

**MANAGEMENT ACCOUNTING PRACTICES IN  
NEPALESE PUBLIC ENTERPRISE**

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**2<sup>nd</sup> Year Exam Symbol No.: 390277**

**A Thesis Submitted To:**

**Office of the Dean**

**Faculty of Management**

**Tribhuvan University**

*In Partial Fulfillment of the Requirements for the Degree of  
Master's of Business Studies (MBS)*

**Kathmandu, Nepal**

**September, 2012**

## **RECOMMENDATION**

This is to certify that the thesis

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*has been prepared as approved by this Department in the prescribed format of  
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## **DECLARATION**

I hereby declare that the work reported in this thesis entitled **“MANAGEMENT ACCOUNTING PRACTICES IN NEPALESE PUBLIC ENTERPRISE”** submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master’s Degree in Business Studies (M.B.S.) under the supervision of my thesis supervisors Lect. Mr. jogindra Goet of Shanker Dev Campus.

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## **ACKNOWLEDGEMENT**

I would like to express my profound sense of gratitude of my respective thesis advisor Mr. Jogindra Goet, lecturer of Shanker Dev campus for his continuous guidance and supervision. This report in this form is the result of his inspiration, invaluable guidance and supervision. Likewise, I would express my sincere gratitude to Prof. Bisheshwor Man Shrestha, Former Head of research department, SDC for her help from preparation of research proposal to finalizing the draft of thesis. Likewise, I would express my sincere gratitude to Asso. Prof. Prakash Singh Pradhan, campus chief, SDC. Likewise, I would express my sincere gratitude to prof.Dr. Kamal Deep Dhakal, Head of Research Department,SDC.

I am indebted to the managers, departmental chief, respective authorities and staff member of those public enterprises, who have helped me by providing all necessary data and information for the study. In this regard, I express sincere thanks to staff members of Shanker Dev Campus library, central library and respective enterprise's libraries.

Similarly, I would like to extend my heartily thanks to Pradip Khanal and D.R. Pokharel who directly support from beginning to ending by providing required material, guidance, valuable information, suggestion to complete the entire thesis. And other friends, relatives, well wishes who directly and indirectly support on the entire period of thesis preparation.

Finally, I would like to express my deep sense of indebtedness to my entire family members who inspired and support me in different ways to bring to this thesis in this shape.

**Sushil Khanal**

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## **ABBREVIATION**

AD	:	Agriculture Development Bank
AICL	:	Agriculture Inputs Company Ltd.
AIS	:	Accounting Information System
ALIL	:	Agro-Lime Industries Ltd.
ARR	:	Average Rate of Return
B/S	:	Balance Sheet
BEP	:	Break Even Point
BOD	:	Board of Directors
BS	:	Bikram Sambat
CAAN	:	Civil Aviation Authority of Nepal
CC	:	Cultural Corporation
CDM	:	Central Department of Management
CMPU	:	Contribution Margin per Unit
CVP	:	Cost Volume Profit
DDC	:	Dairy Development Corporation
EOQ	:	Economic Order Quantity
F/Y	:	Fiscal Year
GAAP	:	Generally Accepted Accounting Principles
GC	:	Gorkhapatra Corporation
GDP	:	Gross Domestic Product
GON	:	Government of Nepal
HCUL	:	Hetauda Cement Industry Ltd.
HPPC	:	Herbs Production & Processing Corporation
IRR	:	Internal Rate of Return
ISML	:	Industrial Sector Management Ltd.
JCFL	:	Janakpur Cigarette Factory Ltd.
JEMCL	:	Janak Education Materials Center Ltd.
KSK	:	Karmachari Sanchaya Kosh
LSFL	:	Lumbini Sugar Factory Ltd.

MA	:	Management Accounting
MBA	:	Master of Business Administration
MBS	:	Master of Business Studies
Mgmt	:	Management
MIS	:	Management Information System
MOF	:	Ministry Of Finance
NSA	:	Nepal Accounting Standard
NBL	:	Nepal Bank Limited
NCCN	:	National Construction Company Ltd.
NCO	:	Net Cash Outlay
NEA	:	Nepal Electricity Authority
NECSC	:	Nepal Engineering Consultancy Service Center Ltd.
NFA	:	Nepal Food Corporation
NIDC	:	Nepal Industrial Development Corporation
NLK	:	Nagarik Lagani Kosh
NOC	:	Nepal Oil Corporation
NPEDC	:	National Productivity & Economic Development Center
NPEs	:	Nepalese Public Enterprises
NRTL	:	Nepal Rosin and Turpentine Ltd.
NSCL	:	National Seeds Company Ltd.
NSE	:	Nepal Stock Exchange
NTC	:	Nepal Telecommunication Co. Ltd.
NTV	:	Nepal Television
NTL	:	National Trading Limited
NTWCL	:	Nepal Transit & Warehousing Mgmt.Co. Ltd.
NWSCL	:	Nepal Water Supply Corporation Ltd.
Orgn	:	Organization
P/L	:	Profit And Loss
PBP	:	Pay Back Period
PEs	:	Public Enterprises
PI	:	Profitability Index

Popn	:	Population
PPC	:	Profit Planning and Control
PV	:	Present Value
RACL	:	Rular Aawas Company Ltd.
RBB	:	Rastriya Banijya Bank
RBS	:	Rastriya Bema Sansthan
RDA	:	Royal Drugs Ltd.
NAC	:	Nepal Airlines Corporation
SDC	:	Shanker Dev Campus
STCL	:	Salt Trading Corporation Ltd.
TU	:	Tribhuvan University
UCFL	:	Udayapur Cement Factory Ltd.
%	:	Percentage
X <sup>2</sup>	:	Chi- Square

# **CHAPTER-I**

## **INTRODUCTION**

### **1.1 Background of the Study**

Nepal is a landlocked country. Nepal has no long history of development of public enterprises as compared to other South Asian as well as other development countries. After 1965's Nepal started planned economic development of modern industries in the public sector started with planned economic development. In our country various manufacturing companies have been established and developed through government plans. At present interim plan is running. But due to the poor performance negative return, lack of the efficient, inefficient in management government has emphasized on privatization, so that public enterprises could be competitive and profitable.

MA information services major roles in organization. It enhances decision making, guides strategy development and focuses efforts related to improving organizational performance and to evaluating the contribution and performance of organization and members (*Kalpna and Atkinson, 1998: 12*).

Public enterprises that carry economic activities are the important element of the economy and also backbone of the country. Nepalese public enterprises are the foundation of modern industrialization. The primary goal of public enterprises is to contribute for the economic and social improvement for the broader environment. To fulfill these goals, it requires some resources like man, money, material, machinery, technology and information. But these resources are limited. The main problem lies in the better utilization of available but scarce resources so that competitive advantage can be achieved. To overcome the problems, various tools and techniques have been developed. 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 proper information with in time and helping them in planning, controlling and decision making.

MA would make its greatest contribution by helping management of business concern on a high economic level by maintaining control over multifarious and complex activities. This may be to not because accounting is at the elbow of management in the role of servitor. It is because it has assumed the role of alter ego. Through the processes and techniques of management accounting properly applied, management is not merely informed. It is stimulated for action. Its thinking is provided with standards of references vehicles of judgment and form in which to express the judgment and to bring change. Thus MA has to be regarded as an integrate part of the personality of management (*Gupta, 1995:8-9*).

### **1.1.1 Public Enterprises in Nepal**

It is well known fact that public enterprise have established for the purpose of socio-economic development of the country. It enjoys a strategic and crucial position in our mixed economy. They have been established in many sectors for the overall development of the country with different goals and objective. Since 1956, Nepal has witnessed growth and development of public enterprise. Nepal government has to play a vital role in the development of the country for the purpose, makes massive investment to create necessary infrastructure and run some of the large manufacturing industries to the people (*shrestha, 2004: 16*).

Some of them are in privatization process. Public enterprise can be classified as follows

- i. Industrial enterprises
- ii. Commercial enterprises

- iii. Financial enterprises
- iv. Public enterprises
- v. Development or service enterprises

The major role and objective of public enterprises in Nepalese economy are expressed:

- Promoting self sufficiency
- Accomplishing economic growth
- Development of infrastructure
- Success of economic planning
- Regional and balanced development
- Supply of essential commodity
- Contributing to government's revenue
- Generate employment opportunities
- Attaining social justice and social welfare
- Strengthening economic stability
- Initiate research and development attributes
- Provision of public utilities
- Maintaining economic stability

In Nepalese public enterprises the objectives are mainly social welfare and commercial in case of fulfilling the social obligation. Basically, most of PEs objectives are social welfare profit is less important at the same time there is also commercial obligation. In this case the corporation should earn profit also. Therefore, accounting is the most important part of every business organization to achieve their goals either they are manufacturing or nonmanufacturing enterprises and privatize enterprise.

### **1.1.2 Development of PEs in Nepal**

Public enterprises were established in service, social service, industrial, trading, finance and other sectors for to develop infrastructure and provide basis services to the people. The evolution of PEs in the world has no longer history. During the 18th century, a concept was developed like problems of poverty and unemployment may be solved by the government intervention in the economy. In that period, most of the developing country had adopted the laissez fair policy in the economy. After intervention by the government, the economy was rapidly increased during the 20th century. The concept of the PEs has been developed from the “socialist though” after the great depression of 1929. The main impact to the PEs was the 2nd world war which had played vital role to the increasing rate for the development of PEs in the context of Nepal. Industrialization has started very late then other developing countries.

The evolution of PEs in the world has a long history. During the 18th century, a concept was developed like problems of poverty and unemployed may be solved by the government intervention in the economy. During the period, most of the developed countries had adopted the lasers fair policy in the economy in the economy. During the end of 19th century, the application of laissez fir policy evolved to the capitalism that increased the poverty, corruption, workers exploitation, unbalanced distribution of wealth etc. therefore, to avoid these serious situations intervention by the government was started in the economy. The government intervention in the economy was rapidly increased during the 20th century (*Banarjee, 2004:1*). The concept of PEs has been developed from the “socialist thought” after the great depression of 1929 the impact of the 2nd world war had played a vital role to take a higher rate for the development of PEs.

Public enterprises were established in services, social services, industrial, trading, finance and other sector to developed infrastructure and provide basic services to the people. Still they are dominating to the many national

economies and remain in central point in provision of essential services from drinking water to hospitality, communication, electrification, and many more in majorities of the countries. They are at the forefront in the process of building on industrial and manufacturing base in the decade of 1950s all over the world. (*Joshi 2003:100-101*).

In the context of Nepal, industrialization has started very late and the pace of industrialization has been slow. The history of industrial growth in Nepal can be divided in three distinct eras (*Agrawal, 2003:94*).

- Era of craft and cottage industries (till 1935)
- Era of haphazard industrial growth (1936-1955)
- Era of planned industrial growth (1965-now)

After the establishment of “council of industry” in 1936, Biratnagar jute mills were established by JV with Indian entrepreneurs in Nepal’s first modern industry (*Joshi, 2003:104*). Similarly, Nepal bank limited was established as a first public enterprise in 1994 BS to perform the financial activities of government and nation. Nepal has adopted mixed economy, where public and private sector are expected to work harmoniously after the advent of democracy in 1951, a number of public enterprises have been established under the sponsorship and ownership of the government in various sector.

Nepal entered the era of planned development in 1956, since then the country has accumulated a rich experience of formulating and implementing nine developments plans extending over the period of 23 years. The tenth plan is ongoing. The growth of industries during the various plan periods has been mixed (*Agrawal, 2003: 98*).

The below table 1.1 shows the growth of PEs in different planned period.

**Table 1.1**

S. No.	Period	No. of establishment	Remark
1	Up to 1950 (before plan period)	1	
2	First plan (1956-1961)	7	
3	Blank period (1961-1962)	3	
4	Second plan (1962-1965)	11	
5	Third plan (1966-1970)	12	
6	Fourth plan (1970-1975)	25	
7	Fifth plan (1975-1980)	3	
8	Sixth plan (1980-1985)	6	
9	Seventh plan (1985-1990)	10	78

*Source: MOF, corporation co-ordination division, 1990/1991*

78 PEs were established at the end of 7th plan. In BS 2048, elected democratic government had been come in power. The world as well as Nepal was entering in globalization, economic liberalization, and WTO. The technological advancements has been making complicated city to the PEs. The overall performance of the PEs was not also satisfactory. The private sectors were growing well. The role of government has needed to change from activator to promotional. Taking these things in consideration, some PEs' were merged with other. Some were liquidates and some were privatized. Some of PEs' are established 8th & 9th planned period. On July 2005 Nepal has 38 public enterprises. (*MOF, economic survey, 2004/05*) 24 PEs' were privatized; out of which have been privatized by selling the assets and business. 10 privatized by selling the shares, 9 privatized by liquidates / dissolution, one by management contract, and by selling the assets and leasing the building and land (*MOF, economic survey, 2004/05: 174-175*).

### **1.1.3 Classification of Nepalese PEs**

MOF has classified the PEs in different group on the basis of function performed by the enterprises are given below:

**Table 1.2**  
**Classification of Nepalese PEs**

S.N	Sector	No.
1	Industrial Sectors	7
2	Trading Sectors	6
3	Service Sectors	7
4	Social service Sectors	5
5	Public Sectors	3
6	Financial Sectors	8
	Total	36

*Source: MOF. Economic Survey FY 2010/11*

The total numbers of the PEs falling on different sectors are as under:

**a. Industrial Sectors**

- Herbs production and processing company
- Hetauda cement Industry Ltd.
- Janakpur cigarette Factory
- Dairy Development Corporation
- Nepal Drugs Ltd.
- Udayapur Cement Industry Ltd.
- Nepal Grind Magnetite Pvt. Ltd.

**b. Trading Sectors**

- Agriculture input company
- National Seeds company
- National Trading Ltd.
- Timber Corporation
- Nepal Food Corporation
- Nepal Oil Corporation
- Salt trading corporation Ltd.

### **c. Service Sectors**

- Nepal Transit and Warehouse Co. Ltd
- Nepal Engineering Consultancy
- Nepal Airlines Corporation Ltd.
- National Productivity and economic Development center Ltd
- Industrial Development management Ltd.
- National Construction Company Ltd
- Civil Aviation Authority of Nepal

### **d. Social Service Sector**

- Janak Educational Material Center Ltd
- Nepal Television
- Cultural corporation
- Rural Awash company Ltd.
- Gorkhapatra sasthan

### **e. Public Utility Sector**

- Nepal drinking Water Corporation
- Nepal electricity Authority
- Nepal Telecom Company Ltd.

### **f. Financial Sector**

- Rastriya banijya Bank
- Agriculture Bank
- Nepal Industrial Development
- Rastriya Bema Sans than
- Nepal Stock Exchange
- Karmachari Sanchaya Kosh
- Nagarik Laganikosh

#### **1.1.4 Challenges of Nepalese PE**

Nepal is a developing, politically unstable and mass poverty country having a very normal economic growth ratio. The role played by public enterprise in social and economic development and in providing goods and services in a regular basis is important. The government of Nepal has established different purpose. But the performance of the PEs has become a very poor. There are various challenges to the PEs. The major problems of PEs are pointed below:

- Most of the PEs are running at loss and have negative net worth. PEs have not provisioned fund to meet liability for staff and unfound contingent liabilities are growing which will ultimately put heavy financial burden on the part of government.
- There is no unified in work performance, job specialty and working environment in PEs. Profit making corporations are providing financial faculty in different forms, by one way or other. Even the PEs operating above the breakeven point are providing gratuity, pension, provident fund and other facilities as per the Act, rules and regulations without establishing reserve and future liability funds. This situation creates indirect and unlimited liability on the part of the government. This is one of the challenges of the government.
- In view of the important role that the PEs play in the economic development of the country, it has been realized that the PEs need to adjust, harmonize and align with the system prevalent in the present context of open, liberal and competitive regime. However, the satisfactory performance against the goals is yet to seen.
- PEs often does not Oren are annual statement OD account on time and audits are delayed. This situation leads to lose people's confidence and thereby making reforms difficult.
- Loss making PEs continued to add financial liability to the government whereas the profit making PEs are enjoying all sort of facilities. Even loss making PEs have a tendency of not revealing actual employees' position available in the PEs. As a result of this PEs' are ignoring the

government's policy on right sizing of staff, and furthermore heading towards recruiting new employees. Due to this problem the overhead cost of PEs is gradually increasing. In this connection, there is a need to institutionalize the practices of taking responsibility and accountability for the implementation of commitment made both by the concerned ministries and corporations.

- As stated in budge speech of FY 2007/08, a high level committee on public Enterprises Reform Recommendation has been constituted. This committee is preparing its final report. After receiving committee's report, government will review the status of PEs that has to be privatized or liquidated or to be kept in operation. Taking appropriate decisions on time shall be a great challenge for the government (*Economic survey. 2009: 110-111*).

### **1.1.5 Problems of Nepalese Public Enterprises**

Nepal is developing, political unstable and mass poverty country having a very nominal economic growth ratio. The role played by public enterprises in social economic development and in providing goods & services in a regular basis is important. The government of Nepal has established different public enterprises for different purposes. But the performance of the public enterprises has become a very poor. There are various factors behind this region. Public enterprises are facing different problems. Some of the major problems of PEs are pointed below:

- Lack of efficiency
- Failure in resource mobilization
- Complex and expensive public utility services
- Excessive cost
- Excessive pressure of unproductive labor and staff
- Absence of autonomy
- Failure to promote private sector

- Incompetence of BOD and top management
- Ambiguous and controversy
- Lack of co-ordination

### **1.1.6 Role of PEs in Nepalese Economy:**

The systematic development process of PEs had been started from first plan period. At the end of 7<sup>th</sup> plan, the total number of PEs had been reached to 78, some are privatized, some are dissolved and some are merged. At the end of F/Y 2068/2069 there are 36 PEs (Economic survey, 2011:167) in public ownership. PEs is important not only for social welfare, but also important to industrial development and to generate government revenue. The major role played by PEs in Nepalese economy is as follows (*Bistha, 2004:94-97*).

- Development of banking and financial sector.
- Contribution towards industrialization.
- Support towards resource mobilization.
- Contribution to meet basic needs.
- Increase in employment.
- Increase in domestic production.
- Improvement in fiscal and monetary situations.

### **1.2 Statement of the Problems**

The down filling trend of public enterprise, especially the industrial enterprise or the manufacturing enterprises has been the everlasting problem or our country. Hardly a handful of their public manufacturing enterprises have provided satisfactory. Rest of all being a burden to the government, in the name of economic liberalization, many of these companies are either privatized or our in the process of privatization to get rid of the 2000/01 to 2009/10 conducted by Nepal government ministry of finance clearly mentions about the inefficiency of public enterprises.

Public enterprise is one of the most important innovations of 20th century. The main objective of creating public enterprise is to secure a combination of public ownership, public accountability and business management for the public – benefits. The reason behind the establishment of public enterprise are basically to accelerate the ratio of economic growth, to build development infrastructure, to make provision of public utility, to supply essential commodities, to generate employment opportunities, to maximize the foreign earning, to rational utilization of natural resources and to contribute in the national funds.

The overall performance of the public enterprises is not satisfactory. One of the main reason of poor performance is poor planning, controlling and decision making process of management. Management accounting had proved itself as an important tool for effective management process. This study has tried to answer the following research question.

- Whether or not Nepalese public enterprise are practicing management accounting tools and techniques to carry out planning, controlling, and decision making function? If not what might be the reason and what are the difficulties? If yes, to what extent, management accounting tools practicing?
- Which tool and techniques of management accounting are mostly practicing and which are not practicing till know?
- In which sector of public enterprises can be applied management accounting tools to improve the competitiveness and capacity of the Nepalese Public Enterprises?

### **1.3 Objective of the Study**

The main objective of the research work is to study and examine the present practices of management accounting in Nepalese public sectors. The specific objectives are as follows:

- To analyze the management accounting practices in Nepalese public enterprise.
- To evaluate the major difficulties for applying the management accounting tools in Nepalese public enterprises.
- To examine the business sector, where management accounting tools can be applied to strengthen the public enterprises.
- To success and recommend on the basis of major findings.

#### **1.4 Importance of the Study**

The present research might be a new effect for the process of thesis preparation entitled management accounting practices in Nepalese public Enterprises. The study is significances in the following ways:

- It examines the application of management accounting in Nepalese public enterprises.
- The research explores the problems and difficulties for the application of management accounting in Nepalese companies. Therefore it is useful to the managers, accountants, policy maker, who will be interested a concerned. The research provides information on the application of management accounting tools and techniques under different circumstances. Thuds it will encourage to the authorities for use of management accounting in planning, controlling and decision making to those who are not practicing and the least practicing till now.
- It provides literature to the researcher who wants to carry out further research.
- It will be beneficial to student, teachers, civil society, stakeholder's businessman and government.

#### **1.5 Limitation of the Study**

The present research has the following limitations:

- The study has pays focused on the practice of management accounting tools and techniques only. It does not consider the implementations aspects of the tools and techniques.
- The study is concerned only one the use of management accounting. It does not consider the economic aspects of the enterprises.
- The study has focused only on the public companies. Thus findings might not be applicable to the nonpublic companies Nepal.
- The presents study pays attention to the practices of management accounting tools and techniques in Nepalese context only. Therefore, it does not address to the Global context.
- The types of information are collected from primary sources by using questionnaire. Stratified sampling procedure was used to draw the sample. Thus the research might not cover the wide range of management accounting.

