

Management Accounting Practices in Cooperatives in Nepal

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ABSTRACT

The present research was carried out on management accounting practices in cooperatives in Narayangarh city with the aim to examine the practices of management accounting in cooperatives. The study is based on mainly primary data which were gathered through direct interview, questionnaires and focus group discussion. Only eight cooperatives were chosen as sample for the research study using judgmental method. The research was analyzed with inferential analysis includes simple percentage and chi-square test. The research found out the practice of management accounting like capital budgeting, ratio analysis, activity based budgeting and break-even analysis are mostly used in cooperatives. Likewise, segregation of cost, cash flow statement analysis, and zero based budgeting, pricing decision and responsibility accountings are the least in practice in Nepalese cooperatives. The cause of non-practicing standard costing is not applicable for service industry like financial sector. In Nepalese cooperatives, hiring the expert from outside for carrying different managerial activities are almost nil. It is concluded that Nepalese Cooperatives in initial state with respect to the application of modern managerial accounting tools and yet they are trying to adopt such tools and techniques more and more to cope with the future expected opportunities and challenges to face due to the globalization effect.

Introduction

The process of collecting, recording, classifying and summarizing financial transactions of a business in such a manner that the result of its operation and financial position can be ascertained at the end of a given period and communicates them to various users is simple refers to accounting (Miller-Nobles, Matison, and Matsumura, 2016).

Management accounting is an important branch of accounting which produces information for the managers within an organization for managerial decision making. It is the process of identifying, measuring, accumulating, analyzing, preparing, interpreting and communicating information that help managers to fulfill the goals and objectives of the organization. Therefore, the primary role of management accounting

in an organization is to provide a financial analysis of management decision and activity that helps to prepare the reports to be used by organization internally such as top-level managers, divisional managers, strategists, and consultants.

A study by Mayr et al. (2021) provided how management accounting could be used to prevent the poor performance of Small and Medium Enterprises. Similarly, Khalid and Kot (2021) also found that management accounting is associated with the success of business and vice versa and can influence organizational performance. Likewise, Dahal et al. (2020) studied the IT and management accounting effect on SMEs and found that management accounting services such as performance analysis, CVP analysis, budgeting, stock control, standard costing can be effective and have an effect on performance when SMEs employ the service of information technology.

Despite of these differences, most of the organization uses general purpose accounting system which means most of the needs of both types of users. As managers we need to be careful to use the right information from the accounting system for the decision and that information must be differ from external users.

Although, the business of Nepal before some decade was in growing stage. Now, it is becoming more complex because of competitions. For the smooth running of financial sectors and to make the financial sector successful, good management is the only one option. Hence, the performance of well managed organization is high as compared with the organizations which have poor management. Management accounting is the term which is used to describe the accounting method, systems and techniques that coupled with special knowledge and ability. Management accounting consists of management in maximizing profit, sales and wealth of the owners.

Purpose of the Research

The main aim of this research was to examine and study the practice of management accounting tools in the cooperatives in Nepal.

Conceptual Framework

The services of management accounting are an essential routine that aims at supporting an organization or managers of an organization in decision making and organizational performance and accountability (Gomez-Conde et al., 2019). It enables managers in their planning and operational decision making process (Ghasemi et al., 2019). Management accounting establishes a fundamental structure where the economic events of the organizations are measured and presented to organizational members responsible for making various organizational decision-making process (Alsharari, 2019).

Similarly, Alvarez et al. (2021) investigated the impact of management accounting practices system on the performance of the user and non-user organizations using non-parametric research approach. The finding shows that most management accounting systems have positive effect and significant association with hotel business performance.

Likewise, Ruiz and Collazzo (2020) revealed that despite their importance, micro and small businesses are arguably understudied because it is considered that they do not adopt management accounting system or that if they do, it is in a very rudimentary manner. On the other hand, micro and small businesses are essential to examine the various reasons. Among them are its economic importance and the ability to track the progress of these practices in businesses from their earliest stages. However, to their knowledge, no investigation has been conducted into how the management accounting tools are used in these businesses. To fill this gap, in this research, an exploratory investigation of how micro and small businesses apply management accounting methods was conducted using a qualitative approach.

