

CHAPTER- I

INTRODUCTION

1.1. Background of the Study

Nepal is a developing country in South Asia. It is landlocked bordering between the two most populated countries in the world; India in the East, South, and West, and China in the North. The development in industry and trade sector is quite slow and economy is still based on agriculture. Nepal is still backward in comparison to its neighboring countries due to several factors such as political instability, lack of financial resources, lack of required infrastructure, higher rate of illiterate etc.

Economic development is considered as the basic requirement of every country to fulfill the aspiration of the people. Hence, there should be smooth development of the industries and the financial institutions, so that the country can acquire its required fund and capital from its own resources. Financial institutions like banks, finance companies, co-operative companies, Insurance companies etc. play significant role in the country's economy. Insurance companies play vital role in the economy among financial institutions. Since there is perfect competition in all the businesses in the world, the existence of organized financial market and capital market within the boundary of the nation is regarded as an essence for the economic development of a country. Each financial institution plays a key role in the financial and capital market through investing the collect resources within the recognized productive sectors and industries. Integrated and speedy economic development of the country is possible if competitive insurance services are available in every corner of the country. Since the insurance companies cover the risk factor and provide capital to the industries, businesses and trade; it plays definite and important role in the framework of the country's economy. According to nature, characteristics and objectives of the insurance companies, they are treated as the category of financial intermediaries. Hence, they are capable to provide industrial finance, Government finance and so on. In the context of Nepalese insurance companies, they are providing various insurance services and charges premium under the insured risk.

To achieve the ultimate goal of every business organization, their accounting system should be maintained in proper manner. Systematic and proper accounting system shows the accurate financial condition of organization in each aspect and provides necessary information to all the stakeholders. Accounting system provides required financial information for the better utilization of the available resources so that the competitive advantages can be achieved by using various tools and techniques of accounting practice. It provides the cost information to the production manager and sales information to the sales manager so that the managers can make the proper decision and alternative for the future betterment of the business. Similarly the money lenders, investor, shareholders and customer can have the required information with the help of management accounting. Therefore, it can be said that the Management Accounting (MA) is useful, essential and beneficial to all the aspects of the management activities such as planning, decision making etc.(Adhikari,2010)

1.1.1 An overview of life insurance Company in Nepal

The history of financial system in Nepal began in 1881 with the establishment of Tejarath Adda (The National Treasury Office) in initiation of the Prime Minister Ranodweep Singh which was used as the government and public bank and Ministry of Finance by Rana rulers. Before this Kumari Chowk Adda was the main treasury office but not organized well. Later, in initiation of Nepalese Ambassador to UK, Nepal Bank Limited as the first commercial bank, was established in 1937 with technical help of British Indian commercial banks.

In those days, foreign (mostly Indian) insurance companies met the insurance need of Nepal. In eve of Rana Regime, Nepal Insurance and Transport Company (named as Nepal Insurance Company later) was established in 1947 by Nepal Bank Ltd. as its subsidiary company. It was the only national insurance concern before establishment of Rastriya Beema Sansthan (RBS) in 1968.

After the establishment of RBS, the main business holder of life portfolio, Life Insurance Corporation of India transferred the business to RBS and closed its office in Nepal in 1972. None the less, non-life companies are in operation till to date.

In 1968, Rastriya Beema Sansthan (RBS) was established under Company Act, 2024 and was converted into Corporation in the following year under Rastriya Beema

Sansthan Act, 1969. This is a government owned organization even now, and has been operating both life and non-life insurance business.

Prior to the enactment of Insurance Act, 1968 there was no regulatory body that supervises insurance business in the country. Under the Insurance Act, 1968, Beema Samiti (Insurance Board) was formulated as the insurance supervisory Authority.

In 1986, a new experiment was done in Nepalese insurance scenario by licensing a joint venture insurance company to operate both life and non-life business. But the real expansion of the insurance industry in Nepal took place during the 1990s following the financial sector reform and liberalization of the economy by the government. The new policy gave emphasis to the involvement and growth of insurance business in the private sector. As a result, many companies came into the scene in the private sector including foreign equity. Even branches of Indian and US companies are working in the field. (Ghimire, 2013)

1.2. Brief Introduction of Sample Insurance companies

1.2.1. Nepal Insurance Company Limited

Nepal Insurance Company Limited, a pioneer non-life insurance company of Nepal was established on 1947 A.D. by Nepal Bank Limited (the first commercial Bank) and general public with 51% and 49% shares respectively. At the beginning, the name of this company was "Nepal Malchalani Tatha Beema Company" and had changed its name as "Nepal Insurance & Transport Company Ltd." on 1959 A.D. Now its name is "Nepal Insurance Company Ltd." since 1991 A.D.

1.2.2. The Oriental Insurance Company Limited

After establishment of Nepal insurance company limited, there was not any insurance company established for almost two decades. The oriental insurance company is the second modern insurance company of Nepal established in 2014 B.S. insurance company. Therefore, this company is one of the oldest non-life insurance companies in Nepal. It provides different types of non-insurance facilities to the customers. The Oriental Insurance Company Limited is operating in Nepal since 1956 as an extended arm of its parent organization such there is no shareholding from Nepal.

1.2.3. The Rastriya Beema Sansthan

The Rastriya Beema Sansthan is totally a government organization insurance company in Nepal. Therefore, this company provides different types of life and non-insurance facilities to the customers. Understanding the need of large and organized insurance company in the country, HMG has established the insurance company in Nepal called Rastriya Beema Sansthan in 2024 B.S. It is totally a government organization with government investment and control. This company provides both life and non-life insurance all over the country.

1.2.4. National Life Insurance Company Limited

National Life Insurance Company Limited is formerly known as National life and General Insurance Company Limited. National life and general insurance company limited is the second life insurance company of Nepal. National life and general insurance company limited was established in 2044. It was incorporated in 1988 A.D. under Nepal Company Act 1964 and the insurance Act 1968 of Nepal. Prime objective of National Life Insurance Company Limited is to meet growing insurance requirements of the country. This company incorporated in insurance board on 2042-2-19 and commenced insurance business from 2044-9-24. All over the country, National Life and General Insurance Company Ltd have several branches and contact offices in all over the Nepal. All together with hundreds of staffs, this company is providing different types life insurance facilities to customers today.

1.2.5. Himalayan General Insurance Company Limited

Himalayan General Insurance Company Limited commenced operations in December 1993. Himalayan General Insurance Nepal has to underwrite General Insurance (Non-life). Himalayan General Insurance Nepal is working with Swire Blanch Asia Ltd., Singapore, through a technical service agreement for the initial five years in order to arrange reinsurance with the world's best reinsurers. Himalayan General Insurance Company Limited is the life insurance company of Nepal. Himalayan General Insurance Company Limited was established in 2050-04-06. Himalayan general insurance company limited was incorporated with insurance board. Prime objective of Himalayan General Insurance Company Limited is to meet growing non-life

insurance requirements of the country Nepal. Providing various types of non-life insurance perils to customers, it has expanded three branches in different geographical regions. It is well managed by 43 staffs under one umbrella.

1.2.6. United Insurance Co. (Nepal) Limited

United Insurance Co. (Nepal) Limited is an ISO 9001:2000 certified insurance company. The company has started its operation from December 1, 1993 (Mangsir 16, 2050) after its registration with the Company Registrar's Office and approved by Insurance Board. The companies are promoted by leading industrialists, reputed trading and commercial houses of Nepal and have a wide participation. The Authorized Capital of the Company is Rs. 50 crores, Issued Capital 30.24 crores, out of which Rs. 30.24 crores have already been paid.

1.2.7. Premier Insurance Company Limited

Premier Insurance Company Limited is the non-life insurance company of Nepal. Premier Insurance Company was after formal registered on 2048-1-8. Premier insurance company was incorporated with insurance board on 2048-1-8. Premier Insurance Company Ltd Nepal has emerged as a renowned general insurance company of the second generation. Incorporated on 12th may 1994, the Premier Insurance Nepal has earned a reputation in the local and international insurance having several branches. This company is providing various types of non-insurance business from 2051-1-29. There are dozens administrative staffs of different levels in this insurance company.

1.2.8. The Everest Insurance Company Limited

The Everest Insurance Company Ltd Nepal is one of the authorized and leading insurance companies in Nepal under Insurance Board of Nepal. The name of Insurance Board of Nepal is Beema Samiti Nepal. Everest Insurance Company Ltd is one of the popular insurance companies operating in the country Nepal. It is a public limited company. Everest insurance company limited incorporated with insurance board on 2048-8-18. The Everest insurance company established in 2051-2-17 by local Nepali promoters. It is one of the leading Insurance Company of Nepal. It has always been ensuring on excellent quality service. Everest Insurance Company has won the

trust from its more than 20,000 clients. The head office of Everest insurance company Ltd is located in Kathmandu, capital of Nepal. It has all together 5 branches and 3 contact offices within the country Nepal. There are more than dynamic staff of 60 members and countrywide network of 300 agents providing various types of non-life insurance facilities.

1.2.9. Neco Insurance Company Limited

Neco Insurance Company Limited established in capital of Nepal Kathmandu. Neco insurance company ltd Nepal is a joint stock company operated by Nepali promoters. Neco Insurance company ltd formally incorporated with Insurance board on 2055-9-1. This company was formally registered on 2053-2-17 and commenced the insurance business from 2053-2-17. It is one of the leading companies' among the new companies established in Nepal. Rastriya Banijya Bank, a Government Undertaking Commercial Bank is promoting Neco insurance company. Neco is playing important role in the Insurance Market of Nepal. Neco Insurance Ltd offers a wide range of Non-life insurance products to cater the needs of its clients. With all together 42 staffs, in this company, Neco Insurance Ltd is providing different types of non-life perils from head office in Kathmandu and other seven branch offices scattered in geographical regions.

1.2.10. Sagarmatha Insurance Company Limited

Sagarmatha Insurance Company Limited was incorporated in 1996 and is listed as first foreign joint venture company of Nepal in General Insurance Industry. Its joint venture partner, Ceylinco Insurance PLC is a leading insurance company in Sri Lanka holding 20% equity share. The latter is recognized as an industry leader in product variation, and insurance claim management which led them to achieve an award for leading general insurance companies in Asia. Ceylinco received this prestigious award at the fourth Asia Insurance Industry Awards Ceremony 2000, held in the Philippines. Sagarmatha Insurance Co. Ltd has established itself as one of the largest private sector general insurance companies in Nepal with a Gross Written Premium (GWP) of Rs. 1,115,232,400 for the fiscal year 2015/16. The company issues over 81,388 policies and settled over 4236 claims during this time period. At the end of fiscal year 2015/16 the company had an Authorized Capital of Rs.500 million, Issued

Capital 400 Million and Paid up Capital of Rs.258.36 million, being authorized by Insurance Board of Nepal Compliance with the Insurance Act, 2049. Sagarmatha Insurance Co. Ltd has wide network expansions within its home country with total 62 branches and additional extensions. The workflow is managed by a team of dedicated experts and persistence employees. The company also comprises wide distribution network including various corporate agents beside its own direct sales force.

1.2.11. Lumbini General Insurance Company Limited

Lumbini General life insurance company Ltd. was incorporated in 2005 BS by prominent business industrialists, financial institutions and commercial banks and first ex- governor Himalayan Samsar Jabara as founder chairperson. It has established in 2062/04/02 BS . Lumbini general insurance Company Ltd. have jointly promoted by prominent bankers, Entrepreneurs, automobiles, dealers, hydro-power developers, industrials, finance institutions, and commercial bank and well-experienced staff members in the insurance industry for more than three decades.

1.2.12. Life Insurance Corporation (Nepal) Limited

Nepal life insurance corporation limited, established under company Act 2053 and company Act 2049 as a public limited company on 2058/01/21(04/05/2001). Nepal life is the foremost life insurance company established by private investors. The promoters of the company are a group of well-known businessmen and business house of Nepal. Within the sixteen years of operation the Company has set up an excellent business record and has strong financial position.

1.2.13. American Life Insurance Company Limited

American Life Insurance Company limited is a well-known American insurance company with global branches in over 50 countries including Nepal. After formal incorporation with insurance board, this company has started life insurance business in Nepal from 2058. ALICO have over four hundred thousand (according to August 2012 report) customers in Nepal. On November of year 2010, ALICO became part of MetLife. It has a head office and two branches in Kathmandu with all together 22 administrative staffs committed to provide reliable life insurance facilities in the country.

1.2.14. N.B. Insurance Company Limited

The N.B. Insurance Nepal is one of the registered life insurance companies in Nepal, under Insurance Board of Nepal. N.B. insurance company is one of the insurance companies involving in non- life insurance in the country. It commenced the insurance business from 2057-10-19. About 55 administrative staffs are working in this company to provide insurance facilities all over the country. Right now, it has seven branch offices scattered in different geographic regions. The famous entrepreneurs and leading industrialists, vast experienced persons in insurance industry, prominent bankers – Nepal Bangladesh Bank, NB GROUP, Nepal Credit & Commerce Bank Ltd. have jointly promoted N.B. Insurance Company Ltd.

1.2.15. Prudential Insurance Limited

Prudential Insurance Ltd (PICL), a public limited company established in November 2000, is the 13th private sector general insurance in Nepal. PICL is medium sized company with 7% market share in terms of General Insurance Industry's Gross Premium Written in 2016-17. Currently, PICL is in operation with 33 branches (as of Jul 2017) spread across the nation for procuring business and extending after sales services. PICL has 80:20 promoter-public shareholding ratios with major shareholding from Vishal Group, Triveni Group, Golyan Group and related companies. PICL reported a profit after tax of NPR 171 million during 2016-17 over assets base of NPR 1,819 million as of mid-Jul-17 compared to the profit after tax of NPR 154 million during 2015-16 over assets base of NPR 1,536 million as of mid-Jul-16. In terms of technology platform, PICL has implemented "Ensure" in its corporate office. The computerized information has been centralized across all the branches.

1.2.16. Shikhar Insurance Company Limited

Shikhar Insurance Company Ltd. offers general insurance products. The company provides duty, vehicle, household, aviation, travel medical, marine transit, fire and allied peril, public liability, personal accident, cash in transit, erection all risk, contractors' all risk, fidelity guarantee, trekker's assistance, group personal accident, group medical, secure mind, health, agriculture, and banker's indemnity insurance

products. It serves airlines, hotels, industries, banks, finance companies, construction companies, automobiles, media and publications, hospitals, departmental stores, schools, and travel and trek companies. The company is based in Kathmandu, Nepal. It has branches in Thapathali, Ekantakuna, Satdobato, New Road (Ktm), Biratnagar, Birganj, Pokhara, Nepalgunj, Butwal, Narayangadh, Hetauda, Itahari, Birtamod, Dhangadhi, Dang, and Lahan, Nepal; and regional offices in Biratnagar and Hetauda, Nepal.

1.2.17. Siddhartha Insurance Limited

Siddhartha Insurance Limited (SIL) is one of the fastest growing insurance companies in Nepal with strong presence in the form of 60 Branches & headquartered at Siddhartha Insurance Bhawan, Babarmahal, Kathmandu. Established in the year 2006, SIL today is a financially sound and professionally managed organization. SIL is been promoted by leading Business houses, Industrial conglomerate & Institutions. The company practices true customer-focused service through its quality products, underwriting all types of risks in General and Health Insurance, often going that extra mile to tailor make special covers based on specific customer needs. SIL provides a complete range of insurance solutions from Fire, Marine, Motor, Engineering, Aviation, Micro, Medihealth, Travellers Mediclaim Policy, Miscellaneous Accident Risk, to cover for medium to large industrial, commercial enterprises as well as Individuals. To achieve this end, it has employed qualified and experienced professionals.

1.2.18. Gurans Life Insurance Company Limited.

Gurans Life Insurance Co .Ltd. has been established and registered under Company Act 2063 B.s.(Regd. No. 1005/063-64) and Insurance Act 2049 as a public Limited Co. and was issued a license to operate Life Insurance Business on 2064/12/18. Gurans Life Insurance Co .Ltd. promoted by T.M. Dugar Group, Sunrise Bank Ltd. along with group of diverse and renowned Businessmen, Industrialist and Legal professionals. Gurans Life Insurance Co .Ltd. have total authorized capital of 50 crores. Out of which issued and paid up capital is also Rs 50 crores. 30% of the issued capital has been allotted to the public through IPO and 70 % has

been subscribed by the promoters. Total shareholders of the company are more than 26000.

1.2.19. Prime Life Insurance Company Limited

Prime Life Insurance Company Limited provides life insurance products in Nepal. It offers pension plan, mortgage redemption insurance, life insurance, endowment policy, money back policy, whole life endowment, and foreign employment policy products. The company distributes its products branches and sales offices. Prime Life Insurance Company Limited was founded in 2007 and is based in Kathmandu, Nepal.

1.2.20. Surya Life Insurance Company Limited

Surya Life Insurance Company Ltd. has been established and registered under Company Act 2063 B.S. (Regd. No. 1006/063-64) and Insurance Act 2049 as a Public Limited Company and was issued a license to operate Life Insurance Business on 2064/12/06. The authorized capital of the company is NRs 200 crore and Issued and Paid up Capital is NRs 72.1875 crore. The promoters have contributed 70% of this, amounting to NRs.50.53125 Crore whereas the other Nepalese Citizens contributed remaining 30% of this capital amounting to NRs.21.65625 Crore.