## **1.6 Organization of the study**

The present research work is divided into five chapter usually adopted by the student of management. The titles of these chapters are as follows:-

### **Chapter I: Introduction**

Backward information of the subject matter of research under taking been presented under this section to provide a general idea of its history. So, this section includes a brief introduction to public enterprise in Nepal, role and objectives of public enterprise in Nepalese economy, challenges of PEs of Nepal, profitability of Nepalese PEs. Likewise statement of the problem, objectives of the study, limitation of the study and comes next followed by research design and methodology.

## **Chapter II: Review of Literature**

This chapter focuses on review of literature. It consists of the conceptual framework of MA, brief review of MA tools and Techniques, review of related previous studies and research gap.

## **Chapter III: Research Methodology**

In this chapter, the method employed to gather data and the tools used in its interpretation has been described under the heading, research design, population and sample, data collection techniques, reliability of data, nature and sources of data and research variable with measure and processing and analysis techniques of data.

## **Chapter IV: Data Presentation and Analysis**

This chapter is the one of the most important and core of the thesis. Since, it consist of percentage analysis of MA tools and techniques practice in Nepalese PEs reason for non-practicing the MA tools and techniques, percentage analysis of affecting factor for the major MA related decision making process in Nepalese PEs percentage analysis of difficulties for the application of MA in Nepalese PEs and test of hypothesis. Open-end opinion and finding of the research are also including in this chapter.

## **Chapter V: Summary Conclusion and Recommendations**

This chapter is also important part of study where major finding has been summarized, conclusion and Recommendations suggested and conclusions drawn.

## **CHAPTER – II**

### **REVIEW OF LITERATURE**

#### **2.1 Conceptual Framework**

##### **2.1.1 Background**

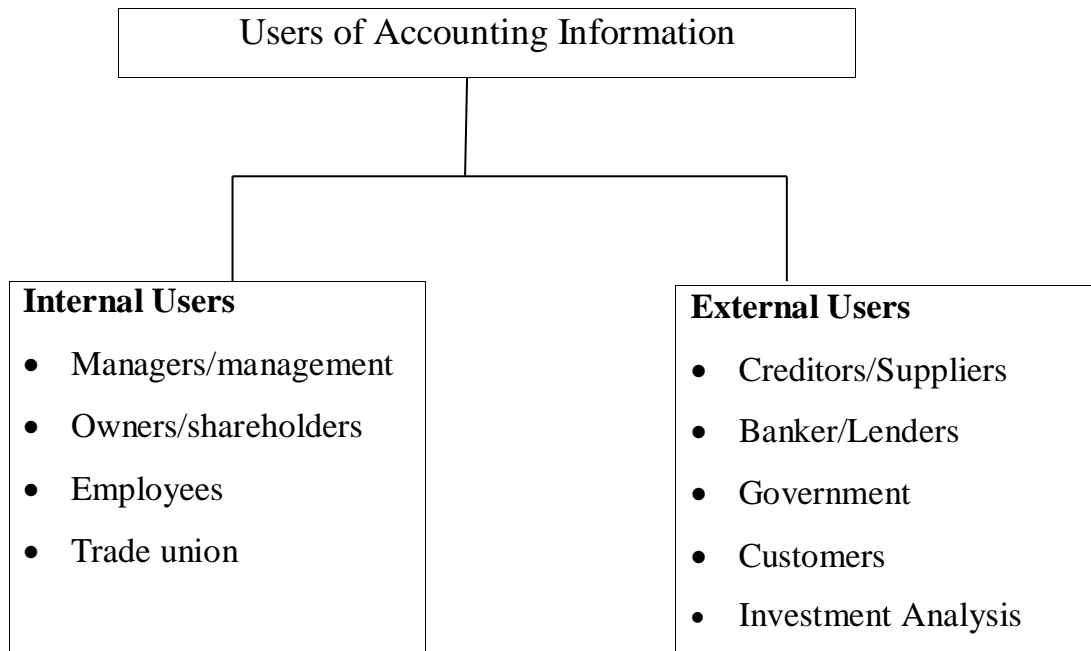
Business enterprises today operate in a complex and dynamic environment due to globalization, economic liberalization, technological change and rapidly changing nature of human behaviors. It creates many new challenges in modern management system. Management mostly involves in planning, organizing decision making and controlling, to perform the major function of management, managers must use various theories, Tools and techniques. It helps the manager to reduce the risk and make competitive. Out of these various tools and techniques, accounting tools has proved itself important.

Accounting provides information to management so that planning organizing and controlling can be done in an orderly and rational manner. The management accountant must provide a system which allows management to receive necessary information in a useful from the top management accountant, the controller, is thus responsible for gathering, analyzing, evaluating and reporting data (*Lynch & Williamson 1992:18*).

##### **2.1.2 Accounting Concept**

Accounting has rightly been termed as the language of the business. The basis function of a language is to serve as a measure of communication. Accounting also services this function. Accounting refers to the process of identifying, classifying, recording, summarizing and interpretation the transaction in terms of money. Therefore, accounting is as art of classifying, recording and summarizing the transaction in financial terms so as to reflect of whole transaction. The objectives of accounting are to provide sufficient information to meet the need of the various use of the lowest possible cost. As such the

accounting/account should aim to provide the right information to the right users / people in the right time and a minimum cost. And the benefit derived from using an information system for decision making must be greater than the cost of operating the system. Generally, the users of accounting information can be grouped in to following two categories (*Munakarmi, 2001: 1-2*).



### 2.1.3 Classification of Accounting

Accounting information will be gathered and provided through various branches of account. Three accounting disciplines are used in modern business. These three accounting disciplines are: (*singh, et al., 2004:1.5*)

#### a. Cost accounting

Cost accounting is the processing and evaluation of monetary and non-monetary data to provide information for external reporting, internal planning and control of business operations and special analysis and decision. (*Singh, et al., 2004:1.7*)

Cost accounting is concern with the classifying, recording and appropriate allocation of expenditure for the determination of the cost of products or

services and for presentation of data for purpose of control and guidance to management. It includes the ascertainment of the cost of every order, job contract, process, service or unit as may be appropriate. The main objective of cost accounting is to find out the extra cost per unit of product or services (*Munankarmi, 2002: 3*).

#### **b. Financial Accounting**

Financial accounting is concern with the recording of financial transaction of the business and provides information in financial terms to parties or people wanting information about the state of business. It is that part of accounting which is employ to communicate the financial information of a business unit. The object to financial accounting is to find out the profitability and to provide information about the financial position of the business concern (*Munankarmi, 2002:2*).

#### **c. Management Accounting**

Management accounting is that branch of accounting discipline, which facilitates management by communicating necessary information to carry out management functions smoothly. Planning, organizing staffing, leading and controlling are the routine functions of management. Management accounting is an accounting discipline that provides essential information to every hierarchy of management to perform management functions (*Singh, et al., 2004:1.10*).

#### **2.1.4 Definition of management accounting**

Managerial accounting is an in exact science. Its usefulness depends to a very great extent upon the intelligent interpretation of the data made available. Management accounting system provides information to assist management in their planning and control activities. Management accounting activities include collecting, classifying, processing, analyzing and reporting information to manager. Unlike the financial accounting information prepared for external

constituencies such as investors, creditors, suppliers and tax and regulatory authorities. Management accounting information should be designed to help decision making within the firm. Therefore the scope of management accounting extends beyond traditional measures of the cost and revenues from the transactions that have already occurred to include also information on sales backlogs, unit quantities, price demand and capacity resources and extensive performance measured based on financial or non financial measure (*Bajracharya et al., 2004: 31*).

Management accounting is the presentation of accounting information to formulate the policies to be adopted by the management and assists its day to day activities. It helps the management to perform all its function including planning, organizing, staffing, and control. It presents to management the accounting information in form of processed data, which it collects from financial accounting (*Paul, 1994:1*).

Accounting is concerned basically with providing financial information that will help decision makers to make economically rational decisions American management association it defined as “Management accounting the process of identifying, measuring and communicating economic information to permit informed judgments and decision by users of the information”. Management accounting is the process of identifying, measuring, analyzing, interpreting and communicating information for searching the goals of company. Management accounting is an integral part of the management process and management process and management accountings are important strategic partners in the company management team. The concept of management accounting has been developed because of complexity in business management. The various tools and techniques of MA will help to change that complexity into opportunities. It collects both financial and non-financial information from various branches of knowledge these information’s should be classifying , processing, analyzing, recording and reporting as per of requirement of management. The main theme

of these reports is to simplify the planning and decision making process. Finally management accounting provides an effective support to achieve better organizational objectives. It is important not only for managers and employees but also every aspect of stakeholders.

## **2.1.5 Function of Management Accounting System**

### **2.1.5.1 Controllership Function**

Controller is the top accountant in an organization. Controllership activities are primarily related to the accounting process. It consist of major activities including financial record keeping and reporting internal auditing, tax planning, cost accounting, profit planning, accounting information system and so on. Maintaining financial discipline and profit maximization are the prime objectives of controllership functions. Controllership functions basically focus on the management of revenues and expenditures (*Bajracharya, et al., 2004:11*).

### **2.1.5.2 Stewardship Functions**

Stewardship function is a traditional approach of accounting that places an obligation on stewards or agents, such as directors, to provide relevant and reliable financial information relating to resources over which they have control but which are owned by others, such as share holders. Stewardship functions follows proper accounting procedures, which satisfy legal and commercial needs but are less rigorous and detailed than the professional practices of management and financial of accounting. Not only are steward responsible for providing information, but they must also submit to an audit (*Bajracharya,et al., 2004:11*).

### **2.1.5.3 Treasurer ship Function**

Treasurer is a financial manager in a staff position that is responsible for managing an organizations relationship with investors and creditors and maintaining custody of the organizations cash, investment and other assets.

Management of capital and investment is a distinct area of treasure-ship functions. It consists of major activities like financial planning, dealing with capital and money markets, investment decisions, cash management, credit management and so on. Value maximization of the organization is its prime objectives (*Bajrachary,et al., 2004: 11*).

Management accounting follows a systematic and scientific way to perform its functions. The functions of management accounting that satisfy the various needs of management for arriving at appropriate business decision may be described as follows:

- Collection of data/ information
- Identification and modification of relevant information
- Analysis and interpretation of data
- Providing information for planning and decision making
- Facilitating management for control
- Use of qualitative information other than account
- Satisfaction of information needs

### **2.1.6 Nature and Scope of Management Accounting**

Management accounting is a youth discipline. As a result Management accounting concept and tools are still developing as a new ways. The tools techniques from MA provides information that assist management. The scope or field of management accounting is very wide and broad based and it includes a variety of aspect of business operation. The main aim of management accounting is to help management in its functions of planning, decision-making, controlling & areas of specialization (*Munakarmi, 2002:6*).

In fact, management accounting is a hybrid discipline comprised of diversified field in management and economics. As the main purpose of management accounting is to assist the strategic manager, it incorporates the theories, tools and techniques of any discipline as per the needs. On this ground the scope of

management accounting touches all the discipline of business administration. For example, the following list highlights the scope of management accounting (*Bajracharya, et al., 2004:15*). Tools applicable in management accounting origin of tools are:

- Cost determination : cost accounting
- Regression, probability, hypothesis test : statistics
- Linear programming : operation management
- Marginal costing, price - determination : economics
- Analysis of customer, competitors, etc : marketing
- Accounting information system : MIS
- SWOT analysis : strategic mgmt.
- Financial performance analysis : financial accounting
- Present value based decisions : financial mgmt.
- Tax effect : tax planning

### **2.1.7 Objectives of Management Accounting**

The management of a firm is concerned with the formulation of policies and its execution in managing the whole affairs of the business. The principle objectives of MA are to assist the management for achieving the goal of organization, I.e. maximization of profit. MA supplies accounting information to the management for planning, formulating policies controlling business operation & making decision (*Munakarmi, 2002:7*). The basic objectives of MA are pointed as follows:

- Providing information for planning and decision making
- Budgeting
- Assisting in daily operation
- Controlling
- Motivating managers and employees
- Measuring the performance of managers & sub-unit within the organization

- Assessing the organization competitive position
- Monitoring

### **2.1.8 Management Accounting Process**

Management accounting is the process of planning, decision making and control. An organization is the common place where different physical resources, people and activities get managed by the system force. It is an integrative function directed towards achieving organizational goals. It is the management, which plans, decides, implements and has a control over different activities of the organization. In managing the resources, activities the people of the organization, the management process involves the following activities (*Bajracharya, et al., 2004:4-7*).

- Planning
- Decision making
- Control

### **2.1.9 Tools of Management Accounting**

Management accounting provides valuable services to the management. It uses several tools and techniques to discharge such valuable services. The tools and techniques applied by management accounting are stated below.

- Application of marginal, differential, standard and opportunity costing techniques
- Analysis of profitability of investment proposals by applying evaluation tools
- Cost estimation techniques
- CVP analysis
- Financial statement analysis in terms of ratios and financial structure
- Funds flow analysis cash flow analysis
- Budgetary control
- Effect of inflationary aspects in income and financial position

- Management reporting

Management uses the above tools depending upon the urgency & sensitivity of the issues situation (*Singh, et al., 2004:1-17*).

### **2.1.10 Limitation of Management Accounting**

Management accounting is a helpful tool for the management as it provides information for planning, controlling and decision making. Still its effectiveness is limited by a number of reasons. Some of the limitations of MA are listed below. (*Bajracharya, et al., 2004:27-28*)

- Based on assumption and estimation
- Based on historical accounting information
- Lack of knowledge
- Intensive decision
- Management accounting is only a tool
- Evolutionary stage
- Subjective
- Physiological resistance
- Costly structures

### **2.1.11 Management Accounting in Nepalese Perspective**

The history of accounting in Nepal began during the reign of Lichhivi period when first king mended had circulated the first coin called mananka during the period 454-49 A.D. Nepal is landlocked country situated between the two large countries with a huge and rapid growth in business, industrial, and economic sectors, and the country has been creeping and trying to devolved its economy. However the country is under a series political instability for a long period of time because of which the security problem has emerged, multinational companies are hesitation to come and establish their subsidiaries here. Because of the same reason, Nepalese investors are also not very intense in making investment within the country on top of the most of the existing companies are running in traditional approach with auto critic leadership as the majority of the

people are illiterate and in poverty and the rapid changes in technology and the globalization of the market have become the real challenges today. Even then as the people and the investors have been able to understand the opportunity and the people and the huge market availability in the neighboring countries and throughout the global after the countries entry into the WTO, the function and importance of management accounting has been realized by the business people and companies. Thus there is still plenty of scope for management accounting to be practiced by the Nepalese companies. Thus there is still plenty of scope for management accounting to be practiced by the Nepalese companies and it has almost become mandatory to understand and use the same so as to grow and sustain oneself in today's rapidly changing and competitive global market.

MA is a new thing and it is still in a developing stage in a country of Nepal. The decisions that take place are usually based on the intuition of the strategic manager. It can be said that the role of MA is yet to be recognized Nepalese corporations. However, recently with the country's entry in to the WTO, the function and importance of MA has been realized by the business people and companies in Nepal too. Accounting association and institution are trying to cover the wide range of MA in different business sector. But lack of information about the tool, traditional approaches of concerned authorities, lack of such type of culture, lack of expect and extra cost burden might be the main reason behind the not practicing of such tools. It creates an interest to the scholar for conduct a research work entitled management accounting practices on joint Venture Bank of Nepal.

## **2.2 A Brief Review of Management Accounting Tools**

Management accounting reports to these inside the organization for planning directing, and motivation, controlling, decision making and performance evaluation. It is a part of an organizations management information system. And managers rely on managerial accounting information to plan and control

on organization's operation. To perform the managerial function management must be used various tools and techniques from accounting branch. Management accounting as a quantitative approach helps to discharge function like planning. Organizing, staffing, directing and controlling properly and effectively (*Pual, 1945:5*).

The main management accounting tools and techniques which in necessary for planning, decision making and controlling can be expressed as follows:

## **2.2.1 Cost**

### **2.2.1.1 Concept of Cost**

Sacrifice or forgoing of resources made for the attainment of specific purpose is known as cost and are measured in monetary terms. Cost are collect, classified, determined, analyzed and controlled keeping view the very purpose for which it has been incurred. Cost must be paid for production of goods and services (*Wagle and Dahal, 2004:2.1*).

Management accounting has been started from cost. Managers require cost information for planning, controlling and decision making. The monetary units that must be paid for goods and service generally measure cost. Coast is initially recorded in elementary for e.g. repairs, salaries etc. cost are then grouped in different ways to help managers make decision.

### **2.2.1.2 Cost Accumulation**

Cost accumulation refers to the collection of cost data through an accounting system. It can be also describe as an act of polling of the cost. Cost are collected from different records (journal, ledgers, and other supporting vouchers) under natural classification such as materials, labor, and rent, insurance or in other forms as guide by the purpose of requirement.

### **2.2.1.3 Cost Centre**

A cost Centre may be a department, a division, a branch, a unit, a product, a segment or a person this is authorized for an expense. A cost Centre is that segment of responsibility accounting which records only the cost incurred in the unit or division. The person in charge of a cost Centre is held responsible for control of cost of his cost Centre. The following are the types of cost centers:

- Personal cost Center
- Impersonal cost Center
- Operation cost Center
- Process cost Center
- Production cost Center
- Service cost Center

### **2.2.1.4 Classification of Cost**

Cost classification is the process of grouping cost according to their common characteristics. In other words, it is the placement of like items together by virtue of their common feature. Though cost are identified which cost units, cost center or cost objectives in general, the same figure can be classified differently depending upon the very purpose or specific requirement of the management.

The cost can be classified different way for different purpose. The following represents the cost classification along with the criteria adopted for such classification (*Wagle and dahal, 2004: 2.2*).

### **2.2.1.5 Cost Allocation**

Cost allocation is process of tracing or re- assigning cost of one product or department to another product or department on the basis of quality of resource

consumed to the particular cost centers. The direct cost or components of prime cost pose no problem in intermediate allocation of cost as they are early identified with cost objectives. But the indirect cost (overhead cost) create the problem of allocation because they are not early identifiable was cost objectives. So, they are two methods that can be applied to allocate cost (mainly overheads) which is given below:

- Traditional method of allocating cost
- Activity based costing methods of allocating costs.

Whatever may be the method selected for allocation of costs, the following are the three per-requisites of cost allocation:

- Accumulation of cost which requires to be allocated.
- Identification of the beneficiaries or the cost objectives required to share the allocation cost.
- Selection of an equitable or fair base to allocate accumulated cost among beneficiaries.

The main objectives of cost allocation are to provide information for economic decision, to motivate managers and other employees, to justify costs or compare reimbursement, and to measure income and assets for reporting to external parties. Different cost allocation may be appropriate for different purpose (*Bajracharya, et al., 2004: 121*).

### **2.2.1.6 Cost Behavior**

All cost does not show the same behavior through the operation. There exist a relationship between and the volume of activity. The cost behavior of a firm consist the relationship proportion of variable fixed and mixed cost. A firm has many fixed cost but few variable cost and vice versa. A firm has many fixed costs but few variable cost or mixed costs and vice versa. The relationship between cost and activity is known as cost behavior which affects the managerial functions of planning, controlling and decision-making.

### **a. Variable Cost**

The costs of these inputs increase /decrease in proportion to increase/decrease in volume of cost driver are known as variable cost. In other words, If the activity level increased by 60%, the amount of the variable cost also increased by 60%. Variable cost is total increased but it remains constant if expressed on a per unit basis. The variable cost includes following costs:

- Manufacturing costs: Direct material, direct labor
- Variable portion of manufacturing overhead: Indirect materials, suppliers, power etc.

Variable costs show the following characteristics:

- Variable cost per unit is fixed.
- Total variable costs are proportionately related to operate activity levels cost that change proportionately in total but remains fixed per unit is variable.
- Variable cost can be regulated and controlled in the same responsibility center and in the short run as well.

### **b. Step Variable Cost**

Unlike direct materials, the time of maintenance worker is obtained only in large chunks, rather than in exact quantities. Though indirect labor is also sometimes considered to be a variable cost it doesn't behave in quite the same way as direct materials. A cost that increases or decrease only in response to fairly wide changes in the activity level is known as step-variable costs.

### **c. Fixed Cost**

A cost that remains unchanged in total is known as fixed cost. But the fixed costs per unit do change as activity varies. Fixed costs are sometimes referred to capacity costs. There are various capacity levels like: installed/manufactures rated capacity, practical capacity and normal capacity etc.

Some key functions of fixed cost are given below:

- Total fixed costs are constant.
- Fixed cost per unit is variable.
- Fixed costs are regulated and controllable under top management.
- Fixed costs are either capacity cost or the time costs or the committed costs.

#### **d. Steps Fixed Cost (Jumping Costs)**

Some cost remains fixed over wide range of activity level outside that ranged are known as step fixed cost.

#### **2.2.1.7 Cost Estimation**

Profits are the excess of revenues over expense. One major areas of management for proper planning are cost estimation, cost control and cost management. Management must have some ways of estimating fixed and variable cost. Different cost exhibit a variety of cost behaviors. It is a process of determining the cost of certain level of output. Several methods are commonly used to estimate the relationship between cost and activity. Following method might be use to breakdown mixed costs into their fixed and variable elements as well as for the explanation of their relationship (*Wagle and Dahal, 2004:2.18*).

#### **2.2.2 Product Costing Method**

Profits are the excess of revenue over expenses. For the purpose of profit determination on business, finished and semi finished goods in a form need a true and fair valuation. Value of the output (finished and semi-finished goods) is known as the inventorial product cost. Rational method should be required for the proper determination of product cost. The cost of a product or process and there on can be ascertained using the different element of cost according to any of the following two techniques.

