

**ACCOUNTING PRACTICES AND FINANCIAL PERFORMANCE
OF NEPALESE SMALL AND MEDIUM-SIZED
MANUFACTURING ENTERPRISES**

**A Dissertation submitted to the Office of the Dean, Faculty of Management, in
partial fulfillment of the requirements for the Degree of
Master of Business Studies**

by

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation, **Accounting Practices and Financial Performance of Nepalese Small and Medium-Sized Manufacturing Enterprises**. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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REPORT OF RESEARCH COMMITTEE

Miss. Sushmita Thapaliya has defended research dissertation, "**Accounting Practices and Financial Performance of Nepalese Small and Medium-Sized Manufacturing Enterprises**" successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Indra Bahadur Bohara and submit the dissertation for evaluation and viva voce examination.

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We have examined the dissertation entitled "**Accounting Practices and Financial Performance of Nepalese Small and Medium-Sized Manufacturing Enterprises**" prepared by Miss Sushmita Thapaliya, a candidate for the degree of **Master of Business Studies (MBS semester)** and conducted the viva voce examination of the candidate. We hereby certify that the dissertation is worthy of acceptance.

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Sushmita Thapaliya

Researcher

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LIST OF ABBREVIATIONS

AIS	:	Accounting Information System
CA	:	Charter Accountant
CV	:	Coefficient of Variation
D.f	:	Degree of freedom
F	:	F-ratio
GAAP	:	Generally Accepted Accounting Principle
GDP	:	Gross Domestic Product
IFAC	:	International of Federation Accountant
IIARD	:	International Institute of Academic Research and Development
IRD	:	Inland Revenue Department
LTD	:	Limited
MBS	:	Master of Business Studies
MIC	:	Ministry of Industry and Commerce
PVT	:	Private
ROA	:	Return on Assets
ROE	:	Return on Equity
Rs.	:	Rupees
SME	:	Small and Medium Enterprises
SPSS	:	Statistical Package for the Social Sciences
T.U	:	Tribhuvan University
WTO	:	World Trade Organization
WTO	:	World Trade Organization

ABSTRACT

Management-oriented accounting defines accounting practices in relation to management functions. Rapid changes in the corporate environment have significantly altered organizational accounting processes, shifting from administrative to strategic levels. Accounting's main goal has always been to improve a company's performance by providing valuable information for strategic planning, operational management, and decision-making. The researchers selected participants for the study based on their judgment, including 20 small to medium-sized businesses in Nepal's financial sector. The study examined cost accounting, financial accounting, and management accounting techniques, along with the main challenges of applying management accounting tools in SMEs within Nepal's financial sector. It also investigated various accounting methods and the impact of the accounting system on the overall performance of the sample firms. Descriptive statistics were used to analyze primary data collected through structured questionnaires, along with basic percentage calculations, correlations, and t-tests. The findings revealed that annual budgeting and forecasting were the most commonly used methods among small and medium-sized financial businesses in Nepal. The study concluded that accounting systems significantly influence a business's success. It noted that traditional accounting techniques persist due to a lack of practice, coordination issues between employees and departments, the nature and size of the business, and corporate governance policies. The study suggested that businesses establish separate accounting departments to implement the beneficial accounting tools and methods identified. It also recommended that academics with a deep understanding of accounting practices develop and promote environmentally friendly tools and techniques.

Keywords: *Accounting, practices, small sized, manufacturing, business, size.*

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

After experiencing a meager growth rate of 0.01 percent in the fiscal year 2016, the Nepalese economy was expected to have grown by 6.9 percent in the fiscal year 2017. This increase was attributed to several factors, including the gradual recovery from the 2015 earthquakes, normalization of trade since February 2016, better management of electricity supply, and a favorable monsoon leading to improved harvests. The improvement in economic performance in 2017 was primarily due to the base year effect, reflecting the gradual recovery from the 2015 earthquakes.

During the fiscal year 2017, agriculture, which is responsible for almost one-third of the country's gross domestic product (GDP), saw growth of 5.3 percent, which is an improvement over the growth of 0.03 percent that was seen during the fiscal year 2016. A monsoon that was more powerful than typical, the timely supply of agricultural inputs like seeds and fertilizer, and the installation of irrigation infrastructure are all factors that have led to an increase in agricultural productivity. The drop of 6.3% that the industrial sector had during the prior fiscal year was reversed during the most current fiscal year, when it recorded growth of 10.9%. This expansion comes after a decrease of 6.3 percent was seen during the prior fiscal year. The restoration of regular trading conditions served as the impetus for the recovery of the industry. The ease with which raw materials and commodities could be delivered, as well as the availability of both, were key contributors to the development of building activity. The increased development of hydropower in conjunction with the increased purchase of power from India led to an increase in the amount of energy that was produced. The expansion of the manufacturing subsector by 9.7 percent in the fiscal year 2017 was made possible by the improved availability of power, which created an environment that was favorable for this growth. After a decline of 8.0 percent in the previous fiscal year, the manufacturing subsector saw an expansion, as noted in the Economic Survey of 2017.

Small and medium-sized enterprises (SMEs) are widely recognized for their substantial impact on the economic and social development of countries. According to

the International Labor Organization (2008), around 80 percent of Japan's labor force and approximately 50 percent of Germany's workforce are engaged in the SME sector. In the economies of emerging nations, small and medium-sized businesses (SMEs) played a significant role in contributing to the gross domestic product (GDP) of Uganda (20 percent), Nepal (19.5 percent), and Nigeria (18.5 percent). They accounted for a sizable portion, around 24.5 percent, in Nigeria. Small and medium-sized businesses play a vital role in the expansion of the economy, as is the case in the majority of emerging nations. Despite this, they are confronted with a variety of challenges, one of which is gaining access to money from more conventional sources, which is frequently cited as the most significant challenge they face (MFPED, 2008).

As a result of this, the expansion of the SME sector has a direct impact on the overall performance of the nation. According to Arianoff (2010), small and medium-sized enterprises (SMEs) accounted for 56 percent of private sector employment and contributed 36 percent to the global gross domestic product (GDP). Over the last few decades, small and medium-sized businesses (SMEs) have been a significant driving force behind employment and production development in many nations. Due to the simplicity of entry and exit, they are considered as a key self-help instrument for the elimination of poverty in underdeveloped nations. "This stems from their accessibility. Small and medium-sized enterprises, or SMEs, played a substantial role in the economies of all nations, irrespective of their developmental stages." The concept of small and medium-sized enterprises (SMEs) includes various perspectives and measurements, which vary among nations and sources providing SME data. Criteria such as the number of employees, total net assets, sales and investment amounts, and investment level are commonly used. However, the most frequently used definition is based on employment, although there is flexibility in determining the maximum and minimum size limits of an SME (Ayyagari et. al, 2006).

According to the findings of the 2006 Economic Survey report, the sector created over fifty percent of all new employment in 2005. Recent research indicates that most of Nepal's private sector comprises small and medium-sized enterprises (SMEs). To compete with other countries, Nepal needs to focus on developing its SME sector. The adoption of sound methods of financial management has been recognized as one of the most important factors contributing to the success of small and medium-sized

enterprises (SMEs) in emerging nations. Despite the fact that they are making good contributions to economic growth and development in Nepal, small and medium-sized enterprises (SMEs) have a high rate of failing. According to KNBS (2007), the small and medium-sized enterprise (SME) sector was responsible for the creation of 4,690,000 new employment during the financial years of 2006-2007. This represented a 5.7 percent increase from the previous year. According to newly released figures, the federal government has only added 13,000 new employees in the past year. This is a little increase from the previous year's total of 884,000 jobs created to 897,000 jobs produced in 2017/2018. There are not 897,000 individuals now working in Nepal. In 2009, the census recorded 14.3 million Nepalese employed. Among them, 6.5 million were involved in family farming, 2.7 million were in non-farm self-employment, and 5.1 million were in wage occupations. There were around 2 million people working occupations that were categorized as being in the "modern sector" among those who had wage jobs. This information comes from the National Census that took place roughly ten years ago. Despite the importance of the data, those from the past suggest that according to the National Bureau of Statistics (2007).

Because of the significance of small and medium-sized enterprises (SME's) to the economy of Nepal, it was necessary to carry out research to analyze the financial management practices of SME's and how these practices effect the expansion of businesses. Financial management is crucial for the success of small businesses (Meredith, 2006). It is one of the key functional areas of management that ensures effective handling of finances. A company's finances need to be managed properly in order for the company to meet its financial goals. This is what is meant by the term "financial management." According to McMahon et al. (2008), financial management may be described as the process of securing and making use of various sources of funding: It is the responsibility of financial management to ensure that scarce funds are distributed equitably among competing uses of the enterprise, as well as to ensure that sufficient funds are raised to finance the enterprise's assets and activities and that these funds are used in an effective and efficient manner to accomplish the enterprise's primary objective.

Concept of Accounting

Accounting can be described as the process of recording financial information in a meaningful way to assess a company's performance. This is the fundamental definition of accounting. The entrepreneur had to "keep score" by using basic accounting to stay informed about the business's activities. This included tracking sales figures, understanding expenses, assessing the profitability of various operations, ensuring that selling prices provided enough margin to cover costs, and other related tasks. Basic accounting skills were essential for managing these aspects effectively. Accounting practices are the procedures and records established by management to identify, collect, assess, classify, record, and report a company's transactions. They also ensure that the objectives of internal control are being achieved. This is also referred to as the accounting system on occasion. In order to determine an entity's performance, it examines, documents, and measures the commercial transactions that take place. The quality of an accounting system is judged not only by the accuracy of its records but also by its ability to meet the information needs of both internal and external decision-makers (Maseko and Manyani, 2011). "Accounting is the language of business and a mirror of financial activities," says one proponent of the discipline. Businesspeople are required to maintain organized records in order to get insight into the outcomes of their day-to-day dealings. "Book keeping" refers to the practice of maintaining records in a manner that is both regular and methodical. The first step in the accounting process is known as bookkeeping. The term "accounting" refers to the practice of examining and documenting financial transactions in books of account in order to provide the findings of an analysis of financial activities. Accounting is also known as an administrative tool, which indicates that it is a means to an end that creates the financial information that is required for an administrator to be successful. On the other hand, the account serves as a mirror that reflects an accurate image of the revenue and expenditures produced within a certain time period. The financial picture may primarily be broken down into two components: an income statement, which details the company's revenue and expenses; and a balance sheet, which details the company's assets and liabilities (Amko, 2013).

The recording of financial transactions, as well as the archiving, classification, retrieval, summarizing, and presentation of the aforementioned information in a

variety of reports and analysis, are all components of accounting. Accounting is also considered to be a profession, and as such, it requires its practitioners to have completed the necessary academic training. One aspect of accounting is concerned with disseminating information to individuals who are not affiliated with the firm in the form of general-purpose financial statements (such as balance sheets, income statements, and so on). The generally accepted accounting rules, often known as GAAP or US GAAP, must be followed in order for these external reports to be generated correctly. The term "financial accounting" refers to this particular aspect of accounting (Ntim AL, Evans O, and Anthony F, 2014). Accounting may be summed up as the act of documenting economic information in a meaningful manner in order to gauge a company's performance. Accounting at its core involves "keeping score" for entrepreneurs, allowing them to understand their business operations. This includes tracking sales, identifying costs, assessing profitability of activities, ensuring selling prices provide adequate margins, and more. Basic accounting serves as the foundation for these tasks. The procedures and records that have been created by management in order to recognize, compile, evaluate, categorize, record, and report a company's transactions, as well as to offer confidence that the goals of internal control are being accomplished, are what are referred to as accounting practices. This is also referred to as the accounting system on occasion. In order to determine an entity's performance, it examines, documents, and measures the commercial transactions that take place. Not only is the accuracy of the records stored inside an accounting system one of the criteria used to evaluate its quality, but also the system's capacity to satisfy the information requirements of both internal and external decision-makers is critical (Maseko and Manyani, 2011). "Accounting is the language of business and a mirror of financial activities," says one proponent of the discipline. Businesspeople are required to maintain organized records in order to get insight into the outcomes of their day-to-day dealings. "Book keeping" refers to the practice of maintaining records in a manner that is both regular and methodical. The first step in the accounting process is known as bookkeeping.

The term "accounting" referred to the practice of examining and documenting financial transactions in books of account to provide the results of an analysis of financial activities. Accounting was also known as an administrative tool, meaning it was a means to an end that created the financial information needed for an administrator to be successful. Additionally, accounting served as a mirror reflecting

an accurate image of the revenue and expenditures produced within a certain time period. The financial picture was mainly divided into two components: an income statement, which detailed the company's revenue and expenses, and a balance sheet, which outlined the company's assets and liabilities (Amko, 2013).

The recording of financial transactions, as well as the archiving, classification, retrieval, summarizing, and presentation of this information in various reports and analyses, are all aspects of accounting. Accounting is also regarded as a profession, necessitating that its practitioners have completed the requisite academic training. One part of accounting focuses on providing information to individuals outside the firm through general-purpose financial statements like balance sheets and income statements. These external reports must adhere to the generally accepted accounting principles (GAAP or US GAAP) to ensure accuracy. This specific aspect of accounting is referred to as financial accounting (Ntim, Evans, and Anthony, 2014).