1.2.21. Asian Life Insurance Company Limited

Asian Life Insurance Company has got operating license as per Insurance Act 2049 from Beema Samiti (Insurance Regulatory Authority of Nepal) on 27th February, 2008 (Falgun 15, 2064) and started functioning on 3rd April, 2008 (Chaitra 21, 2064). The Authorized Capital of the Company is Rs. 2000 million. Out of which 1 billion 256.7 million is currently paid up. (70% by the promoter and the remaining 30% by the general public.) There are 93 promoters of the company: 2 institutional and the remaining 91 individual promoters. Among the institutional promoters, there are prominent finance and development banks of Nepal. Following are the major institutional promoters.

- Mahalaxmi Development Bank Limited, Kathmandu

-Guheshwori Merchant Banking & Finance Ltd., Lalitpur.

The member of the board of directors and other individual investors are leaders in other professions and business, such as banks, insurance companies, financial institutions, private enterprises etc. Some investors are from reputed position holders of ex- government services.

Asian Life has been dedicated to maintain the highest level of professional integrity, regulatory compliance and corporate governance. Since inception, the company has focused on policy- holder's satisfaction. The company is equipped with modern technology to conduct the insurance business in professional manner and is in the position to properly deal with all types of clients and ready to provide excellent services.

1.3. Statement of the problems

The insurance companies have been operating well from their very beginning of the establishment. The expansion of insurance business is increasing which indicates the increasing number of insurance companies in Nepal. As a result, Nepalese insurance companies are competing to transact insurance business with international insurance companies as well. This development has created major challenges for insurance companies in terms of providing services to their clients and maximizing market value of the company.

Well management and planning are the key tools to achieve the determined goal of any business organization for that Management Accounting provides the techniques to aid the management functions. It gives the proper and necessary information and guidelines to the manager for planning and decision making. Hence, the business complexity can be changed into opportunity by using various tools and techniques of management accounting.

This Study has tried to address the following research questions:

1. Whether the Nepalese insurance companies are practicing management accounting tools?
2. What are the major difficulties in the application and implementation of management accounting tools in insurance company?

3. What is the impact of management accounting practice on financial performance?

1.4. Purpose of the Study

The main objective of the research was examines and study the management accounting tools practiced by insurance companies in Nepal. The major objectives are as follows:

1. To examine the management accounting practices in Nepalese insurance company.
2. To explore the difficulties in the application and implementation of management accounting tools in insurance company.
3. To examine the impact of management accounting practice on financial performance.

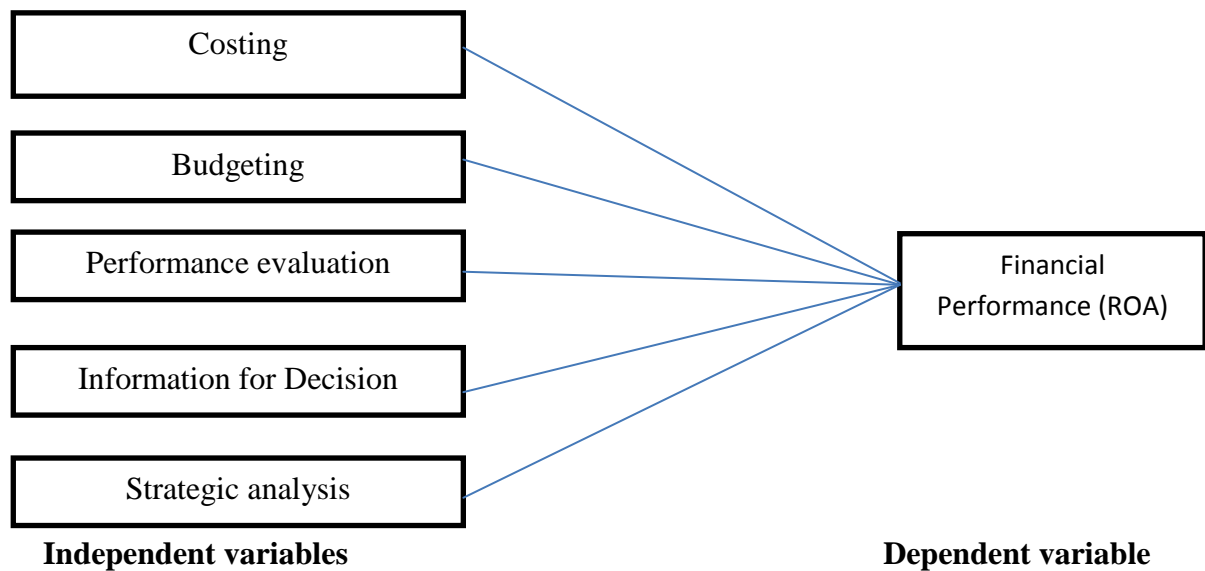
1.5. Significance of the study

The research work has been study of the practice of Management accounting tools used in life Insurance Companies of Nepal. This study was significant in the following points:

1. It is useful to concerned company investors, policy makers and managers of business firm etc.
2. It will provide literature to the researcher who wants to carry on further research on this field.
3. It will help to analyze the use of Management Accounting tools in Insurance Companies.
4. It is helpful to those who are following the management accounting practices.

1.6 Conceptual Framework

Those definitions which describe concepts using other concepts are conceptual definition. In this procedure, we can use other concepts to define the one topics.



1.7. Limitations of the Study

This study was not free from some of the limitations and constraints. The main limitations of this study are as follows:-

1. This study focused on Management Accounting tools and technique use in economic aspects of the Insurance Companies.
2. This study takes only 21 insurance companies out of 25 as convenience sampling.
3. The study based on the response and the data provided by respondents so result may be deviated.

1.9. Chapter Plan

Chapter 1: Introduction, deals with introduction of the main topic of the study like general background, profile of insurance company, statement of the problem, objectives and significance with limitation of the study and other introductory framework.

Chapter 2: Review of Literature, deals with the review of available relevant studies. It includes the conceptual review and review of the related books, journals and the published and unpublished research works as well as thesis.

Chapter 3: In this chapter describes the data and methodology. Basically, this chapter covers the research design, population and sample, sources of data, data collection procedures, data processing procedures and data analysis tools and techniques. It includes also relation between dependent variable and independent variables.

Chapter 4: Results, deals with the presentation and analysis of all the relevant collected data. Analysis is done as per described in chapter 3. This chapter is the heart of the study.

Chapter 5: Summary, Conclusion and Implications, contains the summary of the study, the major findings, conclusion recommendation and suggestion based on the study.

Reference and appendix have also been incorporate at the end of this study.

CHAPTER II

LITERATURE REVIEW

Review of literature is the study of past research studies and relevant materials. It is the advancement of existing knowledge and in depth study of the subject materials. "Review of literature means reviewing research studies and other relevant proposition in the related area of the study so that all the past studies, their conclusion and deficiencies may be known and further research can be conducted. It is an integral and mandatory process in research work.

2.1 Management Accounting

Management Accounting Practices helps an organization to survive in the competitive, ever changing world, because it provides an important competitive advantage for an organization that guides managerial action, motivates behaviors, supports and creates the cultural values necessary to achieve an organization's strategic objectives. Management accounting is concerned primarily with the internal needs of management. It is oriented toward evaluation of performance and development of estimates of the future as opposed to traditional financial accounting which emphasizes historical data related to such legal financial matters as ownership, investment, credit granting, taxation, regulation, and the building of foundations for consistent and conservative external reporting, "in accordance with generally accepted accounting principles." Flexibility is an essential characteristic of management accounting since it presupposes that careful attention has been given to determine the important needs of management, many of which cannot be precisely identified in advance. The Institute of Management Accountants (IMA), the professional association of practicing and academic management accountants, defines management accounting as "The process of identification, measurement, accumulation, analysis, preparation, interpretation, and communication of financial information used by management to plan, evaluate, and control within an organization 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, regulatory agencies, and tax authorities"(Nunu, Baird and

Appuhami,2016). Management accounting provides information from its environment to management to facilitate decision-making. Good management accounting information has three attributes: Technical-it enhances the understanding of the phenomena measured and provides relevant information for strategic decisions; Behavioral-it encourages actions that are consistent with an organization's strategic objectives, and Cultural-it supports and/or creates a set of shared cultural values, beliefs, and mindsets in an organization and society (Ahamad 2013). The development of management accounting is responsive to the demands of management and the environment. Management accounting adapts to organizational change and three major forces cause organizations to evolve technological change, globalization, and customer needs. In order to remain competitive in today's global market, business must continually improve. Good management accounting practices help the organization to improve continually. Due to these all over the world there are so many management accounting tools & techniques developed and practiced. Management accounting practices can include budgeting, performance evaluation, and information for decision-making and strategic analyses, among many others. Due to the development of these new methods, the basic principles of management accounting has changed to a more superior one that adds value to various practices. The literature has also indicated that some practices such as absorption costing and marginal costing have not been highly favored by most businesses. They stressed that there is a limitation within these costing systems, since they do not provide an accurate method of recording costs to be exact in order to make sound management decisions. Management accounting practices enable management to obtain relevant information for meaningful decision-making (Alleyne and Weekes-Marshall, 2011). Perceived importance of cost accounting is driven by decreasing profitability, increasing costs and competition, and economic crises. The author also noted that while companies still perceive traditional management accounting tools as still important, new management accounting practices such as strategic planning, and transfer pricing are perceived less important than traditional ones. The study also found that the most important three management accounting practices are budgeting, planning and control, and cost volume-profit analysis. A number of factors influence the changes in management accounting practices within some organizations made reference to some

systems as open, that is, there is a continuous cycle of resources that are inputs which moves from the external environment. Scapens, R. & Bromwich, M. (2010).

It is a common belief that such changes will have an influence on the selection of the appropriate management accounting practices within any organization. Some researchers have commented that such changes may originate due to different settings of both economic and cultural environments. Most of the research focused on changes in management accounting practices, primarily in countries such as South Africa and Canada. However, some researchers noted what is often taught in schools is far different in the world of work and therefore creates a breach in knowledge between the practice and the theory (Alleyne and weeks-Marshall,2011).

The role of managerial accounting now is very different from that of decade of ago. In the past it operates in a strictly staff capacity but now, it serves as internal source of business consultants. In many organizations, managerial accountants take on leadership roles in their teams and are sought out for the valuable information they provide. Therefore, the goal of learning managerial accounting is not to be an accountant, rather it aims to produce confident entrepreneurs and capable. (Bajracharaya, ojha, Goit and Sharma,2005)

Management accounting performs broad functions from collecting data to interpret the data for management. The various information (Capacity available, current capacity utilization, cost structure, past results etc.) and external information (competitors' position, socio-political movements, market characteristics, globalization etc.) are needed to procure and store. Management accounting is a system which collects, stores, retrieves, modifies, analyzes, interprets and provides concise information/data covering entire field of business for the management. Thus, management accounting helps management in planning, controlling and decision-making. (Thapa and Naupane, 2065)

2.2. List of management Accounting Tools

- **Methods of Segregating Mixed Costs in Fixed cost and Variable cost:**
 - a. High-low Point Methods (two-point method)
 - b. Least Square Method
 - c. Analytical Method

- **Cost Allocation and Appropriation Methods**
 - a) Direct Allocation Method
 - b) Step-down Allocation Method
 - c) Reciprocal Allocation Method
- **Product/Service Costing Method:**
 - a) Variable or Direct Costing
 - b) Absorption Costing
- **Cost-volume-profit analysis (CVP analysis)**
- **Budgeting for Planning and Controlling**
 - a) The master Budget (A network of inter-relationship)
 - b) Operation Budget
 - i. Sales Budget
 - ii. Production Budget
 - iii. Direct Material Budget
 - iv. Raw Material purchase Budget
 - v. Direct Labour cost Budget
 - vi. Manufacturing Overhead Budget
 - vii. Selling and distributing Expenses Budget
 - viii. Administrative Expenses Budget
 - ix. Cost of Goods Sold Budget
 - x. Cash Budget
 - c) Budgeted Financial Statement
 - d) Budget Income Statement
 - e) Budgeted Balance Sheet
 - f) Zero Base Budgeting
 - g) Activity Based Budgeting (ABB)
- **Management Control Systems and Responsibility Accounting**
 - a) Management Control System
 - b) Responsibility System
- **Standard Budgeting and Overhead Cost Control**
 - a) Standard Costing Process
- **Flexible Budgeting and Overhead Cost Control**
- **Decision Regarding Alternatives in Business Operation:**

- Process of Decision Making
- Decision regarding alternatives choice:
 - xi.** Drop or Continue the Product line
 - xii.** Decision to accept a special order/offer.
 - xiii.** Decision to make or buy.
 - xiv.** Replacement of assets decision.
 - xv.** Decision to further process joint products
 - xvi.** Decision of leasing and buying
- **Pricing Decision of Product/Services**
 - Cost-plus Pricing
 - Variable cost Pricing
 - Full Cost Pricing
 - Time and Material Pricing
 - Pricing for Competitive Bidding and Special Orders.
 - Strategic Pricing for New Products.
 - Target Cost Pricing
 - Pricing under Activity Based Costing
 - Transfer Pricing
- **Long-term Investment Decisions:**
 - a) Estimating the Project's Cash Flows
 - b) Relevant Information for Investment Decision
 - c) Long-term Investment Evaluation Techniques
 - Pay Back period Method
 - Accounting Rate of Return
 - Net Present Value (NPV)
 - Discounted Payback Period
 - Internal Rate or Return (IRR)
 - Profitability Index (PI)
 - Capital Budgeting Under Risk and Uncertainty
- **Managerial use of Financial Statement Analysis:**
 - The statement of Cash Flows
 - Ratio Analysis
 - Liquidity analysis

- Length of Cash Cycle
- Long –term Solvency Analysis
- Debt Ratios
- Assets Management Ratios
- Operating assets management
- Inventory turnover ratio
- Long Term Assets Management
- Profitability Analysis, (Dangol and Dangol)

2.3. Review of previous studies

Eugine and Miston ,(2017) ,have conducted a study on the Impact of Management Accounting Practices (Maps) on the Business Performance of Small and Medium Enterprises within the Gauteng Province of South Africa: This study contributes to the body of knowledge in the area of management accounting by providing current insights on both literature and research methodologies. In this manner, the paper may be used as a reference source by future researchers on similar matters. Furthermore, the study validates that management accounting practices such as costing system, budgeting, performance evaluation, information for decision-making and strategic analysis are instrumental in stimulating the SMEs business performance within the Gauteng Province of South Africa. The study further validates that those small and medium enterprises that are engaged in management accounting practices enhance business performance. The study has both theoretical and managerial implications. Theoretically, this study makes a noteworthy progression in management accounting concept by methodically examining the interplay between management account practices and business performance. In this manner, the study is an important contributor to the existing literature on this subject. The study also underwrites a new direction in the research on management accounting practices by opening up a discussion on the importance of management accounting practices in the development of SMEs in developing countries such as South Africa.

Gyawali, (2017) conducted the study on Management Accounting System Practice In Nepalese Commercial Banks. The main objectives of this study were to extent of use and role of management accounting in Nepalese commercial banks” management.

Out of 28 commercial banks, he was select 17 banks for the study. He was collected data through primary and secondary sources and calculate and analysis data by mean, median, and t-test He found that the perception of top management representative of commercial banks in Nepal perceived management accounting system tools as significant in their banking system. Top management representative of commercial banks in Nepal perceived budgetary control as utmost significant tools in management accounting system in their banking system. Likewise, ratio analysis, cash flow statement analysis, CVP analysis, SWOT analysis, variance analysis, competitors analysis, inter firm comparison, total quality management, and process reengineering are the other management accounting system tools are perceived significant in Nepalese commercial banks. The main role of Management Accounting System is to provide useful information in helping banking managers make effective decisions. Organizational Strategy must be supported by appropriate organizational harmonized Management Accounting System. Management accounting system and strategy is found to have a greater influence over organizational performance. Nepalese banks should focus on integration and application management accounting system towards strategy formulation and implementation like adopting blue ocean strategy concept.

Sharma, (2015) has conducted a study on Practices of Financial and Management Accounting: Evidence from Small and Medium-Sized Enterprises of Nepal. This study was findings of this study reveal financial and management accounting practices in the SMEs are relatively contemporary. The results provide evidence that the majority of companies prepare financial and management accounting reports such as profit and loss, balance sheet, and cash flow statements, CVP analysis, variance analysis, and budget on regular basis and there were adequate evidence to suggest the high use of completely computerized accounting system. In terms of usefulness of accounting reports, management accounting reports are considered more useful than financial accounting reports. It also found that there is no significance mean difference of practices of each accounting system across three types of SMEs. Future research can be conducted to explore further the accounting practices among SMEs in other sectors such as the service industry. In addition, studies can also be carried out to investigate the relationship between accounting practices and performance. In future, it can also be undertaken to identify problems and areas of improvements,

which can be used by the private and government agencies to formulate policies to ensure existence of SMEs in Nepal.

Nikhil, Mahfuzul and Mahmuda , (2014) have conducted a study on Management Accounting Today: A Perspective for Tomorrow. This study contributes to management accounting profession has been accepted worldwide after the industrial revolution because of the demand for new sets of accounting information that cannot be obtained from conventional financial accounting systems. The global competition, advent of advanced manufacturing systems and emergence of modern information technology have further motivated the development of this profession in the 20th and 21st centuries. As a representative third world country, Bangladesh has also joined the drive for management accounting practices. The country is still considered a haven of safe investments by the international community because of its cheap labor, favorable regulatory environment, few natural calamities and low business cost. Therefore, the demand for management accounting in Bangladesh increases every day.