### **A. Absorption Costing Method**

Absorption costing is also known as full costing, since all types of manufacturing costs are included as product costs. Absorption costing assumes that fixed along with the variable cost constitutes cost. It absorbs all costs necessary for production. It considers fixed manufacturing overheads as a part of product cost. Absorption costing system can be determined in under mentioned format (*Wagle and Dahal, 2004 :3.5*).

### **B. Variable Costing Method**

Variable costing method is more accurately perceived as direct costing or marginal costing as it applies only the variable production cost to the product. These costing approaches that manufacturing overhead, which is regarded as an expired cost to be immediately charged against sales not as un-expired cost to be held back as inventory and charged against sales later as a part of goods sold. Furthermore the direct costing approach to the inventorying of costs is not confined to only direct method and labor. It also includes the indirect cost the variable manufacturing overhead as a part of product cost. Variable income statement can be determined in under mentioned format (*Wagle and Dahal, 2004 :34*).

### **2.2.3 Responsibility Accounting**

Responsibility accounting focuses on responsibility centers. A responsibility center is a sub unit of an organization under the control of manager who is responsible for the responsibility center. Responsibility accounting collectors and report planned and actual accounting information about the inputs of responsibility center (*Wagle and Dahal; 1994: 432*).

Responsibility accounting is a system of dividing an organization into smaller units in the form of division, segments departments, branches, product line etc., each of which is to be assigned particular responsibilities. A responsibilities

center is a unit of an organization where an individual manager's is held responsibility for the unit's performance. Main responsibility centers are:

- Cost centers
- Revenues centers
- Profit centers and
- Investment centers

The responsibility accounting system involves the major stages: (*siagh, et al., 2004: 16.11*)

- To identify the responsibility centers
- To delegate of authority responsibility
- To control of the object
- To establish the performance evaluation criteria
- To select of cost allocation basis

#### **2.2.4 Cost- Volume- Profit Analysis**

Profit is a must for the survival and growth of any business entity. But profit does not just happen or improve. They are managed. Management of the profit requires planning, activating, coordinating and controlling of divergent organizational activities bearing direct or indirect effect on profit. Managers often classified cost as fixed or variable, when making decisions will affect cost and revenues. Yet, a useful starting point in their decision process is to specify the relationship between the volume of output and cost and revenues. Cost- volume- profit (CVP) analysis serves as a powerful tool in the hands management for profit planning. Cost- Volume- Profit (CVP) analysis examines the behavior of total cost and operating income as changes occur in the output level, the selling price, the variable price per unit and the fixed costs of a product (*Hornger, et al., 2003:562*).

Cost volume profit analysis is the technique of summarizing the effects of change in an organization's volume of activity on its cost, revenue and profit.

Cost – volume- profit analysis applies marginal or variable costing principles while establishing the effect of the future course of activities on the financial result of the firm. Knowledge of how cost behaves in response to change in volume and how profit behave in response to change in cost and volume helps management to make numbers short-term optional decisions relating to cost control and profit maximization. Answer to questions listed below can be obtained from CVP analysis (*Wagle and Dahal, 2004: 4.2*).

- How much sales should be made to avoid loss?
- What should be the sales volume to earn a desired or target profit?
- What will be profit or loss at the specified level of sale?
- What will be the effect of change in price, cost and volume on profit?
- How will profit be the affected when sales mix is changed?
- What will be effect of planned expansion on cost- volume- profit relationship?
- Which product is the most profitable and which one is the least profitable/
- Should the sale of P product or operation of a plant be dropped?
- Should the firm be down temporary or not? etc.

CVP analysis should be used with caution and only as an approximate guide for decision making as rest upon the various simplified such as:

- All cost can be segregated into fixed and variable element.
- Fixed cost will remain unchanged and variable cost varies proportionately with activity.
- Single factor affecting costs and revenues are volume.
- There will be no change in technology, production methods, efficiency, and general price level.
- There are no stock level changes i.e. there is synchronization between production and sales.

- There is single product or in case of multi-product, the sales mix does not change.
- Uncertainty does not prevail etc.

Cost –volume-profit analysis is supplementary tool of profit planning. It tells many things about the relationship between the business variable. Total variable costs are proportionate to the sale volume; whereas the fixed costs remain unchanged within the relevant range of the output levels. That is way net incomes are not in proportionately to sales. Knowing this relationship, one can assess the profit at forecasted sales. Knowing this relationship, one can assess the profit at forecasted sales volume. Likewise, required sales can ascertain for the minimum level of profit (*Bajracharya et al., 2004: 299-300*).

The most widely known from CVP analysis is the break-even analysis. Breakeven analysis determines the breakeven point or sales at which cost and revenue are in equilibrium and net income is zero. Thus break even analysis is a specific way of presenting and studying the inter relationship between cost, volume and profit and is incidental CVP analysis or is often just first step in decision. Contribution margin is the difference between the sales revenues and variable cost of production. Contribution margin consist the fixed cost and profit. So, contribution margin means how is left from sales revenue, after covering variable expenses that is contribution toward the covering of fixed expenses and then toward profit for the period. Contribution margin is used first to cover the fixed expenses, and then whatever remains after the fixed expenses are covered goes toward profit if the contribution margin is not sufficient to cover the fixed expenses, then a loss occurs for the period.

### **2.2.5 Standard Costing**

#### **Concept of Standard Cost**

Standard cost is a scientifically predetermined cost, which is arrived at assuming a particular level of efficiency in utilization of material, labor and indirect service. A standard cost should be based on sound technical and engineering

studies specified production method, work –study and work measurement, clearly defined material specification, and price wages projection. Thus standard cost is planned cost that should be attained under a given set of operating conditions.

A standard cost is a measure of acceptable performance, established by management as a guide to certain economic decision. It is in short, a reflection of what management things a cost out to be (*Lynce & williamson 1983:220-221*).

Standard cost is primarily used for the following purpose:

- Establishing budgets
- Controlling cost and motivating and measuring efficiencies
- Simplifying cost procedures and expending cost reports.
- Promoting possible cost reduction
- Basis for establishing bids and contracts for setting prices etc.

### **Variance Analysis**

The difference between standard cost and actual cost is called variance. If actual performance meets the standard, the achievement is considered good. Variance analysis is a task of comparing the actual performance with the predetermined performance standard to determine how well the targets have been met. If there is big gap between the actual results and the standards, the performance is considered poor. Normally variance can take two forms, namely

- Favorable variance and
- Unfavorable variance

When actual result is better than expect, a favorable (F) variance arises where they are not up to standard and adverse variance arises. Variance helps to pinpoint the responsibilities for poor result. The expression of this relationship can be seen in the simple formula.

Variance = Actual – Standard cost

The favorable and unfavorable variance deserves attention. An unfavorable variance may suggest a condition that may require correction. Favorable variance may suggest an opportunity that management can exploit. Variances, as a control device, are calculated to assign responsibility from the standard cost and thus to control the cost.

### **2.2.6 Budgeting**

Developing a budget is a critical step in planning any economic activity. This is true for business, for government agencies, and individual. We must all budget our money to meet day-to-day expense and to plan for major expenditures. Similarly, business of all types and governmental units at every level must make financial plans to carry out routine operations, to plan major expenditures, and to help in making decisions.

A budget is a detailed plan expressed in quantitative terms that specifies how resources will be acquired and used during a special period of time. The procedures used to develop a budget constitute a budgeting system (*Hilton, 2007:74*).

The various activities within a company should be coordinated by the preparation of plans of action for a future period. These detailed plans are usually referred to as budgets (*Drury, 2000*). The budget is not only a financial plan of actual and anticipated revenues and outlay of the enterprises but is also a document of detailed programs and policies of action which they desire to pursue in the coming years to raise the level of economic activities (*Ghimire, 2004:275*).

#### **Purpose of Budgeting System**

Budgets cover the following major activities for the management process (*Wagle and Dahal, 2004:6.1, 6.2*).

- **Planning:** planning is the process by which managers define goals and take necessary steps to ensure to that those goals are achieved(pant, 2003:111).
- **Facilitating communication:** communication is the transmission of information and understanding through the use of common purpose.
- **Facilitating coordination:** coordination is the process of attaching the action of individual member of division in an organization as a whole. It is a part of group work. Budgeting creates a favorable environment to attain the organizational as well as individual goals.
- **Allocating resources:** generally, an organization's resources are limited, and budgets provide one means of allocating resource among competing used.
- **Controlling profit and operations:** a budget is a plan, and plans are subject to change. Nevertheless, a budge service as a useful yardstick with which actual results can be compared.
- **Evaluating performance & providing incentives:** companies actual results with budgeted results also help managers to evaluate to performance of individual, departments, divisions or entire companies. Since, budgets are used to evaluate the performance. They can also be used to provide incentives for the people to perform well.

### **The Budgeting Process**

Budget is a comprehensive plan of action prepared for achieving objectives. The main objective of business firm is to make an express of revenue over expenses so as to maximize profits. But it is not a matter of dream or chance. There are no magic formulas of boosting the figure overnight. A systemic budgeting should encompass the following procedure (*Welch, et al., 2000: 73-88*).

- Identification and evaluation of external variables
- Development of board objectives of the enterprises
- Development of specific goals for the enterprises

- Development and evaluation of company strategy
- Executive management planning instruction
- Preparation and evaluation of project plan
- Development and approval of strategic and tactical profit plans
- Implementation of profit plans
- Used of periodic performance reports
- Implementation

### **Master Budget**

The master budget is prepared for a specific period and is static rather than flexible. It is the principal output of a budgeting system which is a comprehensive profit plan that ties together all phases of an organization's operations. It is a comprehensive plan, a coordinated set of detailed financial statements of the operating plans and schedule for a short period, usually a year. The master budget or schedule that is interdependent that measure budgeting is a networking consisting of many separate budgets that are interdependent. A master budget normally consists of following types of budget.

**A. Operating Budget:** Operating budget relates to the physical activities, operations of a firm such as sales, production, purchasing, debtor's collection and creditors payment schedule. In specific term an operating budget has the following term:-

**a. Sales Budget:** a sales budget is a detailed schedule of expected sales for coming period. It is usually expressed in both amounts and unit. Once the sales budget has been set, a decision can be made on the level of production that will be needed to support sales and the production budget can be set well. The sales budget is the starting point in preparing the master budget. The sales budget is constructed by multiplying the expected cash receipt for the forthcoming budget period. This computation is needed to assist in preparing the cash budget for

the year. Expressed cash receipts are composed of collection on sale made in the current budget period (*Garrison, 1985: 306*).

Sales budget is prepared from sales forecast. A sale 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 a sales forecast include:

- Past experience in term of sales volume.
- Prospective pricing policy.
- Unfilled order backlogs.
- Market research studies
- General economic condition.
- Industry economic condition.
- Movements of economic indicator such as gross national product, employment, prices and personal income.
- Advertising and product promotion industry competition.
- Market shares.

Sales results from prior years are used as a starting point in preparing sales forecast (*Welch, et al., 1992:173*).

**b. The production Budget:** The production budget specific the planned quality of goods to be manufactured during the budget period. After sales budget has been prepared the production and organized in the form of production budget. Sufficient goods will have to be available to meet sales need and provide for desired ending inventory. The reminder will have to be produced. Thus production needs can be determined by adding budget budgeted sales unit to the desired including inventory and deducting the beginning inventory from the total (*Foster, et al., 1999:182*).

Production budge (in units) = sales units + desired closing – opening inventory

**c. Purchase Budget:** Manufacturing Company purchases raw materials for its products to be product. Purchase budget helps to determine the quality and value of materials required for the budgeted period and also the inventory of materials required for the budgeted period and also the inventory of materials required to be maintained.

**d. Direct Material Budget:** Sufficient raw material will have to be available to meet production needs and to provide for the desired ending raw materials inventory for the budget period. A direct material budget should be prepared to show the material that will be required in the production process. The remainder will have to be purchased from supplies.

Planned material consumption = planned productions units × standard raw material usage per unit of output.

**e. Direct Labor Budget:** The direct labor hour budget is also developed from the production budget. Direct labor requirements must be computed so that the company will know whether sufficient labor time is available to meet production needs, Number of units of finished product to be product each period is multiplied by number of direct labor require to produce signal unit to determine labor hour budget.

Direct labor budget = productions units × hour × cost rate

**f. Manufacturing Overhead Budget:** The manufacturing overhead also known factory overhead. It is the aggregate of indirect expenses of factory department. It includes both variable and fixed manufacturing overhead such as factory rent and rates, lighting and heating, factory power, fuel and insurance, factory salaries, indirect wages and pension, factory stationary and printing etc. in other words, the manufacturing overhead budget should provide a schedule of all cost of production other than direct material and direct labor. A computation showing budged cash disbursement of manufacturing overhead should be made for use in developing the cash budget.

Manufacturing overhead budget = Production units × VMOH rate + Fixed Mfg. Overhead

**g. Selling and Administrative Overhead Budget:** Selling and administrative overhead budget is a significant portion of total expenses plan. It includes both fixed and variable expenses. It includes all cost related to selling, distribution and delivery of products to consumers and an administrative expenses such as clerical ways & executive salaries, supplies, postage & telephone, sales commission & salaries, advertising & sales service expenses etc.

Selling & Administrative Overhead Budget = sale units × rates per unit+ Fixed selling Exp.

### **B) Financial Budget:**

Financial budget are concerned with expected cash receipts/ disbursement, financial, position and result of operation, the companies of financial budget are:

**a. Budgeted Income Statement:** The budgeted income statement is one of the key schedules in the budget process. It is the document that tells how profitable operations are anticipated to be in the forth- coming period. After it has been prepared, it stands as a bench mark against which subsequent company performance can be measured (*Garrison, 1985: 3/3*).

**b. Cash Budget:** Cash budget is the details showing cash receipt, cash disbursement and the cash balance. The cash budget is composed if four major sections:

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

The receipt section of the opening cash balance added to whatever is expected in the way of cash receipts during the budget period and the disbursement

section consists of all cash payments that are planned for the budget. The cash excess or deficiency section consists of the difference between the cash receipts sections totals and the cash disbursement sections totals. And the financing section provides a detailed account of the borrowing and repayments projected to take place during the budget period.

**c. Budgeted Balance Sheet:** Beginning with the current balance sheet adjusting it for the data contained in other budget develops the budgeted balance sheet. It shows the expected end of period balance for the organization assets, liabilities and equity assuming that planned operations are carried out. That is, it is prepared to determine the amount of budget net income on the basis of sales budget, production budget, labor cost budget, overhead budget, purchase budget etc (*Garrison, 1985:3.5*).

### **2.2.7 Flexible Budget & Overhead Cost Control**

A flexible budget is one which is designed to provide information as to sales, expenses and profit for different level of activity which may be attained. A budget prepared in a manner so as to give the budgeted cost for any level of activity is known as a flexible budget. A flexible budget is also called a variable budget, dynamic budget, step budget, sliding- scale budget, expense formula budget and expense formula budget and expense control budget.

Flexible budget calculate budgeted revenues and budgeted cost based on the actual output level in the budget period. A flexible budget is calculated at the end of the period. When the actual output known: a static budget is developed at the start of the budget period based on the planned output level for the period. The fundamental function of the flexible budget applies for expenses that are incurred because of the passage of time, output or productivity activity or a

combination of time and output or activity. Application of fundamental concept of flexible budget means that:

- Expense must be identified as to their fixed and variable components when related to output or productivity activity.
- Expenses must be reasonably related to output or productivity activity.
- Output or productivity activity must be reliable measurable.
- Flexible budget for each expense must be for a specified time period and for a specified relevant range of output or productivity activity.
- For planning and control purpose, flexible budget must be developed for each expense in each responsibility center in an enterprise.

The flexible budget can be prepared from the three methods that is multi-activity method (tabular method), the formula method and the graphic method. The tabular method is budgeted figure for different activity levels are presented under the relevant range. The levels of activity are generally expressed as production units or sales value etc. variable cost per activity base and fixed cost is determined at first. While determining the variable and fixed cost, mixed costs are generally segregated by the using high low method of segregation. And the formula method provides a formula for each express account in each responsibility center. The formula gives the fixed amount and the variable rate per activity rate.

Fixable budget (budgeted allowance) = Fixed cost + (UVC × Actual activity level)

Or

$$Y=FC+UVC \times LA$$

The flexible overhead budget is primary tool for the control of the manufacturing overhead cost. Any organization uses the flexible budget to determine the level of over cost that should have been incurred, given the actual level of activity and then compares the overhead cost in the flexible budget with the actual overhead cost incurred. The first and the foremost thing

to define in case of overhead cost is the appropriate cost driver the factory overheads. Manufacturing/Factory overheads are a pool of many different kinds of costs.

The difference between the standard overhead cost specified for the production achieved, and the actual cost incurred is known as overhead variance. The main objective of analyzing the factory variance is to determine whether the total manufacturing overheads are over or under applied in the cost of production to the given level of output. There are several possible approaches to overhead variance analysis out of them one commonly used approach is three-variance analysis.

### **2.2.8 Decision Regarding Alternatives Choices**

Business has limited resources at their disposal at any time. One of the most important tasks of management is to allocate these resources effectively and efficiently to accomplish the organization's goals and objectives. For the fulfillment of their goals and objectives, the other management accounting tools decision making that are useful to tactical decision of management. It is also very important as well as obviously a difficult task.

Decision making is a process of selecting an optimal course of action from among the alternative course of actions available in conformity with the objectives of the firm. Decision to be made by management can broadly be categorized as regular or routine or normal and irregular or non-regular or special. Routine decision is related to daily affairs and is made repeatedly. Special decision is made when situations arise and therefore are occasional (*Wagle and Dahal, 2004:8:1*).

Decision making is the art of selecting the best alternative among the various alternatives to solve a given problem in case of business. So the tactical decision making process involves five steps mentioned as under:

- Define the problem.
- Identify the alternatives possible solution to the problem
- Identify the predicted cost and benefits associates with each feasible alternative.
- Compare the relevant costs and benefits for each alternative
- Select the alternative with the greatest benefits.

### 2.2.8.1 Types of Decision

There are so many of decision from the accounting point of view. But, here are relating with following types of decision only:

- Make or buy
- Drop or continue
- Accept or reject a special offer
- Replacement of assets
- Sell or further process
- Leasing or purchase

**a. Decision to: Make or Buy:** Buying is the process of obtaining goods from outsidess suppliers instead of producing the same goods within organization. Decision on whether to produce components within to produce companies are called make or buy decision.

**b. Decision to: Drop or Continue:** Dropping or continuing of the manufacturing product may face a problem in management. It is always challenging to continue to operate the facilities as long as product or service solid recover variable cost and make a contribution toward recovery of fixed cost. In deciding whether to continue or drop, expected future revenue should be separated into variable/avoidable and fixed/unavoidable cost. Certain cost-fixed cost- does not eliminate by dropping facilities, like depreciation, interest, property tax and insurance. These costs continue during complete inactivity also (*Munakarmi, 2004:352*).

**c. Decision to: Accept or Reject a Special Offer:** A special order is one of that has been offered for a bulk volume at a reduce price. Opportunity to consider order for a quality of its regular product at a special price, usually less then that charged to regular customers, frequently arises for a management. When there is idle capacity such an offer may be alternative, the basic of decision making should be the different that if will make in the overall profit of the company.

**d. Decision to: Replacement of Assets:** Replacement of assets or equipment is a capital investment or long- term decision require used of discounted cash flow technique. These techniques are discussed in detail in the chapter titled investment analysis but one aspect of assets replacement decision, which is to be understood clearly at this stage, is how to treat the book value of old equipment

**e. Decision to: Sell or Further Process:** Another special decision area that require management attention consists of whether to sell the joint product at split- off point or to process some or all products further. Joint products are these products, which are product in single production process. Join products have common process and join cost of production up to split – off point (*Wagle and Dahal, 2004: 8.11*).

**f. Decision to: Leasing or Purchase:** Leasing is a contract between the lesser and the lessee for the hiring of specific assets that allows lessee relating to the legal ownership with the lesser to obtain possession and use of assets in exchange for lease rentals agreed upon. The lease agreement is two types:

- Operating lease and
- Financial lease

### **2.2.9 Pricing Decision**

When the organization produces the goods and services, it must be needed to set the price for their product. An act of establishing/setting/fixing the price for an organization product or service is called pricing. In other words, pricing is the job or task of assigning exchange value for goods or service provided by organization. Setting the price for an organization product is one of the most difficult or challenging because it should appeal to the customers; beat competitor, recover cost and provide surplus for survival, further growth and expansion etc. So the organization are price taker (When the price is determined by the market) pricing decision is to be made virtually by all types of factors such as market, customer demand, cost of competition, government policy etc. (*Wagle and Dahal, 2004:9.1*).

Economics theory suggests that under certain assumption the profit maximization price and quality are determined by the intersection of the marginal revenues and the marginal cost curves. Actual pricing practices indicate that firm's use "cost based or cost plus" pricing where a 'mark up' for overhead and profit is added to the direct cost. According to information relating to cost plays a role in the respect.

### **2.2.10 Ratio Analysis**

Financial statements provide information about firm's position in time as well as its operations over some past period. However, the real value of financial statements lies in the fact that they can be used to help predict the firm's financial position in the future, and to determine expected earnings and dividends. From an investor's standpoint, predicting the future is what financial statement analysis is all about, while from management's standpoint, financial statement analysis is useful both as a way to anticipate future conditions and more important as a starting point for planning actions that will influence the future course of events.