1.2 Problem Statement

In the present content for doing business in Nepal, companies must contend with rising rivalry both domestically and internationally, as well as rapid changes in both their consumers and their technology. In the current climate, it is very necessary for small and medium businesses to be provided with adequate and up-to-date accounting procedures in order for them to be able to thrive and continue to generate profits. Utilization of accounting reports to their full potential is one of the aspects that contribute to the overall performance of a corporate organization. In this context, the purpose of this study was to evaluate the extent to which small and medium-sized businesses (SMEs) practice accounting, and it also looked into the extent to which accounting reports were regarded to be beneficial. The findings of this research offer insight into the breadth of accounting processes as well as the perceived value of accounting reports for the decision-making process.

As a result, the purpose of this study is to attempt an analysis of the accounting procedures utilized by businesses manufacturing on the small to medium scale. To be more explicit, the research investigates the following topics:

- 1) What is the existing accounting practices and problems in Nepalese SMEs?

- 2) Is there any relationship between accounting practices and financial performance of Nepalese SMEs?
- 3) What is the impact of accounting practices on financial performance of Nepalese SMEs?

1.3 Objective of the Study

The primary purpose of this research has been to investigate the types of accounting procedures utilized by companies making goods that are small and medium in size.

The following is a list of the particular goals that this study aims to accomplish:

- 1) To assess the existing accounting practices and problem are employed in Nepalese SMEs.
- 2) To examine the relationship between accounting practices and financial performance of Nepalese SMEs
- 3) To analyze the impact of accounting practices on financial performance of Nepalese SMEs.

1.4 Research Hypothesis

The research hypothesis is an untested assertion that assists the researcher in drawing the suggestion on the hypothetical assumption of whether it is true or untrue based on certain statistical tests. During this research, the following hypotheses-with a degree of confidence of 95% or higher-has been created, and they would also be put to the test.

H₁: There is positive relationship between accounting system and financial performance of SMEs.

H₂: There is positive relationship between level of accounting knowledge and financial performance of SMEs.

H₃: There is positive relationship between accounting information system and financial performance of SMEs.

H₄: There is positive relationship between financial reporting and financial performance of SMEs.

H₅: There is positive relationship between methods of accounting and financial performance of SMEs.

1.5 Rational of the Study

This research has contributed to the existing accounting literature in two main aspects. Firstly, it has provided valuable insights for both theoretical frameworks and practical applications. To begin, the research has produced fresh data based on empirical research about the use of accounting procedures. Second, the research has offered an extra study on the topic of what situational elements impact the amount of accounting practice usage in the new environment of Nepalese small and medium-sized enterprises (SMEs). In the end, the purpose of the research is to investigate whether or not there is a connection between the implementation of accounting procedures and the performance of Nepalese small and medium-sized businesses. The study on accounting procedures and small and medium-sized enterprises (SMEs) in Nepal, as well as developing nations more generally, is quite scarce, making the focus on Nepal particularly significant. The following are some of the benefits that come from practices:

- The study raised awareness about the importance of accounting systems for managers, owners, and accountants in understanding the significance of a well-functioning accounting system.
- It provided evidence on how small and medium-sized enterprises (SMEs) approach their accounting routines.
- The study identified key variables distinguishing firms with formal accounting systems from those maintaining minimal records.
- The study highlighted the crucial role of management accounting systems and the accounting tools and techniques utilized by SMEs.

The findings demonstrated that implementing sound financial management accounting practices significantly contributed to the improvement and increased profitability of SMEs.

1.6 Limitations of the Study

The limitations of this study are as follows:

- The study was limited to only one district, Kathmandu.
- It focused on analyzing the accounting systems of registered small industries with fixed capital not exceeding 10 million.

- The study specifically addressed accounting aspects of small and medium industries, excluding service industries.
- A sample of only 20 small and medium-scale industries in the Kathmandu district was taken, so the conclusions drawn are suggestive rather than prescriptive.

CHAPTER-II

LITERATURE REVIEW

A report that provides an evaluation of the material that can be found in the literature and is connected to certain fields of study is called a literature review. The review needs to include a description, rating, and clarification of this material. This chapter is broken up into two sections: the first is a conceptual review, and the second is an empirical review.

2.1 Conceptual Review

This chapter provides an overview of the research literature on accounting processes and the effect that such practices have on the organizational performance of small and medium-sized enterprises (SMEs). Furthermore, it served as the foundation for designing the study in terms of the research techniques utilized. The literature review aimed to address a gap in the research field by describing various variables within the interconnected network of the study, focusing on accounting practices and perceived performance within Nepal's SME sector. This segment of the research is commonly known as the "literature review" and aims to bridge gaps in the research domain. In this specific inquiry, the homological network consisted of components such as the accounting system, the quantity of accounting knowledge had, the records of documents, the prepared financial statements, the accounting procedures and basis, and the performance of the organization. It is often held that the performance of Nepalese small and medium-sized firms (SMEs) may be enhanced by placing more emphasis on the first six criteria listed above in conjunction with accounting procedures. Since it was first created, the accounting profession in Nepal has been increasing at a steady rate in unison with the growing economy of the nation. This growth has occurred since the profession was first founded. In direct proportion to the growth of pre-existing business activities, the requirement for the existence of a dedicated accounting profession emerged over time. Because of the aforementioned factors, the majority of the business managers and accountants that were required by private companies were transferred from state economic institutions. This occurred as a direct result of the aforementioned factors. As time went on, the importance of

accounting procedures rose along with the development of the private sector in nearly all different areas. Within their own accounting departments, large firms often organize their accounting operations into specialized divisions. In addition, the courses that were taught in the curriculum of faculties of economics and administrative sciences contained management accounting in addition to financial accounting. These courses were taught as part of the curriculum.

Research that has been carried out in many parts of the world has, for some time now, been aware of the challenges that small and medium-sized enterprises (SMEs) confront when seeking to get capital. The findings of several researchers (Galindo and Schiantarelli, 2003; Beck and Demirgic, 2006) indicate that in comparison to large organizations, small and medium-sized businesses (SMEs) rely on outside financing less frequently and are limited in the ways in which they are able to function and expand. This is the case because SMEs have fewer resources available to them to draw from. Due to their rapid development and little cash, small and medium-sized businesses demand loans that are "instant, modest, and frequent" (Garcia-Fontes, 2005). Small and medium-sized businesses (SMEs) require loans that are urgent, modest, and frequent due to their swift expansion and insufficient liquidity (Garcia-Fontes, 2005). In their study titled "Micro, Small and Medium Enterprises (MSMEs) in Post-Reform India: Status and Performance," Gargand and Walia (2012) discovered that the MSME sector experienced significant growth over time and emerged as a major contributor to India's GDP, employment, and exports. Additionally, they discovered that the significant growth of MSMEs has taken place over a period of time. In addition, Gargand and Walia (2012) discovered that the major expansion of MSMEs has occurred over the course of a period of time. This expansion has taken place over time.

The government of Sri Lanka's strategy for encouraging the growth of micro, small, and medium-sized enterprises across the country. Small and medium-sized businesses (SMBs) account for between 80 and 90 percent of the total number of businesses in Sri Lanka. These businesses are also accountable for 30 percent of the value addition that occurs in the country. Furthermore, these businesses account for 32.7 percent of the workforce in the agricultural sector, 26.3 percent of the workforce in the industrial sector, and 41 percent of the workforce in the service sector.

An examination into the impact that maintaining accounting records by small-scale firms has been carried out by Rahamon and Adejare (2014). uncovered the fact that there is a significant connection between maintaining accurate accounting records and the success of a company with a limited number of employees. In addition to this, it increases the possibility that the operation of the business has been successful and provides the knowledge that is necessary to make cash management inside the organization feasible. Both of these benefits are a direct result of the information provided by the software.

Accounting, in its most basic form, is a worldwide activity that incorporates the circulation of multiple different concurrent sections of the organizational system. This is the most fundamental kind of accounting. Ismail and King directed their focus towards understanding how well small and medium-sized manufacturing firms in Malaysia could utilize their accounting systems to generate information. In this context, SIS alignment is strongly related to the six influencing factors, which are as follows: IT sophistication, owner/manager knowledge, owner/manager commitment, external expertise, internal expertise, and firm size. During the course of his research on the accounting systems that are utilized by SMEs, Zhou came across a few issues, such as a lack of developed software for small and medium-sized enterprises (SMEs), insufficient managerial attention, and a lack of training regarding accounting information systems among managers and employees, and he offered some solutions, such as the creation of accounting software specifically designed for SMEs, a strengthening of the responsibility of administering authorities, and an increase in training regarding accounting information systems among managers and employees. In addition, Maseko and Manyani (2011) did an exploratory research to discover the accounting processes (record keeping) that small and medium-sized firms (SMEs) in Zimbabwe utilize for performance evaluation. They used Bindura as an example for their research. This case study focused on how the majority of small and medium-sized firms (SMEs), due to a lack of understanding on accounting, did not keep proper accounting records. SMEs include businesses with less than 500 employees. Because of this, it was not possible to assess financial performance by using accounting information as the foundation for the evaluation. This was due to the fact that this information was not readily available. Okoli (2011) made the decision to conduct

research in Enugu, which is situated in South East Nigeria, in order to investigate the different accounting methods that are utilized by small-scale firms as a result of the high rate of failure that is faced by these types of companies. According to the results of the poll, a significant number of companies make use of a single entry accounting system as a tool for record-keeping. This is likely owing to the versatility of the system's use, as well as the fact that it helps ensure profitability.

According to Olatunji (2013), the primary aim of the study was to assess the relationship between the accounting system and the performance of small and medium-scale enterprises (SMEs). The study's findings revealed that the implementation of a reliable accounting system significantly influenced the performance of SME businesses.

Small and medium-sized enterprises (SMEs) are required to keep at least one book of accounts in order to record transactions, establish a variety of accounting controls in order to keep operations simple, and as a result, the overall accounting system of SMEs is influenced by some critical factors due to the study conducted by Ntim al. (2014) examined factors such as firm size, business age, and the involvement of accounting staff. This research formed the basis for understanding accounting practices across different countries and addressing various perceptual issues related to the utilization of accounting systems from diverse viewpoints. In addition to the research gap that was mentioned before, the primary emphasis of this investigation is on the accounting practices that are utilized by small and medium firms in the city of Rangpur.

They go on to suggest that the majority of owners and managers of SMEs use public accountants to compile the necessary paperwork, and that owners and managers of SMEs hunt for additional information, but only to a limited level. Additionally, they suggest that owners and managers of SMEs hunt for additional information, but only to a limited level. Ismail and King (2007) arrived at the conclusion that the quantity of accounting experience possessed by the business's owners is directly linked to the success of the construction of a trustworthy accounting information system (AIS) in small and medium-sized enterprises (SMEs). [Citation needed] According to the findings of studies carried out by Keasy and Short (1990) and Bohman and Boter (1984), small firms use professional accounting organizations in order to compile

yearly reports and satisfy other accounting demands. According to research conducted by Marriott and Marriott (2000), certified public accountants ought to broaden the scope of their services to incorporate graphical presentations, comments, and interpretations of the numbers that may be found in financial statements. It is recommended that these elements be integrated into the process of developing professional accounting services. However, Evaraert et al. (2006) and Jayabalan and Dorasamy (2009) believe that the high cost of engaging professional accountants forces owner-managers of small and medium-sized enterprises to reduce accounting information management to a lower priority than it otherwise would be. This is because the cost of hiring professional accountants is so high. Zhou (2010) suggests that owner-managers of SMEs should use accounting software to enhance accounting procedures. However, he laments the fact that producers of accounting software have not yet produced medium-sized software for SMEs. Zhou's suggestion is that owner-managers of SMEs should use accounting software to enhance accounting procedures. It seems that he believes that this is something that ought to be carried out. According to Olson et al. (2004), contemporary research is unearthing the fact that the number of consumers of accounting information in SMEs, such as venture investors and customers in supply chains, is expanding at an alarming rate. These consumers include customers in supply chains and venture investors. Wichman (1983) comes to the conclusion that the management of small and medium-sized enterprises (SMEs) faces significant challenges in the areas of accounting and marketing. As a result, he makes the recommendation that the owners and managers of SMEs either need to educate themselves on accounting or hire professionals. According to Walhlstedt (1996), traditional accounting reports do play an essential role in small and medium-sized enterprises (SMEs), but Walhlstedt believes that these reports need to be updated in order for them to be understood properly. In order to accomplish this goal, he recommends adopting the cash basis as opposed to the accrual method. According to McMahon (1999), the practices of financial reporting in SMEs appear to fall short of what is mandated by numerous external financial reporting imperatives that exist for them. This is the conclusion that can be drawn from the research conducted by McMahon. McMahon contends further that owner-managers appear especially reluctant to produce financial reports that may become accessible to third parties either directly or through the offices of regulatory authorities. He argues that this reluctance stems from the possibility that the reports may be viewed by regulatory

authorities. Small and medium-sized firms (SMEs) placed "assessing profitability" as the second most important reason to create financial statements, according to the findings of a study that was carried out by Tanwongsva and Pinvanichkul (2008). This position was quite a ways behind "preparing taxes solely," which held the top spot in the rankings.

2.1.1 Research into Specific Areas of Accounting Practices

The research examined in the previous section merely provides a high-level summary of accounting practices. This section provides an overview of research conducted on various accounting procedures and practices. The vast majority of research have focused on accounting systems, levels of accounting expertise, records of documents, the process of preparing financial statements, accounting techniques and bases, and economic decisions and the performance of firms.