The interview data show that the benefits of the current management accounting practices mostly go to the firms. Specifically, the professional management accountants take care of the benefits of their respective firms. Other players in the market, such as customers, also enjoy some of these benefits. However, the practices that directly favor the customers are practiced infrequently in the Bangladeshi market for two reasons, one of which is positive and the other is negative. On the one hand, most firms in the country are first generation firms struggling to survive in the market. At this time, firms must prioritize the implementation of techniques that will help them ensure long-time sustainability before they can consider the societal perspective. On the other hand, customers are largely ignorant of the market. The inefficiency of the market in absorbing information for the sake of maturity and growth is responsible for the backward diffusion of customer-oriented management accounting practices.

Mwangi, (2014) looked at the link between MA processes and FP of manufacturing companies in Kenya. The methodology used by this study was a descriptive survey design. 455 manufacturing companies formed the population of study. The sample size was arrived at through the use of Stratified random sampling method. The sample was made up of 46 manufacturing companies Nairobi which included firms in the zones of building, food and beverages, chemical, energy, metal & Allied, plastics, textile,

wood products, pharmaceutical, leather, motor and paper. The study collected primary from the partakers by using a structured questionnaire. Data analysis was done using SPSS V 18. The study found an affirmative association between usage of MA processes and FP of Kenyan manufacturing companies since an increase in return on equity resulted from utilization of MA practices.

Nyaupane, (2012) had conducted a research on the topic management accounting practice in selected industries of Balaju industrial estate an unpublished master level thesis submitted to Shankar Dev Campus. He had focused his study to examine the management accounting tools in selected industries of Balaju industrial estate. His research was based on primary and secondary data. In his research, he had point out various objectives and findings, some remarkable objectives were as follows.

- a) The student's t-test revealed that the average number of accounting tools practicing industries is 10 out of 13 tools. The test concluded that selected industries are practicing not below 10 out of 13 management accounting tools.
- b) All the sample industries accepted only two reasons for not felt necessary yet. They did not think lack information and expertise, nor they agreed the time and cost as the cause of not practicing these management accounting tools.
- c) The industries are aware of importance of information technology IT. All the industries are using professional accounting software. Some of them practicing manual accounting.
- d) Potential benefits of management accounting tools in their own words are quick\effective decision-making budget controlling and proper planning manual accounting.
- e) Main problem in application management accounting tools in their own words are cost factor, lack of industrial data, no proper standard. in context of Nepal there is no proper information, bank and no specialized institution to do research in this industrial sector.

Ndigwa, (2011) conducted a case study on equity bank of Kenya and focused on the purpose of MA in the creation and sustenance of competitive advantage. A sample of forty partakers from the bank was involved. This study discovered that the modern MA processes avail very essential skills and techniques in creating competitiveness. The research also outlined the purpose of MA processes in availing strategies that

lead to the building of a competitive edge in a firm. This study set a basis for further research into the significance of modern MA practices in advancing a competitive advantage specifically in the banking zone.

Another study was conducted by Thanju,(2009). His general objective was to establish the causal elements of MA changes in three private Hospitals in Nairobi. The information was collected using structured questionnaires and by conducting personal interviews. The methodology adopted by his study included descriptive cross sectional survey design. His targeted partakers were the finance managers and management accountants of the three hospitals in the study. Data analysis was done using descriptive statistics. Results findings were interpreted in narrations, graphical and pictorial designs. The research data analyzed reported considerable MA changes in these three hospitals. The researcher also found that these hospitals were using many modern MA practices. The research further suggested that the factors of MA change included resources availability, high competition, financial performance, technology improvement, statutory and regulatory bodies requirements, need for financial and non-financial estimates and board members expectations. The main factors that inhibit MA change were revealed in the study and included difficulties in accessing strategic advice about competitors, bookkeeping staff turnover, poor communication, inadequate staff and strict government regulatory bodies requirements.

Baldvinsdottir, (2009) described the role of a management accountant in an organization management accountants felt differ to the non-financial managers because other managers did not fully understand and how to use the financial information. The financial data usually were held in accounting system department. At that period, management accountants feel that they have to educate their non-financial managers in using the accounting information. In the nineties, the financial data are available in all levels of business. Management accountants worked together with other managers to find out the best for the company. Management accountants were no longer distinguish themselves from the non-financial managers. They consider themselves as the member of management team. In the naughtiest, the rapid changes in Information Technology made information are available throughout organization. Management accountants should be partners with other managers. They

should work together hand in hand in achieving corporate business strategies. Sometimes, it is rare to find an individual within organization with the title as “management accountant”, but there is always an individual who do the management accountant functions.

Nepal, (2008) was conducted a research study entitled "Management Accounting Practices in Nepalese manufacturing Enterprises" (with special reference to Bottler's Nepal Ltd.). His main focuses of the study of the practices of MA in multinational companies like Bottler's Nepal Ltd. He collected necessary information from primary sources. He has pointed out various findings in his study. Some of them were as follows:

- a) Practicing process of management accounting tools in manufacturing and service enterprise are slightly different and major MA tools and techniques.
- b) Nepalese manufacturing and non-manufacturing companies are in infant stage in practicing new management accounting tool and techniques.
- c) While preparing budget there was no practice of taking consultancy service and hiring outside experts are nil excepting a few manufacturing companies.
- d) To carry out operational activities properly, companies mostly practiced preparation of master budget.

Bhattraï, (2008) has conducted research entitled “An analysis of Management Accounting Practices of Insurance Companies in Nepal.” She has focused her study to examine and study the practice of management accounting tools practiced by the Insurance companies in Nepal In this research Mrs. Bhattarai pointed out some major findings and recommendation are as follows

- a) After examine the management tools and technique practiced in Nepalese insurance company for planning , controlling and decision making , it is found that Cash Flow, Budgeting and Pricing Decision are widely practiced MA tools.
- b) While analyzing the technique of inventory valuation 60% insurance company applied FIFO technique for inventory valuation.

- c) Method of segregation of Mixed cost in insurance companies follow average method while 20% follow analysis method to segregate the mixed cost in to fixed and variable cost.
- d) Regarding long-term investment decision and purchasing fixed assets insurance companies mostly practiced NPV, PBP and ARR.

Devie, & et.al (2008) explained that there are four types of management accountant role in an organization, as an administrator, as a doer, as a conceptor and as an actor. A management accountant play role as an administrator if he or she does the administrative or bookkeeping tasks such as recording transaction or being a cashier. Management accountant would be a doer if he or she runs accounting system in day-to-day operational activities. The next role is as a concept or. A management accountant can be classify as a conceptor if he or she has higher understanding level of accounting concept.

Shrestha, (2008) had conducted a research study on “Management Accounting Practices in Public Trade Companies of Nepal”. He had focused his study to examine the practices of MA tools in public trade companies of Nepal. This research was based on only primary data collection.

Some of the major findings were as follows:

- Annual budget cash flow and responsibility accounting was mostly practice in PTCs of Nepal for planning, controlling and decision making process.
- The MA tools were not practicing due to lack of expertise, high cost, no information about tools and others.
- The average method and analysis methods were practiced for cost segregation into fixed and variable where as there is no practiced of High Low Point method and regression method in PTCs of Nepal.
- Zero based budgeting was not practiced because of government policy as well discretion of the management.
- The committee, planning department and chief of finance division of PTCs of Nepal used to prepare budget. But outside experts was not taking for budget preparation.

- Only short term budget was in practiced no medium and long term budget were prepared.
- The full cost pricing and transfer cost pricing were practiced mostly.
- The traditional inventory valuation technique FIFO was widely practiced.

Pathak, (2008) has conducted a research study on the topic "Management Accounting Practice in Joint Venture Banks of Nepal." His main focus of the study is the current practices of MA in joint venture bank in Nepal. Necessary data and information were mostly collected from primary sources. He has point out various findings in his study. Some of them were as follows:

- a) Nearly 83% of joint venture banks were found practicing analysis method of segregate mixed cost into fixed and variable costs.
- b) At the time of preparing the budget past actual expenses and past budget estimate are found widely practicing in JVB in Nepal. 83% JVB were found practicing actively based for the preparation of budget. 33% and 17% JVB were also found practicing for budget preparation based on past actual expenses and past budget estimate and zero based respectively.
- c) While pricing mechanism for the product/service produced by them, 67% of JVB are practicing ABC pricing. 33% JVB are practicing going rate pricing technique and 17% of JVB are practicing cost base.
- d) Regarding performance measurement and control, most of the banks measured their performance on the basis of profit and losses made by them during a year.

To adjust for risk while evaluating capital investment, it is found that banks preferred practicing probability distribution of cash flow 83%. Almost 50% of JVB practiced higher IRR and 33% of banks practiced sensitivity analysis for risk adjustment.

Koti,(2008) had conducted a research on the topic "A Study on Management Accounting Practices in Civil Aviation Authority of Nepal" an unpublished master level thesis submitted to Shanker Dev Campus Faculty of Management, T.U. He had

focused his study to examine the Management Accounting tools practiced in CAAN. Dallakoti's research was based on primary and secondary data collection. In his research, he had pointed out various objectives and findings.

Some major findings were as follows:

- a) CAAN was facing challenges in collection of the overdue/outstanding revenues from airlines and other clients. A substantial proportion of due was with Nepal Airlines Corporation, NECON air and COSMIC air etc.
- b) It is the ground reality that the transportation service throughout the nation is quite difficult due to its geographical structure. So that in most part of the country the only assess of transportation is possible through air services. The construction of aerodromes and its regular operation is very much expensive than others. Even in huge loss, CAAN was operating large numbers of airports for its public responsibilities as a service provider but due to that government was not providing any subsidies to CAAN.
- c) In some cases, the aerodromes were constructed, on the interest of political leaders and parties even the future perspective is very poor. Such airports were made on grants or loan from different sectors and transferred all the responsibilities to CAAN.
- d) Civil Aviation Academy was functioning as a sole institution to train manpower required for CAAN in various disciplines like air traffic services, rescue and firefighting services, radio maintenance, aviation safety, computer etc.
- e) There was no such faculty on the academy to provide trainings concentrating managerial and accounting disciplines. For these trainings, huge amount was paying to outside training centers.

Baral, (2007) has conducted a research entitled "Management Accounting Practice in Nepalese Commercial Banks". He has focused his study to study and examine the contemporary practice of management accounting in Nepalese Commercial Banks. Mr. Baral's research is based on primary data. In his study, 17 Nepalese Commercial Banks are included. He has pointed out various findings and recommendation in his study. Of them, some remarkable findings are:

- a) New management accounting techniques like Zero-based budgeting and Activity Based Costing are recommended to use instead of traditional techniques.
- b) It is recommended that banks should create an atmosphere of interaction between the academician and the banks. The banks can be benefited from academicians' knowledge about new tools and techniques of management accounting.
- c) Management Accounting Information System (MAIS) should be maintained properly for the better application of management accounting tools.

Thapa, (2007) has conducted a research study on the topic “Management Accounting Practices in Joint Venture Banks of Nepal”. Necessary information and data were mostly collected from primary sources. He has pointed out various finding in his study. Some of them were as follows.

- a) Most of the joint venture banks of Nepal are practicing management tools like capital budgeting, ratio analysis, cash flow analysis, Break Even Analysis for planning and controlling.
- b) On average, five management accounting tools are practice by Nepalese joint venture bank. Out of total samples number of joint venture Banks, 50% banks did not meet the average no of tools, while nearly 17% meet exactly average no of management accounting tools and remaining 33% banks are practicing more than average no of management accounting tools.
- c) For preparing budget, actual expenses of previous year and Activity Base Budgeting are widely used as the base in the joint venture Banks.
- d) In the context of time period covered in budget, cent percent Nepalese joint venture Banks prepare short term budge(1 year or less) only 17% Nepalese joint venture Banks prepare long term budget.
- e) Nearly sixty-seven percent of joint venture Banks of Nepal used Past Trends Analysis for cost and revenue estimation.

Abdel-Kader and Luther, (2006) did a review MA processes in the food and drinks industry in the United Kingdom with an aim to establish the level of MA processes sophistication and the elements that affect implementation of MA processes in the food and drinks industry. They issued a questionnaire to 650 executives of the industry. The partakers were required to indicate the rate of occurrence of use of thirty eight percent MA processes using a Likert scale of ranging from 1(never) and 5(very often). The partakers were still required to assess the significance of each practice by rating each practice as not significant, moderately significant or significant. 245 completed questionnaires were received and analyzed. The conclusion after analysis was that customer power, environmental uncertainty; size, decentralization, sophisticated manufacturing technology, JIT and TQM would explain the variances in MA complexities whereas the link between competitive strategy, complexity of the processing system and product perishability, and MA complexity have not been found.

Karki, (2006) conducted a research entitled "Management accounting practice in joint venture banks of Nepal". He has focused his study to examine and study the practice of management accounting tools in joint venture banks of Nepal. Mr. Karki's research is based on primary data. In his study he has pointed out various findings and recommendation. Of them some remarkable findings are:

- a) Capital budgeting, cash flow statement, ratio analysis and annual budget are widely practiced in Nepalese joint venture banks.
- b) Profitability Index and Net Present Value are mostly practiced while purchasing fixed assets, and making long-term investment decision.
- c) The main difficulties of not practicing MA in Nepalese joint venture banks are lack of information, lack of cognizance about the tools and lack of expertise.
- d) To overcome those difficulties, he has recommended that, the managers of different banks and knowledge us academicians should jointly bring the tools and techniques into light through different media.

Acharya, (2006) research entitled "Management Accounting Practice in Nepalese Public Enterprise". He has focused his study to study and examine the contemporary practice of management accounting in Nepalese Public Enterprises. Acharya's

research is based on primary data collected on the basis of stratified sampling technique.

Nepalese public enterprise, Industries, and financial Institutions including RBB and NBL, are included. He has pointed out various findings and recommendation in his study. Of them, some remarkable findings are:

- a) Traditional approaches of concerned, authorities are becoming a prime barrier for proper application of management accounting tools in Nepalese public enterprises.
- b) Role of government on pricing decision is significant.
- c) Practicing process of management accounting tools in manufacturing and service enterprises are slightly different and major MA related decision are not depending upon the MA tools and techniques.

2.4. Research Gap

There is gap between the present research and previous research. Most of the previous research works was conduct on management accounting practice in joint venture commercial banks, public financial sector, public limited companies and commercial banks by just taking few samples out of total population. But in this research work 21 insurance company has been taken as a sample. Very few researches has been conducted in this topic with all population samples, research work could get actual results. This research examines the present practice of management accounting tools in insurance company of Nepal and disclose the reason about the management accounting tools which were not practiced for planning, controlling and decision making process, so it is fruitful to those interest person, scholar, civil society, other stakeholders, students, teachers, businessmen and government for academically as well as policy perspectives.

CHAPTER- III

METHODOLOGY

Research methodology is a way to systematically solve the problems. In other words Research methodology refers to the various sequential steps (along with rationale of each such steps) to be adopted by researcher in studying a problem with research projects are not meaningful, unless they are in sequential order, which will be determined by the particular problem at hand. This chapter deals with sampling techniques, data collection methods, data analysis tools, research instruments etc. To achieve the stated objectives the following methodology has been used.

3.1 Research Design

A research design is specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of framework of the project that stipulates what information is to be collected from which sources, by what procedure. It ensures that information obtained is relevant to the research questions and that it is collected by objective and economical procedures. As per the nature of study, descriptive and analytical research design have been used in this study.

3.2 Sources of Data

This study based on primary as well as secondary data. The primary data were collected through the administration of questionnaires to the staff in related life insurance firms. It deals with the analysis and interpretation of the primary data collected through questionnaire from 84 respondents. The secondary data collects through the life insurance company` annual report, text book, internet and related research work.

3.3 Population and Samples

All the insurance companies of Nepal have been considered as the total population. Till this date there are 25 insurance companies in Nepal in existence. To make the research more reliable, 21 insurance companies has been considered for sample population. Out of the total 25 insurance companies nine insurance companies are running completely different types of life insurance business, one of them is running

both non-life and life insurance business and rest fifteen are running different kind of non-life insurance business.

3.4 Data Collection Period

The primary data was collected for this study from March 25, 2018 to July 25, 2018.

3.5 Data Collection Procedure

The study is mainly based on primary sources of data, information collected by developing a structured question and distributing it to the manager and financial controller of insurance companies. Altogether fifty-six questions were included for this study.

3.6 Data Processing Procedure

Data collected information from questionnaires was in raw form. The data are tabulated into various tables according to the subject's requirement. Processing of data has Simple arithmetic percentage tool is used for analysis. Statistical tool like chi-square (χ^2) is used to test the hypothesis and regression model is used to show impact of management accounting practice on financial performance of the insurance company. Major findings are based on the analysis and the interpretation of data.

3.7 Data Analysis

Data analysis means to study the tabulated material in order to determine inherent facts of meaning. It involves breaking down the existing complex factor into simpler parts and putting them together in new arrangement for interpretation. Larger divisions of material should be broken down in to smaller units and rearranged in new combinations to discover new facts and relationship.

Data analyzing is to change it form an unprocessed form to an understandable presentation. So the analysis of data consists of organizing, tabulating, performing statistical analysis and drawing inferences. Hence data have been processed, organized, tabulated and presented in suitable form. SPSS program was used for analysis of raw data which is collected from questionnaires. Appropriate financial, accounting and statistical tools and techniques have been applied.

A percentage is the number of hundredth parts one number is of another. This is the simplest statistical device used in the interpretation of phenomenon. Percentages are recorded to two decimal places. In some case to grasp the relationships, whole percentages are shown.

Arithmetic mean also called ‘the mean’ or ‘average’ ‘arithmetic average’ is the most popular and widely used measure of central tendency. Simple arithmetic mean is the ratio of the sum of all observations to the number of observations.