An analysis of the firm's ratios generally is the first step in a financial analysis. The ratios are designed to show relationship between financial statement account within firms and between firms. Ratio analysis is designed to show the relationship between financial statement at a given point of time and over period of time. The relationship can be expressed on time and percentage either on one side of the balance sheet/income statement or both sides of balance sheet/income statement (*Shrestha, 2004:51*).

### **2.2.10.1 Types of Ratios**

There are various types of ratios can be computed on ground in varieties of ways depending on the figure taken from financial statements, types of analysis and the purpose behind it. Generally, ratios are calculated from the financial statements and management of the firm to know their field or interest. The major groups of ratio analysis can be classified as indicated below (*Wagle and Dahal, 2004: 10.3*).

- Liquidity Ratio
- Leverage or capital Structure Ratio
- Activity or Turnover Ratio
- Profitability Ratio

**a. Liquidity Ratios:** a firm's "liquidity position" deals with the question of how well the firm is able to meet obligations. So, the liquidity ratios are provided the quick measure of the liquidity position or the ability of the firm to meet its current solvency or financial strength of the firm (*wagle and Dahal, 2004:10.3, 10.4*).

**Current Ratio:** The current ratio is calculated by dividing current assets by current liabilities:

Current ratio = current Assets/Current liabilities

**Quick or Acid Test Ratio:** the quick or acid test ratio is calculated by deducting inventories from current assets and then dividing the remainder by current liabilities: quick or acid test ratio = (current Assets – Inventories)/ Current Liabilities

**b. Leverage or Capital Structure Ratios:** Leverage or capital structure ratio shows the degree of extend of debt available by the organization and its capacity to serve such debt. The following ratios are incurred under language ratio (*Munkarmi, 2004:468*).

**Debt Equity Ratio:** It is a test of long- term solvency of the firm. Debt equity ratios measure the relationship between the creditor ship funds.

Debt equity ratio = Long Term Debt/Shareholder Equity

OR,

Total debt equity ratio = Total Debt/shareholder Equity

**Debt to Total Capital Ratio:** Debt total capital ratio is calculated by dividing the long term debts.

Debt to Total Capital Ratio = Total Debt /Total Capital

**Interest Coverage Ratio:** It is determined by dividing earnings before interest and taxes (EBIT) by the interest charges. Ti measures the extent to which operating income can decline before the firm is unable to meet its annual interest costs.

Interest coverage ratio = EBIT / Interest charges

**Fixed charges Coverage ratio:** This ratio is derived when income available to meet fixed charges is dividing by fixed charges. Fixed charge includes interest, annual long term lease obligations and sinking fund payments and the fixed charge coverage ratio is defined as follows:

Fixed charges coverage ratio =

$$\frac{\text{BEIT} + \text{Lease Payments}}{\text{Lease payment} + \text{interest} + \frac{\text{Pref .divi} + \text{repayments} + \text{of loans}}{1 - \text{tax rate}}}$$

**c. Activity or turnover Ratio:** Turnover ratios indicate the degree of conversions of assets into sales. The quicker the conversion in conformity with the investment, the more efficient is the management of the assets. The usual ratio computed under this group comprises:

**Inventory Turnover Ratio:** It explain whether investment in inventories is within limits or not. It is defined as cost of goods sold divided by inventories.  
i.e. Inventory Turnover Ratio = Cost of goods sold / Average Inventories

**Debtors Turnover Ratio:** It is the result of credit sales. It helps to increase the sales and on the head result in typing up substantial funds of a firm in the form of trade debtors which are expected to be converted into cash within a short time period and hence are include in current assets.

$$\text{Debtors Turnover Ratio} = \frac{\text{Credit sales}}{\text{Average debtors}}$$

**Fixed assets Turnover Ratio:** It is calculate to study the efficiency with which fixed assets are used and is computed as:

$$\text{Fixed assets turnover ratio} = \frac{\text{sale}}{\text{Net fixed assets}}$$

**d. Profitability Ratio:** Profitability is the net result of a number of policies and decision. The rations examined thus for provide some information about the way the firm is operating, but the profitability ratios show the combined effects of liquidity, asset, management, and debt management on operating results.

The profitability ratios related with sales such as gross profit margin, net profit margin and operating expense ratio and the also related with the investment analysis such as retuned on total assets, return on net assets, return on shareholder fund, return on equity, earning per share, dividend per share, dividend payment ratio, earning yield ratio, dividend yield ratio, market value

ratio etc. so the profitability ratios are used as a measure to judge the operating efficiency of an organization.

### **2.2.11 Cash Flow Analysis**

Cash flow is a phrase that is used to describe both cash inflow and cash outflow. It is indicated to show all the cash inflow of a firm during a period. Cash inflow and outflow is one of the major management tasks. The analysis of events and transaction that effects the cash position of company is termed as cash flow analysis. While calculating cash flow statement from income statement, adjustments data for prepaid and outstanding expense as well as income must be convert from accruals basis to cash flow statement should report the cash flows during the period classifying on operating, investing and financial activities (*Wagle and Dahal: 2004: 11.1, 11.2*).

#### **2.2.11.1 Operating Activities**

Cash flow from operating activities is primarily derived from the principle revenue producing activities of the enterprise. Therefore, they generally result from the transaction and other events that inter into determination of net profit or loss. It is referred to as working capital, sales and expenses of the business such as sale and collection from customers, cash paid to suppliers and employees, cash paid for operating expenses, interest and taxes, short term bank loan, marketable securities etc.

#### **2.2.11.2 Investing Activities**

The separate disclosure of cash flows arising from financial activities is import because it is useful in predicating claims on future cash flows by provides of capital to the enterprises. So the financial activities are those external source and uses of cash such as lenders, investors and shareholders that affect cash flow. On these activities would include investments in plant and equipment or other fixed assets, nonrecurring gains or losses or other sources of cash outsides of normal operations.

### **2.2.11.3 Financing Activities**

The sparse disclosure of cash flows arising from financial activities is important because it is useful in predicting claims on future cash flows by providers of capital to the enterprise. So the financial activities are those external sources and uses of cash such as lenders, investors and shareholders that affect cash flow. On these activities, there are included such as a new loan, the repayment of a loan, the issuance of stock and the payment of dividend etc.

### **2.2.12 Capital Budgeting**

A number of factors combine to make capital budgeting decisions perhaps the most important ones financial managers must make. Expenditures incurred for acquisition, expansion and modification of fixed assets; research and development expenditure for product development and cost reduction; expenditures incurred in compliance to statutory regulation as to labor, social welfare and environmental issues are major forms for capital expenditure. The impact of capital budgeting is long term thus the firm loses some decision making flexibility when capital projects are purchased.

Capital budgeting is the process of planning and controlling the long term and short term expenditures for expansion and contraction of investments in fixed assets. A major issue in planning capital expenditures is the problem of ensuring that a company has the capacity to produce, acquire or be able to drive the goods and services that will be needed to meet its sales and service plan. A major issue in controlling the actual expenditure of funds is the problem of ensuring that the actual expenditures are consistent with the plans and that funds are available when the expenditure are incurred (*welch, et al., 2000:394,395*)

#### **2.2.12.1 Capital Budgeting Procedure**

The following represent the procedures involved on capital budgeting:

- Generation of investment proposals

- Estimation of cash flows
- Evaluation of investment proposals based on different methods of screening the proposals
- Selecting of the proposals based upon the selection criteria
- Continual revaluation of the proposals after their acceptance (*Wagle and Dahal, 2004:12.1*).

### 2.2.12.2 Capital Budgeting Evaluation Techniques

The capital budgeting evaluation techniques are as follows:

**a. Traditional Methods:** These are the oldest and simplest methods. The traditional methods do not consider the time value of money, they are given below (*Wagle and Dahal, 2004,:12.5,12.6, 12.7, and 12.8*).

**Payback Period:** It is defined as the expected number of years required to recover the original investment, is the simplest and, as far as we know, the traditional format method used to evaluate capital budgeting projects. The payback period can be found using the following formula:

$$PBP = \frac{\text{Year before full recovery of} + \text{Uncovered cost at start of year}}{\text{Original Investment} + \text{Total Cash Flow during Year}}$$

**Average or Accounting Rate of a Return Method:** this method is based in accrual based revenues and cash cost, which is not a cash basic analysis:

$$ARR = \frac{\text{Average income of Profit or Return}}{\text{Average Investment}} \times 100$$

**b. Discounted Cash Flow Method:** to correct for the major defect of any no discounting technique ignoring the time value of money methods were developed to include consideration of the time value of money. The commonly used discounted cash flow methods are:

**Net Present Value (NPV):** Net present value represents the difference between the present value of expected cash outflow and inflows of the investment proposal. To implement this method, we proceed as follows:

- Using the rate of required by the firm for the computation of the present value of all the cash flows, whether inflow or outflow are associated with a project during its life.
- Sum the cash flows present value to get the project's NPV
- A project is considered acceptable if its NPV is positive, it is not acceptable if its NPV is negative. If project with positive NPVs are purchased, the value of the firm will increase, purchasing negative NPV will lower NPV project.

NPV is computed using the following equation:

$$NPV = PV \text{ of Future CFAT} - NCO$$

$$NPV = \frac{A_1}{(1+i)} + \frac{A_2}{(1+i)^2} + \frac{A_3}{(1+i)^3} + \frac{A_n}{(1+i)^n} - A_0$$

Where,

A to n = Cash flow in the period o to n.

i = Discount rate

**Profitability Index (PI):** The profitability index is the is the time adjusted capital budgeting techniques. It is similar to the NPV approach. It is the ratio of present value of net cash benefits to the present value of net cash outlay. It measures the present value of return per rupee invested, while the NPV is based on the difference between the present value of future cash inflow and the present value or cash outlays. If the PI is greater than one, then the project should be accepted but if the PI is less than one then the project should be rejected (*Wagle and Dahal, : 12.12*).

$$\text{Profitable index} = \frac{\text{Present value of CFAT}}{\text{Net cash outlay (NCO)}}$$

**Internal rate of return (IRR):** IRR is the rate of return the firm expects to earn if the project is purchased; thus it is defined as the discount rate that equates the present value of a project's expected cash flow to the investment outlay, or cost. As long as the rate of return expected from a project is greater than the rate of return required by the firm for such an investment, the project is acceptable. The IRR can be computed as (*Wagle and Dahal, 2004:12.12*).

IRR = Discount rate at which PV of annual CFAT/NCO

$$\text{IRR} = \text{Lower\%} + \frac{\text{Lower \% value} - \text{NCO}}{\text{Lower \% value} - \text{higher \% value}} \times (\text{HR} - \text{LR})\%$$

### 2.3 Review of Previous Studies

Studies in the area of management accounting practices in Nepalese context are not made. But many researches have been made in the area of profit planning and control in Nepalese context. As profit planning and control covers some of the aspects of management accounting, researches made on these areas are taken into consideration for the sake of review to examine how profit planning and control practices in Nepalese companies. Many of the researches have been made of manufacturing concerns and except a few most of them are not profound. An attempt is made here to review some of the researches, which have been submitted in profit planning and control in the context of Nepal.

Researches in the area of management accounting practices in Nepalese context are done but previous studies were not focus on dairy industry of Nepal. Management accounting is an important part for every organization. Many of the researches have been made in the area of profit planning and control, and it covers some of the aspects of management accounting. The review is made here

to review some of the researches, which have been submitted in practice of management accounting in the context if Nepalese enterprises.

### **2.3.1 Review of Articles**

**Asian Development Bank (2010)** has conducted a study over Nepal government accounting and auditing standard. This study pointed many weaknesses in the system of government account and they suggest adopting either international public sector accounting standards or National accounting Standards (NASs). The findings of the diagnostic survey included the following:

- There is no complete reporting of government cash founds.
- There is no reporting of government assets, liabilities or equity.
- There is no accounting policies established for financial reports.
- There are deficiencies in reconciliation controls and balance confirmation.
- There no general ledger maintain for recording transactions.
- There is no audit opinions issued on the central financial reports.
- There is lack of financial reporting for management purpose.
- There prime recording for financial reports are maintained manually.
- There are no complete databases of various off- budget found maintains.

### **2.3.2 Review of Previous Research Works**

**Sharma (2002)** has conducted a study entitled “*Management Accounting Practices in the Listed Company of Nepal*”. This study has concerned to examine and study the practices of management accounting tools in the listed companies as percent Nepal Stock Exchange. This study is based only in primary data.

**His Main Objectives:**

- To study and examine the present practice of management accounting tools in the listed companies in Nepal.
- To identify the area where MA tools can be applied to strength the company.
- To identify the difficulties in applying MA tools and Nepalese companies.
- To make recommendation to overcome the difficulties in applying management accounting tools in Nepalese companies.

**His Major Findings:**

- Almost of the companies practiced capital budgeting, cash flow, ratio analysis and annual budgeting for planning, controlling and decision making.
- Payback period and net present value of capital budgeting were practiced for long term investment decision making and fixed assets purchase decision making.
- Most of the companies followed cost based pricing method for pricing the product and services but target cost pricing practice was nil in the listed companies of Nepal.
- The nature and scope of the business some manufacturing companies practice transfer pricing.
- Companies were practicing most of the privileged tools of management accounting such as sensitivity analysis, judgment analysis, past actual expenses basis for budget preparation.
- Companies were not pricing new advanced technique of management accounting such: Zero base budgeting, activity based costing and target costing because of the lack of information and cognizance about the tools.

**Acharya (2006)** has conducted a study on topic “*Management Accounting Practice in Nepalese Public Enterprises.*” The study has mainly focused to practices of management accounting tools in public enterprises of Nepal. The necessary information was accumulated from primary and secondary sources of data.

**His Main Objectives:**

- To study and examine the extent of practice of management accounting tools and techniques made in Nepalese PEs.
- To identify the business sector, where management accounting tools can be applied to strengthen the PEs.
- To identify the major difficulties for applying the management accounting tools in Nepalese companies.
- To make recommendation to overcome the difficulties in applying management accounting tools and techniques in Nepalese PEs and other business companies.

**His Major Findings:**

- Annual budgeting and cash flow statement are widely practicing tools in public enterprises.
- Break-even analysis, capital budgeting, financial statement analysis, flexible budgeting was less practiced.
- Standard costing, responsibility accounting and CVP analysis weren't practice in trading sector.
- Most of the managerial accounting tools were used in services enterprises.
- Expected standard costing all of the managerial accounting tools were practicing by financial institutions. But the using ratio of management accounting tools was not sufficient.
- Past actual expenses was widely in use while preparing the budget.

- Capital budgeting tools PBP, ARR and NPV were widely in practices while making the long-term investment decisions by enterprises.
- Cost based transfer pricing technique was widely in practices by enterprise. Some of enterprises also making the negotiation transfer pricing.

**Karki (2009)** has conducted a study entitled “*Management Accounting Practices in Joint Venture Banks of Nepal*”. The main focus of this study was the application of management accounting tools and its effectiveness in joint venture banks if Nepal. The necessary information was collected from both the primary and secondary sources of data. This study has pointed out various finding and recommendation. Some remarkable findings of the study are:

- Capital budgeting, Cash flow, ratio analysis and annual budgeting where widely practice for planning, controlling and decision making.
- Profitability index and NPV technique of capital budgeting practiced for long term investment decision and fixed assets purchase decision – making.
- Banks mostly practiced preparation of master budget and annual budgeting to carry out operational activities properly.
- Zero base budging and activity base budgeting were not in
- Most of the bank followed profit and loss criteria, ratio analysis and cash flow for performance measurement and control.
- Going rate pricing were practice for pricing the product and service.

**Shrestha (2009)** has conducted a study in the topic “*Management Accounting Practices in The Public Financial Sector in Nepal*”.

**His main objectives:**

- To evaluate the process of planning controlling and decision making process of public financial sector in Nepal.
- To identify the major difficulties for practicing the management tools in public financial sectors in Nepal.

- To make suggestion and recommendation to overcome the difficulties in practicing management accounting tools and technique in public financial sectors in Nepal.

**His Major Findings:**

- This study on practice of management accounting tools in PEs of Nepal for planning, controlling and decision making process found that annual budget, financial statement analysis and cash flow statement are mostly practiced.
- Reasons for not practicing management accounting tools were lack of expertise, high cost, no information about the tools and government policies.
- The types of budget practices in PEs of Nepal were operational budget, cash budget, master budget and program budget.
- The committee and finance department of PEs of Nepal used to prepare budget. But planning department and outside experts are not taken for budget preparation.
- Average method of segregation mixed cost was used maximum of PEs of Nepal. But analytical method and regression method are less practiced. High low point method was not practiced by PEs of Nepal.

**Shrestha (2011)** has conducted a study on the topic “*Management Accounting Practices in the Public Trade Companies of Nepal.*” The study has focused has study to examine the practice of management accounting tools in public trade companies in Nepal. This study was based on only primary source of data.

**His Main Objective:**

- To find out the management accounting tools and techniques use in public trade companies in Nepal.

- To identify the process of planning, controlling, and decision making process of public trade companies in Nepal.
- To identify the management policy towards the management accounting tools and techniques.
- To identify the major difficulties in using management accounting tools and techniques in public trade companies in Nepal.
- To make suggestion to overcome the difficulties in practicing management accounting tools and techniques in public trade companies in Nepal.

### **His Major Findings:**

- Management accounting is help to managers to formulate organizational strategies as well as policy. PEs as practicing management accounting tools such as capital budgeting, annual budgeting, cash flow and ratio analysis.
- Management accounting is helps to managers to formulate organizational strategies as well policy for decision making.
- Lack of information and cognizance about management accounting tools are the main factors causing problem in the application of such tools.
- Nepalese public trade companies were prepared budget by committee, planning department and chief of finance division mostly. It is also recommended to take outside expert services for budget prepared.
- Nepalese public trade company should practice not only full cost pricing and transfer cost pricing but also activity based cost pricing and variable cost pricing.
- Nepalese public trade companies should use not only profit and loss account but also use/practice standard costing , budgetary control, ratio analysis , cash flow analysis and activity based costing for evaluation of overall performance of companies at the end of the accounting year.

**K. C. (2011)** has conducted a study on the topic “*Management Accounting Practice in Public Enterprises*”. The study has focused to examine the practice of management accounting tools in public enterprises. The study was based on only primary sources of data.

**His Main Objectives:**

- To study and examine the present practice of management accounting tools in public enterprises in Nepal.
- To identify the areas where management accounting tools can be applied to strengthen the public enterprises.
- To identify difficulties in applying management accounting tools in Nepalese public enterprises.
- To make recommendations to overcome the difficulties in applying management accounting tools in Nepalese public enterprises.

**His Major Findings:**

- Different types of management accounting tools, which are taught in the colleges, are not found applied by public enterprises.
- Management accounting is help to managers to formulate organizational strategies as well as policy. PEs as practicing management accounting tools such as capital budgeting, annual budgeting, cash flows and ratio analysis. And not practicing management accounting tools such as zero based budgets, activity based budgeting, activity based costing, target costing and value engineering.
- In PEs hiring outside experts for carrying out different activities are almost nil because of high cost.
- PEs is with the concept that management accounting is similar to financial accounting.
- Lack of information and cognizance about management accounting tools are the main factors causing problem in the application of such tools.

## **2.4 Research Gap**

There is a vast gap between the present research and previous researches. Most of the previous researches of account have been conducted on profit planning and control by convening the budgeting practices in manufacturing companies, especially in PEs. They were either a case study of particular company or a comparative study of two different companies. Such a few numbers of researches have been made in the area of receivables management inventory management, CVP analysis, financial performance analysis, capital expenditure planning and so on. But these all are only a part of management account. This cannot represent the overall practices of management accounting in Nepalese companies. Most of the dissertations have been prepared based on secondary data and all of the findings are similar to each other. The previous researches did not disclose which of the management accounting tools are in practices which are not and why. Thus to fill up this gap the current researcher is conducted. This research is a survey type of research is completely based on the primary sources of data. It examines the current practices of management accounting tools Nepalese PEs. It has disclosed the reason about the tools which are not practiced by the companies and has suggested to apply new tools such as zero budgeting, activity costing, target costing, ROL pricing, market survey in managerial activities of planning, controlling and decision making. This study has clearly describes, which of MA tools and techniques are practicing and which are not practicing till now. The research also discloses the major difficulties for the proper application of MA in Nepalese PEs.

## **CHAPTER –III**

### **RESEARCH METHODOLOGY**

Research methodology is concerned with various and techniques, which are used in the process of research studies. It includes wide range of methods including quantitative technique for data analysis and presentation. It facilitates the research work and provides reliability and validity to it. The main objective of this study is to analyze, examine and interpret present scenario management accounting practiced in public enterprise. The research methodology is follow to achieve the basic objectives and goals of research work. The major components of research methodology followed in this research are discussed below.

#### **3.1 Research Design**

This research design has followed a descriptive design that attempts to measure the management accounting practices in Nepalese public enterprise. However it also flows the casual research design that measure the relationship of management accounting practices with the performance. Descriptive design is a fast finding operation searching for adequate information. It is a type of study, which is generally conduced to assess the opinions, behavior or characteristic of a given population and to describe the situation and events occurring at present. Descriptive research is a process of accumulating facts. It does not necessarily seek to explain relationship, test hypothesis, make predications or get at meaning and implications of the study.