Accounting system

Accounting has been defined as the act of recognizing, measuring, and conveying economic information to users in such a way as to enable those users to make educated judgements and choices based on the information. It is sometimes referred to as the language spoken in professional settings. (Niswonger and Fess, 1969) The practice of accounting is structured on a number of underlying ideas, theories, and principles. The Going Concern, Consistency, Accrual, Business Entity, Money Measurement, Prudence, and Double Entry are some of the most important of these principles. (Rawat, 2004; Dyson, 2004) The term "accounting" can refer to a variety of subfields, including financial, cost, management, and tax accounting. A well-organized and effective method of supplying correct information and effective controls is known as an accounting system. When developing an efficient accounting system, one must ensure that regulatory standards and internal administration policies are taken into consideration. The books, records, vouchers, and files, in addition to the associated supporting data, should all be shown in the accounting system as a consequence of the application of the accounting process. These days, users have access to a wealth of tools to aid them, including comprehensive help menus and a great amount of knowledge that can be found online for free. In the realm of banking, the development of technology, particularly the Internet, has led to the emergence of new channels of communication with clients already served as well as those yet to be

served. Not only has the manner in which businesses, particularly banks, sell their goods or services been altered, but also the manner in which these goods or services are often provided; a familiarity with computers is quite important in this regard.

Level of Accounting Knowledge

According to the findings of (Ismail, 2005), the amount of accounting expertise that business owners possess has a direct impact on the quality of the accounting information produced by small and medium-sized enterprises (SME). According to studies, the vast majority of owners of small and medium-sized enterprises (SMEs) do not have basic accounting expertise; as a result, the few owners who are competent of doing so use professional businesses to account for their company (Keasy, 1990); (Bohman, 1984). On the other hand, you could argue that the high expense of engaging professional accountants leaves the owners or managers of SMEs with little choice but to outsource the administration of accounting information since they have no other option. (Wichman, 1983) believes that accounting and marketing provide substantial problems to the administration of SMEs and proposes that managers or owners in SME's should learn about record keeping and accounting in order to be successful in their roles. It's possible that the cash flow statement is one of the most important documents in any business. According to Germain (2010), owners of small businesses need to make sure they are keeping a good cash flow as one of the crucial parts of their firm. It is vital to determine, by taking into consideration the reviewed literature, to what degree the owners and managers of SMEs in Sri Lanka keep accounting records of their companies.

Record of documents

Vouchers, journals, ledgers, trial balances, and other such documents are examples of accounting records. Bookkeeping on its own, without the preparation of reports, is unlikely to be fundamental in assisting decision making. If appropriate reports are not generated and reviewed in order to support decision makers, then bookkeeping on its own is unlikely to be fundamental. According to the available research, the practices of small businesses when it comes to financial reporting can range from informal and implicit techniques of control to more formal and delegated procedures that are defined in accounting textbooks. Therefore, questions concerning the frequency of creating and monitoring such financial information for management decision making, as well as the respondents' identification of the relative significance of the most often utilized components of financial statements, were posed to the respondents (Uddin et al, 2017).

Prepare financial statement

According to the findings of the study titled "International Financial Reporting Standard (IFRS) and SMEs in Nigeria: Perception of Academic," there is a continuing need to educate individuals, particularly operators of SMEs, on the benefits that may be gained from using IFRS for SMEs. The implementation of IFRS for SMEs in Nigeria would present the accountant with a substantial amount of work to do. SMEs reduce costs associated with maintaining accounting standards; presence of a complete set of accounting principles simplified for each type of entity; increased satisfaction of the needs of users of financial statements. These are just some of the listed advantages of IFRS for SMEs. Other advantages include improving the comparability of information presented in financial statements; increasing confidence in global annual invoices; and increasing satisfaction of the needs of users of financial statements (Ojeka & Mukoro, 2011).

Accounting Method and basis

The accounting methods and bases typically fall into two categories. However, after conducting surveys in three businesses, the researcher introduced a third option: "unknown" for both the accounting method and basis. This study was conducted because most small and medium-sized enterprises (SMEs) in Nepal did not use any accounting methods. It was found that 40% of businesses used double-entry

accounting, while 30% used single-entry accounting, and 30% used unknown or no methods. The assumption regarding the lack of knowledge among sole proprietorship business entrepreneurs about accounting procedures was based on several papers provided by the researchers (Uddin R, Biswas T, Ali J, Khatun MS, 2017).

Organizational performance

"Organizational performance" previously focused on assessing a company's position in the industry and its ability to meet stakeholder needs. It was often measured using financial metrics such as profitability, return on assets (ROA), and return on equity (ROE). However, contemporary understanding of performance encompasses a broader spectrum of factors beyond just financial indicators. This includes evaluating how well a company meets its primary performance objectives and satisfies consumer demands.

2.1.2 Role and Importance of Small Industries

The development of a nation often hinges on the growth of its industries. For a country to advance, it needs to move away from its traditional dependence on agriculture and towards industrialization. Industrialization plays a crucial role in boosting a nation's economy, and it is a goal every country should strive for. Some nations have achieved industrialization mainly through large-scale enterprises, while others have focused more on medium or small-scale industries. Many industrialized nations, such as the United States, Japan, Germany, and Great Britain, have seen significant success thanks to their small-scale industrial sectors. This is particularly relevant in the Southeast Asian region, where the expertise and achievements of small-scale enterprises are highly valuable. In South Asian countries, including Nepal, there has been ongoing debate about supporting small-scale businesses due to their lower capital requirements compared to larger sectors. Developing nations like Nepal heavily rely on the success of their small-scale industrial sector for economic growth.

Industries in certain sectors played a crucial role in expanding the country's industrial base, significantly impacting resource utilization, employment, and other vital aspects. Factors like market size, production efficiency, and infrastructural support such as transportation and communication have determined the pace of industrialization. In a country like Nepal, where mountainous terrain dominates and

transportation is challenging, smaller-scale initiatives are considered more suitable. It's estimated that cottage and small enterprises contributed around one-third of Nepal's industrial value. As of the end of the fiscal year 2006/2007, Nepal had 92,863 registered small and cottage units.

Nepal's small businesses and cottage industries played a significant role in the country's industrial landscape, constituting 95% of all industrial units. They provided 85% of job opportunities and contributed 46% of industrial production. These businesses also accounted for 6.6% of total manufactured exports and contributed 7.5% to the country's GDP. Their importance to Nepal's economic growth is evident from these figures. Small businesses in Nepal had advantages such as utilizing local resources, adapting quickly to local market conditions, and easily adopting new methods and equipment. These factors contributed to increased employment rates and decreased capital requirements. Additionally, they supported more balanced regional development and decreased the necessity for extensive infrastructure development. The 10th plan (2002–2007) emphasized sustainable economic growth, poverty reduction, rural development, and regional balance, highlighting the crucial role of small businesses and cottage industries in Nepal's development.

Historical Development of Cottage and Small industries

The things that people created for themselves at home were sufficient to meet all of their need. They gradually acquired the skills necessary to weave clothing and create other essential items. In the middle of the 14th century, they first began shipping their specialized items to countries all over the world. They increased the scale at which these productive activities were carried out. Then, around the 18th century, the first large-scale industrial operations were formed. Even though the globe entered an age of industrialization with the Industrial Revolution that took place in Great Britain in the 19th century, the relevance of small businesses and cottage industries has not diminished. The growth of huge businesses was paralleled by the expansion of the S&C industry. Small industries play a significant role in the acceleration of any nation's economic growth. It's possible that the development of crafts and minor businesses in Nepal dates back to the same time as the rise of the so-called "Kiratte civilisation."

During the "Lichchhavi" and "Malla" periods of Nepalese history, Nepalese commodities were sent to India and Tibet (now part of China). Kautilya, who lived in the 4th century B.C., was a big fan of the handicrafts from Nepal. In the year 673 B.C., the Chinese explorer Heun Tsang provided a description of the Nepalese artists. Kirk Patriak, who traveled to Nepal in the year 1793, was also a big fan of the country's traditional handicrafts. [Khatri, T.B. 2022, page 24] The time of P.M. Chandra Shamsher in 1925 A.D. saw the introduction of the cotton textile hand loom, which is considered to be the beginning of the history of the United Form of Cottage Industries. In 1935, the publication known as "Udyog Praise" was established. In a similar fashion, the year 1939 saw the establishment of a government office that was given the name "Nepal Kapada and Gharelu Illam Prachar Adda" (Nepal cloth and cottage promotion office). Following a significant amount of time had passed, in 1947 some employees were dispatched to India to get training in the cotton sector. On April 28th, 1954, the Ford Foundation offered financial as well as technical aid to the Nepalese government in order to facilitate the growth of cottage and small-scale enterprises inside the nation. In the year 1957 after the common era, the Department of Cottage and Village Industry was founded. [CEDA, Jan. 1998].

2.1.3 Government's Efforts for the Small Industries Under the Different Development plan

Through the implementation of a variety of fifth-year plans, the government was able to achieve some level of success in the sector of small-scale manufacturing. The following is a list of the primary initiatives that have been made for the small-scale industry:

Under the Fourth Five Year Plan (1970/71 – 1974/75)

A brand new Industrial Enterprise Act was passed into law during this particular plan era. A distinct demarcation between the domain of private investment and that of governmental investment was established. De-licensing for cottage businesses was one of the primary goals of this new industrial legislation, along with lowering lending rates and providing an adequate tax structure for cottage enterprises. In particular, it was free from income tax, sales tax, and excise duty, and it also included a provision for a one percent custom charge (Import tax) on machinery. During the time frame of the plan, a representative sample of cottage and small-scale industries

was surveyed. During this timeframe, 1,169 industrial units were officially recorded, leading to job opportunities for 9,352 people, with 2,311 individuals undergoing training sessions. The Nepal Rastra Bank encouraged the commercial banks in SCIS to finance the priority sectors (agriculture, cottage & small industrial and services) for the first time in continuous operation for the first time in 1924 through the "Small Scale" credit program. This was the first time that this program had been implemented.

Under Sixth Five Year Plan (1980/81-1985/86)

The Cottage and Small Industries Development Project began in 1982 under the auspices of the Government of Nepal, with support from the International Development Association (IDA), the World Bank, and the United Nations Development Program (UNDP). The objectives of the sixth five-year plan were:

- To generate significant employment opportunities.
- To increase foreign exchange reserves by promoting this sector.
- To encourage local production and reduce dependence on imports.
- To enhance the development and growth of cottage and village industries in the country.

The government of Nepal, in collaboration with the government of the Federal Republic of Germany, launched the Small Business Promotion Project (SBPP) in 1983 with the intention of encouraging more people to start their own businesses. Through the cultivation of human resources and the efficient management of raw materials, its primary objective is to encourage and facilitate the growth of the number of microbusinesses that are run independently across the nation. The most noteworthy aspect of this presentation is the contribution that SBPP has made to the field of account training for small business owners.

Under the Tenth Five Year Plan (2002-2007)

After making a number of changes to the fundamental framework of the plan, the Tenth Plan was finally created. It was supposed to be put into effect beginning with the beginning of the fiscal year 2059, but owing to the political instability in the nation, it was not able to be initiated in a timely manner. The following were the primary goals of the plan:

- Achieving high, sustainable, and inclusive economic growth.
- Developing the social sector and rural infrastructure.
- Promoting the development of tourism, water resources, information technology, and the industrial and trade sectors through private sector participation.
- Advancing human development and empowering women.
- Alleviating poverty and creating employment opportunities.
- Ensuring and enhancing good governance.
- Promoting and protecting the environment.
- Developing infrastructure at the national and regional levels.

(Source: National Planning Commission of Nepal)

2.1.4 Industrial Act 1987

During this time, the government passed the Industrial Enterprises Act of 1987. This act was enacted in 1987. As a result of the Act of 1987, all industries were divided into four groups.

Cottage Industries: These were characterized by investments in machinery, equipment, and tools not exceeding Rs. 200,000 in value, with fixed assets not exceeding Rs. 500,000.

Small Industries: This category encompassed industries with total assets ranging from Rs. 200,000 to Rs. 2 million.

Medium Industries: These industries were defined by investments ranging from Rs. 2 million to Rs. 10 million in fixed capital.

Large Industries: This category included industries with investments exceeding Rs. 10 million in fixed capital.

These classifications provided a framework for assessing and supporting industrial development across different scales, contributing to the overall economic growth and stability during that period.

2.1.5 Industrial Policy 1992

During the time leading up to the reconstitution of the democratic government, a three-year plan and six different five-year plans were developed and put into action, but the national economy was unable to make the kind of headway that was desired. One of the key reasons for this was the failure to develop a clear correlation between the goals and the objectives, priorities, strategies, and programs of the plans. This was one of the primary elements that led to this. In light of these challenges, the eight-five year plan was developed with an open market and a liberal economy as its guiding principles. The policy for altering the already-existing industrial laws and policy was incorporated into this plan. On November 9, 1990, the Nepalese Government unveiled a new constitution, guaranteeing the sovereignty of the people, establishing a multi-party democracy under a constitutional monarchy, securing an independent judiciary, and enshrining fundamental rights for all citizens. This new constitution laid the foundation for a politically stable environment, crucial for Nepal's rapid industrialization, and achieved this goal promptly and efficiently.