Circle diagram is a diagram in the form of a circle whose area represents the total value. The circle diagram dividing into different sectors by radial lines such that, the area of each of the sector representing the component value of total value is said to be the pie-diagram.

3.7.1 Conceptual Model

The conceptual model in this study is specified as follows:

$$Y = f(\text{MAP})$$

Where Y is the financial performance:

MAP is the Management Accounting Practices, which include Costing, Budgeting Performance Evaluation, Information for Decision Making, and Strategic Analysis.

3.7.2 Empirical model

The study used a regression model to predict the extent to which the identified independent variables affect the dependent variable. In this case SPSS version 23 was used in regression analysis and computation of coefficients. The following model represents the regression line:

$$Fp_t = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e_t \dots \dots \dots (2)$$

Where; FP = financial performance, $ROA = \frac{\text{Net income}}{\text{Total assets}}$

X1= Costing

X2= Budgeting

X3= Performance Evaluation

X4= Information for Decision Making

X5= Strategic Analysis

e_t = Error term

The values of X₁ to X₅ were calculated from the mean score response on each likert scaled data for each company. The mean score obtained for the individual variable for each firm was regressed against the values of Y (ROA) for a five-year period.

In order to find out the relationship between management accounting practices and financial performance of insurance companies in Nepal, regression analysis was done where the management accounting practices were regressed against the financial performance to find out which practices have significant influence on the financial performance of insurance companies in Nepal. The results of the regression analysis were interpreted based on the R square, significance of F statistics and the significance of beta values from the coefficients of the X variables. Significance was test at 5% level.

3.8 Reliability and Validity

Whenever a test or other measuring device used as a part of the data collection process, the reliability and validity of that test is important. Reliability and validity of measuring instrument focus on the adequacy, scope, and truthfulness of research validity. The data collected include the sets of questionnaire design for the respective dependent and independent variables to study the management accounting practice in Nepalese insurance companies.

The purpose of the validity and reliability analysis was to determine whether data were trustworthy or not. The designed questionnaire finalized before requesting the respondents to participate. For the reliability test, Cronbach's Alpha was calculated for this questionnaire. It was generally used as a measure of internal consistency or reliability. Nunnally , (1978) suggested that alpha coefficients of 0.50 to 0.60 will be deem acceptable for exploratory research. An opinion leader survey was conduct to design and pre-test the questionnaire. The Cronbach's α for independent variables was 0.799 and overall financial Performance was 0.900 (highly reliable).

CHAPTER –IV

RESULT AND DISCUSSION

4.1 Introduction

The main objective of this study is to examine the present practice of management accounting tools and techniques in Nepalese insurance companies. The other objectives are to identify the future perspectives of management accounting tools application and to scrutinize the major difficulties in the application of management accounting tools in Nepalese insurance companies. To achieve the specific objectives of the research study this chapter included the data presentation.

The study is based on the primary source of information. The data have been collected from the insurance companies by developing the structured questionnaire. To find out the correct and reliable data, necessary information have been collected from authentic persons through discussion and opinion survey. The raw data were properly processed, tabulated and analyzed. Necessary tables have been developed based on subject matter of questions. The data have included in different tables according to the subject in order. Simple percentage tools were applied to analyze and interpret the findings.

The major findings of the research are based on the analysis and interpretation of data, which are expressed at the end of the chapter, accordingly. The information collected through open-end question is arranged in this chapter in a descriptive way.

4.2 Percentage Analysis of Management Accounting Tools Practice

Table 4.1

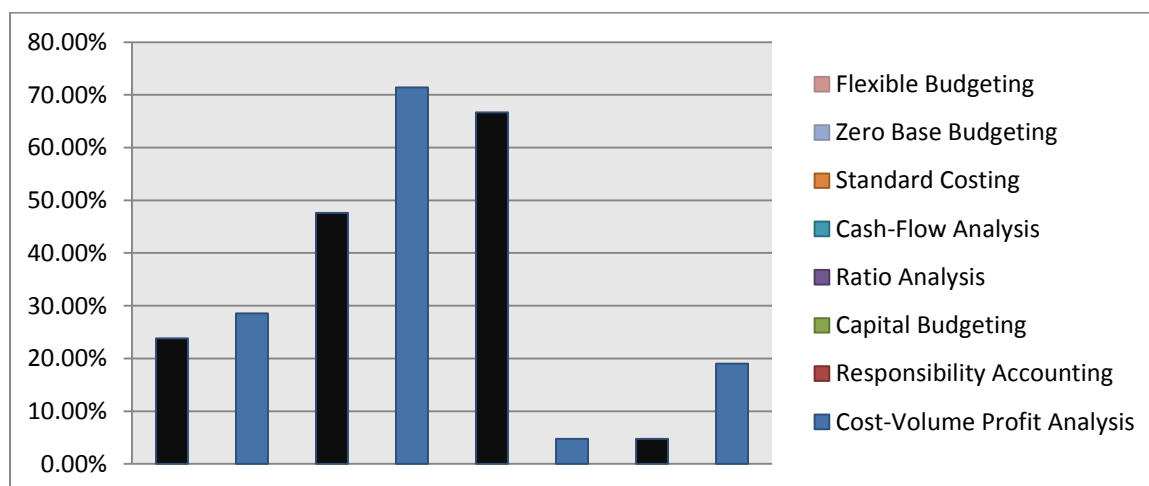
Management Accounting Tools Practiced in Nepalese Insurance Companies.

S. N.	Management Accounting Tools	No. of Insurance Companies Sampled	No. of Practicing Insurance Companies	Percentage (&)
1	Cost-Volume Profit Analysis	21	5	21.80%
2	Responsibility Accounting	21	6	28.57%
3	Capital Budgeting	21	10	47.61%
4	Ratio Analysis	21	15	71.42%
5	Cash-Flow Analysis	21	14	66.67%
6	Standard Costing	21	1	4.62%
7	Zero Base Budgeting	21	1	4.62%
8	Flexible Budgeting	21	4	19.05%

Source: Field Survey 2018

Fig. 4.1

Percentage of Management Accounting Tools Practice in Nepalese Insurance Companies



The above table 4.1 and figure 4.1 demonstrate management accounting tools practiced in insurance companies of Nepal. It is revealed that 71.42% of Nepalese insurance companies used ratio analysis, cash flow analysis was practiced 66.67% of them an capital budgeting technique is practiced by 47.61%. Similarly, 28.57% of them used responsibility accounting and 23.80 percent used cost-volume-profit

analysis. The insurance company practicing flexible budgeting represented 19.05 percent and only 4.62 percent of them used standard costing and zero base budgeting.

Table 4.2

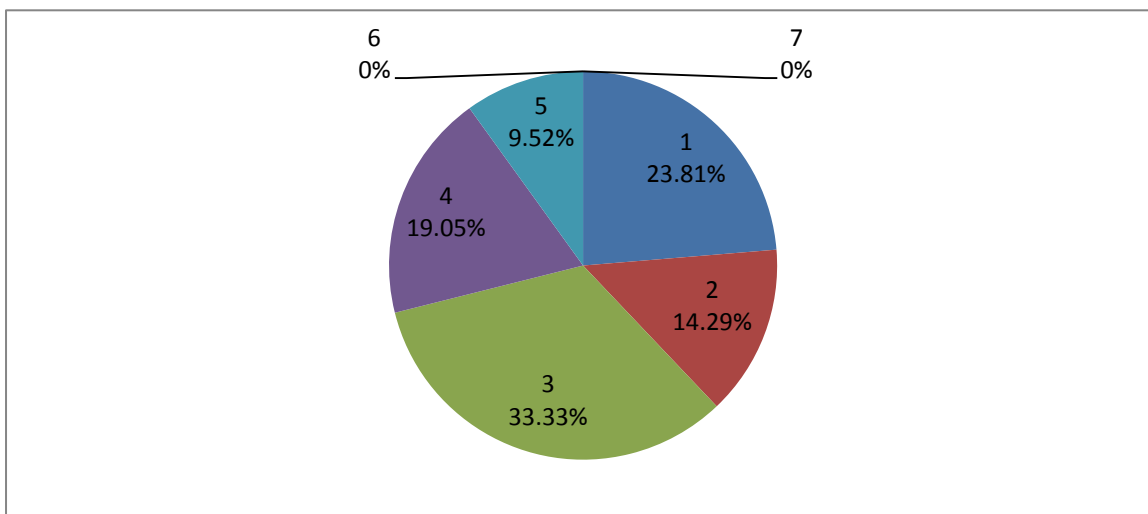
Number of Nepalese Insurance companies practicing one of more MA Tools.

Number of Management Accounting Tools (x)	Practitioner Insurance Companies		Fx
	Number (f)	%	
1	5	23.81	5
2	3	14.29	6
3	7	33.33	21
4	4	19.05	16
5	2	9.52	10
6	0	0	0
7	0	0	0
Total	N= 21		$\sum fx= 58$

Source: Field survey, 2018

Fig. 4.2

Number of Management Accounting Tools



Therefore,

The average number of MA tool used in each insurance company $(\bar{x}) = \frac{\sum fx}{N} = \frac{58}{21} =$

2.76 i. e. 3

The above table 4.2 and fig. 4.2 represent the number of Nepalese insurance companies practicing one of more management accounting tools. It revealed that in average 3 management accounting tools are used in an insurance company. It also reveals that 38.09% of insurance of insurance companies use less than average number of management tools. Altogether 3 tools are used by 33.33% insurance companies and 28.57% other insurance companies use more than the average no. of management accounting tools. The main reason given for not practicing of these tools contained that, majority of the respondents opined that management accounting is related to manufacturing and trading business rather than service industry like insurance. Some other respondents opined these tools are not practiced in Nepalese insurance companies due to lack of knowledge or no information about the tools, lack of experienced human resources and high cost/quite expensive.

Table 4.3

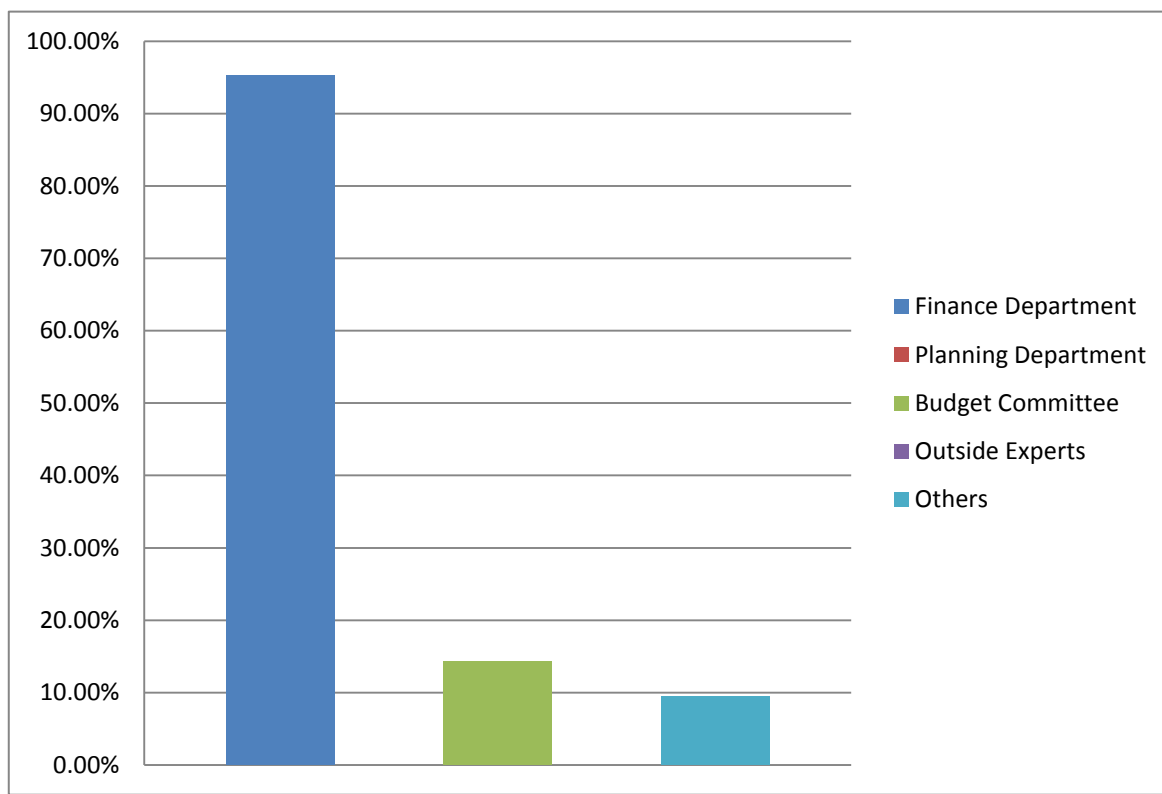
Budget preparation system in Nepalese Insurance Companies.

S. No.	Budget Preparing Department	No. of Insurance Companies Sampled	No. of Practicing Insurance Companies	Percentages (%)
1	Finance Department	21	20	95.24%
2	Planning Department	21		0.00%
3	Budget Committee	21	3	14.29%
4	Outside-Experts	21		0.00%
5	Others	21	2	9.52%

Source: Field survey, 2018

Fig. 4.3

Budget preparation in Nepalese Insurance Companies



Other includes Chief Executive officer and head office.

The table 4.3 and fig. 4.3 represent the budget preparing system practiced in Nepalese Insurance Companies. It is seen that 95.23 percent insurance companies of Nepal prepare their budget through finance department, 14.29 percent prepare their budget through budget committee, and only 9.5 percent of them prepared their budget jointly by the head office and chief officer of the company. It is also seen in the table that no insurance companies made the budget through their planning department and no insurance company hires outside experts to prepare their budget.

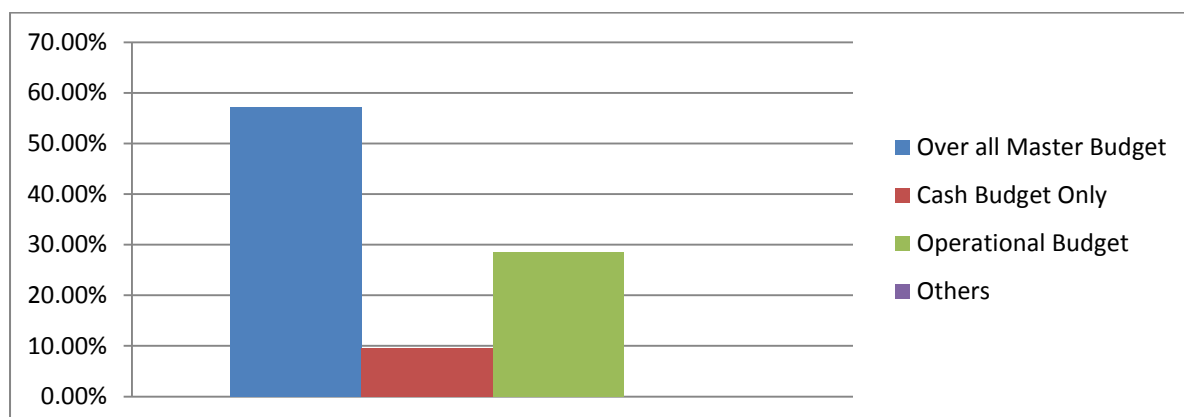
Table – 4.4
Types of budget practiced in Nepalese Insurance Companies

S. N.	Types of Budget	No. of Insurance Companies Sampled	No. of Practicing Insurance Companies	Percentages (%)
1	Over all Master Budget	21	12	57.14%
2	Cash Budget Only	21	2	9.52%
3	Operational Budget	21	6	28.57%
4	Others	21	0	0.00%

Source: Field Survey 2018

Fig. 4.4

Types of budget practiced in Nepalese Insurance Companies



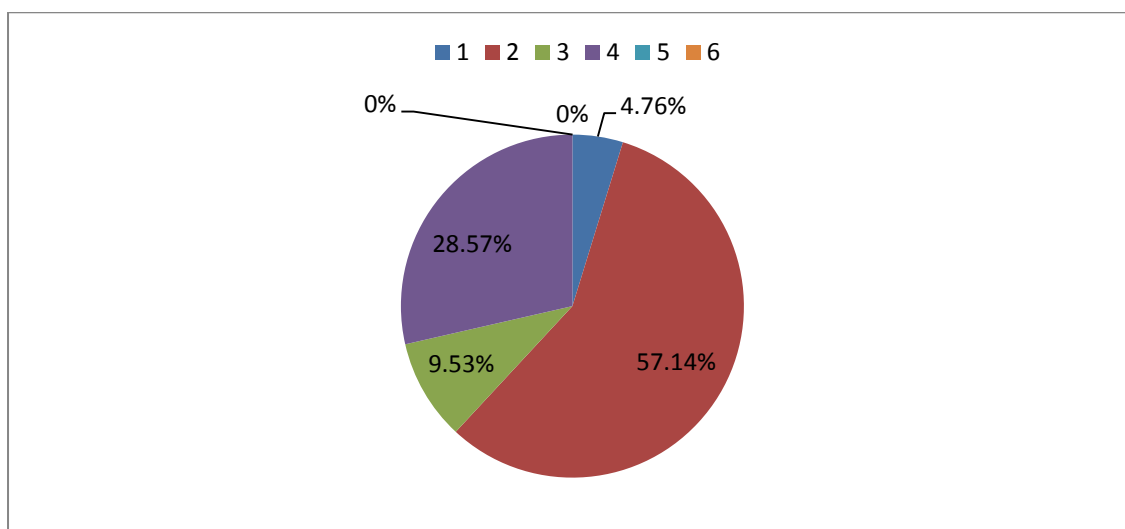
The table 4.4 and fig. 4.4 shows the types of budget practiced by the insurance companies of Nepal. It is seen that, nearly 57.14 percent of Nepalese insurance companies practiced over all master budget 28.57 percent of them practice operational budget and only 9.5 percent of them practiced cash budget.

