# IMPACT OF MANAGEMENT ACCOUNTING APPLICATION ON THE FINANCIAL PERFORMANCE OF SELECTED LISTED COMPANIES IN SRI LANKA

LIBRARY
01 FEB 2022
EUSL, SRI LANKA

By

G. V. P. D. THARANGA

REG. NUMBER: EU/IS/2015/COM/70

INDEX NUMBER: COM 1950

FCM2579
Project Report
Library - EUSL

A Project Report Submitted to the Faculty of Commerce and Management, Eastern University, Sri Lanka as a partial fulfillment of the requirement of the Degree of Bachelor of Commerce Honors in Accounting and Finance [BComHons (Accounting and Finance)]

Department of Commerce

Faculty of Commerce and Management

Eastern University, Sri Lanka

2020

PROCESSED
MAIN LIBRARY, EUSL

# ABSTRACT

Management accounting provides companies with the best opportunity to succeed in the market in order to provide customers with the best quality goods and services at reasonable prices. The general objective of this study was to investigate the impact of management accounting application on financial performance of selected listed companies in Sri Lanka.

This study adopted a descriptive survey design. The target population for this study was the 286 listed companies in Sri Lanka. In order to come up with the sample size, the stratified random sampling approach was used because the population in various listed companies was considered heterogeneous, reflecting that a simple random sample is unrepresentative. The study therefore involved 164 listed companies in Sri Lanka. The study collected primary data from the respondents and secondary data from the annual reports.

The data collected was both quantitative and qualitative. Analysis was done using Statistical Package for Social Sciences (SPSS), allowing the researcher to present the information in form of tables and figures. The study concludes that information for decision making is the most highly used management accounting practice amongst the listed companies in Sri Lanka, followed by strategic analysis, performance evaluation, budgeting and costing respectively. The study identifies key factors that influence performance and risky areas that require improvements on return on equity, ROE (Net income / Average Equity) has increased as a result of application of management accounting practices. This study recommends the creation and enhancement of awareness among firms of the importance of strategic analysis as it has the highest influence for the increase in financial performance amongst the listed companies in Sri Lanka.



**Keywords:** Management accounting, Financial performance, Listed companies

# TABLE OF CONTENTS

ACKNOWLEDGEMENT ..... i

ABSTRACT ..... ii

TABLE OF CONTENTS ..... iii

LIST OF TABLES ..... viii

LIST OF FIGURES ..... x

ABBREVIATIONS ..... xi

CHAPTER ONE ..... 1

INTRODUCTION ..... 1

1.1 BACKGROUND OF THE STUDY ..... 1

1.1.1 Management Accounting ..... 2

1.1.2 Financial Performance ..... 3

1.2 RESEARCH PROBLEM ..... 3

1.3 RESEARCH QUESTIONS ..... 4

1.4 RESEARCH OBJECTIVES ..... 4

1.5 SIGNIFICANCE OF THE STUDY ..... 5

1.6 SCOPE OF THE STUDY ..... 5

1.7 SUMMARY ..... 6

CHAPTER TWO ..... 7

LITERATURE REVIEW ..... 7

2.1 INTRODUCTION ..... 7

2.2 THEORIES OF MANAGEMENT ACCOUNTING ..... 7

2.2.1 Contingency Theory of Management Accounting ..... 7

2.2.2 New Institutional Sociology ..... 8

2.3 EMPIRICAL REVIEW OF THE STUDY ..... 10

2.3.1 Determinants of financial performance in listed companies in Sri Lanka 10

2.3.2 Costing System ..... 11
2.3.3 Budgeting ..... 13
2.3.4 Performance Evaluation ..... 13
2.3.5 Information for Decision Making ..... 14
2.3.6 Strategic Analysis and Financial Performance ..... 16
2.4 SUMMARY ..... 17
CHAPTER THREE ..... 18
CONCEPTUALIZATION AND OPERATIONALIZATION ..... 18
3.1 INTRODUCTION ..... 18
3.2 CONCEPTUAL FRAMEWORK ..... 18
3.3 MANAGEMENT ACCOUNTING APPLICATIONS ..... 19
3.3.1 Costing System ..... 20
3.3.2 Budgeting ..... 21
3.3.3 Performance Evaluation ..... 22
3.3.4 Information for Decision Making ..... 24
3.3.5 Strategic Analysis ..... 24
3.4 FINANCIAL PERFORMANCE ..... 25
3.4.1 Profitability ..... 26
3.5 OPERATIONALIZATION OF THE VARIABLES ..... 26
3.6 SUMMARY ..... 28
CHAPTER FOUR ..... 29
RESEARCH METHODOLOGY ..... 29
4.1 INTRODUCTION ..... 29
4.2 RESEARCH DESIGN ..... 29
4.3 POPULATION ..... 29
4.4 SAMPLING ..... 29
4.5 METHODS OF DATA COLLECTION ..... 30