The Industrial Policy of the Government adopted an outward-looking approach and prioritized the growth of the private sector for industrial development. The pivotal objectives of the new "Industrial Enterprises Act 1992" were:

- Increased industrial production to stimulate economic growth.
- Generated maximum employment opportunities to alleviate unemployment.
- Enhanced the industrial sector's contribution to national production for economic stability.
- Improved the balance of payments through fostering greater import substitution and promoting export-oriented industries.

The development of these small and cottage enterprises is supported so as to complement domestic capital, the production of job opportunities, and the successful growth of economic activity in the country. All industries were categorized and ranked according to the new industrial strategy implemented in 1992 for the purposes of industrial administration and facilities.

Manufacturing Industries:

These industries produced goods by utilizing or processing materials, including both primary and waste materials.

Energy-Based Industries:

These industries generated energy from various sources such as water resources, wind, solar, coal, natural oil & gas, biogas, or any other available sources.

Agro and Forest-Based Industries:

Businesses primarily based on agriculture and forestry were included in this category. This encompassed integrated sericulture and silk production, horticulture and fruit processing, animal husbandry, poultry farming, fishery, tea gardening and processing, coffee farming and processing, herb processing, vegetable and seed farming, and agroforestry.

Mineral Industry:

The industries involve in mineral excavation, processing would come under it.

Tourism Industry:

Tourist accommodations and hotels, restaurants, travel agencies, river rafting, skin gliding, cable cars, pony trekking, and hot air balloon rides are all available here. Activities such as parasailing, golfing, and horseback riding are available.

Workshops, printing presses, consultancy services, ginning and balancing businesses, public transportation, photocopying, hospitals and nursing homes, educational institutions, laboratories, air services, cold storage, cinematography construction businesses are all examples of businesses that fall under the category of "service industry."

Construction Industries:

Road, bridge, tunnel, ropeway, flying bridge railway, trolley bus, commercial and residential complex.

2.1.6 Accounting Evolution in Micro Firm

It would appear that the average industrial company that existed before 1900 anticipated that its accounting system would just offer information on short term activities. Records kept in cost accounting were the source with the best established infrastructure for providing such information on short-run operations. A cost accounting system was the primary accounting tool that gave upper management the

ability to exercise cost control over the items that were produced. When a bonus incentive system was made accessible to members of the sales team, this was an example of the indirect repercussions that resulted from the development of accounting systems. [John Samuels, 1989] Prior to the year 1900, the accounting techniques of micro firms were only a brief descriptive information about the company. Throughout history, of course, each and every accounting system has had to be maintained manually. The image of the accountant working on the computer in a respectful manner was displayed on the screen. Small businesses of today typically make use of the same kinds of automated technology as larger businesses, such as cash registers, adding machines (calculators), typewriters, and so on. Even even very modest businesses now rely on some form of automated or computerized technology.

2.1.7 Evolution of Accounting in Nepal

The government of Nepal has a long history of maintaining accurate accounting records. In the years 464-491 A.D., King Mandev I of Nepal, who ruled during the Lichhavi era, issued the country's first currency, which was known as the "Mananka coin." During the Mahendra Malla dynasty that ruled Nepal during the Malla period, a coin with the name "Mahendra Mally" was in circulation. It would appear that this is the most important stage in accurately recording the transactions that take place on a nationwide scale. It is reported that throughout the Lichhave and Malla eras, a limited number of financial transactions were carried out. [Citation needed] It was evidence that specific types of accounting were used to record different types of transactions. After the 18th century, written records of accounting may be found in Nepal. These documents date back quite a ways. Following the nation's unification in 1768 (or 1825 B.S.), which was overseen by King Prithivi Narayan Shah, the chief of the troops stationed at the district level was responsible for keeping the accounts of the government offices. In the year 1814, a book with the name "Lal Dhadda" was compiled in order to record revenue and the costs of administration.

In a similar manner, another book known as "Mothdhadda" was utilized in the year 1822 for the purpose of recording land management (Kitab Byabastha). These two records represent significant milestones in the development of accounting methodology in Nepal. Again after some time had passed, in the year 1868 A.D., an office known as " Kitab Khana " was established for the purpose of documenting the

wages that were paid to government workers; this office is still in operation today. In the year 1879 A.D., Kharidar Gunawanta, a senior official was appointed to be in charge of documenting all of the governmental transactions. This was part of the process of developing accounting. After that, Syaha Shresta Pranali was proposed; it was a more developed variant of the accenting technique known as Faram shresta Pranali, which had been presented in 1911 A.D. and was particularly utilized in terai districts. The Rana regime in Nepal was deposed in 1951, which led to the establishment of the country's first budget system. Nepal is the country that first established the office of the Auditor General. In later times, Bhuktani shresta Prianali became the standard method of accounting; this technique borrowed heavily from the double-entry bookkeeping method. In the year 1960 A.D., a committee was established with the purpose of researching the accounting method that was used in Nepal. (Aryal Vojraj, 2004). After 288 days of concentrated study, the four members came up with a standardized form that they later dubbed the New Accounting system. In the modern day, this particular form of accounting system is followed in the offices of the Nepalese government.

2.1.8 Accounting Information System in A Small Business

"An assembly of processes, procedures, or techniques that are joined by controlled interaction to form an ordered whole" is what a system is, according to its definition. An intact system is a collection of items that interact with one another and are dependent upon one another to produce a more complicated whole. Inputs are things that go into a system, such as people, materials, money, machinery, and so on. Perform the necessary operations on them to produce output in the form of finished products or services. The accounting information system is an asset that cannot be undervalued by the small firm. Without its own set of financial information, no company can function properly (Olatunji, 2013). When it comes to conducting management responsibilities like as planning, controlling, and decision making, having data and information systems that are accurate, dependable, and up to date is absolutely necessary.

Historically, the only accounting that was of relevance to the accounting system was financial accounting. Accounting is the discipline that focuses on assessing and reporting to outside parties on a regular basis the financial state and operating

performance of a company. This necessary component of the accounting system served a valuable purpose in facilitating the recording of transactions, the maintenance of ledgers, the preparation of financial statements, and the reporting to external parties who had an interest in the matter. Aside from that, the management found the typical accounting system to be of little value when it came to planning and regulating as well as making decisions (Sharma, 2012). A management accounting system is built in order to fulfill this aim. In other words, the management accounting system is a resource of management that delivers financial information at all levels of the organization. In particular when it comes to the planning and administration of company. The accounting system has expanded beyond its conventional boundaries, which only included the study of past transactions, to include the examination of the current situation as well as the projection of future outcomes (Zhou, 2010).

2.2 Review of Previous Works

2.2.1 Review of Articles in the Journal

This section explores the extent to which small and medium-sized enterprises (SMEs), the focus of this thesis, have adopted accounting best practices. Despite the critical economic and social roles of SMEs, there is limited research examining their accounting information and methods (Nandan, 2010). This scarcity of research might stem from the assumption that accounting studies should focus on the most innovative and successful practitioners, as suggested by Kaplan (1994). This perspective often results in research being biased towards larger entities.

Zhou (2010) examined the impact of various parameters related to the operational environment on the volume of accounting procedures in SMEs. These factors included the size of the firm, the age of the organization, and the industrial grouping of the business. The study found that the majority of owners and managers of SMEs used public accountants to compile the necessary paperwork, and they sought supplementary information to a limited extent. The research concluded that the amount of accounting expertise possessed by the business's owners was directly related to the successful establishment of a reliable accounting information system (AIS) in SMEs. Ismail and King (2007) suggested that owner-managers of SMEs should utilize accounting software to enhance accounting practices, highlighting a lack of medium-sized software for SMEs as a challenge. Their recommendation emphasized the importance of either educating owners and managers on accounting principles or employing professionals. Overall, both studies underscored the

significant obstacles faced by management in SMEs, particularly in accounting and marketing, and highlighted the need for improvement in accounting practices to enhance the overall management efficiency of SMEs.

Alili, (2018) aimed to investigate the role of traditional accounting reports in small and medium-sized enterprises (SMEs) and propose modifications to enhance their comprehensibility. The objectives included assessing the effectiveness of traditional accounting reports in SMEs and exploring potential modifications to improve their understanding, particularly by utilizing cash basis accounting instead of accrual basis. The methodology involved examining financial reporting procedures within SMEs, with a focus on businesses with fewer than 500 employees, and analyzing owner-managers' attitudes towards financial reporting and external scrutiny. The major findings revealed that existing financial reporting procedures in SMEs often fell short of external reporting standards, with owner-managers displaying reluctance to share financial information due to concerns about external scrutiny. This reluctance stemmed from the fear that non-affiliated individuals, including regulatory authorities, could scrutinize the financial reports.

Zhou (2010) aimed to address challenges in conducting studies related to accounting information systems (AIS) in small and medium-sized enterprises (SMEs). The objectives were to identify challenges such as the absence of suitable SME accounting software, inadequate attention from managers, and limited knowledge among managers and employees regarding AIS. The methodology involved proposing solutions, including the development of SME-specific accounting software, increasing managerial responsibility, enhancing accounting knowledge among management, and ensuring comprehensive training for managers and employees by software developers. The major findings indicated that addressing these challenges could significantly improve the effectiveness of AIS implementation in SMEs, leading to better financial management and decision-making processes.

Ghimire (2010) conducted a study on management accounting practices in Nepalese listed industrial enterprises. The study aimed to assess the utilization and effectiveness of management accounting tools in these enterprises. The methodology involved collecting primary data through surveys. The study found that 58% of manufacturing companies used cost-based transfer pricing, 23% used market-based transfer pricing,

and 5% used negotiated transfer pricing. Regarding decision-making and control procedures, 69% of companies exercised control during the work period, 18% before the task began, and 5% after it ended. Most companies (78%) estimated costs and revenues based on historical patterns, with only 18% conducting market research and none using zero-based budgeting or judgment analysis. In terms of effectiveness, 49% found production areas effective, 29% found marketing areas effective, and 11% found financial areas effective. Finally, 68% of companies used the FIFO approach, 18% used the weighted average method, and 5% followed legal requirements for inventory distribution.

Kamyabi and Devi (2011) aimed to explore the foundational concepts and principles of accounting as highlighted by including Going Concern, Consistency, Accrual, Business Entity, Money Measurement, Prudence, and Double Entry, with citations from Rawat (2004) and Dyson (2004). It also examined various subfields of accounting, such as financial, cost, management, and tax accounting. The research focused on the development of efficient accounting systems, considering both regulatory requirements and internal administrative rules. Niswonger and Fess (1969) found a positive association between the utilization of external accountants' advisory services and SMEs' knowledge levels, technical competence, competitive intensity, and market decision complexity, with a beneficial impact on overall performance. The study referenced the International Federation of Accountants (IFAC) definition of Small and Medium Practices (SMPs) and noted that SME definitions vary by country (IFAC, 2010).

Rathnasiri (2014) conducted a study on the financial reporting practices of Small and Medium Enterprises (SMEs) in Sri Lanka's manufacturing sector, aiming to understand their adoption of accounting practices and the challenges they face. Data was collected from sixty SMEs registered with the Ministry of Industry and Commerce between 2008 and 2013 using a questionnaire. The study found that SMEs prioritize creating and monitoring financial statements, especially the cash flow statement, despite using informal accounting systems. To improve, SMEs need access to up-to-date financial information. The study recommends policymakers focus on SME growth, remove growth obstacles, and educate owners and managers on the importance of financial management for long-term success and survival. Another study by Rathnasiri (2014) focused on the adoption of accounting practices and their

effects on SMEs, specifically Sachet Water Producers in the Northern Region of Ghana. This qualitative research used a non-probability convenience sampling design to collect data, which was then analyzed using inductive reasoning. The study aimed to understand the acceptance of accounting procedures, the difficulties faced by SMEs, and the factors impacting their adoption, in order to provide advice on this topic.

Ahamad (2014) conducted a research project to investigate the management accounting procedures used by manufacturing enterprises in Libya. The primary objective was to explore the adoption and sophistication levels of management accounting techniques in these enterprises. An exploratory study design was implemented to achieve this goal. The study revealed that virtually all industrial enterprises in Libya have adopted management accounting techniques, primarily for cost determination, financial control, and management planning. However, the adoption rates of more recent or sophisticated tools were low and gradual, similar to those in other developing nations. Traditional management accounting procedures were found to be widely relied upon. The study concluded that the management accounting practices of Libyan manufacturing enterprises exhibited a very low degree of sophistication.

Kushwaha (2015) conducted a study to investigate the management accounting methods used in Nepalese insurance businesses, employing a mixed-method approach with both primary and secondary data sources. The study aimed to assess the prevalent practices in cash flow management, short-term planning, capital budgeting, performance measurement, control tools, budgetary management, costing procedures, breakeven point calculations, and transfer pricing strategies. The primary findings revealed that companies commonly implement cash flow and short-term planning, with the Accounting Rate of Return (ARR) being the most frequently used capital budgeting method. Performance measurement and control tools predominantly focus on profit and loss, with Payback Period (PBP), Net Present Value (NPV), and Internal Rate of Return (IRR) less commonly used for long-term investment decisions but still applied for overall performance measurement. Budgetary management is utilized by 30% of businesses, while usual costing procedures and breakeven point calculations are not widespread. Transfer pricing practices often involve a cost-based price, although 20% of companies do not implement any pricing strategy due to various

constraints. The study also found that variables like budgeting and planning, costing, and controlling and reporting have variance inflation factors below ten, indicating a significant impact on company operations.