Table 4.5
No. of Insurance Companies practiced one of more types of budget.

Number of Budget Preparing Methods	Insurance Companies		Fx
	Number (f)	%	
0	1	4.76	0
1	12	57.14	12
2	2	9.53	4
3	6	28.57	18
4	0	0	0
5	0	0	0
Total	N= 21		$\sum fx = 34$

Source: Field survey, 2018

Fig. 4.5
Types of budget practiced in Nepalese Insurance Companies



Average number of budget preparation's techniques per insurance company (\bar{x}) =

$$\frac{\sum fx}{N} = \frac{34}{21} = 1.619 \text{ i. e. } 2$$

The table and pie chart reveal that in average 2 techniques were applied in each insurance company. It is also revealed that 9.53 percent of insurance companies used exactly the average number technique to prepare the budget, 57.14 percent of them practiced less than the average number of technique, and rest 28.58 percent of insurance companies practiced more techniques than average number.

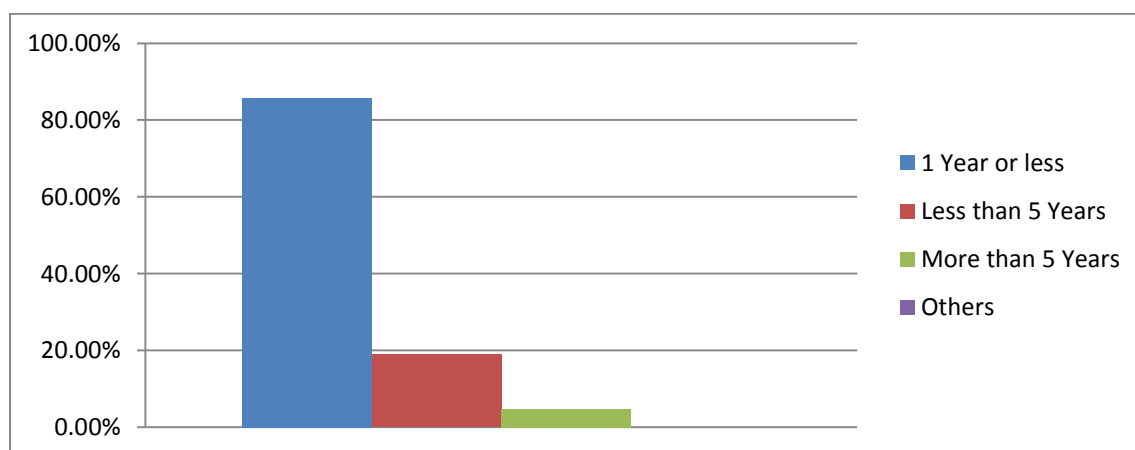
Table – 4.6
Time Period covered by Budget in Nepalese Insurance Companies

S. N.	Period of Budget	No. of Insurance Companies Sampled	No. of Practicing Insurance Companies	Percentages (%)
1	1 Year or less	21	18	85.71%
2	Less than 5 Years	21	4	19.05%
3	More than 5 Years	21	1	4.76%
4	Others	21	0	0.00%

Source: Field survey, 2018

Fig: 4.6

Time Period covered by Budget in Nepalese Insurance Companies



The above table 4.6 and fig. 4.6 show that, 85.71 percent of total insurance companies prepared short term budget covering time period of one year or less, 19.05 percent of them prepared midterm budget covering the time period of less than five years and the only 4.76 percent of them prepared the long term budget of more than five years period.

Table – 4.7

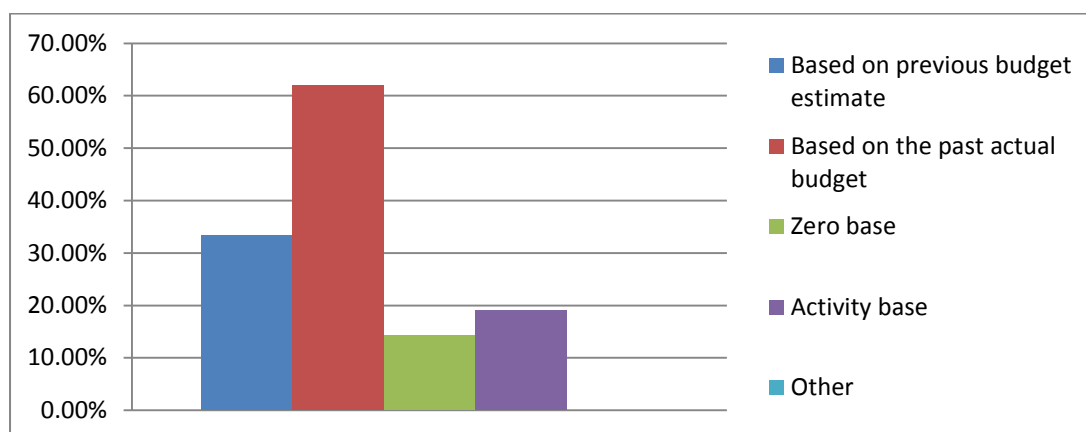
Bases taken by Nepalese Insurance Companies while preparing budget

S. N.	Bases of Preparing Budget	No. of Insurance Companies Sampled	No. of Practicing Insurance Companies	Percentages (%)
1	Based on previous budget estimate	21	7	33.33%
2	Based on the past actual budget	21	13	61.90%
3	Zero base	21	3	14.29%
4	Activity base	21	4	19.05%
5	Other	21	0	0.00%

Source: Field survey, 2018

Fig: 4.7

Bases taken by Nepalese Insurance Companies while preparing budget



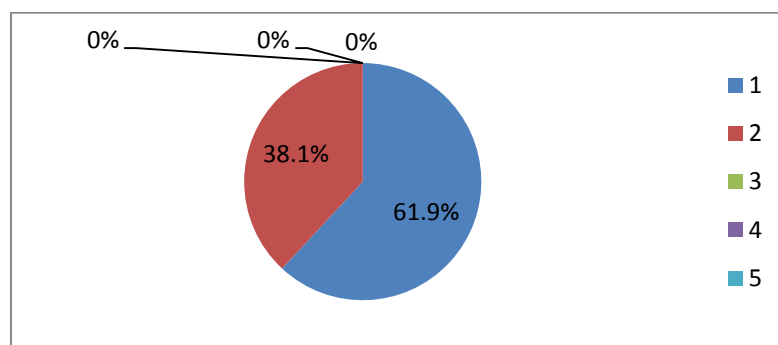
The table 4.7 and fig. 4.7 reflect the estimation technique practiced by Nepalese insurance companies. It is seen in the table and Fig. 4.7 then nearly 62 percent of Nepalese insurance companies prepared their budget on the basis of past actual budget. Similarly, 33.33 percent, 16.05 percent and 14.29 percent of them prepare budget on the basis of the previous budget estimate, zero base budgeting and activity based budgeting respectively.

Table -4.8

Number of Nepalese Insurance companies taking one or more Bases while Preparing Budget.

Number of Bases for Budget	Practitioner Insurance Companies		Fx
	Number (f)	%	
1	13	61.90	13
2	8	38.10	16
3	0	0	0
4	0	0	0
5	0	0	0
Total	N= 21		$\sum fx= 29$

Source: Field survey, 2018

Fig: 4.8**Number of bases taken for Budget**

Therefore, average number of base for budget preparation per insurance company

$$(\bar{x}) = \frac{\sum fx}{N} = \frac{29}{21} = 1.38 \text{ i. e. } 1$$

The above table 4.8 and fig. 4.8 show that normally Nepalese companies only one base for preparing its budget. Out of 21 insurance companies 13 representing 61.90 percent used one base for preparing their budget and remaining 8 insurance companies representing 38.09 used two bases while preparing their budgets.

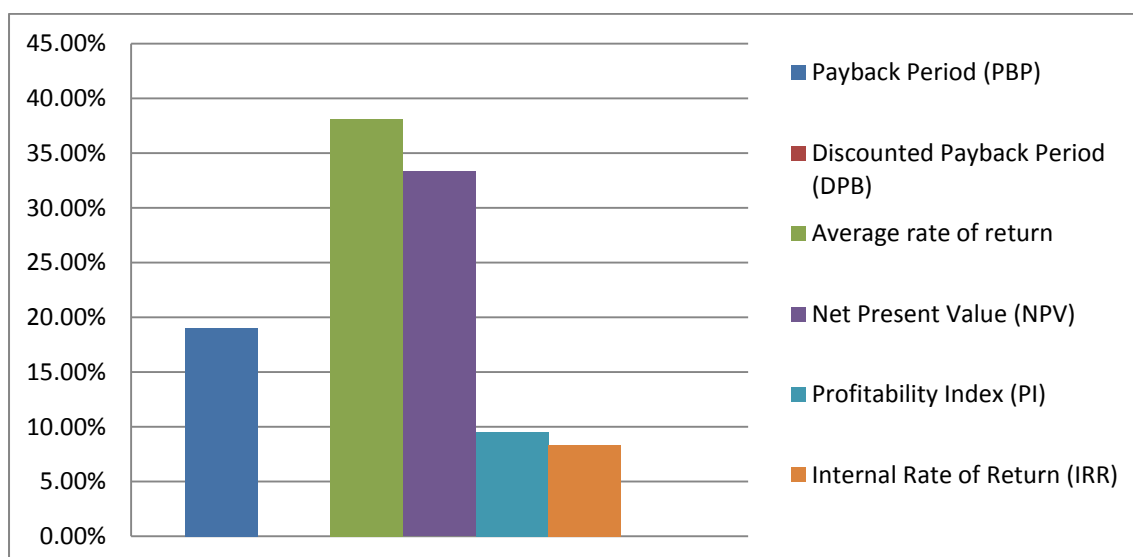
Table – 4.9

Capital budgeting tools practiced in Nepalese insurance companies

S.N.	Capital Budgeting Techniques	No. of Insurance Companies Sampled	No. of Practicing Insurance Companies	Percentages (%)
1	Payback Period (PBP)	21	4	19.05%
2	Discounted Payback Period (DPB)	21	-	0.00%
3	Average rate of return	21	8	38.10%
4	Net Present Value (NPV)	21	7	33.33%
5	Profitability Index (PI)	21	2	9.52%
6	Internal Rate of Return (IRR)	21	1	8.33%
7	Other	21		0.00%

Source: Field survey, 2018

Fig: 4.9

Capital Budgeting tools practiced in Nepalese insurance companies

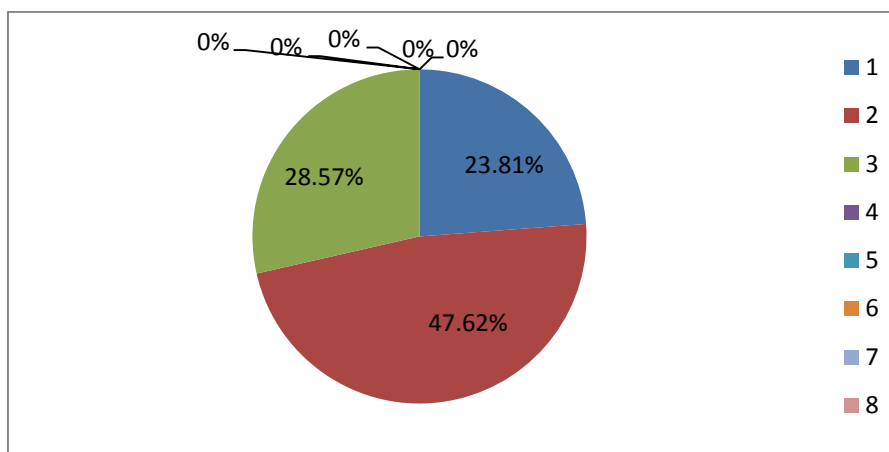
The table 4.9 and fig. 4.9 represents the capital investment technique practiced by Nepalese companies. It is revealed in the table and fig. that nearly 38.09 percent of Nepalese insurance companies are practiced average rate of return method for the purpose of capital budgeting analysis, 33.33 percent of them practiced net present value technique. Similarly, 19.05 percent and 9.52 percent of them practiced payback period and profitability index techniques. Only 4.76 percent of the Nepalese insurance companies practiced internal rate of return as capital budgeting analysis technique.

Table-4.10
Number of capital budgeting techniques practiced in Nepalese Insurance Companies

Number of Bases for Budget	Practitioner Insurance Companies		Fx
	Number (f)	%	
0	5	23.81	0
1	10	47.62	10
2	6	28.57	12
3	0	0	0
4	0	0	0
5	0	0	0
6	0	0	0
7	0	0	0
Total	N= 21		$\sum fx= 22$

Source: Field survey, 2018

Fig: 4.10
Number of Capital Budgeting Techniques:



Therefore, average number of capital budgeting techniques practiced by per insurance company $(\bar{x}) = \frac{\sum fx}{N} = \frac{22}{21} = 1.0476$ i. e. 1

The table 4.10 and fig. 4.10 show that, only one capital budgeting technique is practiced by the Nepalese insurance companies. The percentage of insurance companies not practicing the capital budgeting technique is 23.8 percent. Where, 41.62 percent of the insurance companies used average number of capital budgeting techniques and only 28.57 percent of them practiced more than average number of capital budgeting techniques.

Table – 4.11

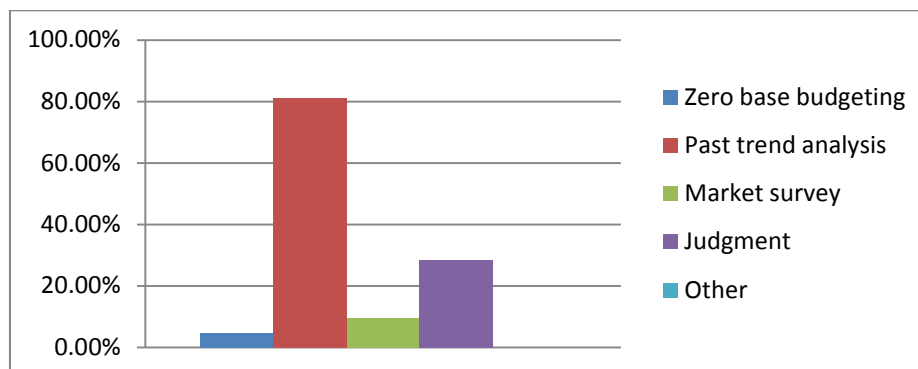
Techniques adopted for estimating cost and revenue by Nepalese Insurance Companies

S. No.	Cost and Revenue Estimating Technology	No. of Insurance Companies Sampled	No. of Practicing Insurance Companies	Percentages (%)
1	Zero base budgeting	21	1	4.76%
2	Past trend analysis	21	17	80.95%
3	Market survey	21	2	9.52%
4	Judgment	21	6	28.57%
5	Others	21	0	0.00%

Source: Field survey, 2018

Fig: 4.11

Techniques adopted for estimating cost and revenue by Nepalese Insurance Companies



The table 4.11 and fig. 4.11, reflect the cost and revenue estimation technique practiced by Nepalese Insurance Companies. It is seen in the table and that nearly 81% of Nepalese insurance companies practiced past trend analysis for their cost and revenue estimation. Similarly, 28.5% and 9.52% of them practiced judgment technique and marked survey technique respectively to estimate the cost and revenue. Only 4.76% of them practiced zero-base technique to estimate their cost and revenue.

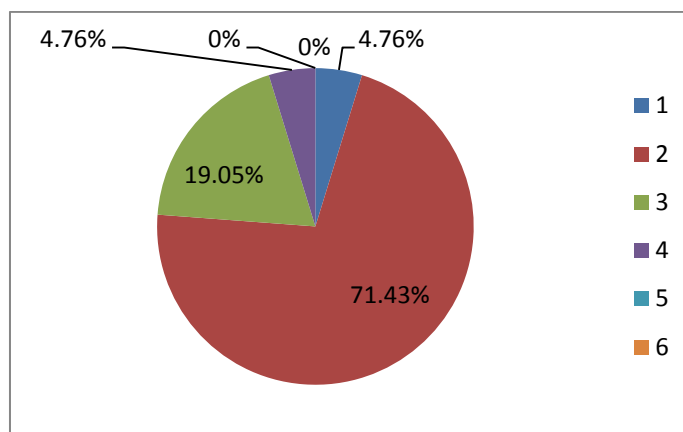
Table - 4.12

Number of cost and revenue estimation techniques practiced in Nepalese insurance companies.

Number of Cost and Revenue Technique Tools	Practitioner Insurance Companies		Fx
	Number (f)	%	
0	1	4.76	0
1	15	71.43	15
2	4	19.05	8
3	1	4.76	3
4	0	0	0
5	0	0	0
Total	N= 21		$\sum fx= 26$

Source: Field survey, 2018

Fig: 4.12
Number of cost and Revenue Techniques Tools



Average number of cost and revenue technique used in each insurance company

$$(\bar{x}) = \frac{\sum fx}{N} = \frac{26}{21} = 1.23 \text{ i. e. } 1$$

The table 4.12 and fig. 4.12 show that, in average 2 techniques of cost estimation and revenue estimation applied by Nepalese insurance companies. Out of total 21 insurance companies, 71.42% companies practiced one technique of cost and revenue estimation techniques. 23.80% of insurance companies practiced more than the average number of techniques to estimate their cost and revenue and rest 4.76% of them did not practice any type of cost and revenue estimation techniques.

