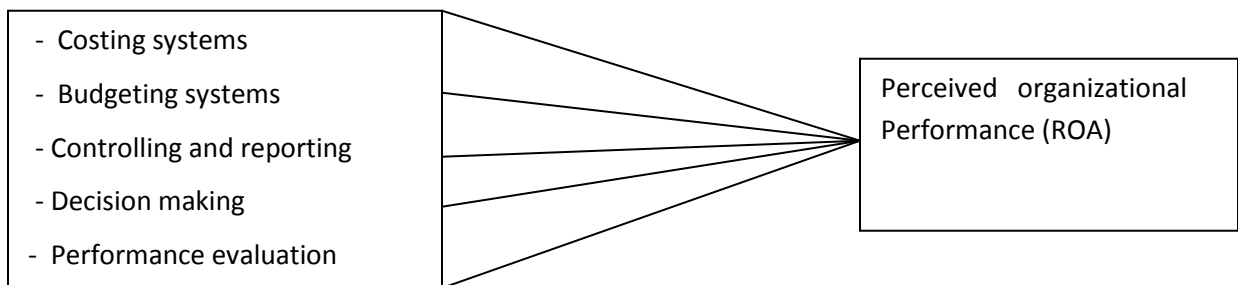
The general purpose of this study is to explore the management accounting practices and examine the extent to which the level of adoption affects the performance of manufacturing firm in the Nepal. More specifically this study proposes following objectives:

1. To examine the present practice of management accounting in Nepalese manufacturing firms.

2. To examine the management accounting practices on performance of manufacturing firms in Nepal.

1.4 Conceptual Framework

Theoretical framework clearly shows the cause and effect of independent variables on dependent variables. It helps to increase management accounting practices and improve organizational performance of manufacturing firms. To find the impact of independent variables (management accounting practices) on dependent variables (organizational performance), a theoretical framework developed. This is shown below:



Independent Variables

Dependent Variable

1.5 Significance of the study

Management accounting is the integral part of the management process such as planning, coordinating, controlling and decision making. This study is design to describe the different types of management accounting practices use by Nepalese manufacturing companies. Besides this study adds onto the theory of management accounting in developing countries by focusing on the practices of manufacturing companies in Nepal. The study will show whether the manufacturing companies still prefer the traditional practices and the describe different methods and types of management accounting tools used by Nepalese manufacturing companies available for them as far as controlling cost are concerned. So this study is significant in the following ways.

1. It examines the application of management accounting practices in Nepal.
2. It provides the knowledge of management, which is necessary for planning and decision making.
3. It explores the prospects and challenges of manufacturing companies.
4. It provides literature to the researcher who wants to carry on the further research on this field.
5. It is helpful to scholars and academicians interested in pursuing a study in accounting and especially management accounting.

1.6 Limitations of the study

There are several limitations to this study, due to the time and budget constraints, this study will be carried out only in a few management accounting practitioners of Nepalese manufacturing companies. The present study suffers from the following limitations.

1. Out of total manufacturing companies in Kathmandu only four companies (Herb production and processing co.ltd, Surya Nepal pvt.ltd, Dabar Nepal pvt.ltd, Bottlers Nepal pvt.ltd) have been considered.
2. This study will only concern manufacturing firms. So it doesn't apply to financial and non-financial institutions.
3. This study only considers the practice of management accounting but not the implementation of those practices.
4. This study will only be concerned with management accounting but will not cover other accounting aspects such as financial accounting, cost accounting etc.

1.7 Literature Review

Sufficient research has not been done in the following topic and for the preparation of this proposal some books and related reports, publications, theses and articles will be reviewed which are as follows.

This chapter presents a review of literature. The chapter reviews the contingency theory of management accounting and also reviews the findings of various scholars in relation to

management accounting. The management accounting practices also reviewed as well as the method of management accounting changes identifies key issues that reflected that it occurs as result of different factors affecting the organization. Ahamad (2014) An exploratory study of the level of sophistication of management accounting practices in Libyan manufacturing companies.

International journal of Business and Social Science (May,2011) Management accounting Practices as a variety of methods specially considered for manufacturing firms so as to support the organizations infrastructure and management accounting process. Management practices can include budgeting, performance evaluation information for decision making and strategic analysis are some of the method use among many others. The literature also indicate that some practices such as absorption costing and marginal costing not highly favoured by most manufacturing business.

Management accounting that is an indispensable part of management function, which is defined as planning, organization, implementation and control of business activities, is one of the greatest helpers of business management in decision making. Due to the fact that decision-making might be defined as making a choice between options to achieve a result, management accounting has an important role in putting out the situation that occurred in the past through numerical data, making plans for the future, and performing the control function through comparing the planned and actual results (Mott, 2015, p.39).

Research Gap

There is a gap between the present research and previous research conducted on management accounting practices in Nepalese manufacturing companies. The literature review on different articles, journal and thesis shows that there is positive impact of management accounting practices helps to increase the organizational performance of manufacturing company.

The previous research are conducted only management accounting practices but this research will focus management accounting practices relation with organizational performance of manufacturing companies.

Previous research is mostly focus on traditional management accounting practices but not its implementation. Thus to fulfill those gap current research will be conduct.

1.8 Research Methodology

This research is conducted with the view to examine the present practice of management accounting tools in Nepalese manufacturing companies with the help of different type of questions.

1. 8.1 Research Design

The research design adopt on this study will be causal as well as descriptive type. This study will examine and evaluate the management accounting practices in Nepalese manufacturing companies. So, the study is closely related to management accounting practices and their implication.

1. 8.2 Population and sample

This study is designed to complete the research work on the present practice of management accounting practices by Nepalese manufacturing companies. The total 220 numbers of manufacturing companies as population for the study [Industrial Statistic FY 2074/75]. Out of them 4 companies will be chosen for the study of purpose that is called sample. The sample manufacturing companies will select with the help of convenience sampling method.

1.8.3 Nature and sources of data

Both primary and secondary sources of information will be used for the study. Primary data will be gathered using carefully designed questionnaire. Whereas secondary data will be collected through periodic published financial reports of concerned manufacturing firms.

1.8.4 Data collection and analysis procedure:

Data will be collected from questionnaire. They will be classified and tabulated in the required form. The basic structure of the study will be descriptive and causal as well. In

order to make study more precise, the data will be presented in proper tables and formats. Such tables and formats will be interpreted and explained as necessary. Management accounting practices tools such as cost volume profit analysis, budgeting, standard costing, ratio analysis, capital budgeting, activity based costing, zero based budgeting and pricing techniques are the major research variables.

1.9 Plan of the study

This study is organized in five chapters, each devoted to some aspects of management accounting practices and performance. The titles of each of these chapters are summarized and the contents of each of these chapters of this study are briefly mentioned here.

Chapter one entails the introduction to the research which covers the background of the study, the statement of the research problem, purpose of the study, the research questions, significance of the study, limitation of the study and organization of the study.

Chapter two reviews related literature. This chapter discusses extensively the theoretical framework of management practices which unearths the concepts used in the study provide theoretical justifications to proposed relationships or associations. Similar studies in the area of management accounting practices are also discussed and reviewed in this chapter in addition with a discussion on the key study variables.

Chapter three covers the methodology of the study.

Chapter four presents analysis of data gathered in the survey to obtain meaningful information and relationships.

Finally, chapter five summarizes and provides significant conclusions for the study. It also makes some recommendations to improve performance of manufacturing firms in Nepal and gives suggestions for future study.

References