Kamilah (2017) conducted a study to examine the implementation of accounting practices in small and medium enterprises (SMEs) and their relationship with performance. The study aimed to investigate the impact of accounting practices on the performance of SMEs. The objectives were to assess the extent of accounting practices implemented in SMEs and to determine the correlation between these practices and performance indicators. The study utilized a mixed-methods approach, combining quantitative surveys and qualitative interviews with SME owners and managers. The findings revealed significant correlations between certain accounting practices and performance, highlighting the importance of accounting procedures in enhancing SME performance. These results contribute valuable insights to the existing literature on the subject, emphasizing the role of accounting practices in driving SME success.

Emiaso (2018) investigated the relationship between strategic management accounting methods and organizational performance in manufacturing enterprises in Nigeria. The study aimed to examine the extent of utilization of strategic management accounting, compare it with conventional management accounting, and assess its impact on decision-making and organizational performance. A survey research design was employed, revealing a low level of strategic management accounting adoption in Nigerian industrial firms. The research found a significant difference in the perceived usefulness of decision-making tools between strategic management accounting and conventional management accounting. It concluded that organizations implementing strategic management accounting are better equipped to make informed economic and business decisions due to the superior approaches it offers. The study also noted a positive correlation between the use of strategic management accounting tools and organizational performance, indicating that strategic management accounting was more effective than standard management accounting procedures for decision-making, highlighting the need for its implementation to enhance overall company performance.

Gnawali's (2020) study, the primary objective was to examine the current utilization of management accounting methods in Nepalese commercial banks and their

functional roles. The methodology involved a survey of commercial banks in Nepal to gather data on the use of various management accounting systems. The study found that the most commonly used management accounting system in these banks was budgetary control, followed by other techniques such as CVP analysis, rankings, ratio analysis, variance analysis, and cash flow statement analysis. However, the study also noted a significant gap between theoretical and practical accounting methods in Nepalese commercial banks, indicating a need for closer alignment between theory and practice in the field of management accounting in this context.

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Table 1*Summaries of Review*

Studies	Finding of research
Ismail and King (2007)	SME owner-managers should adopt accounting software to enhance accounting practices. However, they note the lack of medium-sized accounting software tailored for SMEs. They recommend that SME managers either improve their accounting knowledge or hire professionals to overcome significant challenges in accounting and marketing.
Zhou (2010)	Accounting practices in SMEs are influenced by various factors such as firm size, organizational age, and industry type. Most SME owners and managers rely on public accountants for paperwork and seek additional information to a limited extent.
Ghimire (2010)	Management accounting practices in Nepalese industrial enterprises. The findings reveal that most companies use cost-based transfer pricing and control activities during work periods. Companies primarily estimate costs and revenues based on historical patterns and use FIFO for inventory distribution.
Kamyabi and Devi (2011)	An effective accounting system should meet regulatory and internal administrative requirements and suggest that external accountants' advisory services positively impact SMEs' performance.
Rathnasiri (2014)	The study finds that SMEs prioritize cash flow statements and informal accounting systems. It recommends that policymakers focus on SME growth and educate owners and managers on financial management.
Kamyabi & Devi (2011)	Utilization of the advice services offered by external accountants is positively linked with the level of knowledge possessed by the owner or management, as well as with the level of technical competence, competitive intensity, and complexity of market choice.

Rathnasiri, (2014)	Conduct research into the report titled "Financial Reporting Practices of Small and Medium Enterprises" (SMEs). The purpose of this study was to investigate whether or if Sri Lankan small and medium firms (SMEs) implement financial reporting procedures, and if so, to what extent they do so, as well as how these practices are combined with the information systems that are now in place.
Ahamad (2014)	Traditional methods are widely used while adoption rates of advanced tools are low. The study concludes that Libyan industrial enterprises have a low level of sophistication in management accounting practices.
Ushwaha (2015)	The study finds that cash flow and short-term planning are common, with the Accounting Rate of Return being the most used capital budgeting method. It also notes a lack of advanced costing procedures and transfer pricing strategies due to limited expertise.
Kamilah (2017)	The study observes significant correlations between certain accounting methods and performance, highlighting the importance of accounting practices in modern businesses.
Emiaso (2018)	The study finds that the use of strategic management accounting tools is low but positively correlated with organizational performance. It concludes that these tools are more effective than traditional methods for decision-making.
Gnawali (2020)	The study finds that budgetary control systems are the most commonly used tools, followed by CVP analysis, ratio analysis, variance analysis, and cash flow statement analysis. It notes a gap between theoretical and practical accounting methods.
Karki (2021)	The study finds that many methods taught in academic institutions are not applied in practice. It notes that tools like capital budgeting and cash flow analysis are widely used, while others like activity-based budgeting and zero-base budgeting are less common.

2.3 Research Gap

Previous research in the field has been extensive, yet there has been a noticeable gap in the exploration of accounting practices within Small and Medium-sized Enterprises (SMEs) and their impact on organizational performance. Unlike previous studies, this research focuses specifically on the application of accounting practices and their effects on SMEs. It differs in terms of research variables, data collection and analysis methods, research questions, objectives, and literature review. This study aims to bridge this gap effectively and efficiently. Its findings will be beneficial for scholars, policymakers, business owners, and various stakeholders.

Previous empirical studies had limitations, such as a lack of comprehensive examination of how accounting procedures influence SMEs. These studies often narrowly focused on parameters like firm size, age, and industry grouping. Moreover, they primarily relied on surveys or questionnaires, which might not have captured the complete picture of accounting practices in SMEs. Additionally, there was insufficient discussion on the challenges SMEs face in implementing accounting practices, including the availability of suitable accounting software and the level of knowledge among managers and employees.

Previous studies failed to delve deeper into certain aspects, like the relationship between owners' accounting expertise and the establishment of reliable Accounting Information Systems (AIS) in SMEs. They also overlooked owner-managers' reluctance to share financial information due to fears of external scrutiny. Furthermore, while some studies recommended using accounting software to improve practices, they did not specify which types of software would be most beneficial for SMEs, especially considering the unavailability of medium-sized software.

CHAPTER-III

RESEARCH METHODOLOGY

This chapter include research methodology, population and sample sources of data, data collection procedure, data processing, data analysis tools and techniques.

3.1 Research Design

In this study, needed data pertaining to accounting processes in Nepalese small and medium sized businesses has been analyzed making use of both a descriptive research design and a causal comparative research design to analyze the effect of accounting practices and its impact on financial performance of small and medium-size manufacturing enterprises. The study design makes it easier to get close to genuine or reliable information, which in turn makes it simpler to achieve the research objectives.

3.2 Population and Sample and Sampling Design

The scope of this research includes both small and medium-sized businesses in the fields of information technology, manufacturing, service, and tourism. The population of the Kathmandu district, which department of Nepal was further considered to be out of population for this study, was used to calculate the number of small and medium enterprises (SMEs) that have been registered in that district (Ministry of industry, commerce & supplies, 2023). On the basis of every accessible and registered piece of information, this population of SMEs, totaling twenty per group, was chosen. Based on the available and registered information, a total of twenty SMEs per group were chosen. The table below demonstrates the population as well as the sample size based on the percentage of small and medium businesses present in each industry. In this study, used a straightforward size selection method based on the transcript of the discussion sample design. Table 2 Sample of the study Nature of the industries population sample small and medium businesses that are present in each industry. Each industry segment was represented with varying numbers of small and medium enterprises, totaling 200 businesses in the sample.

Table 2*Sample of the study*

Nature of the industries	Population		Sample	
	Small	Medium	Small	Medium
Information Technology	12	6	2	2
Manufacturing	7	9	1	2
Service	47	20	4	3
Tourism	37	62	3	3
Total	103	97	10	10

(Sources: Ministry of Industry, commerce and supplies, 2023)

3.3 Nature and Sources of Data, and the instrument of data collection

The information has been obtained from the primary sources by sending out questionnaires to the people who have been chosen to answer to the survey. The question involves numerous questions. There is a distribution of one hundred questionnaires among the managers and accountants of the SMEs. The firm's respondents were requested to fill out questionnaires based on the type of industry they were involved in, which included the plastic and rubber industries, food goods, cottage industries, the leather industry, the textiles and woollen business, and the leather industry. This study has been carried out in small and medium sized organizations, with the primary focus being on acquiring data on the degree of frequency of the use of accounting practices tools and procedures that has been utilized by listed small and medium sized businesses.

Following the completion of the survey or collection of primary data from respondents, the information is initially entered into Excel and coded according to the many research factors. The data from Excel were imported into SPSS, and an analysis of the raw data was performed on its output. It was discovered that the accounting practices construct might represent data with regards to the perceived performance of organizations.

3.4 Method of Analysis

In order to display the information in a clear and concise manner, the data were subjected to processing, during which percentage basis, mean, standard deviation, and

correlation coefficient of determination were utilized. This study looked at the relationship between accounting procedures and the efficiency of the company. to ensure that the replies that have been gathered follow a random pattern, which is necessary for statistical calculations. The following is a list of the data analysis tools:

3.4.1 Average (\bar{X})

Among the various measures of central tendency, the arithmetic mean, commonly known as the mean, was the most recognized and widely utilized. It represented the sum of all values divided by the total number of values. This measure could be calculated for any numerical data set, ensuring its constant existence.

Mathematically:

Arithmetic Mean (AM) is given by,

$$\bar{X} = \frac{\sum x}{n}$$

Where, \bar{X} = Arithmetic mean

$\sum x$ = Sum of all the values of the variable X

n = Number of observations

3.4.2 Standard Deviation (σ)

The standard deviation (σ) measures the absolute description. It is defined as positive square root of the mean of the square of the deviations taken from the arithmetic mean. If the standard deviation is greater, the magnitude of the deviations also is greater. A small standard deviation means a higher degree of true/ fact and vice-versa.

This can be symbolically as:

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum(x_i - \mu)^2}{N}}$$

Where,

σ = Standard deviation

x_i = Each value from the population

μ = The population mean

N = The size of the population

3.4.3 Coefficient of Variation (C.V.)

The coefficient of variation (C.V.) is a relative measure of dispersion that is calculated by expressing the standard deviation as a percentage of the mean. It is useful for comparing the variability of two or more distributions. As a relative measure, it is independent of units. A higher CV indicates greater variability, while a lower CV indicates less variability. The formula for calculating the C.V. This is given by:

$$\text{Coefficient of Variation (CV)} = \frac{\text{Standard Deviation}}{\text{Mean}} \times 100$$

3.4.4 Percentage Basic

The term "percent" comes from the Latin phrase "per centum," which means "by the hundred." The percent symbol evolved from the Italian term "per cento," meaning "for a hundred." For example, during the 2008–09 NBA season, Shaquille O'Neal of the Phoenix Suns led with a field goal percentage (FG%) of .609, which means he made 60.9% of his shots, not 0.609%. Similarly, a team's winning percentage, the fraction of games they have won, is often expressed as a decimal. For instance, a .500 winning percentage indicates the team won 50% of their games. This method is similar to how batting averages are reported.

In describing the steepness of a road or railway slope, "percent" is used, calculated as 100 times the rise over the run, or the tangent of the angle of inclination multiplied by 100. This ratio shows the vertical distance a vehicle would travel compared to the horizontal distance, expressed in percent. Percentage is also used to describe the composition of a mixture, such as by mass percent or mole percent.

3.4.5 Correlation Coefficient (r)

Correlation analysis was used as a statistical tool to describe the extent to which one variable was linearly related to another. The correlation coefficient measured the degree of relationship between two sets of data. Represented by r , this coefficient could be positive or negative, with values ranging from -1 to $+1$. A value of $r = -1$ indicated a perfect negative relationship, while $r = +1$ indicated a perfect positive relationship. However, such exact values of $+1$, -1 , or 0 were rarely found in practice.

In real-world applications, achieving a perfect positive or negative correlation was very uncommon (Gupta, 2000).

$$\text{Correlation of coefficient (r)} = \frac{n \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \times \sqrt{n \sum y^2 - (\sum y)^2}}$$

r = Correlation of coefficient

$\sum XY$ = Sum of product of two series.

$\sum X^2$ = Sum of squared in X series

$\sum Y^2$ = Sum of squared in Y series

The value of the coefficient of correlation (r) always lies between ± 1 . Such as:

r = +1, perfect positive correlation

r = -1, perfect negative correlation

r = 0, no correlation

3.4.6 Regression Analysis

Regression analysis involved developing a statistical model to predict the values of the dependent variable based on the values of at least one independent variable. It helped in understanding the relative movement between variables.