From the reviews above, it is clear that management accounting presents processed information collected from internal and external sources to the management so that they can more effectively plan, make decisions and control operations as and when necessary.

Methods

Research design is the overall conceptual structure within which research is organized. It provides the blueprint for the collection, measurement and qualities of data. As per the nature of the study, survey research design was followed with descriptive and analytical approach.

Nature of the Data

This study was based on the primary sources of data. But this study mainly focused on the primary data which was collected through direct interview, questionnaires and focus group discussion. And secondary data were also used as per required.

Sample Selection

There are altogether 28 cooperatives in Narayangarh City, they were considered as the total population. Out of them, eight cooperatives were chosen as sample for the research study using judgmental method. The sample was selected from Narayangarh city using judgmental sampling method.

Process of Data Collection

Since the research was based on primary data. Required data were collected developing a structured questionnaire. Structured questionnaires were to managers, chief accountants, and finance chief that were available. To get more reliable information, discussions were also conducted with managers, chief accountants and finance chief.

Data Processing and Data Analysis

Data are the raw facts which are unprocessed which are to be processed. When data are processed it becomes information or knowledge (Adhikari, 2010). The collected data from questionnaire were in raw form. First of all, collected data were classified and tabulated in a required form. Simple arithmetical percentage and chi-square test are used for analysis because inferential statistics are defined as statistics that help to establish relationship among variables, from which conclusion can be drawn.

Mathematically formula are as follows:

$$\text{Mean } (\bar{X}) = \frac{\sum x}{N} \qquad \chi^2 = \sum \frac{(O - E)^2}{E}$$

Major Management Accounting Tools

Management accounting tools are cost classification and cost allocation, measurement of income, cost-volume-profit analysis, flexible budgeting, standard costing, decision making, pricing decision, capital budgeting decision, master budgeting, measurement of organizational performance, zero based budgeting and responsibility accounting.

Results and Discussion

Questionnaires were distributed to eight cooperatives in Narayangarh City, Chitwan. Besides this, discussion was made with senior manager, chief accounts and finance chief in the cooperatives. They took it positively. First of all, raw data were properly processed, tabulated and analyzed. They were presented in fifteen tables. The tables were developed on the basis of asked questions. The open ended questions were arranged in a descriptive manner. The data collected through direct discussion were also included in this chapter. Hypothesis is tested with chi-square statistical tools.

Table 1

Practicing of Management Accounting Tools in Cooperatives in Nepal

S.N.	Tools	No. of population	Sample drawn	No. of practitioner	Percent (%)
1	Cost classification	28	8	5	62.5
2	CVP analysis	28	8	4	50
3	Budgeting	28	8	8	100
4	Standard costing	28	8	0	0
5	Pricing decision	28	8	7	87.5
6	Measuring org. performance	28	8	4	50
7	Zero base budgeting	28	8	2	25
8	Responsibility accounting	28	8	2	25
9	Other	28	8	0	0

Source: Field Survey, 2022.

The above table 1 shows the practice of management accounting tools in cooperatives in Nepal. Practicing of budgeting, ratio analysis and cash flow analysis were common in every bank where as zero bases budgeting, responsibility accounting and standard costing are 25%, 25% and 0% respectively. And cost classification 62.5%, CVP analysis 50%, pricing decision 87.5% and budgeting 100% are practiced by cooperatives. It can be concluded that most of tools are implemented.

Table 2 :

Base for not Practicing any Management Accounting Tools in Cooperatives in Nepal

S.N.	Reasons	No. of population	Sample drawn	No. of practitioner	Percent (%)
1	Lack of experience	28	8	0	0
2	High cost	28	8	2	25
3	No information about tools	28	8	0	0
4	Other	28	8	3	37.5

Source: Field Survey, 2022.

The above table 2 shows reasons for not practicing management accounting tools in the banks. All cooperatives do not want to mention the reason but give the reasons that management accounting tools are only applicable in manufacturing concern not in financial sectors.