#### **3.2 Population and Sampling**

The entire public enterprises i.e. 36 are considered as population of the study which is divided in to business sector from heterogeneous. A simple judgment sampling procedure is used to drawn the sample from each group. In this way 21 PEs has been taken as sample by using stratified judgment sampling for

proportionate allocation of population, which represents 58.33% of total population. The table given below clearly describes the total population, sample population and percentage of the sample on total population of the research.

### **Sampling Procedure**

S.N	Business sector	Total population	Total population	Sample Draw	Sample (%)
1	Industrial Sector	7	7	4	57
2	Trading Sector	6	6	4	67
3	Service sector	7	7	4	57
4	Social service sector	5	5	3	60
5	Public Utility sector	3	3	2	67
6	Financial Sector	8	8	4	50
	<b>Total</b>	<b>36</b>	<b>36</b>	<b>21</b>	<b>58.33</b>

### **3.3 Nature and Source of Data**

The data mainly collected from primary source. Primary data were collected through the structured questionnaire.

### **3.4 Data Collection Procedure**

For the reliability and effectiveness of research work true and correct information are essential. In order to achieve the objective of the study primary information is the original source of this study. But several secondary data have been used. Primary information is the original source of this study with prior appointment to the concerned authorities of public enterprise. As per requirement of the study these information have been collected from PEs fir meeting the specific objective through developing the schedule questionnaire. And distributed it to the concerned authorities like department chief of finance/ accounts, managers who was available as well as responsible. Some public enterprises did not feel and show responsibility to provide information. Some public enterprise provide the information kindly showing interest and accepting

awareness of the context and to get more information kindly showing interest and accepting awareness of the context and to get more information, discussion, personal interview, observation, opinion survey also conducted with the concerned authorities. But several secondary data have been also used in this research. To find out the identification, condition capacity, performance of public enterprises, such types of data were used. It helped the researches to get information.

### **3.5 Data Processing and Analysis Techniques**

The answer received from questionnaire need tabulation and analysis. The data are classified and tabulated with a systematic manner in a frequency distribution form. The data are tabulated into various tables according to the subject's requirement processing of data has been done in computer by using Ms. Excel program. Simple percentage tools have been applied to analyze and interpret the finding. Most of the analysis and interpretation are expressed in special group of enterprise. PEs individual special practices have been also interpreted in some cases.

The statistical tool like Chi- square ( $X^2$ ) is used to test the hypothesis. For the test of hypothesis, the PEs are classified into manufacturing and service PEs group. The industrial sector is kept in manufacturing enterprises and remaining sectors kept in non-manufacturing or service enterprises.

### **3.6 Tools for Analysis / Test of hypothesis**

Management Accounting is the process of identifying measuring, analyzing, interpreting and communicating information for searching the goal of the company. To achieve the objectives of company certain management accounting tools be used. Major management accounting tools such as segregation, estimation, allocation, classification of cost application of marginal, absorption standard and opportunity costing, applicable of budget, valuation, control and management of inventory, profitability analysis, cost

volume profit analysis, analysis of financial statement, cash and fund flow analysis, flexible budgeting, activity based costing, responsibility accounting are the main research variable in this thesis. The other statistical tools like chi-square ( $X^2$ ) are used to test the hypothesis.

### **3.7 Reliability and Validity of the Data**

The data and information were collected from the primary source to meet the specific objectives of the study. It makes the research work more valid, reliable and objectives of the study. The major portion of reliability and validity of data depend upon the interest, level, professionalism, intension, nature, age, and capacity of the respondents. The study has tried to the authentic and prime authorities of the enterprises to get the current information with personal discussion, observation and opinion survey. Check and balance type's questions and were also included in the questionnaire.

### **3.8 Research Hypothesis**

Research hypothesis is an educated guess about the overcome of an empirical test designed to answer a research question (*Wolff & pant, 2005:430*). To make the research specific, process and objective, hypothesis is tested related to the dependency and independency of PEs in practicing of MA tools. Broadly the public enterprise are classified into two categories, i.e. manufacturing and service (non- manufacturing) companies for the sake of hypothesis, industrial sector is kept in manufacturing companies and other remaining sectors are kept in service companies. For the statistical purpose, following hypothesis has been tested.

#### **Hypothesis: I**

**Null Hypothesis (H<sub>0</sub>):** There is no significance difference between the practices of MA tools and technique in the manufacturing and service companies. (Practice of MA technique and type of companies are independent).

**Alternative Hypothesis (H1):** There is significance difference between the practices of MA tools and technique in the manufacturing and service companies. (Practices of MA techniques and type companies are dependent).

**Hypothesis: II**

**Null Hypothesis (Ho):** the major accounting related decision does not depends on the result of management accounting technique. (Major accounting related decision- making process and management accounting technique are independent.)

**Alternative Hypothesis (H1):** the major accounting related decision depends on the result of management accounting technique. (Major accounting related decision- making process and management accounting technique are dependent.)

## **CHAPTER – IV**

### **PRESENTATION AND ANALYSAIS OF DATA**

The basic objectives of this study as started in chapter one is to have true insight in to the present practice of “Management Accounting practice in Nepalese Public Enterprises.” To achieve the specific objectives of the research, this chapter presents the presentation, analysis and interpretation of data. Now in this study the effort has been made to assess and analysis the management accounting practices and to disclose the actual position of ‘management accounting practice’ in Nepalese public Enterprises.

It is survey types of research. So the study is based on the primary source of information. The data has been collecting from the respective public enterprises by developing the structured questionnaires. For the facilitating to the study, the enterprises are classified in to six different business sectors as per the nature and function performed by the company. Out of the total population about 58.33% has been used as a sample by using stratified judgment sampling. The table has been developed based on the subject matter of questions. For the analyzing and interpreting of finding, the simple percentage tool has been applied. Most of the analysis and interpretation has expressed in special group of enterprises that is industrial sectors, trading sectors, service sectors, public utility sectors and finance sectors. Individual practices and open- ended operations of PEs have been also analyzed, interpreted and arranged as per requirement.

The statistical tools chi- square ( $X^2$ ) has also used to test the hypothesis related to the management accounting. Two different hypotheses have been tested.

#### **4.1 Percentage analysis of management accounting tools practice In Nepalese public enterprises**

The given table 4.1 represents the present practices of management accounting tools in Nepalese PEs. The prime tools of management accounting that is cost correlation, cost volume profit analysis, standard costing, flexible budget and overhead cost control, budgeting annually, budgeting long term, responsibility accounting, ratio analysis, cash flow analysis and capital budgeting has been used in survey to identify the present practice of management accounting in Nepalese public Enterprise and also practiced by different business sector which have been expressed in percentage.

**Table 4.1**  
**Present Practice of Management Accounting Tools**

S. N	Sectors Tools	Industrial		Trading		Service		So. Service		p. utility		Finance		Total/ %
		No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	
1	Cost Segregation	-	-	1	25	1	25	-	-	-	-	2	50	4/19
2	Cost volume profit analysis	2	50	-	-	1	25	1	33	1	50	1	25	6/29
3	Standard costing	2	50	-	-	1	25	-	-	-	-	1	25	3/14
4	Flexible budget and overhead cost control	-	-	1	25	-	-	1	33	-	-	1	25	3/14
5	Budgeting annually	4	100	4	100	4	100	3	100	2	100	4	100	21/100
6	Budgeting long term	-	-	1	25	-	-	-	-	-	-	3	75	4/19
7	Responsibility Accounting	3	75	2	50	1	25	2	67	-	-	3	75	11/52
8	Ratio analysis	3	50	1	20	1	25	1	33	1	50	3	75	9/43
9	Cash flow analysis	3	75	3	75	2	50	2	67	2	100	3	75	15/71
10	Capital budgeting	1	25	2	50	1	25	-	-	2	100	-	-	6/29
Total		18		15		11		10		8		20		

*Source: Field Survey, 2012*

In the context of industrial/ Manufacturing sectors, there is found only fully practiced of annual budgeting. Responsibility accounting and cash flow analysis are the second higher practicing (which is 75%) in industrial sector; cost volume analysis and ratio analysis are being practiced by 50% industrial sectors. Capital budgeting is practiced by 25% industrial sectors but standard costing, flexible budget and overhead cost control, long term budgeting have not found in practicing in industrial sectors.

In case of trading sectors, here is also found fully practiced of only annual budgeting. Whereas, cash flow analysis is practicing by 75% Similarly, responsibility accounting and capital budgeting are practicing by 50% in trading sectors and cost segregation, flexibility budgeting and overhead cost control, long term budgeting and ratio analysis are practicing by 25% in trading sectors. But cost volume profit analysis and standard costing have not found in practicing in trading sectors.

Similarly, in the context of service sectors, here is also found fully practicing of annual budgeting. Then, cash flow analysis is practicing by 50% from these sectors. On the same way, cost segregation, cost volume profit analysis, standard costing, responsibility accounting and capital budgeting are practiced 25% from service sectors. But here are also not found to practice of flexible budgeting, long- term budgeting and ratio analysis on these sectors.

On the same way in social service sectors, 100% of these sectors are practicing of annual budgeting and the secondly, 67% of these sectors are practicing of responsibility accounting and cash flow analysis, Similarly, cost volume profit analysis, flexible budgeting and overhead cost control and ratio analysis are practicing by 33% from these sectors. But here are also not found to practice of cost segregation, standard costing, long- term budgeting and capital budgeting on these sectors.

In public utility sectors, here are found to fully practice of annual budgeting, cash flow analysis and capital budgeting whole cost volume profit analysis and ratio analysis are practicing by 50% on these sectors. Cost segregation, standard costing, long- term budgeting and responsibility accounting have not found in practice on these sectors.

So far in financial sectors, 100% of financial sectors are practicing only the annual budgeting. Long term budgeting, responsibility accounting, ratio analysis and cash flow analysis are practicing by 75% on these sectors while cost segregation is practicing by 50% on these sectors. Similarly, cost volume profit analysis, flexible budgeting and overhead cost control are practicing by 25% of financial sectors. On the sectors, standard costing and capital budgeting have not found to practice.

In sum up, 100% total enterprise are practicing the annual budgeting, 71% cash flow analysis, 52% responsibility accounting, 38% ratio analysis, 29% cost volume analysis and also capital budgeting, 19% cost segregation and long-term budgeting and 14% standard costing and flexible budgeting and overhead cost control have found in practice in Nepalese PEs for the management decision for covering planning and controlling.

Thus it can be concluded that the widely used tools in Nepalese PEs are annually budgeting and secondly cash flow analysis. Then responsibility accounting, ratio analysis, CVP analysis and capital budgeting, and OH cost control respectively are used in practice, which are planning nominal role to the Nepalese PEs.

#### **4.2 Reasons for Non- practicing the MA tool and techniques in Nepalese Public Enterprises**

The given table 4.2 shows the level of reason for not practicing of the prime accounting tools which has mentioned in topic of no 4.2 for the management

decision. In the context of Nepalese PEs, there are so many reasons for not practicing of management accounting, which are described under with sector wise with the help of questionnaire surveying purpose.

**Table 4.2**  
**Reasons for Non- practicing the MA tool and technique**

S.N	Reason for non-practicing MA	Population	Sample		Lack of Expertise		High cost		No inf. tools	
			Size	%	Size	%	Size	%	size	%
1	Industrial Sector	7	4	57	2	50	2	50	3	75
2	Trading Sector	6	4	67	1	25	2	75	3	75
3	Service sector	7	4	57	1	25	-	-	-	-
4	Social service sector	5	3	60	1	33	1	33	-	-
5	Public Utility sector	3	2	67	-	-	1	50	1	50
6	Financial Sector	8	4	50	2	50	2	50	1	25
Total		36	21	58	7	53	8	38	8	38

*Source: Field Survey, 2012*

In the context of industrial sectors, the maximum i.e. 75% of these sectors have no information to use all the prime tools of accounting and 50% of the industrial sectors have no practiced all prime tools to the lack of experience and high cost reason.

In case of trading sector, here are also not practicing by 75% of these sectors due to the reason for no information for the applying all prime tools for management accounting. Similarly lack of experience and high cost reason 50% each on these trading sectors have not practiced of prime management accounting tools.

In service sectors, 25% of total service sectors have not used of all prime management accounting tools due to the lack of experience reason. Rest 75% service sectors have not specified any reason on this matter for not using all prime management accounting tools. On the same way for the social service sector, here is also 33% of total service sector have mentioned for not using prime management accounting tools due to the lack of experience and high cost. The remaining social sectors have not mentioned about the specific reason for not using the prime management accounting tools for the managing decisions.

Similarly, 50% of the total public utility sectors have mentioned for not practicing of the prime management accounting tools due to the high cost and get the proper information. But the remaining 50% of this enterprise are not practicing because of the poor service and shortage of product. Regarding in financial sector, lack of the experience and high cost about the tools becoming the main reason in 50% financial sectors for non- practicing the management accounting. And the only 25% financial sectors have mentioned for not practicing the all prime management accounting tools.

In sum up, out of total public enterprise 38% of companies are mentioned from high cost and no information for the non- practicing of prime management accounting tools and out of the 33% of PEs are mentioned of lack of experience for non-practicing of prime management accounting tools. It can be conclude that annual budgeting is widely is used tool in Nepalese public enterprise. Beside it responsibility accounting and cash flow analysis are used as major management accounting tools.

### 4.3 Percentage Analysis of Management Accounting Techniques

#### Practices in Nepalese Public Enterprises

##### 4.3.1 Practices of Segregation of Mixed Cost in to Fixed and variable

The table 4.3 represents the practice of segregating mixed cost into fixed and variable in the Nepalese enterprise. Usually four different methods i.e. high-low point method, regression analysis method, average analysis method and analytical method have been used to segregate the mixed cost in questionnaire. In these types of costs, some of part contains from fixed cost and some of parts contains from variable cost. To perform the better managerial function from planning and control, it must be necessary to segregate into fixed and variable. It helps to the manager for the decision and effective for planning and controlling.

**Table 4.3**

#### Practices of segregation of Mixed Cost into Fixed and Variable

S.N	Decision Technique	Population	Sample		High low		Regression		Average		Analytic	
			Size	%	No	%	No	%	No	%	No	%
1	Industrial	7	4	57	-	-	-	-	3	75	-	-
2	Trading	6	4	67	-	-	-	-	3	75	-	-
3	Service	7	4	57	-	-	-	-	-	-	1	25
4	Social Service	5	3	60	-	-	-	-	-	-	-	-
5	Public Utility	3	2	67	-	-	-	-	1	50	-	-
6	Financial	8	4	50	-	-	-	-	3	75	1	25
Total		36	21	58	-	-	-	-	10	48	2	10

*Source: Field Survey, 2012*

From the above table, 75% of the industrial sectors are practicing average method to segregate the mixed cost into fixed and variable and 75% of trading sectors and financial sectors are practicing the same method. Similarly, 50% of

public utility sectors are practicing the same method to segregate the mixed costs into fixed and variable. However, service sectors and social sectors have not found to practice of average analysis method of management accounting tools for the planning and controlling decision.

Secondly, 25% of the service sectors and financial sectors are found to practice are found to practice the analytical method for this purpose but the remaining 75% of the service sectors have not found to use of any other practice of other segregate the cost. The other remaining sectors that is industrial, trading, social service and public sectors have not also found to practice the analytical method of management accounting tools for the decision of planning and controlling.

High-low method and regression method which are the effective and real techniques to segregate the mixed costs have not found to practice these methods in Nepalese Es of management accounting tools for the decision of planning and controlling.

Out of the total companies, it is found that the maximum practice of segregate the cost in Nepalese PEs of management accounting tools is average analysis method which is 48% and second practice is analytical method which is only 10%. The reason behind the non –practicing of high-low method and regression method have found that the authorities are not aware about the tools and techniques. Almost of the sectors said for non-practicing these method which are very difficult to calculate, time consumed and also an expensive technique than the average and analytical methods. But the public sectors said that it is not applicable for practicing the all segregation of mixed costs into fixed and variable cost.

It can be said that average and analytical method are widely used technique because it consume less time, money and it is easy to calculate.

### 4.3.2 Practicing of Budget

There are three types of budget i.e. operating budget, cash budget and overall master budget had used for business sectors.

**Table 4.4**  
**Practicing of budget**

S.N	Types of Budget Sectors	Population	Sample		Operating Only		Cash only		Overall master	
			Size	%	Size	%	Size	%	size	%
1	Industrial Sector	7	4	57	3	75	-	-	1	25
2	Trading Sector	6	4	67	-	-	1	25	3	75
3	Service sector	7	4	57	3	75	-	-	1	25
4	Social service sector	5	3	60	2	67	1	33	-	-
5	Public Utility sector	3	2	67	2	100	-	-	-	-
6	Financial Sector	8	4	50	1	25	-	-	3	75
Total		36	21	58	11	52	2	19	8	38

Source: Find Survey, 2012

In the context of industrial sector, 75% of manufacturing PEs are practicing cash budget only, and remaining 25% of the same enterprise are practicing overall master budget of management accounting for the decision of planning and controlling.

In case of trading sectors, 75% of trading PEs are practicing overall master budget and remaining 25% of the same PEs are practicing only cash budget. The operating budget only has not found to practice on these trading sectors.

In case of service sector, 75% of the service sector are practicing operating budget only and remaining 25% of service sectors are practicing only overhead

master budget. In these sectors, there has not found to practice of cash for the planning and controlling decision.

In the context of social service sectors, 67% of this PEs is practicing only operating budget and remaining 33% enterprise are practicing cash budget only to provide their social type service. The public utility sectors are found full practicing of operating budget only for operational activities. In the financial sectors, 75% of PEs are practicing overall master budget and remaining 25% of PEs are practicing operating budget only.

In sum up, 52% PEs are practicing operational only, 38% PEs are practicing overall master budget and remaining 10% practicing cash budget only to carry out their day-to-day operating budgeting has found mostly practiced in Nepalese public enterprise. It can be said that the overall master budget and cash budget are being practiced by Nepalese public enterprises. Cost volume profit analysis and standard costing have not found in practicing.

#### **4.3.3 Base of Preparing Budget**

The below table reveals the base for budgeting preparation in Nepalese PEs. Different four types namely based on past budget estimate, based on past actual expense, zero based budget and activity based budget have mostly used for this purpose. So these four types of option have included in survey and the survey found that the following result

**Table 4.5**  
**Base for Preparing Budget**

S.N	Decision Technique	Population	Sample		Past budget Estimate		Past Actual Expense		Zero Based Budget		Activity Based	
			Size	%	No	%	No	%	No	%	No	%
1	Industrial	7	4	57	3	75	2	50	1	25	1	25
2	Trading	6	4	67	2	50	3	75	-	-	1	25
3	Service	7	4	57	2	50	3	75	-	-	2	50
4	Social Service	5	3	60	2	67	3	100	-	-	-	-
5	Public Utility	3	2	67	2	100	2	100	-	-	1	25
6	Financial	8	4	50	2	50	4	100	3	75	1	25
total		36	21	58	13	62	17	81	4	19	6	29

*Source: Find Survey, 2012*

In industrial sector, 755 of manufacturing PEs are practicing the past budget estimate, 50% enterprise are practicing the past actual expenses and 25% enterprises are practicing the zero based budget and activity based as a base to prepare of budget. Herbs production and processing Co. Ltd is taking two bases, past budget estimate and past actual expenses as base to prepare the budget.

In the context of trading sector, 50% enterprise are practicing the past budget estimate, 75% of these enterprise are taking past budget estimate for the base of preparation the budget and 25% are practicing activity base for the preparation of budget. Here, zero base budgets has not found in practice for the preparation of budget. In case of sector, 50% enterprises are also practicing the past budget estimate and activity based for the base to prepare the budget and 75% enterprise are practicing past actual expenses as a base to prepare the budget. In

this sector, CAAN and IDML are taking three elements and NAC is taking two elements as a base to prepare the budget. Here is also not found to practice of 'zero base' base of budget preparation in practiced.

Similarly in social service sector, 100% enterprise are practicing to prepare budget on the basis of past actual expenses and 675 enterprises are also practicing to prepare the budget on the basis of past budget estimate. Gorkhapatran Sansthan has found to practice only past actual expenses on a basis for the preparation budget. Zero based budget and activity based budget have not found in practice for the preparation of budget.

Likewise in public utility sector, 100% enterprise are practicing to prepare budget on the basis of past budget estimate and past actual expenses and also 50% enterprise are practicing the budget on the basis of activity based budget. NTC is also found to use of activity based budget for the preparation of budget. Zero base budget has not found in practically use in these sector for the preparation of budget.

Finally, in financial sector, 50% enterprise are practicing to prepare the budget on the basis of past budget estimate and 100% enterprise are practicing to prepare the budget on the basis of past actual expense. Agriculture development Bank, Karmacharei Sanchay Kosh and Rastriya Banijya Bank are also using the budget on the basis of zero budget. Rastriya Banijya Bank are also using the budget on the basis of zero base budget. Rastriya Banijya Bank is using activity base budgeting techniques.

In sump up, 85% of the total PEs are practicing past actual expense s, 62% enterprises are practicing past budget, 29% enterprises are practicing actually base budgeting and 19% enterprise are practicing zero based as a base to prepare of budget.

Thus from the sector above survey, it is cleared that the most of the enterprise widely practicing the past actual expenses and past budget estimate as a base to base to prepare the budget. The used of zero based has only found to practice in financial sector in certain case.

#### 4.3.4 Responsible for Budget Preparation System

The below table 4.6 respects the budgets preparation system practiced in Nepalese PEs. Normally, budget committee, planning department, finance department and outside expert has been involve to prepare the budget. Above mention four alternatives has been included in an option while making the survey.