3.4.6.1 Simple regression analysis

The simple regression equation of Y on X was used to describe the variation in the value of Y given a change in the value of X. The equation is represented as

$$X. Y = a + bx$$

Where,

Y = dependent variable

X = independent variable

a = Régression constant

b = Régression coefficient

3.4.6.2 Multiple Regression Analysis

Multiple regression models were employed to determine whether the dividend per share, dividend payout ratio, and earnings per share of finance companies were related to their market prices. The equation for this regression model is represented as:

$$\text{ROA} = \alpha + \beta_1 \text{AS} + \beta_2 \text{LOK} + \beta_3 \text{ROD} + \beta_4 \text{FS} + \beta_5 \text{AM} + e \dots\dots\dots (i)$$

Where,

ROA=Return On Assets

AS= Accounting System

LOK= Level of Knowledge

ROD= Record of Documents

FS= Financial Statement

AM= Accounting Methods

E= Error term

α_1 = Constant,

$\beta_1, \beta_2 \dots \beta_5$ = Regression coefficients of Factor 1 to Factor 5 respectively

$$ROE = \alpha + \beta_1 AS + \beta_2 LOK + \beta_3 ROD + \beta_4 FS + \beta_5 AM + e \dots\dots\dots (ii)$$

Where,

ROE=Return On Equity

AS= Accounting System

LOK= Level of Knowledge

ROD= Record of Documents

FS= Financial Statement

AM= Accounting Methods

E= Error term

α_1 = Constant,

$\beta_1, \beta_2 \dots \beta_5$ = Regression coefficients of Factor 1 to Factor 5 respectively

3.4.7 Reliability test

In this study, the statistical program for social science, also known as SPSS, was used to identify the link between the factors that impact the accounting procedures that are utilized by small and medium firms in the Kathmandu area. The regression analysis that serves as the test of significance is anticipated to provide a coefficient of determination (R^2), as well as an analysis of variance, in addition to the pertinent t-test and p values. Inferential statistical methods were carried out at a level of significance

equal to five percent. The R^2 value that is being summarized is 0.38, while the combined value of the dependent and independent variables is 0.62.

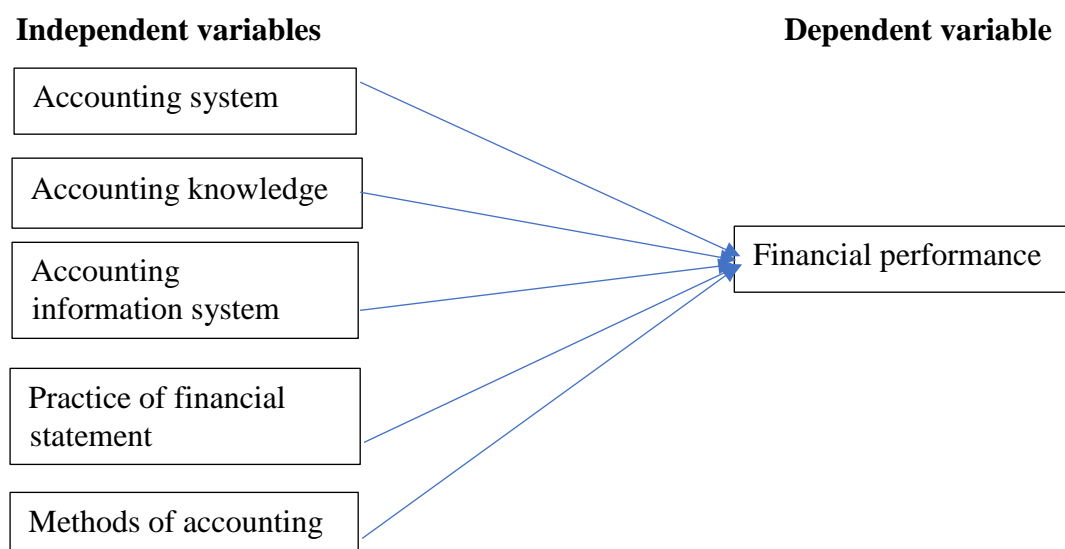
3.5 Research Framework and Definition of Variables

3.5.1 Research Framework

This section provides the conceptual framework of study and describes about variables that have been used in study and what study has assumed the relationship between the variables. The conceptual framework of this study includes return on assets, return on equity, earnings per share and net profit margin are use. The effect of mergers and acquisitions on financial performance of bank and financial institution of Nepal is shown by Figure 1.

Figure 1

Research Framework



(Sources:- Keasy & Short, 1990)

3.6.2 Definition of Variables

Financial Performance

In the context of enterprises, "Financial performance" refers to how well an organization is doing in terms of achieving the vision, purpose, and goals it has set for itself. The evaluation of the performance of the company is an essential component of strategic management. In order for executives to determine whether or not their companies require any revisions to their strategic plans, they need to know how well their organizations are functioning. However, performance is a highly complicated idea, and one must give a great deal of thought to the evaluation process in order to

get accurate results. In this study, the researcher would examine to see if there is a positive link between the organization's performance and accounting techniques, accounting systems, accounting knowledge, the recording of documents, the preparation of financial statements, and accounting procedures in general.

Accounting System

A collection of accounting processes that includes integrated procedures and controls is referred to as an accounting system. Recording corporate transactions, summarizing those transactions into an aggregated form, and producing reports that decision makers can use to monitor, evaluate, and improve operations are the primary goals of an accounting system. The purpose of this study is for the researcher to determine whether or not there is a favorable association between accounting system and the performance of a business.

Accounting Knowledge

For the purposes of planning, regulating, budgeting, and decision-making, an accountant ought to be familiar with the process of preparing financial statements and accounting reports. The balance sheet, the profit and loss statement, and the cash flows account are the three most important financial statements. All three of the financial statements that were shown above are connected to one another. The purpose of this study is for the researcher to determine whether or not there is a favorable association between accounting system and the performance of a business.

Accounting information system

System that collects, stores, processes, and reports financial and accounting data used by internal and external stakeholders to make informed business decisions. It integrates accounting principles, procedures, and controls with information technology to track financial transactions and provide reports for management and regulatory purposes. Putting a document into the official records of a county is what we mean when we talk about recording it. This is done most commonly in the context of real estate and property transactions since it creates a recordable chain of title. Documents that have been recorded do not establish who the owner of a property is. The purpose of this study is for the researchers to determine whether or not there is a beneficial association between record papers and the performance of organizations.

Practices of Financial Statement

The seventh and last phase in the accounting cycle is the preparation of financial statements. It is important to keep in mind that we need to compile the following four financial statements: In the final phase of the accounting cycle, financial statements are prepared, comprising an income statement, a statement of retained earnings, a balance sheet, and a statement of cash flows. These statements are crucial for assessing an organization's performance. The aim of this study was to investigate whether a positive correlation exists between the preparation of financial statements and organizational performance.

Methods of Accounting

Cash accounting and accrual accounting are the two primary approaches that are used in accounting. Cash accounting is a method of keeping financial records that tracks income and costs at the time they are received and paid. Revenues and costs are recorded using accrual accounting as soon as they are incurred. Accrual accounting is a prerequisite for compliance with generally accepted accounting standards (GAAP). The purpose of this study is to investigate whether or not there is a correlation between the techniques of accounting and the performance of organizations.

CHAPTER IV

RESULTS AND DISCUSSION

This chapter contains profiles of the respondents based on the companies that were chosen to represent small and medium size firms. These companies were selected based on the criteria described in the previous chapter. The following criteria are used to structure the questions that are presented to the respondents: the year the business began operations; the manufacturing activities of the selected companies; the number of individuals who are now employed by the firm; and the sales turnovers of the selected enterprises. As part of the descriptive and correlational analyses that were included in the second phase of the analysis, the viewpoints of the respondents were given in the table for the study variables. This was done as part of the second phase of the analysis. In order to achieve the objectives of the research, the findings of the survey and the SPSS analysis were analyzed, and then the conclusions were drawn from those findings.

During the course of this research, information on the accounting processes that are utilized by small and medium-sized firms in their day-to-day operations was acquired from representatives of those types of companies. Twenty people are taking part in the research being conducted here in total.

4.1 Result

4.1.1 Profile of Respondents

In the first section of the questionnaire, "Profile information about the respondents," respondents' personal details were recorded. Five questions were asked, and they included topics such as the length of time that the company had been in existence, the kinds of manufacturing activities that it engaged in, the number of employees it had, and the yearly sales turnover. This information is helpful for understanding the backgrounds of the respondents, and it also provides data that may be used for additional statistical research. The information for the 20 responding industries is laid out in Table 3 according to the number of years they have been in business. According to the findings, forty percent of the companies have been in operation for one to three years, which is the operating year majority. This is followed by those

who have been in the industry for between 3 and 5 years (20 percent), and between 5 and 10 years (5 percent) (15 percent). Ten percent of the responder companies have been in operation for between ten and fifteen years, and only fifteen percent of the companies appear to have been in business for more than fifteen years.

Table 3

Profile of Firms Based on Operation Yyears

Operation Years	Frequency	Percent
1-3 Years	8	40%
3-5 Years	4	20%
5-10 Years	3	15%
10-15 Years	2	10%
15 and above	3	15%
Total	20	100%

Source: Field Survey -2023

As a result, the great majority of the companies who responded are established enterprises, from which it is reasonable to anticipate that they make use of accounting methods and have constructed accounting systems that are appropriate for the requirements of their company. According to the table 3 the chart, the profile of businesses depending on their years of operation ranges from highly operation to 5-10 years and then remains the same after 15 years.

The distribution also indicates a gradual decline in the number of enterprises as the years of operation increase, with fewer SMEs having been in operation for 15 years or more. This may reflect challenges faced by SMEs in sustaining their operations over the long term, possibly due to factors such as market competition, financial constraints, or regulatory issues.

Table 4
Profile of Nature of the Industries

Nature of the Industries	Frequency			
	Small	Percent (%)	Medium	Percent (%)
Information Technology	2	20%	2	20%
Manufacturing	1	10%	2	20%
Service	4	40%	3	30%
Tourism	3	30%	3	30%
Total	10	100%	10	100%

Source: Field Survey -2023

Table 4 demonstrates that the majority of responding companies operate in the information technology industry, which accounts for twenty percent of the total (20 percent). In a similar vein, the small and medium industries in manufacturing account for 10 and 20 percent of the total, respectively, but the service and tourist sectors account for 40 and 30 percent, respectively, of the total. The responses to these questions came from the respondents.

The table suggests a diversified industry landscape in the Kathmandu district, with Service being the dominant sector in both small and medium-sized industries, followed by Tourism. Information Technology and Manufacturing sectors are relatively less prominent but still represent a notable portion of the industry composition.

Table 5
Profile of Industry Based on Sales Turnovers

Sales turnover	Frequency	Percent
Less than 10 lakhs	0	0%
10 to 15 lakhs	1	5%
15 to 20 lakhs	3	15%
20 to 30 lakhs	7	35%
30 lakhs and above	9	45%
Total	20	100%

Source: Field Survey -2023

According to Table 5, the information that was acquired on the yearly sales turnover of the respondents indicates that a significant portion of the respondents are employed

in major industries. A little less than 45 percent of the businesses that participated in the survey reported yearly revenues of Rs. 30 lakh or more. This is followed by yearly sales of between Rs.20 and Rs.30 lakhs (35 percent), and respondents with annual sales turnover of between Rs.15 and Rs.20 lakhs indicate they have a percentage of Rs.15 to Rs.20 lakhs. In a similar manner, those with incomes between 10 and 15 lakhs rupees accounted for 5 percent of respondents, whilst those with incomes of less than 10 lakhs rupees were not represented in any of the listed forms.

Table 6

Profile of Sex and Qualification

Sex			Qualification				Total
Male	Female	Total	Below SLC/SEE	10+2	Bachelor	Master & above	
16	4	20	1	9	7	3	20

Source: Field Survey -2023

The profile of the organization, as well as the qualifications of its owners, were listed in table 6. According to the data in the table, there are 16 males and 4 females working in the small and medium industry. One owner had to be below SLC to qualify, and nine had to be plus two. This requirement applied to both male and female owners. In the same vein, seven of them had bachelor's degrees, while three of them had master's degrees or higher.

According to figure 5, which indicated the gender of profile industry owners, there are 20 percent of male owners in the business, and there are 20 percent of female owners in the industry. It is possible to draw the conclusion that the majority of the people who responded were male. Which indicated the educational qualifications of the owners of profile industries, the majority of the owners had at least a plus two, which is equivalent to a 9. Similarly, those with a master's degree or higher or lower than an SLC 1 had a score of 3

4.1.2 Use of proper accounting system.

Table 7

Accounting System Used Level

Nature of the industries	Frequency			
	Small	Percent (%)	Medium	Percent (%)
Used Proper Accounting	4	40%	6	60%
Some Transaction	1	10%	2	20%
Not Used (Traditional)	5	50%	2	20%
Total	10	100%	10	100%

Source: Field Survey -2023

According to the data presented in table 7 on the utilization of accounting systems on the sample industry, only forty percent of the sample small industry effectively utilized accounting systems. Some transactions were recorded, while others ignored the 10 percent cited, and the same was true for 50 percent of the sample of small businesses that were not utilized for citations. It is therefore possible to draw the conclusion that the majority of the smaller businesses utilized the traditional technique of accounting. They do not employ a suitable double-entry accounting system in their business. In a manner comparable to that of the medium industry, the majority of the industry (that is, sixty percent) utilized an appropriate accounting system. Only twenty percent of businesses did not utilize any kind of accounting system. When compared to tiny industries, those that fall into the category of medium industries keep an accurate accounting system in place, complete with the provision of an accountant whose sole responsibility is to keep the firm's books.