Table 3 :

Segregation of Mixed Cost into Variable and Fixed in Cooperatives in Nepal

S.N.	Methods	No. of population	Sample drawn	No. of practitioner	Percent (%)
1	High-low method	28	8	0	0
2	Least square method	28	8	0	0
3	Analysis method	28	8	4	50
4	Other	28	8	4	50

Source: Field survey, 2022.

Table 3 clearly presents that 50% practice the analysis method for the segregation of mixed cost into fixed and variable cost. It can be concluded that most of cooperatives are using analysis method.

Table 4 :*Types of Decision Making Practice in Cooperatives in Nepal*

S. N.	Decision making	No. of population	Sample drawn	No. of practitioner	Percent (%)
1	Make or buy decision	28	8	5	62.5
2	Lease or cash purchase decision	28	8	4	50
3	Drop or continue a product line dis.	28	8	8	100
4	Accept or reject offer decision	28	8	0	0
5	Other	28	8	7	87.5

Source: Field Survey, 2022.

Table 4 shows the scenario of decision making in cooperatives. 62.5% banks followed the make or buy decision, 50% are lease or cash purchase decision, 100% are drop or continue a product line decision, 0% are accept or reject offer decision and 87.5% are other respectively. It can be concluded that most of cooperatives used drop or continue a product line decision and other for decision making.

Table 5 :*Pricing Service Practices in Cooperatives in Nepal*

S.N.	Techniques	No. of population	Sample drawn	No. of practitioner	Percent (%)
1	Market based pricing	28	8	4	50
2	Cost based pricing	28	8	5	62.5
3	Target return based pricing	28	8	2	25
4	Negotiation	28	8	4	50
5	Other	28	8	0	0

Source: Field Survey, 2022.

From above table 5 shows that practice of transfer pricing market based and negotiable both techniques are followed 50% and cost based 62.5% and target return based 25% practiced by cooperatives in Nepal. It can be concluded that most of cooperatives are using cost based pricing.

Table 6 :
Types of Budget Practice in Cooperatives in Nepal.

S.N.	Types of budget	No. of population	Sample drawn	No. of practitioner	Percent (%)
1	Overall master budget	28	8	5	62.5
2	Cash budget only	28	8	2	25
3	Operational budget only	28	8	2	25
4	Other	28	8	0	0

Source: Field Survey, 2022.

Table 6 reveals that the types of budget in cooperatives. It is obvious that 62.5% overall master budget, 25% cash budget and 25% operational budget to carry out their operational activities. It can be concluded that most of cooperatives are using overall master budget.

Table 7 :
Budget Preparation System in Cooperatives in Nepal

S.N.	Departments	No. of population	Sample drawn	No. of practitioner	Percent (%)
1	Committee	28	8	2	25
2	Planning department	28	8	4	50
3	Financial department	28	8	5	62.5
4	Outside experts	28	8	0	0
5	Other	28	8	2	25

Source: Field Survey, 2022.

The table 7 presents the budget preparation system in the cooperatives. From the table it is cleared that 25% by committee, 50% by planning department. 62.5% by financial department used to prepare budget. It can be concluded that budget are prepared by financial department of cooperatives.

Table 8 :*Cost and Revenue Estimation Practices in Cooperatives in Nepal*

S.N.	Techniques	No. of population	Sample drawn	No. of practitioner	Percent (%)
1	Zero based analysis	28	8	2	25
2	Past trend analysis	28	8	7	87.5
3	Engineering analysis	28	8	0	0
4	Market survey	28	8	3	37.5
5	Other	28	8	0	0

Source: Field Survey, 2022.

The above table 8 shows that the 25% practiced by zero based analysis, 87.5% by post trend analysis, and 37.5% by market survey to prepare budget and due to lack of expertise and willing to pay expenses engineering analysis technique were not used.