**Table 4.6**  
**Responsible for the budget Preparation system practice**

S. N	Decision Technique	Population	Sample		Committee		Planning Department		Finance Department		Outside Expert	
			Size	%	No	%	No	%	No	%	No	%
1	Industrial	7	4	57	2	50	3	75	2	50	-	-
2	Trading	6	4	67	3	75	2	50	1	25	-	-
3	Service	7	4	57	2	50	2	50	1	25	-	-
4	Social Service	5	3	60	1	67	1	67	3	100	-	-
5	Public Utility	3	2	67	-	-	2	100	2	100	-	-
6	Financial	8	4	50	-	-	2	50	3	75	-	-
Total		36	21	58	8	38	12	57	12	57	-	-

*Source: Field Survey, 2012*

From the above survey it found that, in 75 of the industrial sector i.e. NRTL, HPPCL and NDL are practicing the budge from committee and finance department, NOMPL and HPPCL are also practicing the budget from committee; and DDC and HPPCL are preparing the budget from finance

department. In this industrial sector, there is not found to prepare the budget from outside expert.

In the context of trading sector, 75% trading sector are preparing budget from committee, 50% trading sector are practicing from planning department and 25% trading sector are practicing from finance department. NOC, NFC, and STCL are practicing the budget from committee. STCL is also practicing the budget from planning department. NTL is practicing the budget from planning department and finance department. In this sector, there is also not found the practicing budget from outside experts.

Likewise in service sector, 50% enterprise are practicing budget from committee and planning department and only 25% enterprises are practicing the budget from finance department. ISML and Civil Aviation Authority of Nepal are preparing budget from planning department and finance department, and NCCL and NAC are preparing budget only from committee. Outside expert has not found in practice for the preparation of budget in this sector.

In case of social service sector, 100% enterprises are preparing the budget from finance department and 33% enterprises are also preparing budget with the help of committee and planning department. Gorkhapatra Sansthan and Janak Education Material Center Ltd are practicing budget also from committee and planning department respectively. Here is also found to practice the budget from outside expert. In public utility sector, 100% enterprise is preparing the budget from planning department and finance department. In this sector, there is not found to prepare budget from committee and outside expert.

In finance sector, 755 enterprises are preparing budget from finance department and 50% enterprise are preparing budget from planning department. Agriculture Development Bank is preparing budget only from planning department. Out of total PEs, 38% enterprises are preparing the budget from

committee, 57% from planning department and 52% from finance department. But in Nepalese public enterprises are not found any practiced if hiring the outside experts to prepare the budget. Regarding preparation of budget, information of planning department is high in practicing. It is found that the most of the enterprises have been collected information from different department and the finance department as well as planning department complied the budget as per requirement.

#### 4.3.5 Types of Budget Practicing

The below table 4.7 reveals the type of the basis of time period practices in Nepalese PEs. Generally three types of budget i.e. short-term budget (up to one year), medium term budget (one to five year) and long term budget (five years and more) are widely used in business sector. While making the survey, different three alternatives have been included for the option in survey.

**Table 4.7**  
**Types of Budget Practicing**

S.N	Decision Technique	Population	Sample		Short term budget		Medium term budget		Long term budget		Others	
			Size	%	No	%	No	%	No	%	No	%
1	Industrial	7	4	57	4	100	-	-	-	-	-	-
2	Trading	6	4	67	4	100	-	-	-	-	-	-
3	Service	7	4	57	4	100	1	25	-	-	-	-
4	Social Service	5	3	60	3	100	-	-	-	-	-	-
5	Public Utility	3	2	67	2	100	1	50	1	50	-	-
6	Financial	8	4	50	4	100	1	25	1	25	-	-
Total		36	21	58	21	100	3	14	2	10	-	-

*Source: Field Survey, 2012*

From the survey it is found that all of the enterprise (i.e. 100%) is practicing short- term budget. But in service sector NAC. Public utility sector NTC and in financial sector Agriculture Development Bank is also practicing the medium term budget. The Agriculture Development Bank is also practicing the long-term budget. Industrial sector, trading sector and social service are only practicing of short- term budget.

Generally business enterprise prepared the long term budget at time of company establishment. Long term budget shows the goal, objectives and mission, vision and target enterprise in the long term. Different environment must be considered while preparing the budget. It provides guidelines to operate the daily activities in short- term, medium term and long term. But in the PEs have not found interested to prepare the medium- term and long term budgets.

#### **4.3.6 Present Practices of Long Term Investment Decision**

The table represents the present practices of long – term investment decision in Nepalese PEs. Long term means more than one year’s period. Different five types of techniques i.e. payback period (PBP). Average rate of return (AAR), net present value (NPV), integral rate of return (IRR) and profitability index (PI) have been included in Option, while conducting the survey.

**Table 4.8****Present practice of long term investment Decision**

S.N	Decision Technique	Population	Sample		PBP		ARR		NPV		IRR		PI	
			Size	%	No	%	No	%	No	%	No	%	No	%
1	Industrial	7	4	57	-	-	1	25	2	50	-	-	-	-
2	Trading	6	4	67	1	25	1	25	1	25	-	-	-	-
3	Service	7	4	57	1	25	-	-	1	25	1	25	-	-
4	Social Service	5	3	60	2	67	1	33	1	33	1	33	-	-
5	Public Utility	3	2	67	1	50	1	50	1	50	1	50	1	50
6	Financial	8	4	50	3	75	2	50	2	50	2	50	2	50
Total		36	21	58	8	38	6	29	8	38	5	24	3	14

*Source: Field Survey, 2012*

In industrial sector, 25% enterprises area practicing the ARR and 50% enterprises are practicing the NPV techniques for the long term decision. HPPCL are not found to practice of any long term investing techniques for the investment on fixed assets.

Similarly in trading sector, 25% centipoises are practicing the ARR and NPV analysis of long term investment technique for the investment on fixed assets. NOC is only practicing the ARR and NPV analysis for the investment on fixed assets. The other enterprises of this sector are not practicing any tool of long term investment.

In case of service sector, 25% enterprises are practicing PVT, NPV and IRR respectively for long term investment decision. CAAN is practicing two techniques PVP and NPV for long term investment decision. NCCN and IDML have not found any practicing of long term investment techniques for the long term investment decision.

In social service sector, 67% social service is practicing PBP technique and 33% social service sector is practicing ARR, NPV and IRR for the long term investment decisions. Calculate corporation is also practicing the ARR, NPV and IRR technique for the long term investment technique for the long term investment decisions.

In public enterprises, 50% public enterprises are practicing all techniques i.e. PBP, ARR, NPV, IRR and pi for the long term investment decision. NTC are practicing the all techniques for the long term investment decisions. In financial sector, 75% financial enterprise are practicing PBP techniques for the long term investment decision and 50% financial enterprises are practicing ARR, NPV, IRR and PI respectively for the long term investment decisions. ADB and EBB are practicing all Technique i.e. PBP, DPB, NPV, IRR and PI for the long term investment decisions. EBS is practicing only PBP techniques for the long term decision. KSK has not found to practice for the long term investment decisions. In sum up, 38% of total enterprises are practicing PBP and NPV, 29% practicing ARR, 24% enterprises practicing IRR and 14% enterprises practicing PI for the long term investment decision in Nepalese PEs.

It can be concluded that while making long term investment decisions PBP, NPV, ARR and IRR tools of capital budgeting are widely practice in Nepalese PEs.

#### **4.3.7 Present Practice of Pricing Mechanism for the Product/ Service**

The table 4.9 represents the pricing mechanism practiced in Nepalese PEs. Business house have determine the price of their product/ service on the basis of full cost based pricing (absorption costing), variable (marginal) cost based pricing, going rate pricing (market determined), target return on investment printing and activity based costing pricing. Different five alternative and open-end option have been including in survey for suitable choice.

**Table 4.9****Present Practice of Pricing Mechanism for the Product/ Service**

S. N	Decision Technique	Population	Sample		Full cost		Variable cost		Going Rate		Target Return		Activity	
			Size	%	No	%	No	%	No	%	No	%	No	%
1	Industrial	7	4	57	1	25	2	50	2	50	-	-	-	-
2	Trading	6	4	67	2	50	-	-	1	25	-	-	1	25
3	Service	7	4	57	-	-	1	25	-	-	-	-	1	25
4	Social Service	5	3	60	-	-	1	33	-	-	-	-	2	67
5	Public Utility	3	2	67	-	-	-	-	1	50	1	50	1	50
6	Financial	8	4	50	-	-	-	-	1	25	1	25	-	-
Total		36	21	58	3	14	4	10	5	24	2	10	5	24

*Source: Field Survey, 2012*

In industrial sector, 25% manufacturing enterprises are practicing full cost based pricing system and 50% of this enterprises are practicing variable cost based and going rate pricing system to determine the price of product, produce. On this sector there has not found to practice of target return on investment and activity based pricing techniques.

In trading sector, 50% trading companies are practicing full cost pricing techniques and 25% trading companies are practicing going rate and activity based technique to determine the price. NOC is practicing the full cost and activity based costing system and NFC is practicing full cost and going rate to determine the price of product. The other techniques have not found to apply for the determination of price of product.

In service sector, 25% of service enterprises are practicing variable cost based and activity based pricing technique to determine the price of their service.

Similarly, in social service sector, 33% enterprises are practicing variable cost based and 67% enterprises are practicing actively based pricing technique to determine the price of service.

In case of public utility sector, 50% enterprises are practicing going rate, target return on investment and activity based pricing technique to determine the price of service. NTC is practicing going rate, target return on investment and activity based pricing technique to determine the price of service. In financial sector, 255 enterprises i.e. only RBB is practicing going rate, target return on investment and activity based pricing technique to determine the price of service.

In financial sector, 25% enterprises i.e. only RBB is practicing the going rate and target return on investment technique for the determination of price. But in this sector there is not applicable. Thus out of total enterprises, 14%, 10%, 24%, 10% and 245 Nepalese PEs are practicing full cost, variable cost, going rate, target return on investment and activity based pricing respectively. To determine the price of product/ service. In some enterprises, government fixed the price as per the recommendation of management and board. But in some financial institution determines the price on market base of their service.

Thus it can be concluded that in transfer pricing practice. The cost based transfer pricing technique are widely are practices in Nepalese PEs.

#### **4.3.8 Practice of Transfer Pricing Technique for Internal Purpose**

The table shows the practice of transfer pricing in Nepalese PEs. A business enterprise has changed the price of its product/service from one department to another department. Widely using methods to determine the price into organizations is market priced based, cost price based, target return based and negotiation based. Difference four alternatives were including while making the survey to find out the transfer pricing practices in Nepalese PEs.

**Table 4.10****Practice of Transfer Pricing Technique for Internal Purpose**

S. N	Decision Technique	Population	Sample		Marked based		Cost		Target return Based		Negotiation	
			Size	%	No	%	No	%	No	%	No	%
1	Industrial	7	4	57	-	-	3	75	-	-	-	-
2	Trading	6	4	67	2	50	3	75	-	-	-	-
3	Service	7	4	57	1	25	1	25	-	-	2	50
4	Social Service	5	3	60	-	-	1	33	-	-	-	-
5	Public Utility	3	2	67	-	-	1	50	-	-	-	-
6	Financial	8	4	50	-	-	1	25	-	-	-	-
Total		36	21	58	3	14	10	48	-	-	2	10

*Source: Field survey, 2012*

In case of industrial sector, 75% manufacturing enterprises are practicing cost based transfer pricing technique to transfer their semi product/service into another department 25% enterprise have not found to practice to transfer pricing to transfer their semi-finished product for the further process.

In trading sector, 50% trading companies are transferring their products on the basis of cost accrued on it and 75% companies are also transferring their products on the basis of cost based. NFC is practicing two technique, market and cost based of transfer pricing technique. NOC has not found to practice any transfer pricing techniques.

In the context service sector, 25% enterprises are practicing two technique i.e. maker base and cost based of transfer pricing. 50% enterprises are also practicing negotiation based of transfer pricing. CAAN has not practicing any technique of transfer pricing.

In case of social sector, 33% enterprises are practicing cost based transfer pricing technique and remaining 67% enterprises have not found any practiced of transfer pricing technique.

In case of public utility sector, 50% enterprises are practicing cost based transfer pricing. Remaining 50% enterprises have not found to practice any technique of transfer pricing. NTC has not found to practice any technique of the transfer pricing.

In financial sector, 25% enterprises are practicing cost based transfer pricing. Remaining 75% enterprises have not found to practice any technique of transfer pricing. RBB is practicing only cost based pricing of transfer pricing technique.

In sum up, 48%, 14% and 10% of total enterprises are practicing cost based, market based and negotiation based of transfer pricing technique respectively. Target return based of transfer pricing has not found to practice in any Nepalese PEs.

The main reason behind the non-practicing of transfer pricing in the PEs are lack of such type of culture, difficult to calculate the cost of semi-product and service, multi type of product/service which they produce, and nature of business. In the absence of transfer pricing technique business firm cannot measure the performance of individual technique business firm cannot measure the performance of individual department. It makes also difficult to control the activities of departments. The transfer pricing techniques must be necessary to make the autonomous of the department's activities and to decentralize the authority and responsibility of the business enterprises.

### 4.3.9 Present Practice of Material Used for Inventory Valuation

The table no. 4.11 represents the method of inventory valuation in Nepalese PEs. Widely used methods to evaluate the value of inventory are LIFO, FIFO, simple average, weighted average and specific items. The above mentions five alternatives have been available to the represents for an option to the survey findings.

**Table 4.11**

#### **Present practice of Material Used for inventory Valuation**

S.N	Decision Technique	Population	Sample		LIFO		FIFO		Simple Avg.		Weight Avg.		Specific Items	
			Size	%	No	%	No	%	No	%	No	%	No	%
1	Industrial	7	4	57	-	-	3	75	1	25	-	-	-	-
2	Trading	6	4	67	-	-	4	100	1	25	1	25	-	-
3	Service	7	4	57	-	-	2	50	-	-	-	-	1	25
4	Social Service	5	3	60	-	-	2	67	-	-	1	33	1	33
5	Public Utility	3	2	67	-	-	2	100	-	-	-	-	-	-
6	Financial	8	4	50	-	-	3	75	-	-	-	-	-	-
Total		36	21	58	-	-	16	76	2	10	2	10	2	10

*Source: Field Survey, 2012*

In industrial sector, 75% manufacturing enterprises are practicing FIFO, method for the issued inventory. While, 25% practicing simple average method to evaluate the value of inventory. The practice of FIFO, weighed average and specific items have been not found in practice in industrial sector.

In the context of trading sector, 100% enterprises are practicing FIFO method for the issued inventory. 25% enterprise i.e. STCL are also practicing the simple average and weighted average to evaluate the value of inventory. The

practice of FIFO, weighed average and specific items have not found in practice in trading sector.

In case of service sector, 50% enterprises are practicing FIFO method for the issued inventory and 25% enterprises are practicing specific items to evaluate the inventory. NAC is practicing FIFO and specific items. CAAN and ISML have not found practice of inventory valuation.

In public utility sector, 100% enterprises are practicing only FIFO method to evaluate the inventory.

In financial sector, 75% enterprises are practicing only FIFO method to evaluate the inventory and remaining 25% enterprises have not found any practices of inventory valuation, KSK has not found any practice of inventory valuation technique.

In sum up, 76% enterprises practiced FIFO method and 10% enterprise practiced simple average, weighted average and average and specific items for inventory valuation. The survey found that the service and financial institution have not kept any inventory except stationary and office accessories. Therefore there may be the less practice of inventory valuation. Thus it can be said that most of the PEs is using FIFO method to evaluate the inventory because it is easy to calculate and manage.

#### **4.3.10 Present Practice of Management Accounting Decision Techniques**

The table reveals the practice of decision techniques in Nepalese PEs. From the management accounting point of view, the major decision techniques are make or buy to component, lease or purchase the fixed assets, drop or continue the any product or service line, sale now or further process the product, accept or reject a special offer and so on. In such types of decision techniques, management must be considering the cost and revenue from differential analysis. The above mentions five techniques and option space have included

in the survey to identify the practice of decision techniques for such type of decision.

**Table 4.12**

**Present practice of management accounting Decision Techniques**

S. N.	Decision Technique	Population	Sample		Make/ Buy		Lease/ Purchase		Drop/ contd.		Sale/ further		Special Offer	
			Size	%	No	%	No	%	No	%	No	%	No	%
1	Industrial	7	4	57	1	25	-	-	-	-	1	25	-	-
2	Trading	6	4	67	1	25	-	-	1	25	1	25	1	25
3	Service	7	4	57	-	-	-	-	-	-	-	-	-	-
4	Social Service	5	3	60	1	33	1	33	-	-	-	-	-	-
5	Public Utility	3	2	67	-	-	1	50	-	-	-	-	1	50
6	Financial	8	4	50	-	-	1	25	1	25	-	-	1	25
Total		36	21	58	3	14	3	14	2	10	2	10	3	14

*Source: Field Survey, 2012*

In the context of industrial sector, 25% enterprises are practicing are make or buy decision technique an25% enterprises are practicing sale or further process decision techniques. NDL is practicing make or buy decision from the management accounting point of view. 50% enterprises have not found any practice of management accounting decision technique.

In case of trading, 25% enterprises (NFC) are practicing make or bye, 25% enterprises (NTL) are practicing drop or continue and sale or further process and 25% enterprises (NOC) are practicing special offer decision from the management accounting point of view, 25% enterprises have not found any practice of management accounting decision technique.

In case of service sector, the enterprises have not practicing any accounting technique for the management decision- making process. The main reason

behind the non-practicing of such techniques may be the nature of business which they operate.

In case of social service sector, 33% enterprises are practicing the make or buy and lease or purchase or decision techniques. 67% enterprises have not found any practice of management accounting decision technique.

In case of public utility sector, 50% enterprise (NTC) is preparing the lease or purchases the fixed assets and special offer decision for the management decisions. The remaining 50% enterprises have not found any practice of management accounting decision techniques.

In financial sector, 25% enterprises (RBB) are practicing lease or purchase the fixed assets, drop or continue the product or service and special offer decision for the management accounting point of view. 75% enterprises have not found any practice of management accounting decision techniques.

In sum up, 14% enterprise are practicing make or buy decision, lease or purchase decision and special offer decision technique. While, 10% enterprises are practicing drop or continue and sale or further process decision techniques. Thus it can be concluded that most of the organization are not practicing management accounting decision technique. The main reason behind the non-practicing of such MA techniques have been lack of cognizance about the tools, long procedures and lack of culture for such type of practice.

#### **4.3.11 Practice of Measure Control Mechanism to Evaluate the overall Performance**

The table 4.13 shows that the practices of measure and control the overall performance in Nepalese PEs. All types of organization want to watch measure and control the overall performance at the end of certain accounting period. Most of the organizations used profit and loss criteria, budgetary control,

standard costing, flexible budget and ratio analysis techniques to measure and control the overall performance. These techniques also help to identify the financial performance and position of the enterprises. The above mention five techniques and open opinion space has been included to the respondents for the alternatives.

**Table 4.13**  
**Practice of Measure Control Mechanism to Evaluate the overall Performance**

S. N	Decision Technique	Population	Sample		Profit & loss		Budgetary control		Standard costing		Flexible Budgeting		Ratio Analysis	
			Size	%	No	%	No	%	No	%	No	%	No	%
1	Industrial	7	4	57	4	100	2	50	-	-	-	-	-	-
2	Trading	6	4	67	4	100	1	25	-	-	-	-	1	25
3	Service	7	4	57	3	75	1	25	-	-	-	-	-	-
4	Social Service	5	3	60	3	100	-	-	-	-	-	-	-	-
5	Public Utility	3	2	67	2	100	1	50	-	-	-	-	1	50
6	Financial	8	4	50	2	75	3	75	-	-	1	25	1	25
Total		36	21	58	19	90	8	38	-	-	1	5	3	14

*Source: Field Survey, 2012*

In industrial sector, 100% enterprises are practicing profit and loss criteria and also 50% enterprises are practicing budgetary control techniques to measure and control the overall performance. Other tools like standard costing, flexible budgeting and ratio analysis have not found in practice.

In case of trading sector, 100% enterprises are practicing profit and loss criteria and also 25% enterprises are practicing budgetary control and ratio analysis to measure and control the overall performance. NOC is practicing profit and loss criteria, budgetary control and ratio analysis. Other tools like standard costing and flexible budget have not found in practice in this sector.

In service sector, 75% enterprises are using profit and also criteria to measure and control the performance. But 25% enterprises are using budgetary measure and control criteria to overall evaluation of the firm.

In the context of social service sector, 100% enterprises are measuring and controlling their overall performance. From profit and loss made them. The other tools like budgetary control, standard costing, flexible and ratio analysis have not found in practice in social service sector.

Likewise in public utility sector, 100% enterprises are using profit and 50% enterprises are also practicing budgetary control and ratio analysis to measure the performance and control the activities of the enterprises. NTC is practicing profit and loss criteria, budgetary control and ratio analysis to measure the performance profit and control the activities of the enterprises. Standard costing and flexible budgeting have not found in practice in this sector.

Finally, in financial sector, 75% enterprises are using profit and loss account and budgetary control and rest 25% enterprises are practicing flexible budgeting and ratio analysis to measure to performance and control the activities. RBB is practicing profit and loss account, budgetary control and flexible budgeting. KSK is only practicing budgetary control. Standard costing has not found in practice in this sector.