4.1.3 Manpower in accounting

Table 8

Manpower in Accounting

Manpower in accounting	Small	Medium
Low skilled	58%	40%
Semi-skilled	42%	45%
High skilled	0	15%
Total	100%	100%

Source: Field Survey -2023

The small and medium industries are represented in the statistics, which show that the medium sector makes better use of its highly skilled workforce than the small industry does. The tiny industry relies heavily on low-skilled labor across all departments, including accounting. However, the medium sector has utilized both labor that is high trained and manpower that is semi-skilled in the business for accounting purposes.

4.1.4 Accounting Methods

It relates to the manner in which accounting systems were implemented and the manner in which they are kept up in terms of the methodologies following observations were made, which are as follows:

Table 9

Accounting Methods

Accounting Methods	Small	Medium
Manual	70%	55%
Computerized	15%	30%
Hybrid	15%	15%

Source: Field Survey -2023

The methodologies of research and accounting are contrasted between the medium and small businesses in the table that is above. According to the findings of the

research, manual accounting techniques account for 70% of small businesses, while computerized accounting methods account for 15%, and hybrid accounting methods account for 15%. 15 percent of the manual techniques, 55 percent computerized methods, and 30 percent hybrid methods were employed for accounting in the medium industry. According to this study's findings, medium-sized businesses have a little greater adoption rate of computerized accounting procedures than tiny businesses do.

4.1.5 Purpose of accounting

It all comes down to how people feel about the company's accounting policies and procedures. This will be helpful in determining whether companies are acknowledging the significance of the accounting system inside the corporation.

Table 10

Purpose of accounting

Purpose of accounting	Small	Medium
To determine income and expenditure	65%	90%
To fulfillment regulation	100%	100%
To calculate cost of approach	25%	52%
To IRD purpose only	100%	100%
Others	15%	30%

Source: Field Survey -2023

According to the findings of this study, table 10 demonstrates that the objective of accounting has been estimated to determine revenue and expenses for 65 percent of small businesses and 90 percent of medium-sized businesses. It is common knowledge that practically all of the available data has been utilized to assess the income and expenses of accounting in medium-sized businesses. Accounting has been employed by most small and medium-sized businesses for the sole purpose of fulfilling regulatory requirements and IRD purposes. The medium industry has a

higher average approach cost that is utilized to compute costs than the comparatively dominating small industry. This is for the purpose of accounting.

4.1.6 Types of accounting records kept by small and medium industry.

Table 11

Accounting Records Kept by Small and Medium Industry

Accounting records	Small	Medium
Voucher record	75%	85%
Journal	40%	80%
Voucher, Journal and trial balance	30%	50%
Voucher, Journal to Final Account	25%	10%

Source: Field Survey -2023

In this table, row 11, it is revealed that the medium industry has utilized voucher records, journals, and trial balances, whereas the tiny industry has only used voucher records and journals. Therefore, the medium sector has a greater percentage of supplementary trial balances and final accounts utilized for accounting purposes compared to the small business.

4.1.7 Audited financial statement

The Small and Medium business sector has obtained an audited financial statement from either an accountant or a CA, as conducted by an auditor. For the purpose of this study, information from an auditor that was used in the financial statement was obtained. There are fewer audit reports prepared for the small business than there are for the medium sector overall. The obligatory audit was first performed on the middle industry, and later on the small industry.

4.1.8 Descriptive Analysis

The Extent of the Use of Accounting Practices

The usage of accounting practices was assessed by querying individuals who confirmed their utilization of broadly categorized accounting methods. They were asked to rate the frequency of employing various detailed accounting techniques on a scale from one to five, where one denoted "strongly disagreed," two indicated "disagreed," three signified "neutral," four represented "agreed," and five stood for "strongly agreed."

Table 12

Total Marks Calculation of Accounting Practices for small industries

S. N	Should be maintain	N	Min	Max	Mean	Rank
1	Proper accounting system	10	1	5	4.2	1
2	Manpower in accounting	10	1	5	3.15	3
3	Accounting method	10	1	5	2.3	4
4	Purpose of accounting	10	1	5	3.85	2
5	Accounting records	10	1	5	1.5	5

Source: Field Survey -2023

The information on which small industries employ complete accounting methods may be found in table 12. According to the findings of the study, the objective of accounting received 3.85 points, while the importance of organizations properly maintaining their accounting systems received 4.2 points. In a similar vein, it is necessary to keep the manpower in accounting, the accounting procedure, and the accounting records in order to acquire the mean point values of 3.15, 2.3, and 1.5 respectively. As a result, one may draw the conclusion that small-scale businesses ought to have the appropriate accounting system and make full use of its capabilities in their accounting procedures.

Table 13

Total Marks Calculation of Accounting Practices for Medium Industries

S. N	Should be maintain	N	Min	Max	Mean	Rank
1	Proper accounting system	10	1	5	4.3	1
2	Manpower in accounting	10	1	5	3.05	3
3	Accounting method	10	1	5	2.1	4
4	Purpose of accounting	10	1	5	3.96	2
5	Accounting records	10	1	5	1.2	5

Source: Field Survey -2023

The table evaluates five aspects: proper accounting system, manpower in accounting, accounting method, purpose of accounting, and accounting records. Each aspect was assessed by 10 respondents (N), with ratings ranging from a minimum of 1 to a maximum of 5. The mean scores reveal the overall importance and performance of each practice. The proper accounting system scored the highest mean (4.3) and was ranked first, indicating it is the most crucial aspect. The purpose of accounting followed with a mean of 3.96, ranked second. Manpower in accounting was ranked third with a mean of 3.05. The accounting method had a mean of 2.1 and was ranked fourth, while accounting records had the lowest mean of 1.2, ranked fifth. These results suggest that while proper accounting systems and clear purposes are well-maintained, there is a need for improvement in accounting records and methods.

4.1.9 Performance evaluation of small and medium organization

Return on Assets (ROA)

Return on assets, often known as ROA, is a financial ratio that indicates the proportion of a company's total resources that corresponds to the amount of profit it generates. The most popular way to describe it is as the amount of net income expressed as a percentage of total assets. The profit that remains after all applicable taxes is referred to as the company's net income, which may be found on the company's income statement. The corresponding formula is shown below.

Return on equity (ROE)

Return on equity is a measure of the profitability of a company in proportion to the equity; it is also known as net assets or assets minus liability. In other words, return on equity is a measure of how profitable a company is. The return on equity (ROE) is a metric that indicates how efficiently a firm utilizes its capital to increase its earnings. ROE, or return on equity, is a measure of a company's financial performance that is determined by dividing net income by shareholders equity. The return on equity is computed as a percentage and may be determined for any corporation provided that its net income and its equity both have positive values. The formula that expresses it may be seen below.

Table 14

ROA and ROE of Small Organizations

S. N	Name	ROA	ROE
1	Index Furniture Nepal Private Limited	1.98	2.25
2	Sunrise Furniture Showroom Private Limited	2.82	2.98
3	Pigeon Travel & Tours Private Limited	2.75	2.82
4	Gorkha International Travels & Treks	2.1	2.25
5	Ellipse Institute of Information Technology	1.9	1.89
6	Vision Institute & Computer Training Center	2.11	2.31
7	Hotel Sara's Backpackers Private Limited	3.21	3.01
8	Star Jon Hotel Private Limited	2.91	3.23
9	Hotel Siddhivinayak Private Limited	2.89	3.11
10	Allied Hotel Private Limited	2.45	2.55
Total		25.12	26.40
Average		2.51	2.64

Source: Field Survey -2023

Table 15
ROA and ROE of Medium Organizations

S. N	Name	ROA	ROE
1	Furniture Land Store Private Limited	2.47	2.78
2	Index Furniture Nepal Private Limited	2.22	2.86
3	Nepal Pavilion Inn Private Limited	2.12	2.46
4	Nepal Cottage Resort Private Limited	1.99	2.23
5	Beautiful Kathmandu Hotel Private Limited	2.18	2.29
6	LABA IT Training Institute Nepal	1.96	1.99
7	NIIT Kathmandu Computer Learning Center	2.78	2.96
8	Seven Star International	2.45	2.85
9	Attractive Travels and Tours Pvt. Ltd.	2.63	2.08
10	Nepal Holiday Makers Tours and Travels	2.74	2.91
Total		23.54	25.41
Average		2.35	2.54

Source: Field Survey -2023

Table 15 presents the Return on Assets (ROA) and Return on Equity (ROE) for ten medium-sized organizations in various sectors, such as furniture, hospitality, IT training, and travel services. ROA measures a company's profitability relative to its total assets, while ROE assesses profitability relative to shareholders' equity. For instance, NIIT Kathmandu Computer Learning Center has the highest ROA and ROE at 2.78 and 2.96, respectively, indicating efficient asset and equity utilization. In contrast, LABA IT Training Institute Nepal shows the lowest figures, suggesting potential inefficiencies. The total ROA of 23.54 and ROE of 25.41, with averages of 2.35 and 2.54, respectively, suggest that, on average, these organizations are performing moderately well in generating profits from their assets and equity. Overall, while some companies excel in profitability metrics, others may need to optimize their operations to achieve similar financial performance levels.

Table 16
Correlation Analysis

	Accounting System	Level of accounting knowledge	Records of document	Practices of financial statement	Accounting Methods	Organization performance
Accounting System	1					
Level of accounting knowledge	0.89**	1				
Records of document	0.67**	0.86**	1			
Practices of financial statement	0.78**	0.56**	0.38	1		
Accounting Methods	0.81**	0.73**	0.51	0.62**	1	
Organization performance	0.93**	0.94**	0.79**	0.84**	0.57**	1

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

Sample size (n) = 20

According to table 16, the correlation between organization performance and accounting system is a positive, strong, and linear relationship with a significant statistical correlation ($r = .93$, $p < 0.01$). On the other hand, the correlation between organization performance and level of accounting knowledge is a positive, strong, and linear relationship with a significant statistical correlation ($r = 0.94$, $p < 0.01$). Although there is a positive and linear link between organization performance and record of document, statistically speaking, this relationship is not significant ($r = .79$, $p > 0.01$); yet, there is a positive and linear association between the two. While there is a positive, strong, and linear relationship with a significant statistical correlation between organization performance and financial statements ($r = 0.84$, $p < 0.01$), and there is a positive, strong, and linear relationship with a significant statistical

correlation between organization performance and accounting methods ($r = 0.57$), the relationship between organization performance and accounting methods does not meet these criteria. Because the dependent variable and the independent factors were shown to have a direct positive connection, this indicates that the performance of the organization is dependent on the independent variables. It can be seen in table 15 that there is a positive correlation between all of the research variables.

Table 17

Impact of Accounting Practice of SMEs Explained (Model Summary)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.624 ^a	0.389	0.380	0.19762

a. Predictors: (Constant), accounting system, level of accounting knowledge, record document, financial statement & accounting method.

In this model summary, the overall fit of the regression model is evaluated. The R Square value of 0.389 indicates that approximately 38.9% of the variance in the dependent variable (Impact of Accounting Practice of SMEs Explained) is explained by the independent variables included in the model. The Adjusted R Square value of 0.380 is similar to R Square but adjusts for the number of predictors in the model, providing a more accurate reflection of the model's explanatory power. The Std. Error of the Estimate (0.19762) represents the average difference between the actual values and the predicted values by the model, indicating the accuracy of the model's predictions. The R value of 0.624 indicates a moderate positive correlation between the independent and dependent variables. Overall, the model suggests that the selected predictors (accounting system, level of accounting knowledge, record document, financial statement, and accounting method) collectively have a moderate explanatory power on the impact of accounting practices in SMEs. However, further analysis and consideration of other factors may be necessary to make a final decision or draw concrete conclusions.

Table 18
ANOVA Analysis

Model	Sum of Squares	D. f.	Mean Square	F	Sig.
Regression	4.975	3	1.658	42.462	.000 ^b
Residual	7.811	200	0.039		
Total	12.786	203			

- a. Dependent Variable: organization performance
- b. Predictors: (Constant), accounting system, level of accounting knowledge, record document, financial statement & accounting method.

Source: Research finding (2023)

Table 18, the ANOVA analysis is presented, providing key statistics for evaluating the effectiveness of the model in explaining the variance in organizational performance. The "Model" section presents the sum of squares, degrees of freedom (D. f.), mean square, F-value, and significance (Sig.). The sum of squares measures the total variability explained by the model, with the regression and residual sums indicating the portion explained by predictors and the unexplained portion, respectively. Degrees of freedom represent the number of independent pieces of information available for estimating a parameter, while mean square is the sum of squares divided by its corresponding degrees of freedom. The F-value tests the overall significance of the model, indicating whether the regression model fits the data significantly better than a model with no predictors. The significance (Sig.) value indicates the probability of obtaining the observed F-value if the null hypothesis (no effect of predictors) were true. In this case, the low p-value (less than 0.05) suggests that the model significantly predicts organizational performance, and thus, it is likely that at least one of the predictors (accounting system, level of accounting knowledge, record document, financial statement, and accounting method) has a significant effect on organizational performance. Therefore, it can be concluded that these accounting-

related factors collectively influence organizational performance, implying that attention to these factors could be pivotal in enhancing organizational effectiveness.