4.6 METHODS OF DATA ANALYSIS ..... 31
4.6.1 Reliability Analysis ..... 31
4.6.2 Univariate Analysis ..... 32
4.6.3 Bivariate Analysis ..... 34
4.7 SUMMARY ..... 37
CHAPTER FIVE ..... 38
DATA PRESENTATION AND ANALYSIS ..... 38
5.1 INTRODUCTION ..... 38
5.2 PRESENTATION OF DEMOGRAPHIC INFORMATION ..... 38
5.2.1 Position in the company of the respondent ..... 38
5.2.2 Number of Employees in the Company ..... 40
5.2.3 Industry group according to GISC in CSE ..... 41
5.3 RELIABILITY ANALYSIS ..... 42
5.3.1 Reliability of Costing System ..... 42
5.3.2 Reliability of Budgeting ..... 43
5.3.3 Reliability of Performance Evaluation ..... 43
5.3.4 Reliability of Information for Decision Making ..... 44
5.3.5 Reliability of Strategic Analysis ..... 44
5.3.6 Reliability of Importance of Management Accounting Practices ..... 44
5.4 ANALYSIS OF RESEARCH INFORMATION ..... 45
5.4.1 Univariate Analysis ..... 45
5.4.1.1 Usage Level of Costing Management Accounting Application ..... 45
5.4.1.2. Usage Level of Budgeting Management Accounting Application ..... 46
5.4.1.3 Usage Level of Performance Evaluation Management Accounting Application ..... 47
5.4.1.4 Usage Level of Information for Decision Making Management Accounting Application ..... 49

5.4.1.5 Usage Level of Strategic Analysis Management Accounting Application ..... 50

5.4.1.6 Respondents Opinion on the Importance of Management Accounting Applications ..... 52

5.4.2. Bivariate Analysis ..... 54

5.4.2.1 Pearson's Correlation Analysis ..... 55

5.4.2.2 Multiple Regression Analysis ..... 57

5.5 SUMMARY ..... 60

CHAPTER SIX ..... 61

DISCUSSION ..... 61

6.1 INTRODUCTION ..... 61

6.2 DISCUSSION OF RESEARCH FINDINGS ..... 61

6.2.1 Discussion of Demographic Characteristics ..... 61

6.2.1.1 Position in the company of the respondent ..... 61

6.2.1.2 Number of Employees in the Company ..... 61

6.2.1.3 Industry group according to GISC in CSE ..... 62

6.2.2 Discussion of Research Information ..... 62

6.2.2.1 Level of Management Accounting Application ..... 62

6.2.2.2 Level of Costing System ..... 62

6.2.2.3 Level of Budgeting ..... 63

6.2.2.4 Level of Performance Evaluation ..... 64

6.2.2.5 Level of Information for Decision Making ..... 65

6.2.2.6 Level of Strategic Analysis ..... 65

6.2.2.7 Respondents Opinion on the Importance of Management Accounting Applications ..... 66

6.2.2.8 Relationship between Management Accounting Practices and Financial Performance ..... 67

6.2.2.9 Impact of Management Accounting Application on the Financial Performance ..... 68
6.2.2.9.1 Multiple Regression ..... 68
6.3 SUMMARY ..... 70
CHAPTER SEVEN ..... 72
CONCLUSION AND RECOMMENDATION ..... 72
7.1 INTRODUCTION ..... 72
7.2 CONCLUSIONS ..... 72
7.2.1 First Objective ..... 73
7.2.2 Second Objective ..... 73
7.3 RECOMMENDATIONS ..... 74
7.4 LIMITATIONS OF THE STUDY ..... 74
7.5 SUGGESTION FOR FUTURE RESEARCH ..... 75
LIST OF REFERENCES ..... 76
APPENDIX 01 ..... 85
QUESTIONNAIRE ..... 85
APPENDIX 02 ..... 90
THE OUTPUT OF THE DATA ANALYSIS ..... 90