Table 9 :*Practice of Risk Adjustment while Evaluation of Control Investment in Cooperatives in Nepal*

S.N.	Tools	No. of population	Sample drawn	No. of practitioner	Percent (%)
1	Higher IRR	28	8	3	37.5
2	Sensitivity analysis	28	8	4	50
3	Estimate probability of future cash flow	28	8	4	50
4	Other	28	8		25

Source: Field Survey, 2022.

The above table 9 shows risk adjustment practice used while evaluation capital investment in cooperatives. It shows that 37.5% banks use IRR, 50% both sensitivity and estimate probability of future cash flow technique to adjust risk while evaluating capital investment.

Table 10 :*Management Accounting System Plays Role in Employees' Satisfaction?*

S.N.	Answers	No. of population	Sample drawn	No. of practitioner	Percent (%)
1	Yes	28	8	2	25
2	No	28	8	4	50
3	Other	28	8	3	37.5

Source: Field Survey, 2022.

Table 10 presents the management accounting system plays role in employees' satisfaction. It is showed that only 25% cooperatives agree to have effect of management accounting system in employees' satisfaction.

Table 11 :

Tools used for Evaluation of Performance of Cooperatives in Nepal.

S.N.	Tools	No. of population	Sample drawn	No. of practitioner	Percent (%)
1	Ratio analysis	28	8	8	100
2	Return on investment	28	8	7	87.5
3	Residual income	28	8	2	25
4	Cash flow statement analysis	28	8	4	50
5	Other	28	8	2	25

Source: Field Survey, 2022.

The table 11 reveals that the evaluation of performance of cooperatives. Most of cooperatives follow ratio analysis and return on investment to evaluation of performance. Residual income and cash flow statement analysis are used 25% and 50% respectively to evaluate the performance of cooperatives in Nepal.

Table 12 :

Potential Benefits of Management Accounting System in Nepalese Commercial Banks

S.N.	Benefits	No. of population	Sample drawn	No. of practitioner	Percent (%)
1	Valuable information for decision	28	8	4	50
2	Liquidity analysis	28	8	2	25
3	Cost and benefits analysis	28	8	2	25
4	Help to fixing price to client	28	8	2	25
5	Other	28	8	2	25

Source: Field Survey, 2022.

The above table 12 shows the different benefits of management accounting system in cooperatives in different percentages on their point of view. It can be concluded that potential benefits of cooperatives are valuable information.

Table 13 :*Factors of Management Accounting Related Decision Making Process*

S.N.	Factors	No. of population	Sample drawn	No. of practitioner	Percent (%)
1	Cost	28	8	4	50
2	Knowledge management	28	8	2	25
3	Capital budgeting	28	8	0	0
4	Pricing decision	28	8	3	37.5
5	Customer relation	28	8	7	87.5

Source: Field Survey, 2022.

The above table 13 shows the 50% cost, 25% knowledge management, 37.5% pricing decision. It conclude that 87.5% customer relation are the main factors of management accounting system related to decision-making process.

Table 14 :*Is Management Accounting System Necessary in Cooperatives?*

S.N.	Answers	No. of population	Sample drawn	No. of practitioner	Percent (%)
1	Yes	28	8	4	50
2	No	28	8	4	50
3	Other	28	8	0	0

Source: Field Survey, 2022.

Table 14 shows that whether the management accounting system necessary or not in cooperatives. It is clear that 50% cooperatives agree on the statement and remaining 50% cooperatives are against the statement. It can be concluded that bankers are divided into two factions regarding management accounting system necessary in cooperatives.

Table 15 :*Management Accounting's Scope has made it Reliable and Dependable Tools for Management Decision*

S.N.	Answers	No. of population	Sample drawn	No. of practitioner	Percent (%)
1	Highly agree	28	8	4	50
2	Agree	28	8	4	50
3	Disagree	28	8	0	0
4	Highly disagree	28	8	0	0

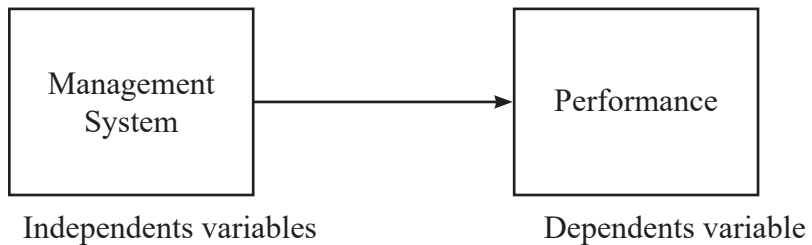
Source: Field Survey, 2022.