Table 19

Regression Result for Independent Effect of accounting system, Level of accounting knowledge, record of document, Practices of financial statement, and accounting method (Coefficients)

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	1.89	0.24	-	7.27	-
Accounting system	0.54	0.06	0.51	9.40	0.00
Level of accounting knowledge	0.27	0.05	0.51	6.18	-
Record of document	(0.19)	0.05	(0.30)	(3.60)	0.00
Prepare of financial statement	0.37	0.06	0.72	7.25	0.01
Accounting method	0.62	0.03	0.45	6.34	-

a. Dependent Variable: Organization performance

Source: Research finding (2023)

The table presents the regression results assessing the independent effects of various factors on organizational performance, with the dependent variable being "Organization performance." The "Model" section indicates the model's statistics. "Unstandardized Coefficients" shows the raw coefficients for each independent variable, while "Standardized Coefficients" displays the coefficients adjusted for the scale of measurement. "T" represents the t-statistic, measuring the significance of each coefficient, and "Sig." denotes the significance level. The "Constant" indicates the intercept of the regression equation. Accounting system, level of accounting knowledge, record of documents, preparation of financial statements, and accounting method are all independent variables tested. Notably, the accounting system, level of accounting knowledge, and preparation of financial statements show significant positive relationships with organizational performance, as indicated by their high t-values and significant levels. However, the record of documents variable seems to have a smaller impact, as it has a lower t-value despite being significant. The

coefficients for the accounting method are positive but do not reach statistical significance. Therefore, it seems that factors like the accounting system, level of accounting knowledge, and preparation of financial statements play crucial roles in determining organizational performance, while the impact of record-keeping practices and accounting methods might be less significant.

4.2 Discussion

Based on the research findings, accounting procedures not only contribute to efficient and effective company administration but also have the potential to enhance overall performance. They enable companies to compete effectively and reduce the risk of failure. In Nepal, there is a need to increase small business owners' knowledge of accounting practices to capitalize on these benefits. The lack of research into accounting practices that enhance organizational performance could lead to failures, as accounting knowledge is not typically included in management training for professional development. Therefore, senior management could benefit from increased education on accounting practices.

In their study on the impact of accounting practices on the financial performance of small and medium-sized manufacturing enterprises (SMEs) in Nepal, several key insights were identified. The majority of companies (40%) had been in operation for 1-3 years, with the Information Technology sector being the most dominant (20%). It was found that 40% of small enterprises and 60% of medium enterprises utilized proper accounting systems. Small industries predominantly relied on low-skilled labor (58%) and manual accounting systems (70%), while medium industries relied more on high-skilled labor (15%) and computerized accounting systems (55%). Both small and medium industries used accounting for compliance and tracking income and expenses, though medium industries placed more emphasis on accounting for the cost of goods sold. Medium industries were more likely to maintain detailed financial records such as trial balances and final accounts and have audited financial statements. Small industries showed higher average Return on Assets (ROA) and Return on Equity (ROE) compared to medium industries. A strong positive correlation was found between organizational performance and factors such as accounting system, level of accounting knowledge, record-keeping practices,

preparation of financial statements, and accounting methods. The regression analysis indicated that these factors significantly influenced organizational performance, explaining approximately 38% of the variance.

Supporting literature reinforced these findings, Zhou (2010) identified that the volume of accounting procedures in SMEs was influenced by the firm's size, age, and industrial grouping. Ismail and King (2007) suggested that SME owner-managers should use accounting software to improve accounting practices and noted a gap in the market for medium-sized accounting software suitable for SMEs. Walhlstedt (1996) argued that traditional accounting reports play a crucial role in SMEs but need modifications for better understanding. McMahon (1999) observed that SMEs' financial reporting often falls short of external reporting requirements, and SME owner-managers were reluctant to produce financial reports that could be scrutinized by external parties. Ghimire (2010) revealed diverse management accounting practices in Nepalese industrial enterprises. Kamyabi and Devi (2011) emphasized the positive impact of external advisory services on SME performance. Rathnasiri (2014) studied Sri Lankan SMEs and recommended improved financial information access and education for SME managers. Ahamad (2014) investigated management accounting practices in Libyan manufacturing enterprises, noting a low adoption rate for advanced tools. Kushwaha (2015) found that Nepalese insurance companies primarily used cash flow and short-term planning. Kamilah (2017) confirmed a significant correlation between accounting practices and SME performance. These studies collectively highlight the critical role of robust accounting practices in enhancing SME performance, the challenges SMEs face in adopting advanced accounting systems, and the need for increased accounting knowledge among SME owners and managers.

CHAPTER-V

SUMMARY AND CONCLUSION

5.1 Summary

This chapter summarizes the findings of the study regarding the research questions addressed. It begins by restating the research problem and questions, followed by the presentation of results for each question. Additionally, the chapter discusses the limitations of the research and suggests several areas for further investigation. The significance of small and medium-sized enterprises (SMEs) in the Nepalese economy cannot be overstated. SMEs contribute significantly to job creation and economic growth in Nepal. Moreover, they have played a crucial role in helping Nepal achieve sustainable economic development. The primary focus of the study was to examine the accounting practices of manufacturing SMEs in Nepal. Questionnaires were distributed to managers, owners, and accounting officers of SMEs, and the returned questionnaires were used for data analysis. Upon observation and analysis of the collected data, the results indicated that the majority of enterprises relied on manual accounting systems. The field survey findings revealed that most SMEs internally prepared their financial accounting statements with assistance from accounting experts.

The study also found that tax assessment and evaluating business performance were the primary factors motivating the maintenance of accounting information. On the other hand, controlling overhead costs, making capital budgeting decisions, and pricing decisions were seen as less motivating factors. It was discovered that traditional financial statements such as profit and loss statements and cash flow statements were perceived as crucial in accounting. Additionally, traditional accounting indicators were widely used and considered the most useful for measuring performance. This research contributes to our understanding of accounting practices in manufacturing SMEs in Nepal. In the future, these findings could be compared and applied to further research on accounting practices in SMEs across different industrial districts in Nepal and in other countries. Among the various sectors where SMEs operate, the manufacturing sector is the most significant contributor to Nepal's GDP and exports, while the service and agriculture sectors are the main sources of

employment. Overall, it can be concluded that the manufacturing sector plays a vital role in the development of SMEs, with significant assistance from the Nepalese government being a key factor in their growth.

Financial help as well as training in technical areas of business, marketing and management skills is among the support from the government for this industry. The rise of this industry has been effectively fueled by the policies and assistance outlined in this article. Research has demonstrated that accounting processes play a function in ensuring that the management of a business is efficient and effective and may also increase performance. Accounting methods also assist organizations to compete in the market environment and lower the probability of business failure. Given these advantages from accounting practice usage, it is vital to develop understanding and awareness of accounting practices among small business in Nepal.

The study shows that although both Nepalese small and medium sized enterprises make considerable use of traditional accounting techniques, they only selectively adopt contemporary accounting practices. More than 80 percent of small and medium sized enterprises in Nepal have indicated that they have hired qualified or part-qualified accounting staff in their firms. This adoption of accounting practices by Nepalese SMEs may be largely attributed to the widespread employment of qualified accounting staff. Additionally, a significant uptake of traditional accounting practices by Nepalese SMEs may be attributed to the fact that information on these measures is more readily available. This is in contrast to modern accounting techniques, which may be perceived as having a higher degree of uncertainty, being less practical, and being more expensive.

The results show that operating year majority of the firms (40%) has been in business for 1-3 years. Similarly, manufacturing small and medium industry are 10% and 20%, service and tourism are 40% and 30% small, and medium 30% and 30% of that is answers by the respondents. the concentration of respondents in larger industry is also indicated by the information gathered on the annual sales turnover of the respondents almost 45% of the responding industry reported annual sales from Rs.30 lakh and above. As per the table male 16 and Female 4 are operating in the small and medium industry. only 40% of the sample small industry used accounting system properly. So,

it can be concluded that most of the small industries used traditional method of accounting. With the comparison to small industry to medium, medium industry maintains proper accounting system with proper provision of dedicated accountant for maintaining accounting of the firm. The research finds out the manual 70%, computerized 15% and hybrid 15% in has used accounting methods in small industry. In this research has found the slightly higher uses computerized accounting methods in medium industry than small industry. The purpose of accounting has calculated to determine income and expenditure 65% in small and 90% in medium industry. From the above table and chart have shown the perfectly utilization of accounting tools and technique in medium organization.

5.2 Conclusions

In this study, it was discovered that medium-sized industries used accounting practices more extensively than small industries. The research found a strong, positive, and linear relationship between organizational performance (dependent variable) and the accounting system (independent variable), with a significant statistical correlation ($r = .93$, $p < 0.01$). Similarly, there was a strong positive relationship between organizational performance and the level of accounting knowledge, also with a significant statistical correlation ($r = 0.94$, $p < 0.01$). However, the relationship between organizational performance and record-keeping practices was positive and linear but not statistically significant ($r = .79$, $p > 0.01$). On the other hand, the relationship between organizational performance and the use of financial statements showed a strong, positive, and linear relationship with a significant statistical correlation ($r = 0.84$, $p < 0.01$). Furthermore, the relationship between organizational performance and the application of accounting methods was positive, strong, and linear with a significant statistical correlation ($r = 0.57$). These findings suggest that organizational performance is affected by the independent variables, indicating a direct positive relationship between them.

The regression model summary provides key metrics such as R-squared, adjusted R-squared, and the standard error of the estimate. For instance, in Table 4.20, it is evident that the R-squared value for model 3 is 0.389, indicating that approximately 38% of the variance in organizational performance is explained by the three independent variables. The adjusted R-squared value further supports this, showing

that a 1% change in the independent variables explains 38% of the variance in organizational performance. Specifically, the accounting system, level of accounting knowledge, record documentation, and financial statement analysis method collectively predict a constant organizational performance of 1.89 for small and medium-sized enterprises (SMEs). Moreover, the factors of 0.54 for the accounting system, 0.27 for the level of accounting knowledge, and -0.19 for record documentation indicate their respective impacts on SMEs' organizational performance.

The study found a positive relationship between organizational performance and the first two independent variables (accounting system and level of accounting knowledge). Conversely, there was a negative relationship with record documents. The study also revealed that the p-value for accounting system, level of accounting knowledge, record document, financial statement, and accounting method was less than 5%, indicating that these three independent variables had a statistically significant influence on organizational performance at a 95% confidence level. Therefore, this suggests that accounting system, level of accounting knowledge, record document, financial statement, and accounting method significantly influence organizational performance.

5.3 Implications

This study examined how small and medium-sized businesses (SMEs) used accounting procedures. While existing literature has evaluated accounting methods, the focus has mostly been on larger enterprises. There was a gap in research specifically exploring accounting practices in SMEs, especially in developing nations. This research aimed to fill this gap by providing insights into accounting methods in SMEs in a developing nation. It contributed by documenting the adoption of accounting practices among SMEs, discussing the roles of accounting practices in SME management, investigating factors affecting their use, and analyzing their impact on SME performance.

This study aimed to enhance the understanding of recent developments in accounting practices within small and medium-sized enterprises (SMEs), particularly in developing countries. It contributed new empirical evidence to the existing knowledge on accounting practices and addressed the need for research in this area for small

businesses. The primary goal was to fill the research gap in this field. The findings of this study have resulted in the following set of recommendations.

- Management employed accounting tools and techniques for the accounting system, knowledge, records, financial statements, and accounting methods. Various methods including cost accounting, financial accounting, management accounting, accrual-based accounting, and hybrid accounting were suggested.
- A distinct accounting department was created by management to implement these strategies. Those unable to establish a separate department handled it under accounting, finance, or planning.
- Nepalese SMEs prepared profit-and-loss accounts, balance sheets, and trial balances.
- Many sectors posed hurdles for the implementation of accounting tools and techniques due to conventional methods, lack of information about tools, business nature and size, high costs, and lengthy procedures. Therefore, they needed to be updated with global best-practice tools and practices. To enhance decision-making efficacy, unnecessary formalities were eliminated.
- SMEs maintained appropriate departmental and staff coordination. Employees received effective motivation and opportunities for career progression.

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ABSTRACT Management-oriented accounting defines accounting practices in relation to management functions. Rapid changes in the corporate environment have significantly altered organizational accounting processes, shifting from administrative to strategic levels. Accounting's main goal has always been to improve a company's performance by providing valuable information for strategic planning, operational management, and decision-making. The researchers selected participants for the study based on their judgment, including 20 small to medium-sized businesses in Nepal's financial sector. The study examined cost accounting, financial accounting, and management accounting techniques, along with the main challenges of applying management accounting tools in SMEs within Nepal's financial sector. It also investigated various accounting methods and the impact of the accounting system on the overall performance of the sample firms. Descriptive statistics were used to analyze primary data collected through structured questionnaires, along with basic percentage calculations, correlations, and t-tests. The findings revealed that annual budgeting and forecasting were the most commonly used methods among small and medium-sized financial businesses in Nepal. The study concluded that accounting systems significantly influence a business's success. It noted that traditional accounting techniques persist due to a lack of practice, coordination issues between employees and departments, the nature and size of the business, and corporate governance policies. The study suggested that businesses establish separate accounting departments to implement the beneficial accounting tools and methods identified. It also recommended that academics with a deep understanding of accounting practices develop and promote environmentally friendly tools and techniques. Keywords: Accounting, practices, small sized, manufacturing, business, size. CHAPTER-I INTRODUCTION 1.1 Background of the Study After experiencing a meager growth rate of 0.01 percent in the fiscal year 2016, the Nepalese economy was expected to have grown by 6.9 percent in the fiscal year 2017. This increase was attributed to several factors, including the