Table-4.13

Risk Adjustment criteria adopted by Nepalese Insurance Companies while evaluating capital investment.

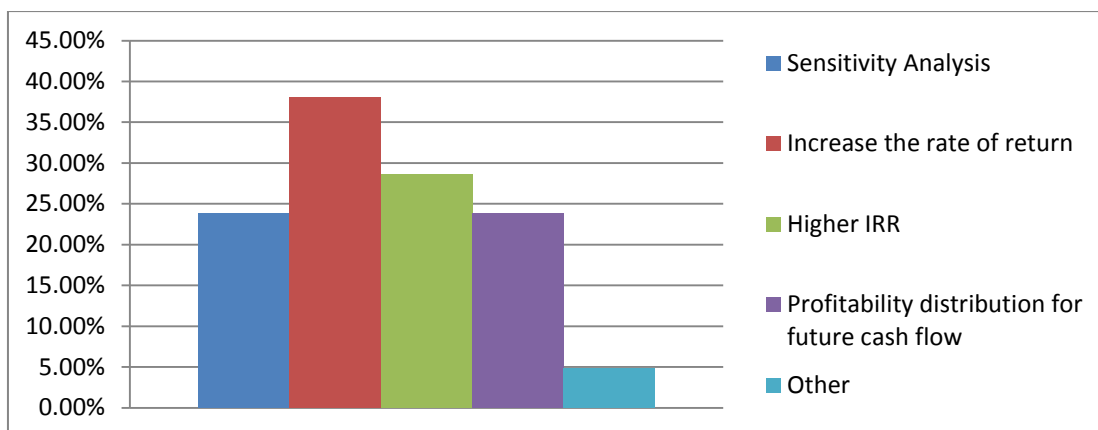
S.N.	Risk Adjustment Criteria	No. of Insurance Companies Sampled	No. of Practicing Insurance Companies	Percentages (%)
1	Sensitivity Analysis	21	5	23.81%
2	Increase the rate of return	21	8	38.10%
3	Higher IRR	21	6	28.57%
4	Profitability distribution for future cash flow	21	5	23.81%
5	Others	21	1	0.00%

Source: Field survey, 2018

Others include Guideline provided by Beema Samitee.

Fig: 4.13

Risk Adjustment criteria adopted by Nepalese Insurance Companies while evaluating capital investment.



Above table 4.13 and fig. 4.13 represent the risk adjustment techniques practiced by insurance companies on Nepal while evaluating capital investment. It is revealed by the table and fig. that 33.33% of Nepalese insurance companies used increase the rate or return technique and 28.57% of them used higher IRR technique. Similarly, 23.80% and 19.05% of them use profitability distribution for future cash flow technique, sensitivity analysis technique respectively. While the rest 9.52% of the insurance companies adjust risk on the basis of guideline provided by the Beema Samitee (Insurance Regulatory Authority of Nepal).

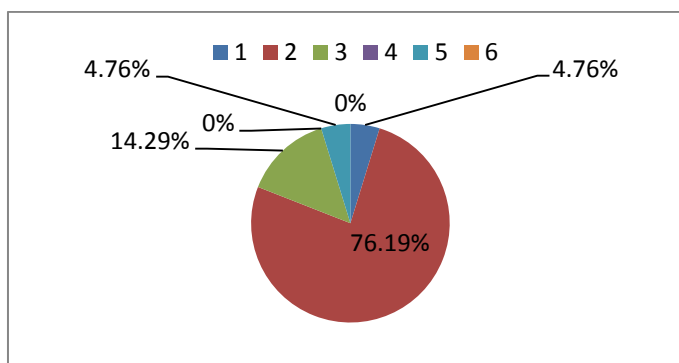
Table – 4.14

Number risk adjustment techniques practiced by insurance companies of Nepal

Number of Adjustment Criteria	Practitioner Insurance Companies		Fx
	Number (f)	%	
0	1	4.76	0
1	16	76.19	16
2	3	14.29	6
3	0	0	0
4	1	4.76	4
5	0	0	0
Total	N= 21		$\sum fx= 26$

Source: Field survey, 2018

Fig: 4.14
Number of Risk Adjustment Criteria



The average number of risk adjustment techniques practiced by each insurance

$$\text{company } (\bar{x}) = \frac{\sum fx}{N} = \frac{26}{21} = 1.23 \text{ i.e. } 1$$

The table 4.14 and fig. 4.14 show that Nepalese insurance companies practiced on risk adjustment technique. The percentage of insurance companies using average number of risk adjustment technique is 76.19 and that using 2 risk adjustment techniques is 14.29%. Similarly, 4.6% of them used four techniques to evaluate capital investment alternative, whereas, 4.6% of them used no risk adjustment technique while evaluating capital investment.

Table – 4.15

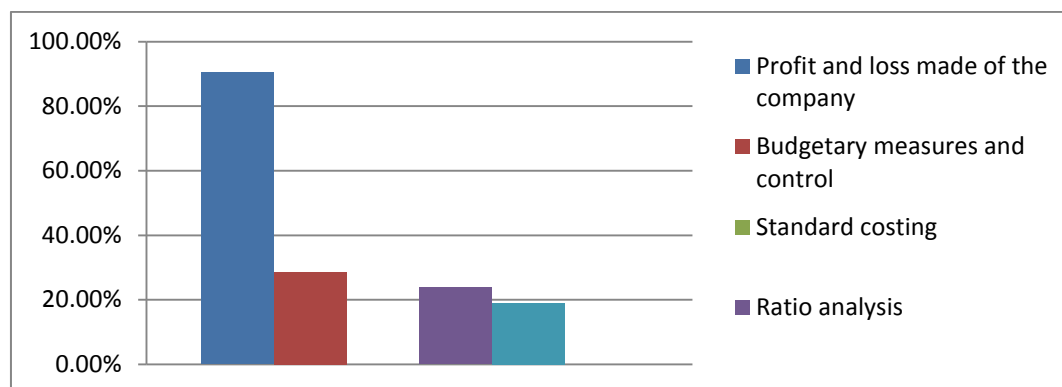
Technique of measuring and controlling overall performance of the companies at the end of the accounting year in Nepalese insurance companies.

S. No.	Controlling Techniques	No. of Insurance Companies Sampled	No. of Practicing Insurance Companies	Percentages (%)
1	Profit and loss made of the company	21	19	90.48%
2	Budgetary measures and control	21	6	28.57%
3	Standard costing	21	0	0.00%
4	Ratio analysis	21	5	23.81%
5	Cash flow analysis	21	4	19.05%
6	Others	21	0	0.00%

Source: Field survey, 2018

Fig: 4.15

Techniques adopted by Nepalese insurance companies to measure and control overall performance of the companies at the end of the accounting year.



The above table 4.15 and fig. 4.15 show the measuring and controlling techniques practiced by insurance companies of Nepal. It is seen in the table that, 90.48% Nepalese insurance companies used to adopt measure and control overall performance of their company at the end of the year on the basis of profit or loss made by the company. Similarly, 28.57%, 23.80%, and 19.04% of them practice budgetary control, ratio analysis, and cash flow analysis techniques respectively to measure and control the overall performance of their company at the end of the year. It is also seen in the table that none of the Nepalese insurance companies use standard costing to measure and control the overall performance of the company.

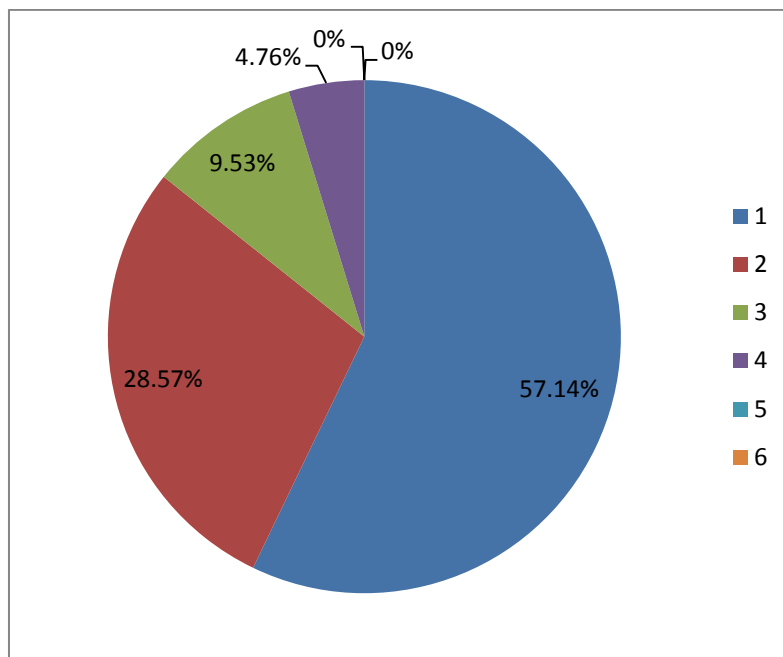
Table – 4.16

Number of techniques of measuring and controlling overall performance of the companies at the end of the accounting year adopted by Nepalese Insurance Companies.

Number of Controlling Techniques	Practitioner Insurance Companies		Fx
	Number (f)	%	
1	12	57.14	12
2	6	28.57	12
3	2	9.53	6
4	1	4.76	4
5	0	0	0
6	0	0	0
Total	N= 21		$\sum fx= 34$

Source: Field survey, 2018

Fig: 4.16
Number of Controlling Techniques



Therefore,

The average number of year ending overall performance measuring and controlling technique practiced by each insurance company $(\bar{x}) = \frac{\sum fx}{N} = \frac{34}{21} = 1.619$ *i. e.* 2

It is found that in average 2 techniques were practiced to measure and control performance of Nepalese insurance companies at the end of the year. The table 16 and fig. 16 revealed that 24% Nepalese insurance companies using below average no. of year ending overall performance measuring and controlling techniques. While, 57.14 % of them use exactly average number of year ending overall performance measuring and controlling techniques. And rest 42.86% of the m used more than the average number of the year ending overall performance and controlling techniques.

Table – 4.17

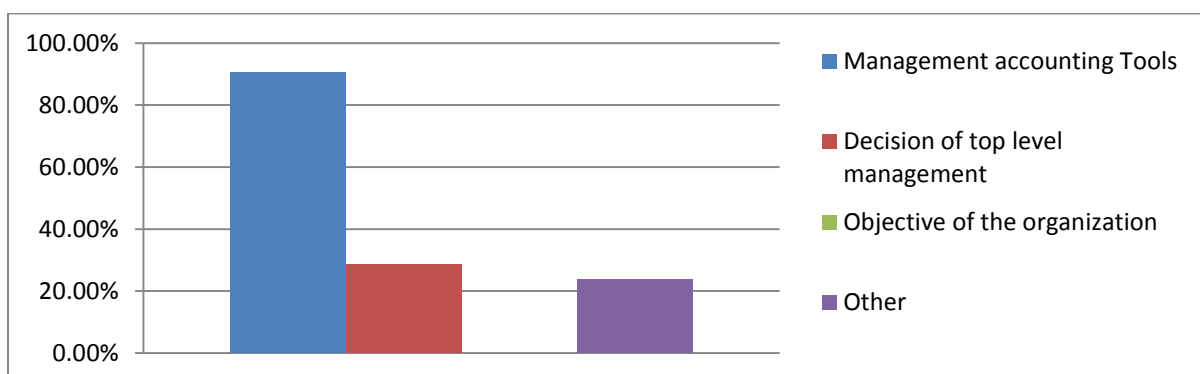
Factors effecting decision making procedure in Nepalese Insurance companies

S. N.	Effecting Factors	No. of Population	No. of Insurance Companies Sampled	No. of Practicing Insurance Companies	Percentages (%)
1	Management accounting Tools	21	21	19	90.48%
2	Decision of top level management	21	21	6	28.57%
3	Objective of the organization	21	21	0	0.00%
4	Others	21	21	5	23.81%

Source: Field survey, 2018

Fig: 4.17

Factors effecting decision making procedure in Nepalese Insurance companies



Other includes: company policy, different unions interference.

The above table and fig. show the factors affecting the decision making of the insurance companies of Nepal. It is revealed that, about 9.48 percent of Nepalese insurance companies take their decision on the basis of the information provided by the management accounting tools. Likewise, 28.57 percent of the companies take their decision on the basis of guideline provided by top level management. And the rest

23.80 percent of the insurance companies' decision making process is affected by other factors like company's policy and different union's interference.

Table – 4.18

Mixed cost segregation techniques practiced by Nepalese Insurance companies

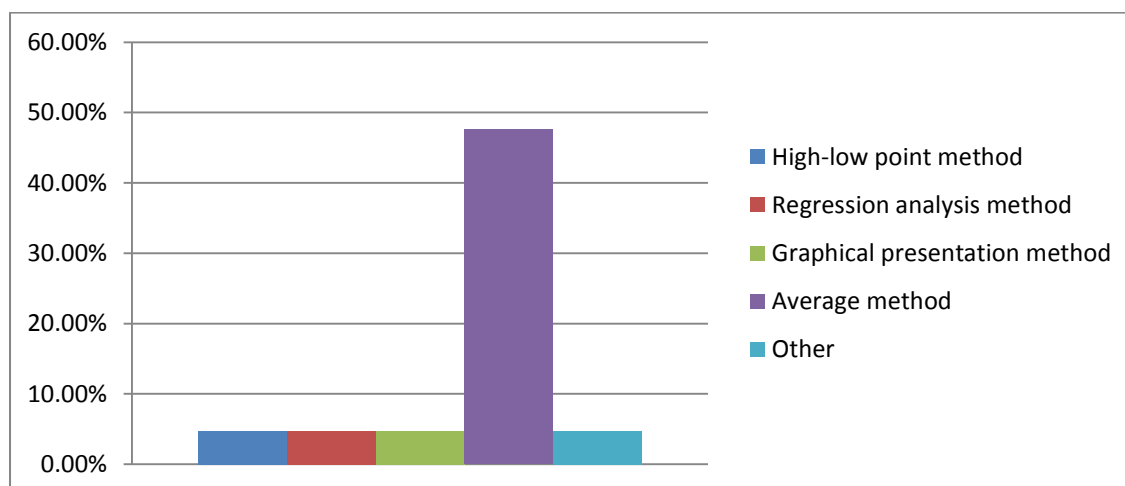
S. N.	Cost Segregation Techniques	No. of Population	No. of Insurance Companies Sampled	No. of Practicing Insurance Companies	Percentages (%)
1	High-low point method	21	21	1	4.76%
2	Regression analysis method	21	21	1	4.76%
3	Graphical presentation method	21	21	1	4.76%
4	Average method	21	21	10	47.62%
5	Others	21	21	1	4.76%

Source: Field survey, 2018

Others include Guideline provided by Beema Samitee.

Fig: 4.18

Mixed cost segregation techniques practiced by Nepalese Insurance companies



The above table and Fig. show the method practiced for segregating mixed cost into fixed and variable by Nepalese insurance companies. It is seen in the table that 47.62 percent of Nepalese insurance companies used average method for segregation mixed cost into fixed and variable. And 4.76 percent of them use High-low point method, regression analysis method and graphical presentation method. And 4.76 percent of them followed the mixed cost segregation guideline provided by Beema Samitee.

4.3 What are the problems appearing the application of management accounting tools in Nepalese insurance companies?

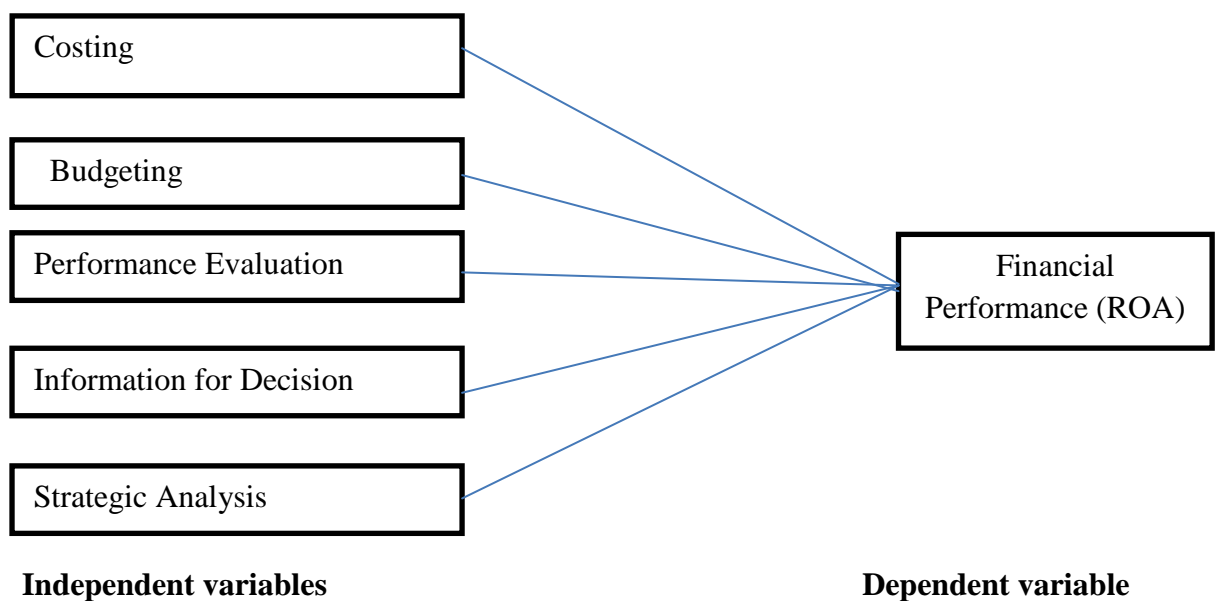
Even though the respondent's belief the aforementioned benefits with the application of management accounting tools in Nepalese insurance companies. They also see the various causes which are creating problems regarding the application of management accounting tools in Nepalese insurance companies. Respondent given the information about the problems appearing the application of management accounting tools in Nepalese insurance companies are as follows;-

- Not fully computerized system initiated in managerial function to gather data and consolidate them for producing information and Lack of information system technology. (more than 50%)
- Lack of proper Human Resource Management (more than 75%)
- Unhealthy competition in insurance market. (more than 60 %)
- Unreliable control by Beema Samitee (more than 50 %)
- Unique nature of business. (more than 30%)
- Effected by international changes in accounting system in insurance business(more than 35%)
- Lack of adaptation capacity of changing technology. (more than 53%)

4.4 Analysis of Hypothesis Test

Hypothesis (H_0):- There is no significance relationship between management accounting practice and financial performance of Nepalese insurance companies.