Out of the total enterprises, 90% enterprises are practicing profit and loss criteria, 38% practicing budgetary control, 14% practicing ratio analysis and 5% practicing flexible budgeting to measure and control the overall performance of the enterprises.

Thus it can be said that profit and loss made by the enterprises during the period has been the widely used technique to measure and control and the overall performance. The used of other technique have been comparatively

below then its requirement. The standard costing has not practiced not practiced in Nepalese PEs to measure and control overall performance till now.

#### 4.3.12 Practice of Cost and Revenue Forecast/Estimate Mechanism

The table represents the practice of cost and revenue estimate mechanism in Nepalese PEs. Cost and revenue estimate is an important tool of management accounting from planning and control. Most of the organization used zero base analysis, past trend analysis, engineering analysis, market survey and judgment analysis to forecast/estimate their cost as revenue. Above mentions five alternatives has been include for the option, while making the survey.

**Table 4.14**

#### **Practice of Cost and Revenue Foresees/Estimate Mechanism**

S. N	Decision Technique	Population	Sample		Zero Based		Past trend		Engineering		Market survey		judgment	
			Size	%	No	%	No	%	No	%	No	%	No	%
1	Industrial	7	4	57	-	-	4	100	-	-	-	-	-	-
2	Trading	6	4	67	-	-	4	100	-	-	-	-	2	50
3	Service	7	4	57	-	-	3	75	1	25	1	25	1	25
4	Social Service	5	3	60	-	-	2	67	-	-	1	33	-	-
5	Public Utility	3	2	67	-	-	2	100	1	50	-	-	1	50
6	Financial	8	4	50	1	25	4	100	1	25	2	50	1	25
Total		36	21	58	1	5	24	90	3	14	4	19	5	24

*Source: Field Survey, 2012*

In industrial sector, 100% enterprises are practicing past trend analysis to forecast their future cost and revenue. The other methods are not practiced to estimate the cost and revenues of future period. In case of trading sector, 100% enterprises are practicing past trend analysis and 50% enterprises are also practicing the analysis to forecast the cost and revenue. NOC and NFC are practicing both past trend analysis and judgment analysis to forecast the cost

and revenue of the company. Zero based, engineering and market survey analysis has not found in practice in this sector.

In service sector, 75% enterprises are preparing past trend analysis and 25 % (NCCN) practicing engineering analysis to forecast the company's to forecast the company's cost and revenue. While, 25% enterprises (CAAN) are practicing three methods past trend analysis, market survey and judgment analysis for this purpose. The use of zero based analysis has not found in practice in this sector. Similarly in social service section, 67% enterprises are estimating their future cost and revenue on the basis of past trend and remaining 33% enterprises (GS) are practicing their cost and revenue on the basis of market based.

In the context of public utility sector, 100% enterprises are practicing past trend analysis and 50% enterprises (NTC) are also practicing engineering and judgment analysis to forecast the cost and revenue. Zero base and market based analysis have been not practiced in this sector. Finally in financial sector, 100% enterprises are predetermining their future cost and revenue on the basis of past trend. While also 50% enterprises are practicing market survey and 25% enterprises are practicing zero based, engineering and judgment analysis to forecast the cost and revenue of the company. RBB is forecasting the cost and revenue on the basis of past trend analysis, zero based market based analysis ADB is forecasting market survey and judgment analysis. Out of the total enterprises, 90% of PEs are forecasting/estimating their cost and revenue on the basis of past trend. While also 24%, 19%, 14% and 5% enterprises are forecasting/estimating their coat and revenue on the basis of judgment, market survey and market based, engineering and zero based analysis respectively. Thus it can be said that past trend analysis become the widely practicing technique in public sector enterprises for forecasting purpose.

#### 4.4 Percentage Analysis of Effective Factors for the Major Management Accounting Related Decision-making Process in Nepalese Public Enterprises

The table 4.15 represents the percentage of effective factor, that effects to major accounting related decision-making process in Nepalese PEs. Major accounting related decisions are these decisions in which MA tools and techniques played a vital role. Without considering technique and accounting analysis business enterprises cannot perform effectively and efficiently. Most of the accounting decisions of PEs may be affected from the MA tools and techniques, government's policy, objective of the company and interest of the management. Different four alternatives and open have been included in the option for the survey purpose.

**Table 4.15**  
**Proportion of effective factors for the major accounting related decision-making process**

S.N	Estimate technique	Population	sample		M.A Technique		Government Policy		Objective of Company		Interest of Mgmt.	
	Business sector		Size	%	No	%	No	%	No	%	No	%
1	Industrial	7	4	57	1	25	2	50	3	75	1	25
2	Trading	6	4	67	2	50	3	75	1	25	-	-
3	Service	7	4	57			2	50	2	50	1	25
4	Social Service	5	3	60	2	67	1	33	2	67	1	33
5	Public Utility	3	2	67	2	100	1	50	1	50	1	50
6	Financial	8	4	50	1	25	-	-	-	-	3	75
		36	21	58	8	35	9	43	9	43	7	33

*Source: Field survey, 2012.*

In industrial sector, 75% enterprises are practicing of decision-making from objective of company, 50% enterprises are practicing of decision-making from objective of company, 50% enterprises are practicing the decision-making from government policy and 25% enterprises are practicing from MA technique and interest of management equally. The role of the MA technique and interest of management accounting tools and technique in the sector is very low.

In case of trading sector, government policies are planning in 75% enterprises similarly in 50% enterprises MA technique and in 25% enterprises objective of the company is dominating for the major accounting related decision-making.

In service sector, government policy and objective of the company is playing a vital role in 50% of enterprises equally for their accounting related decision-making process. Only 25% enterprises ISML are also affecting the interest management decisions. The survey also found that management accounting tools and techniques has any role in service sector for accounting related decision criteria.

In the context of social sector, management accounting technique, government policy and objective of the company are affecting of 67% of enterprises respectively for the accounting related decision-making process. Where 33% enterprise (GS) is making its decision from the result of MA and objective of the company and 33% (JEMCL) of enterprise is also considering the government policy. In public utility sector, 100% enterprises are considering the MA tools and techniques to make accounting related decisions. But 50% enterprises (NTC) are also considering the government policy, objective of the company and interest of management equally.

Regarding the financial sector, 75% enterprises are considering the interest of the management to make accounting related decision and rest 25% enterprise (ADB) is practice only MA technique to make accounting related decision.

From the survey it is found that government policy and objective of the company have no role in this sector for accounting related decision-making.

In sum up, 48% of total enterprises are effective from government policy, 43% are effective from objective of the firm, 38% are effectively from MA technique and 29% are effective from the interest of management for the management accounting related decision-making process. The government police is the effective in more than the other policy which is nearly 50%.

#### 4.5 Percentage Analysis of difficulties for the Application

##### Of Management Accounting in Nepalese Public Enterprises

The table 4.16 reveals the difficulties for the application of MA tools and techniques in Nepalese PEs. The major difficulties for the application of Ma tools and technique may be lack of knowledge, nature and size of business, high cost, long procedure and traditional approaches and so on. Differences have been included for the option, while making the survey.

**Table 4.16**

##### Proportion of difficulties for the Application of Management Accounting

S. N.	Major Difficulties	Populati on	Sample		Lack of Knowled ge		Nature and size of business		High Cost/expe nsive		Long procedur e		Traditional Approaches	
			Size	%	No	%	No	%	No	%	No	%	No	%
1	Industrial	7	4	57	3	75	1	25	1	25	-	-	2	50
2	Trading	6	4	67	1	25	-	-	-	-	-	-	3	75
3	Service	7	4	57	1	25	1	25	1	-	-	-	3	75
4	Social Service	5	3	60	1	33	1	33	1	-	-	-	3	100
5	Public Utility	3	2	67	1	50	-	-	-	-	-	-	2	100
6	Financial	8	4	50	2	50	2	50	2	-	1	25	3	75
Total		36	21	58	9	43	3	24	5	5	1	5	16	76

*Source: Field Survey, 2012*

In industrial sector, 75% enterprises are not practicing the MA because of lack of knowledge and information. Traditional approaches of concerned authorities have been becoming difficulties in 50% enterprise. 25% enterprises are affecting from nature and size of business and high cost. More than two factors have been becoming the difficulties for the application of managerial accounting tools in most Manufacturing enterprises. In case of trading sector, 75% enterprises have difficulties for the application of MA tools from traditional approaches and rest 25% enterprise (NFC) have also difficulties from lack of knowledge and information.

In service sector, traditional approaches are becoming the major barriers in 75% of service companies and also lack of knowledge and nature and size of business are also becoming a reason in 25% enterprises for the difficulties to the application of MA tools techniques.

Similarly in social service sector, 100% enterprises are becoming difficulties for the application of managerial accounting tools and techniques from the traditional approaches and also 33% enterprise barrier from lack of knowledge and nature and size of business for the application of managerial accounting tools and techniques.

In case of public utility, 100% enterprises are not practicing effective MA because of traditional approaches and rest 50% enterprises are not practicing effective MAS due to the lack of knowledge.

Finally in financial sector, 75% enterprises have barrier for the application of MA tools and technique due to the traditional approaches. Lack of information about the tools are playing a dominant role in 50% enterprises and also nature and size of the business. Whereas, long procedure in 25% enterprises are becoming the major difficulties for the application of MA tools and techniques.

Out of tools and techniques due to the traditional approaches. Lack of information and cognizance about the tools is playing in 43% enterprises as a difficult element. Whereas, 24% enterprises are falling to the nature and size of

the business as a difficult factor for proper utilization of MA tools and techniques. High cost and long procedure is becoming the barrier for application of MA tools and techniques of 5% enterprises.

Thus it be said that because of the use of traditional approaches Nepalese enterprises are facing various difficulties for the applications of management accounting.

#### **4.6 Test of Hypothesis**

Research hypothesis is an educated guess about the overcome of an empirical test designed to answer a research question.

The chi-square test is used to see that, the principles of classification of attributes are independent. In this test, the attributes are classified into a two ways table. The observed frequency in each cell is known as cell frequency. The total frequency in each row or column of the two ways whether there is any association of relationship between two more attributes.

To make the research specific, precise and objective, hypothesis have been tested related to the dependency independency of PEs in practicing of MA tools and techniques. Broadly the public enterprises are classified into two categories i.e. manufacturing and service (non-manufacturing) companies for the sake of hypotheses. The industrial sector is kept in manufacturing companies and other remaining sectors are kept in service companies.

**Null Hypothesis (H<sub>0</sub>):** There is no significance difference between the practices of MA tools and techniques in the manufacturing and service companies. (Practice of MA techniques and type of companies are independent)

**Alternative Hypotheses (H<sub>1</sub>):** There is significance difference between the practices of MA tools and techniques in the manufacturing and service companies. (Practice of MA techniques and type of companies are dependent)

Satisfying the assumption of  $X^2$  test

The test statistics under the  $H_0$  is given by

$$X^2 = \sum \frac{(O-E)^2}{E}$$

Where, O= Observed frequency

E= Expected frequency

$$E = \frac{RT \times CT}{N}$$

Where, RT= Row total

CT= Column total    N= Grand total

**Table 4.17**

**Practice of MA Tools and Types of companies 2x2 Contingency Table**

Types of companies	Dependency of decision		
	Yes	No	Total
Manufacturing	17	23	40
Service	65	103	168
Total	82	126	208

Calculation of  $X^2$

O	$E = \frac{RT \times CT}{N}$	(O-E)	(O-E) <sup>2</sup>	$\frac{\sum (O - E)^2}{E}$
17	$\frac{48 \times 82}{208} = 15.77$	1.23	1.513	0.096
23	$\frac{40 \times 126}{208} = 24.23$	-1.23	1.513	0.062
65	$\frac{168 \times 82}{208} = 66.23$	-1.23	1.513	0.023
103	$\frac{168 \times 126}{208} = 101.77$	1.23	1.513	0.015
Total = $\sum \frac{(O-E)^2}{E}$				0.196

Hence calculate  $X^2=0.196$

Degree of freedom (d.f) = (r-1) (c-) = (2-1) = 1

Level of significance= 5%

Critical value: the tabulated value of  $X^2$  and 5% level of significance for 1 degree of freedom is 3.841.

Where, calculated  $X^2= 0.196$

Tabulated  $X^2= 3.841$

Decision: Since the calculated value of  $X^2$  is less than tabulated value of  $x^2(calx^2 < x^2)$ . Thus the null hypothesis ( $H_0$ ) is accepted and the alternative hypotheses ( $H_1$ ) are rejected. Therefore, it can be concluded that there is no significant evidence of difference between the practices of MA tools in the manufacturing and services companies of Nepalese PEs.

## Hypothesis: II

**Null Hypothesis H<sub>0</sub>:** The major accounting related decision doesn't depend on the result of management accounting techniques. (Major accounting related decision-making process and management accounting techniques are dependent.)

**Alternative hypotheses H<sub>1</sub>:** The major accounting related decision depends on the result of management accounting techniques. (major accounting related decision-making process and management accounting techniques are independent. )

Satisfying the assumption of  $\chi^2$  test,

The test statistics under the H<sub>0</sub> is given by,

$$X^2 = \sum \frac{(O-E)^2}{E}$$

**Table 4.18**

**Dependency of major Accounting Related Decisions upon the Result of  
MA Techniques 2 × 2 Contingency Table**

Types of companies	Dependency of decision		
	Yes	No	Total
Manufacturing	1	3	4
Service	7	10	17
Total	8	13	21

Since cell frequencies (a and b) are less than 5, we should apply Yates correction for calculating  $X^2$  for this purpose we have to add 0.5 to cell frequency a (i.e. 1), and adjust the remaining frequencies by fixing row total and column total. Thus, 2×2 contingencies table is presented in the following revised table.

### Adjusted 2×2 Contingency Table

Types of companies	Dependency of decision		
	Yes	No	Total
Manufacturing	1.05	2.50	4
Service	6.05	10.50	17
Total	8	13	21

### Calculating of $X^2$

O	$E = \frac{RT * CT}{N}$	(O-E)	(O-E) <sup>2</sup>	$\frac{\sum (O - E)^2}{E}$
1.05	$\frac{4 \times 8}{21} = 1.524$	-0.024	0.000576	0.00037
2.50	$\frac{4 \times 13}{21} = 2.476$	0.024	0.000576	0.00023
6.50	$\frac{8 \times 17}{21} = 6.476$	0.024	0.000576	0.00009
10.50	$\frac{17 \times 23}{21} = 10.524$	-0.024	0.000576	0.00005
Total = $\sum \frac{(O-E)^2}{E}$				0.00074

Hence, calculating  $X^2 = 0.0074$

Degree of freedom (d.f) = (r-1)×(c-1) = (2-1)× (2-1)= 1

Level of significance = 5%

Critical values: the tabulated value of  $X^2$  at 5% level of significance for degree of freedom is 3.841.

Where, Calculated  $X^2 = 0.00074$ , Tabulated  $X^2 = 3.841$

Decision: Since the calculated value of  $X^2$  is less than the tabulated value of  $X^2$  (Cal  $X^2 < \text{Tab } X^2$ ). Thus the null hypothesis ( $H_0$ ) is accepted and the alternative hypothesis ( $H_1$ ) is rejected. Therefore, we conclude that the major accounting related decision don't depend upon the result of MA technique are independent.

**Hypothesis 2:** In Nepalese PEs major accounting related decision-making process and MA technique are independents. Most of the enterprises are making the account related major decisions without the proper consideration gave result that there is no direct relationship between the MA tools and techniques and major accounting related decision-making process. The account related decisions of PEs are affected by the other factors like government policy, Objective of the company, temperament of management and so on.

Nepalese PEs has not any clear cut policy for the broad and long term objectives. Nepalese PEs has not successful to maintain the co-ordination between the departments within organization.

#### **4.7 Findings of the Study**

From the analysis of the information and data, the following findings can be obtained.

- While examine the tools practiced by Nepalese public enterprises for management activities covering planning, decision making, controlling activities, it is found that annual budgeting and cash flow statement are widely practicing tools that represents 100% and 71% respectively. Responsibility accounting is also in practice rating 52%.the other tools like break-even analysis, capital budgeting, flexible budgeting were practiced by less than 50% enterprises. Cost segregation, standard costing, long term budgeting were in practice by few PEs. The use of cost segregation, standard costing, long term budgeting, activity based costing, flexible budgeting represents less percentage.

- The rate of practice of management accounting tools in manufacturing sectors is comparatively high. Annual budgeting, responsibility accounting, cash flow statement were practiced by manufacturing enterprises. Cost volume profit analysis, standard costing, activity based costing and flexible budgeting was also in practice in manufacturing sector. The practice of cost segregation and long term budgeting were not found in used in this sector.
- Similarly the tools like CVP analysis and standard costing are not practice in trading sector. Cash flow statement was in practice in 75% trading companies and annual budgeting was in 100%. The responsibility accounting and capital budgeting are practiced by 50%. The use of other tools like cost segregation, long term budgeting and flexible budgeting represented only 25%.
- In case of service sector most of the managerial accounting tools were in service enterprises. But the rate of practice of management accounting tools encouraging. long term budgeting was not in practice. The other tools like cost segregation, CVP analysis, standard costing, responsibility accounting, activity based costing were in practice only by 25%.100% of service companies were practicing the annual budgeting.
- Similarly in social sector , annual budget are in practice rating 100%.the use of responsibility accounting and cash flow analysis was only 67%.the other tools like CVP analysis, standard costing and activity based costing are in used by few enterprises. But the other tools like cost segregation, long term budgeting, capital budgeting and flexible budgeting are not found in practice in social service enterprises till now.
- In the case of public utility sector, the tools CVP analysis, annual budgeting, capital budgeting and cash flow statement are in practice. The widely using management accounting tools in this sector are annual budgeting, capital budgeting and cash flow statement. The other management accounting tools such as cost segregation, standard costing,

and long term budgeting, flexible budget and responsibility accounting aren't found in practice of public utility sector.

- So far in financial sector, except standard costing and capital budgeting all of the management accounting tools are practicing by financial institution. But the using ratio of management accounting tools was not sufficient. Cash flow statement and annual budgeting are widely in practice. But the use of other management accounting tools was only nominal rate as per its requirement.
- The survey discovered that ,most of the enterprises are becoming barriers for the application of management accounting tools and technique due to lack of experience, high cost , lack of information, nature and size of the business and long procedures. In sum up, out of the total public enterprises 38% of the companies are mentioned from high cost and no information for the none practicing of prime management accounting tools, and out of the 33% of PEs are mentioned of lack of experience for non practicing of prime management accounting tools.
- Regarding the mixed cost segregation into fixed and variable, it has found that 48% enterprises are practicing average method and 10% enterprises practicing the analytical method. Only 58% enterprises were practicing the segregation of mixed cost in to fixed and variable. Rest of 42% enterprises hasn't any practice of cost segregation because of lack of knowledge about the tools, lack of culture, difficult to calculate, lack of awareness about the application and important of tools.
- Most of the PEs are practicing operational budget, it can be said that overall master budget and cash budget are being practiced by Nepalese public enterprises. 52% PEs are practicing operational budget only, 38% PEs are practicing overall master budget and remaining 10% practicing cash budget only.
- The most of the enterprises widely practicing in the past actual experience and past budget estimate as a base to prepare the budget. But

the use of zero base and activity base has found in introductory stage in Nepalese public enterprise. 81% of total PEs are practicing past actual experience, 62% enterprises are practicing past budget estimate, 29% enterprises are practicing activity base budgeting and 19% enterprises are practicing zero base budget as a base to prepare of budget.

- Finance and planning department are most responsible for the budget preparation system in Nepalese public enterprises. Most of the enterprises have been collected information from different department as well as planning department complied the budget as per requirement. Out of total PEs, 38% enterprises are preparing the budget from committee, 57% planning department and finance department. But in the Nepalese public enterprise are not found any practiced of hiring the outside expert to prepare the budget.
- Similarly the type of budget practice in Nepalese public enterprises , it has find that, 100% of enterprise from different sector were practicing the short-term budget only 14% of enterprise prepares mid terms budget and the practice of long term budget is only 10%. The survey also found that Nepalese public enterprise were not interested to prepare the mid and long term budget. The main reason behind the non-practicing of such budgets were lack of clear cut objectives, lack of mission and vision, lack of accountability and responsibility, visited interest of management ,lack of experts, nature and size of business, long procedure and etc.
- While making the long term investment decision PBP and NPV capital budgeting tools are widely in practice of Nepalese public enterprises. The other tools PI, ARR and IRR are also in slightly use. out of total PEs, 38% practicing PBP and NPV, 29% practicing ARR, 24% enterprises practicing IRR and 14% enterprises practicing PI for the long term investment decision in Nepalese PEs.
- While pricing the product/service produced by them, most enterprise, practicing activity base using rate variable cost based. the practices of

full cost based. Target return is slightly use. Out of total enterprises 14% 10% 24% 10% and 24% Nepalese public enterprises are practicing full cost. Variable cost going rate, target return on investment and activity based pricing respectively to determine the price of product/ service. In some enterprises government fixed the price as per the recommendation of management and board.