Table 15 reveals that the relation between management accounting's scope in reliable and dependable tools for management decision. 50% cooperatives are highly agreed and 50% cooperatives are not agreed on this statement. It means cooperatives are agreed that management accounting's scope has made it reliable and dependable tools for management decision.

Analysis of Hypothesis Test

Null Hypothesis (H₀): There is no significance relationship between management accounting system practice and performance of cooperatives.

Alternative Hypothesis (H₁): There is significance relationship between management accounting system practice and performance of cooperatives.



Level of significance: Since the level of significance is not given, we take a = 0.05

Test statistic: Under H₀, the test statistics is,

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

Table 16 :

Management Accounting System Helps to Improve Productivity

	Rating	Observed value (O)	Percentage (E)	(O-E) ²
Strongly agree	4	28.57	603.6849	21.13
Agree	6	42.86	1358.596	31.67
Undecided	3	21.43	339.7386	15.85
Disagree	1	7.14	37.670	5.28
Strongly disagree	0	0	0	0
	ΣO = 14	ΣE = 100		Σ $\frac{(O - E)^2}{E}$ = 73.93

$$\therefore \chi^2 = \sum \frac{(O-E)^2}{E} = 73.93$$

Degree of freedom: $= (r - 1) \times (c - 1) = (6 - 1) \times (5 - 1) = 5 \times 4 = 20$

Critical value: The tabulated value of the test statistic χ^2 at 5% level of significance for 20 degree of freedom is 31.410.

Decision: The calculated value of $\chi^2 = 73.93$ is greater than the tabulated value of $\chi^2_{0.05, 20} = 31.410$, H_0 is rejected and H_1 is accepted. Hence it is concluded that there is significant relationship between management accounting system and organizational performance.

Discussion

The research concluded that bankers are divided into two factions regarding management accounting system necessary in cooperatives. Gomez-Conde et al. (2019) revealed the similar result that management accounting system practice system is inevitable in small or macro organizations. Cooperatives are agreed that management accounting's scope has made it reliable and dependable tools for management decision. Ruiz and Collazzo (2020) showed the importance of management accounting practices to measure the economic importance. It is concluded that there is significant relationship between management accounting system and organizational performance.

Conclusion

It is learn so many accounting treatment of the information at different schools, colleges and universities. But there is vast difference between theory classes and practices in cooperatives. Certain common tools are only practices which provide information for common stakeholders not to deeply research. Tools like ratio analysis, budgeting, cash flow, financial statement are common tool practice by cooperatives.

Nepal cooperatives mostly used ratio analysis, capital budgeting decision, activity based budgeting and break even analysis as management accounting tools. Similarly, cost segregation, cash flow analysis, zero based budgeting, pricing decision and responsibility accounting tools are the least in practice in Nepalese cooperatives. The cause of non-practicing standard costing is not applicable for service industry like financial sector. In Nepalese cooperatives, practices of hiring the outside experts for carrying out different managerial decision making are almost nil. Some management accounting tools and techniques were not in practices and some in least practice due to lack of proper knowledge about those tools in Nepalese cooperatives.

The research found that management accounting practices have cooperatives in Nepal have significant positive impact on financial performance. Information technology has been a driving force in every aspect of advancement. Hence, it is encouraged the cooperatives to incorporate technology in their operations.

Finally, cooperatives of Nepal are not hiring management experts for carrying out various management decision, it can be concluded that Nepalese cooperatives are initial state with respect to the application of modern management accounting tools and yet they are trying to adopt such tools and techniques more and more to cope with the future expected opportunities and challenges to be faced due to the globalization.

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