Alternative Hypothesis (H_1):- There is significance relationship between management accounting practice and financial performance of Nepalese insurance companies.



Level of significance: Since the level of significance is not given we take $\alpha=0.05$

Table 4.19

Costing system helps to improve the financial performance

	Observed Value (O)	Expected Value (E)	$(O - E)^2$	$\frac{(O - E)^2}{E}$
Never	0	0	0	0
Rarely	7	21	196	9.333
Sometimes	46	21	625	29.762
Often	28	21	49	2.333
Very Often	3	21	324	15.429
	$\Sigma O = 84$			$\Sigma \frac{(O-E)^2}{E} = 56.857$

$$\chi^2 = \Sigma \frac{(O-E)^2}{E} = 56.857$$

Degree of freedom: d. f. = $n-1 = 4-1 = 3$

Critical value: The tabulated value of the test statistic χ^2 at 5% level of significance for 3 degree of freedom is 7.81.

Decision: Since the calculate value of $\chi^2 = 56.857$ is greater than the tabulated value of $\chi^2_{0.05, 3} = 7.81$, H_0 is rejected and H_1 is accepted. Hence, it can conclude by that there is significance between management accounting system and financial performance.

Table 4.20**Budgeting system helps to improve the financial performance**

	Observed Value (O)	Expected Value (E)	$(O - E)^2$	$\frac{(O - E)^2}{E}$
Never	0	0	0	0
Rarely	19	21	4	0.190
Sometimes	9	21	144	6.857
Often	37	21	256	12.190
Very Often	19	21	4	0.190
	$\Sigma O = 84$			$\Sigma \frac{(O-E)^2}{E} = 19.429$

$$\chi^2 = \Sigma \frac{(O-E)^2}{E} = 19.429$$

Degree of freedom: d. f. = n-1 = 4-1 = 3

Critical value: The tabulated value of the test statistic χ^2 at 5% level of significance for 3 degree of freedom is 7.81.

Decision: Since the calculate value of $\chi^2 = 19.429$ is greater than the tabulated value of $\chi^2_{0.05, 3} = 7.81$, H_0 is rejected and H_1 is accepted. Hence, it can conclude by that there is significance between management accounting system and financial performance.

Table 4.21**Performance Evaluation system helps to improve the financial performance**

	Observed Value (O)	Expected Value (E)	$(O - E)^2$	$\frac{(O - E)^2}{E}$
Never	0	0	0	0
Rarely	13	28	225	8.036
Sometimes	39	28	121	4.321
Often	32	28	16	0.571
Very Often	0	0	0	0
	$\Sigma O = 84$			$\Sigma \frac{(O-E)^2}{E} = 12.929$

$$\chi^2 = \Sigma \frac{(O-E)^2}{E} = 12.929$$

Degree of freedom: d. f. = n-1 = 3-1 = 2

Critical value: The tabulated value of the test statistic χ^2 at 5% level of significance for 2 degree of freedom is 5.99.

Decision: Since the calculate value of $\chi^2 = 12.929$ is greater than the tabulated value of $\chi^2_{0.05, 2} = 5.99$, H_0 is rejected and H_1 is accepted. Hence, it can conclude by that there is significance between management accounting system and performance development.

Table 4.22
Information for decision system helps to improve the financial performance

	Observed Value (O)	Expected Value(E)	$(O - E)^2$	$\frac{(O - E)^2}{E}$
Never	0	0	0	0
Rarely	12	21	81	3.857
Sometimes	44	21	512	24.381
Often	27	21	36	1.714
Very Often	1	0	400	19.048
	$\Sigma O = 84$			$\Sigma \frac{(O-E)^2}{E} = 49.810$

$$\chi^2 = \Sigma \frac{(O-E)^2}{E} = 49.810$$

Degree of freedom: d. f. = n-1 = 4-1 = 3

Critical value: The tabulated value of the test statistic χ^2 at 5% level of significance for 3 degree of freedom is 7.81.

Decision: Since the calculate value of $\chi^2 = 49.810$ is greater than the tabulated value of $\chi^2_{0.05, 3} = 7.81$, H_0 is rejected and H_1 is accepted. Hence, it can conclude by that there is significance between management accounting system and financial performance.

Table 4.23**Strategic Analysis system helps to improve the financial performance**

	Observed Value (O)	Expected Value (E)	$(O - E)^2$	$\frac{(O - E)^2}{E}$
Never	0	0	0	0
Rarely	3	21	324	15.429
Sometimes	38	21	289	13.762
Often	41	21	400	19.048
Very Often	2	21	361	17.190
	$\Sigma O = 84$			$\Sigma \frac{(O-E)^2}{E} = 65.429$

$$\chi^2 = \Sigma \frac{(O-E)^2}{E} = 65.429$$

Degree of freedom: d. f. = n-1 = 4-1 = 3

Critical value: The tabulated value of the test statistic χ^2 at 5% level of significance for 3 degree of freedom is 7.81.

Decision: Since the calculate value of $\chi^2 = 65.429$ is greater than the tabulated value of $\chi^2_{0.05, 3} = 7.81$, H_0 is rejected and H_1 is accepted. Hence, it can conclude by that there is significance between management accounting system and financial performance.

4.5 Management Accounting Practices

The respondents were asked to indicate the extent they agreed with statements concerning the management accounting practices in their company. The responses were placed on a five Likert scale ranging from 1 to 5 (never, rarely, sometimes, often, very often). A mean of the above 3 is regarded to measure satisfaction on the test variables. Standard deviation was used to indicate the variation or dispersion from the average (mean). A low Standard deviation indicates that the data points tends to very closed to the mean, whereas high standard deviation indicates that the data is spread out over the large range of the values.

Table 4.24: Descriptive Statistics

	N	Mean	Std. Deviation
Costing System	84	3.32	0.68
Budgeting	84	3.67	0.27
Performance evaluation	84	3.23	1.70
Information for decision making	84	3.20	0.69
Strategic analysis	84	3.50	0.61

Source: SPSS version 23

From the above data overall mean of 3.32, with standard deviation 0.68, which means that Costing system were rated as sometime used. Overall mean of 3.67, with standard deviation 0.27, which means that Budgeting was rated as highly used. Overall mean of 3.23, with standard deviation 1.70, which means that Performance evaluation was rated as sometime used. Overall mean of 3.20, with standard deviation 0.69, which means that Information for decision making was rated as sometime used. Overall mean of 3.50, with standard deviation 0.61, which means that Strategic analysis was rated as highly used.

4.5 Regression Analysis

Regression analysis is the statistical technique that identifies the relationship between two or more quantitative variables: a dependent variable, whose value is to be predicted, and an independent or explanatory variable (or variables), about which knowledge is available. The technique is used to find the equation that represents the relationship between the variables. Multiple regressions provide an equation that predicts one variable from two or more independent variables.

The researcher conducted a multiple regression analysis to test relationship among variables (independent) on the financial performance of insurance companies in Nepal. The researcher applied the statistical package for social sciences (SPSS V 23.0) to code, enter and compute the measurements of the multiple regressions for the study. Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (financial performance of insurance companies in Nepal) that is explained by all the five independent variables (Costing, Budgeting, Performance Evaluation, Information for Decision Making, and Strategic Analysis).

The study adopted multiple regression guided by the following model:

$$F_{pt} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e_t$$

Table 4.8 shows the regression model summary results where R square, adjusted R square and standard error of estimate are presented.

Table 4.24: Model Summary

R	R Square	Adjusted R Square	Std.Error of the Estimate
0.797	0.635	0.612	0.35416

Source: SPSS version 23

The results in Table 4.24 indicate that the management accounting practices had a joint significant effect on financial performance of insurance companies in Nepal as shown by R value of 0.797. The R squared of 0.635 shows that the independent variables accounted for 63.5 % of the variance on financial performance of insurance companies in Nepal.

Table 4.24 shows the ANOVA results which explain the model fit through the F statistic and the probability of F-statistic.

Table 4.25: ANOVA

	Sum of Square	d.f.	Mean Square	F	Sig.
Regression	17.026	5	3.405	27.149	0.000
Residual	9.783	78	0.125		
Total	26.810	83			

Source: SPSS version 23

The results in Table 4.25 show that the F statistic was 27.149. At 5% level of confidence, the F statistic was significant. In this case, all the predictor variables (costing, budgeting, and performance evaluation, information for decision- making, strategic analysis) explain a variation in financial performance and that the overall model is significant.

Table 4.26 shows the coefficient results for the model variables, the t-values of each of the independent variables as well as the significance (p-value).

Table 4.26: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	VIF
		B	Std. Error	Beta			
1	(Constant)	0.544	0.279		1.925	0.054	
	Costing	0.232	0.071	0.278	3.292	0.001	1.522
	Budgeting	0.074	0.053	0.139	1.394	0.167	2.139
	Performance Evaluation	0.130	0.068	0.160	1.905	0.060	1.500
	Information for Decision Making	0.111	0.071	0.135	1.394	0.122	1.604
	Strategic Analysis	0.311	0.088	0.335	3.530	0.001	1.922
a. Dependent Variable: financial performance							

Source: SPSS version 23

From the above table 4.26, the study found that holding costing, budgeting performance evaluation, information for decision making, and strategic analysis, size and leverage constant financial performance will be 0.544, the study also found that a unit increase in Costing practices will 0.232 increase in financial performance, further it was established by the study that a unit increase in Budgeting practices will lead to an increase in financial performance by 0.074, it was also found that a unit increase in Performance Evaluation practices will lead to an increase in financial performance by a factor of 0.130, it was further found by the study that a unit increase in Information for Decision Making practices will lead to an increase in financial performance by a factor of 0.111, a unit increase in Strategic Analysis will further lead to an increase in financial performance by a factor of 0.311.

4.6 Major Findings:

On the basis of the above comprehensive analysis of data and information, the following findings have been identified:-

- While analyzing the application of management accounting tools practiced in Nepalese insurance companies for planning, controlling and decision making, it was found that Ratio Analysis, Cash flow statement and capital budgeting are widely practiced representing 71.42%, 66.67% and 47.61% respectively out of total 21 insurance companies. Similarly, Responsibility Accounting, Cost-volume profit Analysis and flexible Budgeting tools also were practicing representing 28.57%, 23.80% and 19.05% respectively. But other management accounting tools including standard costing, and Zero-base Budgeting were least in practice, representing only 4.62% each.
- In average four management accounting tools were practiced in Nepalese insurance companies. out of total sample number of insurance companies, 38.09% did not meet the average number of tools used, while 33.33% met the exactly average number of management accounting tools and remaining 28.585 companies were practiced more than average number of management accounting tools.
- While analyzing the budget preparing system of Nepalese insurance companies, it is found that Finance Department prepared the budget in 95.23% of the insurance companies. In 14.29% insurance companies, Budget committee prepared the budget. In 9.52% of the insurance companies, head office and chief executive offices made the

budget for the company. The involvement of outside experts and planning department in budget preparation system was almost nil in insurance companies.

- In average one system was applied to prepare budget in each insurance company of Nepal, out of total insurance companies 80.95% use done system for the preparation of budget. And 19.05% of insurance companies applied two systems for preparing its budget.
- With regard to functional budget, 57.14% Nepalese insurance companies prepared overall master budget, 28.50% insurance companies prepare operational budget. And only 9.52% of the companies prepare cash budget. Hence, it is seen that, majority of the insurance companies practices the overall master budget.
- With regard period of budget 85.71% of total insurance companies prepare short-term budget covering time period of one year or less, 19.05% of them prepare midterm covering the time period of less than five years and the only 4.76% of them prepare the long-term budget of more than five years period.
- Actual expenses of the previous year and past budget were widely taken as the basis in Nepalese insurance companies to prepare budget, representing 61.90%. The previous budget, Activity Based Budgeting and Zero-base budgeting were also taken as a basis for preparing budget representing 33.33%, 16.15% and 14.29% respectively.
- In average normally an insurance company of Nepal used only one base for preparing its budget in average. Out of 21 insurance companies 13 (i.e. 61.90%) insurance companies are considered exactly equal to the average number of base for preparing their budget and remaining 6 (i.e. 38.09%) insurance companies use two base while preparing their budget.
- With regard to Capital Budgeting techniques practiced by Nepalese insurance companies, it is revealed that nearly 38.09% of Nepalese insurance companies are used average rate of return method for the purpose of capital budgeting analysis, 33.33% of them practiced net present value technique. Similarly, 19.05% and 9.52% of them practiced payback period and profitability index techniques respectively for analyzing capital budget. Only 4.76% of the Nepalese insurance companies practiced internal rate of returns as capital budgeting analysis technique. It shows that the capital budgeting techniques were not widely practiced in Nepalese insurance companies.

- In average only one technique was practiced in Nepalese companies to make capital budgeting decision. Out of total sample number of insurance companies, 23.81% insurance companies did not apply capital budgeting techniques. Whereas 47.62% companies applied exactly the average number of capital budgeting techniques, and 28.57% companies applied more than average number of capital budgeting techniques while purchasing fixed assets or making long-term investment decisions.
- While analyzing cost and revenue estimation techniques practiced by insurance companies, it was found that past trend analysis technique was widely practiced representing nearly 81% of Nepalese insurance companies for estimating cost and revenue. Similarly, 28.57% and 9.52% of them practice judgment analysis and market survey techniques respectively to estimate the cost and revenue. Only 4.76% of them practiced zero-base budgeting to estimate their cost and the cost of the company.
- In average one technique was practiced for cost and revenue estimation in insurance companies of Nepal. Out of 21 insurance companies, 71.42% companies exactly adopted the average number of tools, 4.76% of them did not practice any type of cost and revenue techniques and 23.80% companies practiced more than average number of cost and revenue estimation techniques.
- To adjust risk while evaluating capital investment 33.33% of Nepalese insurance companies used increase the rate of return technique and 28.57% of them use higher IRR technique. Similarly, 23.80% and 19.05% of them used Estimation profitability distribution of future cash flow technique, sensitivity analysis technique respectively. While rest 9.52% of the insurance companies adjust risk for capital investment on the basis of guideline provided by the Beema Samitee (Insurance Regulatory Authority of Nepal).
- In average only one risk adjustment technique was practiced by Nepalese insurance companies. The percentage of insurance companies using average number of risk adjustment technique was 76.19 and that using 2 risk adjustment techniques was 14.29%. Similarly, 4.6% of them used four techniques to evaluate capital investment alternative, whereas, 4.6% of them did not use risk adjustment technique while evaluating capital investment.
- To measure and control overall performance of the company at the end of the year, 90.48% Nepalese insurance companies used profit or loss made by the company.

Similarly, 28.57%, 23.80% and 19.04% of them practiced budgetary control, ratio analysis and cash flow techniques respectively to measure and control the overall performance of their companies at the end of the year. It is also seen in the table that no Nepalese insurance companies use standard costing to measure and control the overall performance off the company.

- In average two techniques were practiced to measure and control overall performance of Nepalese insurance companies at the end of the year. It seems that 24% Nepalese insurance companies used below average number of year ending overall performance measuring and controlling techniques. While 57.14% of them use exactly average number of year ending overall performance measuring and controlling techniques. And rest 42.86% of them used more than average number of the year ending overall performance and controlling techniques.
- Regarding the factors affecting the decision making procedure of the Nepalese insurance companies, it was found that, about 90.48% of the Nepalese insurance companies made decision on the basis of the information provided by the management accounting tools. Likewise, 28.57% of the companies make their business decision on the basis of guideline provided by top level management. And rest 23.80% of the insurance company's decision making process was affected by other factors like company's polity and different union's interference.
- With regard to cost segregation, most of the respondents did not use the application of segregation of cost into fixed and variable. Even though some insurance companies had the practice of segregating cost into variable and fixed, 47.62% of Nepalese insurance companies use average method for segregating mixed cost into fixed and variable. And 4.76% of tem used High-low point method, regression analysis method and graphical presentation method. And 4.76% of them followed the mixed cost segregation guideline provided by Beema Samitee.
- Regarding the service pricing techniques practiced in the Nepalese insurance companies, it is found that the companies are not allowed to determine the service price themselves; hence they have to follow the direction provided by the insurance regulatory board of Nepal "Beema Samitee".
- Although there are so many benefits, there are many constraints in the application of management accounting tools in Nepalese insurance companies. Some of them were

identified as lack of expertise, lack of information about tools, lack of top management commitment, strict regulation of insurance authority board etc.