- Similarly in transfer pricing practices, cost based transfer pricing techniques are widely in practices of public enterprises. Some of the enterprises also making market based and negotiation for transfer pricing purpose lack of experts, interest of management, nature of business, nature of product/ services, policy of the government were the main reasons for none practicing the transfer pricing techniques. In sum up, 48% 14% and 10% of total enterprises are practicing cost based, market based and negotiation based of transfer techniques respectively. Target return based of transfer pricing has not found to practices in any Nepalese PEs.
- While examining the inventory valuation techniques in Nepalese public enterprises, most of the enterprises were practicing the FIFO (first-in-first-out) method with 76%. The specific items, weighted average and sample average has also found in practice of public sector enterprises. The method LIFO (last-in last-out) is not in practices. The office accessories and stationeries were the main inventory of services enterprises. FIFO method found the popular method in services sector. Most of the enterprises are practicing the FOFO method because of easy to calculate and having a lot of experience. The other methods are found in introductory stage in public sector enterprises.
- Most of the organization are not practicing management accounting decision technique, the main reason behind the non-practicing of such tools are lack of knowledge about the tools, long procedure, difficult to calculate and lack of such types of culture. In sum of, 14% enterprises are practicing make or buy decision, lease or purchase decision and

special offer decision technique. While 10% enterprises are practising drop or continue and sale or further process decision techniques.

- While examining the practices of performance evaluation technique, most of enterprises (90%) were practicing profit and also criteria to evaluate and control the overall performance of the company. Almost of the company prepared budget, but only 38% are using the budget for performance measurement purpose. The use of ratio analyses and flexible budgeting has also found in practices but very minimum and insufficient. Few of enterprises were practicing more than one criterion for this purpose. Even too traditional cultures is also dominating to the Nepalese enterprises for measure and control the overall performance because almost of the companies were measuring their performance from profit and loss made by them.
- While examining the cost and revenue estimation practices in Nepalese public enterprises, it has found that 90% of enterprises were practicing past trend analysis to forecast techniques like judgment analyze, market survey, zero base analysis and engineering analysis were slightly introductory state for public enterprises. The survey finds that 38% of enterprises were practicing two or more techniques to forecast the further cast and revenues. Almost Nepalese enterprises were practicing past trend analysis because of easy. Cheaper, availability of data, having the large experience and so on.
- The major management accounting related decisions of PEs are not depending to accounting techniques because of becoming the government owned business entity. More than 50% of enterprises are affecting from two or more factors. More than 50% enterprises were making their accounting decision by considering the government policy and objective of the company.
- Hypothesis I; there are significance different between practices management accounting in manufacturing service companies. Most of the management accounting tools is widely applicable in manufacturing

enterprises. The hypothesis proved that practicing process of management accounting in manufacturing and service enterprises are slightly different.

- HypothesisII; in Nepalese public enterprises major accounting related decision making process and management accounting techniques are independent most of the enterprises are making the account related major decision without the proper consideration of management accounting tools and techniques, the hypothesis verification gave result that there is no direct relationship between the management accounting tools (&technique) and major accounting related decision making process. The account related decision of PEs is affected by the other factors like government policies, objective of the company etc.
- Nepalese’s public enterprises have not any clear-cut policy.
- Nepalese’s public enterprises have not broad and long term objectives.
- Nepalese’s public enterprises are not successful to maintain the co-ordination between the departments within the organization.
- Pricing system of Nepalese public enterprises has not scientific. Traditional pricing system is dominating in Nepalese public enterprises. In most of the public enterprises government is playing for pricing the product/services.
- Cost-volume-profit relationship has not considered when developing the sales and pricing strategy.
- Actual performance of PEs has found always below in every year then the target as well as capacity.
- Planning and decision making process of PEs are completely centralized.
- There is not adequate authority and responsibility to the concerned departments.
- Nepalese public enterprises are preparing the budget just to fulfill the formalities. the effective application of budget has not found in practice for proper decision-making and controlling activities.

- Nepalese public enterprises have not been classifying, segregating, allocating and estimating the cost properly and systematically.
- Nepalese public enterprises are not maintaining the periodic performance reports systematically.
- Government's intervention is very high in setting the objectives, goals and strategies of the company.

## **CHAPTER-V**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

Chapter five represents the concluding part of the research which provides summary of the study, conclusion and recommendations for further improvement.

#### **5.1 Summary**

Public enterprise is one the most important innovations of 21<sup>st</sup> century. The main objective of creating public enterprise is to secure a combination of public ownership, public accountability and business management for the public benefits. The reasons behind the establishment of public enterprises are basically to accelerate the ratio of economic growth, to build development infrastructure, to make provision of public utility, to supply essential commodities, to generate employment opportunities, to maximize the foreign earnings, to rational utilization of natural resources and to contribute in the national funds.

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

Management accounting is the process of identification, measurement, accumulation, analysis, preparation, interpretation and communication of information used by management to plan, evaluate and control within an entity and to assure appropriate use of and accountability for its resources. Management accounting also comprises the preparation of financial reports for non management groups, such as shareholders, creditors, regularity agencies,

and tax authorities. But, whether Nepalese PEs are Applying managerial accounting tools and techniques or not? Cost segregation, CVP relationship, overall budgeting, pricing, standard costing, ABC costing, responsibility accounting, financial performance analysis, cash flow analysis are the major MA tools. Whether Nepalese PEs are getting advantages from the managerial accounting or not? To identify these facts, this research has been done.

The main objective of this research work is to study and examine the extent of practice of management accounting tools and techniques made in Nepalese public enterprises. The research has also identified the major difficulties for applying the management accounting tools Nepalese companies.

The research is completely based on primary sources of information. Secondary data have been also used. The data has been collected from the respective public enterprises by distributing the scheduled questionnaire. The PEs is classified into six different business sectors which have been done by the ministry of finance corporation coordination division. 58.33% of the total population has been used as a sample by using stratified judgments sampling procedure. The raw data has been properly processed, tabulated and analyzed.

The managerial accounting tools i.e. annual budgeting, cash flow analysis, responsibility accountings have been found widely practicing. The other tools like ratio analysis, CVP analysis and capital budgeting, flexible budgeting and OH cost control are practiced by less than 50% enterprises. At the time of preparing the budget, past actual expenses and past budget estimate are found widely practicing and involvement of planning department is high for the preparation of budget in Nepalese PEs. From the survey it is also found the, most of the enterprises are considering two or more elements as a base. The used of zero based has only found to practice in financial sector in certain case. While making long-term investment decisions PBP, NPV, ARR and IRR tools of capital budgeting are widely practice in Nepalese PEs. Lack of cognizance about the tools, long procedure, lack of experts and lack of such types of tradition are main reasons behind for none practicing of capital budgeting tools

while making the long term investment decision. FIFO method is widely found for inventory valuation. Most of the enterprises are practicing profit and loss criteria to measure, evaluate and control overall performance of the Nepalese PEs. Similarly past trend analysis are widely used for the practice of cost and revenue estimation/ forecast mechanism in Nepalese PEs. From the survey it is also found that the traditional approaches are becoming barriers for the application of MA tools and techniques in Nepalese PEs. The hypotheses is proved that, practicing of MA in manufacturing and service enterprises are slightly difference and major MA related decisions are effective from the government policy.

## **5.2 Conclusion**

Management accounting is the presentation of accounting information to formulate the policies to be adapted by the management and assists its day-to-day activities. It helps the management to perform all its function including planning, organizing, staffing, directing and control. It presents to management the accounting information in the form of processed data, which it collects, form financial” accounting. These various MA tools and techniques are through in the college and universities. But they are not used in Nepalese PEs. It shows a gap between the theory and practice.

The managerial tools like standard costing, cost segregation and allocation, ratio analysis, CVP analysis and capital budgeting, flexible budgeting and OH cost control are not real practiced in Nepalese PEs. The practice of overall master budget is very low. Activity base budgeting and zero base budgeting are not proper practicing at the time of preparing the budget in Nepalese PEs. In Nepalese PEs are not found any practiced of hiring the outside experts to prepare the budget. It provides guidelines to operate the daily activities in short-term, medium term and long-term budgets. Pricing strategy is completely based on cost of production and or government decision-most of the PES is using FIFO method to evaluate the inventory valuation. Almost companies are practicing profit and loss coeternal to measure and control the overall

performance of the company. Similarly past trend analysis is the most used technique to forecast the future cost and revenue of the company. The effective forecasting techniques like zero based analysis, engineering analysis is the most used technique to forecast the future cost and t\revenue of the company. The effective forecasting techniques like zero based analysis, engineering analysis, market survey, judgment analysis, and activity based analysis are not taking a wide range in Nepalese companies. Government's policy is affecting nearly fifty percent of the Nepalese PEs. From the survey it is found that more than fifty percent enterprises are becoming barriers for the application of VIA tools and techniques due to the traditional approaches. From the open end opinion of respondents, lack of cultural and tradition of Practice, lack of coordination between the departments, lack of clear cut objectives, lack of support of management, poor performance of entry, nature and product of entry are also becoming the difficulties in Nepalese PEs for application of MA tools and techniques on effective decision making and control. Practicing mechanism of MA in manufacturing and service enterprises are slightly difference. But MA related decision making process are independent form the management accounting tools and techniques.

The conclusions of this study of the Nepalese PEs are not proper practicing the MA tools and techniques. They are operating their business as a routing work without broad mission and vision. Nepalese PEs are facing the different problems such as lack of expertise, lack of co-ordination between the departments as well as personnel, traditional approaches of concerned authorities and so on behind the non practicing of Management accounting.

### **5.3 recommendations**

The practice of managerial accounting tools and techniques in every type of organization is not only necessary but also compulsion for the better performance of the entry. Managerial accounting plays a significance role for every type of business and non-business houses. It provides the key ideas, guidelines and strategies to the management for better performance of

managerial functions. Economic liberalization, globalization, changing nature of human behavior, technological advancements are making complexity to the business houses. To meet the environmental requirements and grab the opportunities, every organization must be compulsory to practicing the MA tools and techniques have been proved itself as a great helping instrument for better utilization of limited resources and achieving the organizational goals through cutthroat competition.

This study is just a small part of management accounting, prepared to fulfill the partial requirements of master degree. From the analysis and interpretation of collections, some finding is extracted. Concerning these findings, it may be appropriate to make some suggestions and recommendations. Although drawn recommendations may not be sufficient. But it will be helped to the concerted stakeholders of management accounting. That can be Improved and required attention to bring some important in public enterprises to practice the managerial accounting.

- To strengthen the competitiveness of public enterprises and carryout managerial activities, that use of management accounting tools and techniques are recommended. For planning activities tools like cost classification, estimation and allocation, profit measurement and recognition, cost volume profit analysis, budgeting can be used. For controlling activities, tools like budgetary control, variance analysis, standard costing, responsibility accounting, flexible budgeting, cash flow analysis, financial statement analysis, can be used. Similarly for decision-making activities, tools like marginal analysis, differential analysis, and environmental analysis can be used. While implementing any tools of management account, it is recommended to analyze cost and benefits of the tool.
- To implement the effective managerial accounting tools and techniques, a separate managerial accounting department should be established within organization. Those companies who cannot establish a separate

department can manage it under their existing accounting, finance or planning department. Management accounting, experts should be hired. If the company cannot hire the outside experts, they can send their existing employee for short-term training program. If this also is not feasible for them, they can manage it by taking service from fee base consultants.

- Internal and external Information should be needed for needed for proper application of managerial accounting tools and technique. Therefore it is recommended to keep management accounting information system. It helps to make them informative throughout time to time about every aspect of management accounting and its application.
- Business enterprises should put an effort to bring advance management accounting tools into practice by conducting national seminars. The business houses should conduct short-term training program on management accounting to update their personnel.
- Interaction between academician and business organization is a must. It is recommended that companies should create an environment of interaction between the academician and the companies can be beneficial from academician's knowledge about new tools and techniques of management accounting.
- If possible, companies are recommended to prepare the overall master budget. Budgets should be prepared not only to fulfill the formalities but also as an important managerial tool for effective implementation.
- Budget preparation should not be based only on past actual expenses and past budget estimate. Along with these, zero based and environmental analysis should also be taken into consideration. It is because what happens in the past might not occur in the future.
- While preparing the budget and planning activities, coordination between the planning department and the company board must be necessary. If

possible companies should be hired the professional experts for planning purpose.

- Nepalese public companies should be prepared not only short-term budget but also prepare the midterm and long term budgets with specific mission, vision goal and objectives.
- It is recommended to the Nepalese companies that DPB, NPV, IRR and PI techniques must be practiced for long –term investment decision.
- Nepalese companies should be use absorption costing pricing technique to determine the price of product/service. Pricing decisions must be free from the government intervenes. Similarly cost price based pricing technique should be beneficial for internal transfer pricing purpose to the Nepalese public enterprises.
- Cost estimation, segregation and allocation must be necessary for every type of organization. It helps to management for productive managerial function covering from planning to control. So it is recommended to soundly segregation, allocation and estimation of cost for every type of business organization.
- Nepalese public enterprises should not be used only profit and loss criteria to measure and contour the overall performance of the company. It is suggested to use other techniques like budgetary measure and control, standard costing and ratio analysis. Besides these present performance of the company should also be compared with the past performance.
- From the study, it is fund that, must of the companies is practicing past trend analysis to forecast the cost and revenue of the future period. But what happened in past might not be happen in future. So for the estimation/ forecast of the company, other techniques like zero based analysis should also be done to reach the nearest point of the result.
- Academicians who have better knowledge about the MA tools and techniques should put an effort to develop environmental friendly tools

and techniques into practice. So that Nepalese companies should be beneficial from the managerial accounting.

- Out of total profit made by the company, small portion should be allocated for research and development programmed. So that new tools and techniques can be developed and adapted in the companies.
- Nepalese companies should be updated with new tools and techniques that are practiced around the globe in the best performing companies.
- Unnecessary formalities should be corrected in Nepalese public enterprises to enhance the effectiveness of decision –making process and increase the productivity.
- It is recommended to provide sufficient authority and responsibility to the concerned department and authorities. So that they must be completely accountable, capable and responsible for proper planning decision making and control. Authority, responsibility and duties should be clearly described and determined.
- Nepalese public enterprises must be completely autonomous for their own activities. Unnecessary government intervention should be avoided.
- Nepalese public enterprises should be maintained a proper co-ordination and co-operation between the different departments and personnel's within organization. Effective motivation programs and career growth opportunities should be also provided to the employees.
- If possible, traditional professional must be upgraded by conducting short- term workshop and training programs. Otherwise the new and capable persons should replace them.
- Detailed analysis of strength and weakness of the companies must be done. Periodic performance reports system should be strictly followed in the Nepalese public enterprises.
- Planning and decision-making process of public enterprises should be decentralized.
- The frequent change in top-level management creates the unstable environment of the company .which leads the enterprises backwards, so

that the post of general manager should be professional zed. Public enterprises should be separated from the politics and political system.

- Nepalese public enterprises are facing the problem of overstaffing. So it is recommended to restructuring the issue by conducting different schemes. Capable, accountable and responsible personnel should be kept in right place for productive outcome.

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## APPENDIX-1

### RESEARCH QUESTIONNAIRE

**Dear Sir/Madam**

I am a student of Master of Business Studies (MBS) of Shanker Dev Campus and conducting a research work entitled ‘’ management Accounting practices in Nepalese public enterprises’’, in partial fulfillment for the degree of Master Degree, as thesis is one part of the course. All alternatives are equality important. I would be grateful if you cooperate in responding thesis question.

The reliability and validity of result depends on the response of the respondent.

Yours,

Sushil Khanal

Shanker Dev Campus

Would you kindly answer the following questions? Please tick(√) marks it for choosing the alternative or alternatives.

Please put tick mark on the category your company belongs to:

- |                   |     |
|-------------------|-----|
| a) Manufacturing  | [ ] |
| b) Services       | [ ] |
| c) Public Utility | [ ] |
| d) Trading        | [ ] |
| e) Social Service | [ ] |
| f) Financial      | [ ] |

Q.No.1. would you kindly tick marks which of the following mentioned management accounting tools are practiced in your company for planning, controlling and decision-making?

Management accounting tools:

- |  |     |
|--|-----|
| 1. Cost segregation into Fixed and Variable  | [ ] |
| 2. Cost Volume Profit Analysis (BEP)         | [ ] |
| 3. Standard Costing                          | [ ] |
| 4. Flexible Budget and Overhead Cost control | [ ] |
| 5. Budgeting annually                        | [ ] |
| 6. Budgeting Long term                       | [ ] |
| 7. Responsibility Accounting                 | [ ] |
| 8. Ratio Analysis                            | [ ] |
| 9. Cash Flow Analysis                        | [ ] |
| 10. Capital Budgeting                        | [ ] |

Q.No.2. if your enterprises have not practiced any of the above mention tools, what might be the reason?

- 1. Lack of experience [ ]
- 2. High cost/ quit expensive [ ]
- 3. No information about the tools [ ]
- 4. Other, please specify.....

Q.No.3. what technique does the company practice to segregation the mixed cost into variable and fixed?

- 1. High-low point method [ ]
- 2. Regression Method [ ]
- 3. Average method [ ]
- 4. Analysis method [ ]
- 5. Other, please specify.....

Q.No.4. what type of budget (on the basis of nature) does your company practice?

- 1. Opening Budget only [ ]
- 2. Cash budget only [ ]
- 3. Overall Master Budget [ ]
- 4. Other, please specify.....

Q.No.5. on what basis, does your company prepare budget?

- 1. Based on past budget estimate [ ]
- 2. Based on past actual expenses [ ]
- 3. Zero based [ ]
- 4. Activity based [ ]
- 5. Other, please specify.....

Q.No.6. who is responsible to prepare the budget in your company?

- 1. Committee [ ]
- 2. Planning department [ ]
- 3. Finance department [ ]
- 4. Outside experts [ ]
- 5. other, please specify.....

Q.No.7. what type of budget (on the basis of period) does the company practice?

- 1. Short term budget (up to one year) [ ]
- 2. Medium term (one to five year) [ ]
- 3. Long term budget (five years and more) [ ]
- 4. Other, please specify.....

Q.No.8. while making the long term investment decision or purchasing the fixed assets which of the following capital budgeting tools are practiced?

- 1. Pay Back Period (PBA) [ ]
- 2. Average Rate of Return (ARR) [ ]
- 3. Net Present Value (NPV) [ ]
- 4. Internal Rate of Return (IRR) [ ]
- 5. Profitability Index (PI) [ ]
- 6. other, please specify.....

Q.No.9. which technical does the company is practiced for pricing the products / service of your company?

- 1. Full cost based pricing (Absorption) [ ]
- 2. Variable cost based pricing (Marginal) [ ]
- 3. Going rate pricing (Market determined) [ ]
- 4. Target return on investment pricing [ ]
- 5. Activity based costing pricing [ ]
- 6. other, please specify.....

Q.No.10. which transfer pricing technique is practiced in your company?

- 1. Market based pricing [ ]
- 2. Cost based pricing [ ]
- 3. Target return based pricing [ ]
- 4. Negotiation [ ]

5. Other, please specify.....

Q.No.11. which method does the company is following for pricing the issue of inventory (stock) in your company?

1. Last in the first (LIFO) [ ]

2. First in first out (FIFO) [ ]

3. Simple average [ ]

4. Weighted average [ ]

5. Specific items [ ]

6. Other, please specify.....

Q.No.12. which of the following managerial accounting managerial accounting decision techniques are practicing in your company for such types of decision making process?

1. Make or buy component [ ]

2. Lease or purchase the fixed assets [ ]

3. Sell now or further process [ ]

4. Special offer decision [ ]

5. Other, please specify.....

Q.No.13. How does the company measures and controls the performance at the end of the accounting period?

1. Profit and loss made by the company [ ]

2. Budgetary measure and control [ ]

3. Standard costing technique [ ]

4. Flexible budgeting [ ]

5. Ratio analysis [ ]

6. Other, please specify.....

Q.No.14. which technique does the company is practicing to forecast/estimate the costs and revenues of the company for the future periods?

- 1. Zero based analysis [ ]
- 2. Past trend analysis [ ]
- 3. Engineering analysis [ ]
- 4. Market survey [ ]
- 5. Internal of the management [ ]
- 6. Other, please specific.....

Q.No.15. what is the main factor, that effects to the major accounting related decision-making process in this company?

- 1. Management accounting techniques [ ]
- 2. Government policy of the company [ ]
- 3. Objective of the company [ ]
- 4. Interest of the management [ ]
- 5. Other, please specify.....

Q.No.16. what might be the major difficulties for the application of managerial accounting tools and techniques in your company?

- 1. Lack of information and cognizance [ ]
- 2. Size and nature of business [ ]
- 3. High cost/quite expensive [ ]
- 4. Traditional approaches of concerned authorities [ ]
- 5. Long procedure [ ]
- 6. Other, please specify.....

Date: .....

Signature: .....

Designation of respondent: .....

## **Appendix-2:**

### **Name of Respondent Nepalese Public Enterprises**

#### **1) Industrial Sectors**

- Herbs Production and Processing Company
- Nepal Drugs Ltd.
- Dairy Development Corporation
- Nepal Grind Magnesite Pvt.Ltd.

#### **2) Trading Sectors:**

- Nepal Oil Corporation Ltd
- Nepal Food Corporation
- Salt Trading Corporation Ltd.
- National Trading Ltd.

#### **3) Services Sectors:**

- Civil Aviation Authority Of Nepal
- Industrial Sector Management Ltd.
- Nepal Airlines Corporation Ltd.
- National Construction Company Ltd.

#### **4) Social Service Sector:**

- Gorkhapatra Sasthan
- Janak Education Material Center Ltd.
- Cultural Corporation

#### **5) Public Utility Sector:**

- Nepal Telecommunication Company Ltd.
- Nepal Electricity Authority

#### **6) Financial Sector:**

- Agriculture Development Bank
- Karmachari Sanchaya Kosh
- Rastriya Banijya Bank
- Rastriya Bema Sansthan