- From the analysis of hypothesis test it was found that there is significance relation between practices of management accounting and financial performance.
- The study also revealed that holding Costing, Budgeting Performance Evaluation, Information for Decision Making, and Strategic Analysis, Size and financial performance constant financial performance will be 0.544. Information for Decision Making practices was established as having the greatest impact on financial performance of insurance companies in Nepal followed by Strategic Analysis, Budgeting, Performance Evaluation, Costing, Size and financial performance respectively. This concurs with a well-established empirical evidence for an association between MAP and performance. Likewise, Baines and Langfield-Smith (2003) found that firms with a greater reliance on non-financial accounting information improved their performance. Ittner and Larcker (1995), Mia and Clarke (1999), and Sim and Killough (1998) found a positive interaction between management accounting information and performance. These findings support the suggestion that changes in MAS are associated with good financial performance (Laitinen, 2006).
- They included; Analysis of competitors' strengths and weaknesses, Value chain analysis, Shareholder value, Industry analysis, Analysis of competitive position, Long-range forecasting, Product life cycle analysis and the possibilities of integration with suppliers "and/or customers" value chains.

- The study indicates that the management accounting practices have a joint significant (63.5%) effect on the financial performance of insurance companies in Nepal. At 5% level of confidence, the F statistic was significant. The sum of squares also confirms that the regression model explained less than the residual. Likewise Chenhall and Langfield-Smith (1998b) found greater use of advanced management accounting practices, such as quality improvement programs, benchmarking and activity-based management, in firms that placed a strong emphasis on product differentiation strategies, ultimately resulting in high performance. This concurs with Ittner and Larcker (1995), and Sim and Killough (1998) who both found a significant positive interaction between management accounting information and performance, while Mia and Clarke (1999) found an indirect association between the intensity of market competition and business unit performance through the use of management accounting information.

CHAPTER V

CONCLUSION

5.1 Summary:

Insurance companies are one sector of economy as they safeguard against the risk that exist in business as well as in human daily life. Every insurance company has limited resources, which should be mobilized in such a way that it can get its best. For better utilization of resources, different tools and techniques have been developed. Among them, management accounting tools have proved beneficial in different aspects of managerial activities.

Management accounting is one of the important disciplines of accounting. It is the branch of accounting whose main objective is to help managers in overall managerial activities by providing various information and helping in planning, controlling and decision making. Management accounting acts as a strategic business partner in support of managerial role in rational decision making.

Cost segregation, Cost-volume-profit analysis, Responsibility Accounting, Cash flow statement, standard costing, Zero-based Budgeting and the major tools of management accounting. Whether the Nepalese insurance companies are getting benefits from those management accounting tools or not ? To identify these facts, this research was conducted.

The study was done with an objective to examine the present practice of management accounting tools in the Nepalese Insurance companies, and to identify the area where management accounting tools can be applied to strengthen the financial position of insurance companies. With respect to this objective, the present research has explored the real position of applicability of management accounting tools in Nepalese Insurance companies.

As per the nature and demand of the study, survey type research design was adopted with descriptive and analytical approach. The research is mostly based on primary source of information. Secondary source of data was also used. The data was collected from the respective insurance companies by distributing structured questionnaire. The raw data was applied to the analyzed and interpret the findings. The statistical tool like chi-square (χ^2) is used to test the hypothesis and regression model is used to show impact of management accounting practice on financial performance of the insurance company.

5.2 Conclusion:

Management accounting is a new discipline and still in developing stage in the context of modern business organization. Different types of management accounting tools and techniques are evolving as a new dimension to facilitate the management to perform the better managerial jobs covering from planning to control. These various types of management accounting tools and techniques are taught in the university collage. However they are found not fully practiced in Nepalese insurance companies. It is the realities of gap between the theory and practice.

On the basis of data analysis, it can be concluded that management accounting tools like Capital Budgeting, strategic analysis were widely practiced in Nepalese insurance companies. Similarly, Cost-volume-profit Analysis, Cash flow statement, Ratio analysis, Responsibility Accounting, Activity Based budgeting were moderately practiced. The other management accounting tools like standard costing and Zero-based budgeting were in practiced by few Nepalese insurance companies. It can also be concluded that the main reason for not practicing standard costing in Nepalese insurance is determination of premium by the insurance regularly board (Beema Sameeti). In the context, insurance companies are independent to determine the price (premium) themselves. Accordingly, the main reason for not practicing zero-base budgeting was lack of proper knowledge about the tool.

Finally, it can be conclude that the Insurance companies on Nepal are in infant stage with respect to the application of modern management accounting tools. Yet, they are trying to adopt such tools and techniques to cope with the future expected opportunities and challenges to be face due to the accession of globalization.

5.3 Implication:

The management accounting tools and techniques in every type of organization are not the optional but also the compulsion in the better financial performance of the entity. Management accounting plays a significant role for every type of business organization. It provides the key ideas, guidelines and strategies to the management for better financial performance of managerial functions. Economic liberalization, globalization, changing nature of human behavior and technological advancements are making complexity to every organization. To meet the expected challenges to grab the opportunities, the organization must practice the management

accounting tools and techniques. Advance management accounting tools and techniques have been proved themselves as great helping tools for better utilization of scarce resource and achieving the organization goals by dynamic environment.

The analysis and interpretation of application of management accounting tools helped to draw some findings. Concerning these findings, it may be appropriate to make some suggestions and recommendations. It will be helpful to the concerned stakeholders of an organization to bring some improvements in Nepalese insurance companies through application of management accounting tools. Thus, the following recommendations were made on the basis of findings:

- To strengthen the competitiveness of Insurance companies and carryout managerial activities effectively and efficiently the use of management accounting tools and techniques are recommended to practice. For planning activities; tools like cost estimation, classification and allocation, profit measurement and recognition, cost-volume-profit analysis, can be applied. It should be noted that while implementing any tool of management accounting it is suggested to analyze and cost and benefits of the specific tools.
- Nepalese insurance companies are recommended not to use only traditional tools of accounting like past budget, past trend analysis etc. Rather, they should move towards the application of new, advance and modern management accounting tools such as target cost, activity based costing zero-base budgeting, etc. for smooth operation in Insurance companies.
- While preparing budget, only past expenses and past budget should not be taken as bases. Along with these, zero-base budgeting and environmental analysis should also be taken into consideration. It is because what had happened in the past cannot occur in the future.
- In budget preparation and planning process, there should be proper co-ordination between planning department, finance department and the governing boards of the insurance companies. If possible the companies should hire the professional experts for planning purpose.
- It was found that, in most of the Nepalese insurance companies they have considered profit and loss made by the company as base to measure and to control overall performance of the company. So, it is recommended that, insurance companies should considered other control mechanism like budgetary control and measure, ratio analysis

and cash flow, so that the company can examine the real condition of the company from all the aspects, consequently they will be able to take proper decision for the future.

- Nepalese Insurance companies should prepare not only short-term annual budget, but also prepare medium term and long-term budget with specific mission, vision, goals and objectives.
- Cost segregating approach is found almost nil in insurance companies.
- It is recommended that, Nepalese Insurance companies that Discounted Payback Period, Net Present Value, Internal Rate of Return, Profitability Index and Modified Internal Rate of Return should be applied depending upon the requirement making long-term investment.
- Cost estimation, segregation and allocation must be used by every Nepalese Insurance companies. It helps management for productive managerial functions covering from planning to control. So it is recommended to segregate of every Insurance company.
- It was found that most of the Insurance companies practiced only past trend analysis to forecast the cost and revenue of the future period. However what happened in the past might not happen in the future. So for the estimation/forecast of cost of insurance company, other techniques like Zero-base budgeting, Market survey, Judgment analysis should also be used.
- Academics who have better knowledge about the management accounting tools and techniques, should put an effort to develop environment friendly, tools and techniques into practice, so that the existing gap between theory and practice can be somehow shortened. And the Nepalese insurance companies would be benefited from the use of management accounting.
- Out of total insurance made by the insurance companies, small portion should be allocated for research and development program so that new tools and techniques can be developed and adapted in insurance companies.
- For effective implementation of management accounting tools and techniques, a separate department should be set up. Management accounting staff should be given opportunities for short-term on the job training programme. If it is not feasible for them, they need to take service from consultants.

- Internal and external information are needed for proper application of management accounting tools and techniques. Therefore, it is recommended to setup management accounting information system. It helps to get feedback information regularly.
- Interaction between academician and business organization is a must. Therefore it is recommended that insurance companies should create an atmosphere of interaction between the academician and the Insurance Companies. The insurance can be benefited from academician's knowledge about new tools and techniques of management accounting.
- Academicians should make their best effort to bring, advance management accounting tools, for conducting various programmes like seminars, workshop etc. at national, regional or local level. Short-term on-the-job training packages on management accounting should be offered for Managers of insurance companies to acquaint them with the appropriate techniques of management accounting and to update their knowledge and skills.

5.4 Suggestions for Further Research

Research should be carried out that also includes those companies in other sectors to establish if they also consider the management accounting practices as important and to establish the frequency of usage of the practices.

Further research is important in other countries with similar or almost same micro and macroeconomic environments for insurance companies. The findings would be enhance a cross-country comparison of the management accounting practices and their impact on financial performance.

In addition, future studies should examine specific factors as to why insurance companies are not adopting newly developed management accounting tools. The relatively limited benefits associated with new management accounting techniques raises the question of the conditions necessary to effectively implement these tools. The increment in respondent size can make the result more reliable and fruitful to the shareholders.

Finally, the difference between traditional and new management accounting techniques needs further investigation.

Appendix I

Dear respondents,

As a student of MBS of central department of management (Tribhuvan University), I am conducting a study on "**Management Accounting Practices in Nepalese life Insurance Company**" towards a partial fulfillment for the award of the degree of Masters of Business Studies (MBS). I would highly appreciate your kind cooperation regarding the matter. I promise that your information will be kept quite confidential and will be used at aggregate level only.

Thank you.

Dilli Ram Lamsal

Name of the company

Address of the company

Name of the respondent (optional).....

Designation of the respondent

Please kindly tick (√) on the given alternative of each question concerning management accounting practices used in your esteemed Insurance Company.

1. Do you think that there is a practice of management accounting in your organization

- a) Yes []
b) No []

2. What is the main focus of management accounting in your organization?

- a) Planning []
b) Controlling []
c) Others []

3. Please mention the Management Accounting tools practiced in your insurance company for planning, controlling and decision making?

- a) Break-even Analysis (BEP) []
b) Responsibility Accounting []
c) Capital Budgeting []
d) Ratio Analysis []
e) Cash Flow Analysis []

- f) Standard Costing
- g) Zero Based Budgeting
- h) Flexible Budgeting

4. If your insurance company has not practiced any of the above mentioned tools, what might be the reason?

- a) No information
- b) High cost / quite expensive
- c) Lack of expertise
- d) Other, if any.....

5. Who is responsible to prepare the budget in your company?

- a) Finance department
- b) Planning department
- c) Budget committee
- d) Outside experts
- e) Other, if any.....

6. What type of the budget does your company practice (based on nature)?

- a) Over all master budget
- b) Cash budget only
- c) Operational budget only
- d) Other, If any.....

7. What type of the budget does your company practice (based on time period)?

- a) Short-term budget (1 year or less)
- b) Medium-term (Less than 5 years)
- c) Long-term budget (more than 5 years)
- d) Others, if any.....

8. On what basis, does your company prepare the budget?

- a) Based on the previous budget estimate
- b) Based on the past actual budget
- c) Zero base

d) Activity based

e) Other, if any.....

9. Which of the following capital budgeting tools is being practiced in your company while making decision of long-term investment or purchase of fixed assets?

a) Payback period (PBP)

b) Discounted payback period (DPB)

c) Average rate of return (ARR)

d) Net present value (NPV)

e) Profitability index (PI)

f) Internal rate of return (IRR)

g) Other, if any.....

10. Which pricing technique does the company practice in your company?

a) Full cost-based pricing

b) Variable cost-based pricing

c) Target return on investment pricing

d) Activity based cost pricing

e) Other, if any.....

11. What technique does your company follow to allocate joint costs into different departments?

a) Transaction basis

b) Negotiation

c) Other, if any.....

12. Which of the tool does your company practice to segregate mixed cost into fixed and variable?

a) High-low point method

b) Regression analysis method

c) Graphical presentation method

d) Average method

e) Other, if any.....

13. Which technique does your insurance company practice for cost and revenue estimation?

a) Zero base budgeting

b) Past-trend analysis

c) Market survey

d) Judgment analysis

e) Other, if any

14. How does your company evaluate the risk while making capital investment decision?

a) Sensitivity analysis

b) Increase the rate of return

c) Higher IRR

d) Estimation of profitability distribution of future cash flow

e) Other, if any.....

15. How does your company measure and controls the overall performance of the company at the end of the accounting year?

a) Profit/loss made by the company

b) Budgetary measures and control

c) Standard costing

d) Ratio analysis

e) Cash flow analysis

f) Other, if any.....

16. What are the major factors, which affect decision making procedure in your organization?

a) Management accounting tools

b) Decision of top level management

c) Objective of the organization

d) Other, if any.....

17.If you feel any problem regarding the application of the management accounting in Nepalese insurance companies, what would be the possible reasons in your opinion?

- i. Lack of training []
- ii. Unhealthy competition []
- iii. Unique nature of business []
- iv. other, if any.....

18.If you think that the management accounting tools are to be practiced essentially in Nepalese insurance companies, in your opinion what would be the potential benefits?

- i.
- ii.
- iii.
- iv.

19. Do you feel any problem regarding to the information system technology and adaption capacity of changing technology in the organization?

- i. Yes []
- ii. No []

20. Do the international changes in accounting system in insurance business affect the insurance company?

- i. Yes []
- ii. No []

Appendix-II
Insurance Companies in Nepal

Since 2004 B.S. many insurance companies have been established in Nepal. A brief introduction of these insurance companies has been presented here.

S.N.	Name of the Companies	Registration	Business
1	Nepal Insurance company Ltd.	2004/06/08	Non-Life
2	The Oriental Insurance Company Ltd.	2014/05/30	Non-Life
3	Rastriya Beema Sansthan	9/1/2024	Life & Non Life
4	National Insurance Company Ltd.	2030/09/17	Non-Life
5	National Life & Company Ltd.	2044/09/24	Life
6	Himalayan General Insurance Company Ltd.	2050/04/06	Non-Life
7	United Insurance Company (Nepal) Ltd.	2050/07/16	Non-Life
8	Premier Insurance Company (Nepal) Ltd.	2048/01/08	Non-Life
9	Everest Insurance Company Ltd.	2051/02/17	Non-Life
10	Neco Insurance Company Ltd.	2053/02/17	Non-Life
11	Sagarmatha Insurance Company Ltd.	2053/03/12	Non-Life
12	Alliance Insurance Company Ltd.	2053/04/01	Non-Life
13	Nepal Life Insurance Comapany Ltd.	2057/09/11	Life
14	Life Insurance Corporation (Nepal) Ltd.	2058/01/21	Life
15	American Life Insurance Company Ltd.	2058	Life
16	N. B. Insurance Company Ltd.	2057/10/19	Life

17	Prudential Insurance Company Ltd.	2059/03/06	Non-Life
18	Shikhar Insurance Company Ltd.	2061/07/26	Non-Life
19	Lumbini General Insurance Company	2062/04/02	Non-Life
20	NLG Insurance Company	2062	Non-Life
21	Siddhartha Insurance Co. Ltd.	2063/01/01	Non-Life
22	Gurans life insurance Co. Ltd.	2064/12/18	Life
23	Prime life insurance Co. Ltd.	2064	Life
24	Surya life insurance Co. Ltd.	2064/06/12	Life
25	Asian life insurance Co. Ltd.	2064/11/15	Life

Source: Annual Report

Appendix III: Research Questionnaire

SECTION A

(Please complete this section by checking the correct answer)

1. What does your company deals in?

.....

2. What is your position in the company?

.....

3. How many employees does the company currently have?

.....

Section B: Management Accounting Practices

3. How often does your company use the following management accounting practices? Score using the key which ranges from 1 (never) to 5 (very often).

	1	2	3	4	5
<i>Costing System</i>					
Separation of variable cost, incremental costs & fixed costs					
Use of plant- wide overhead rate					
Department or multiple plant-wide overhead rates					
Activity- based costing (ABC)					
Target costs					
The cost of quality					
Regression and /or learning curve techniques					
<i>Budgeting</i>					
Budgeting for planning					

Budgeting for controlling costs

Activity- based budgeting					
Budgeting with “what if analysis”					
Flexible budgeting					
Zero-based budgeting					
Budgeting for long-term (strategic) plans					
<i>Performance evaluation</i>					
Financial measures					
Non-financial measure(s) related to customers					
Non-financial measures(s) related to operation and innovation					
Non- financial measure(s) related to employees					
Economic value added or residual income					
Benchmarks					
<i>Information for decision making</i>					
Cost-volume-profit analysis (break-even analysis) for major products					
Product profitability analysis					
Customer profitability analysis					
Stock control models					
Evaluation of major capital investment based on discounted cash flow method(s)					
Evaluation of major capital investments based on payback period and/ or accounting rate of return					
For the evaluation of major capital investments, non-financial aspects are documented and reported					
Evaluating the risk of major capital investment projects by using profitability analysis or computer simulation					
Performing sensitivity “what if” analysis when evaluating major capital investments projects					
Calculation and use of cost of capital in discounting cash flow for major capital investment evaluation					
<i>Strategic analysis</i>					
Long-range forecasting					
Shareholder value					
Industry analysis					
Analysis of competitive position					
Value chain analysis					
Product life cycle analysis					

The possibilities of integration with suppliers'' and/or customers'' value chains					

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