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# IMPACT OF MANAGEMENT ACCOUNTING PRACTICES ON THE PERCEIVED FINANCIAL PERFORMANCE OF MANUFACTURING COMPANIES IN SRI LANKA

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***Abstract:*** *In manufacturing companies, management accounting plays a vital role of the company. This research examines the role of management accounting practices in the financial performance of listed manufacturing companies in Sri Lanka. This study undertook a quantitative study of data collected using a structured questionnaire from 59 companies listed on the Colombo Stock Exchange. The companies were selected using the census sampling technique. Analytical tools used as descriptive statistics, correlation analysis, and the Partial Least Squares Structural Equation Modeling (PLS-SEM) method, were used to analyse the data. Major findings suggest that a greater extent of budgeting systems and costing systems enhances financial performance. Information for decision-making can occasionally lower an organization's financial performance in the short term. Performance evaluation systems increase the extent of improved financial performance of organizations, while the analysis of strategic management accounting has the most positive impact on financial performance, supporting its status as a key driver of financial performance in organizations.*

***Keywords:*** *Financial performance, costing system, Budgeting system, Strategic management accounting analysis system*

## 1. INTRODUCTION

Management Accounting Practices are crucial in cascading effects on operational improvements and market competition, especially in developing countries such as Sri Lanka, due to resource constraints or lack of infrastructure, among others. An essential part of management accounting for manufacturers is the system of concepts and methods that develops knowledge of how companies communicate economically, helping to dispose of what costs things have in actuality and therefore shaping how plans are best made for future operations (Gichaaga, 2014). Management Accounting Practices, such as cost management, budgeting, performance evaluation, and strategic analysis, are of particular importance to enterprises aiming to raise profits and respond effectively to competition. Research questions of the study,

- What is the impact of costing systems on the financial performance of listed companies in Sri Lanka?
- Is there an impact of budgeting systems on the financial performance of listed companies in Sri Lanka?
- What is the impact of performance evaluation systems on the financial performance of listed companies in Sri Lanka?
- What is the impact of strategic management accounting analysis systems on the financial performance of listed companies in Sri Lanka?

- Is there an impact of information for decision-making on the financial performance of listed companies in Sri Lanka?

According to Horngren, (2008), companies that used the Activity Based Costing (ABC) system determined the increases in profitability and cost control. Similarly, Almatarneh et al., (2022) conclude that traditional costing systems, despite their lack of accuracy, continued to provide important data for improving operational effectiveness and cost-reduction processes. According to Alleyne and Weekes-Marshall, (2011), budgeting is a helpful strategy for forecasting, controlling internal operations, and allocating resources to accomplish business objectives and goals and also there are two types of budgeting: Activity-Based Budgeting (ABB) is a technique for allocating funds to sources in line with the intended activities.

The best technique for cost system optimization is the activity-based costing method, or ABC, according to (Richard et al., 2009). According to Alleyne and Weekes-Marshall, (2011), Performance evaluation systems that only focused on financial aspects, such as profit maximization and return on capital investment projects, were criticized. These standards do not account for workforce turnover or the cost of generating capital. The Economic Value Added (EVA) mechanism was developed by organizations in response to these limitations in performance evaluation and these EVA mechanism looks at the company's cost of capital as well as the actual value that has been provided to the organization Alleyne and Weekes-Marshall (2011).

According to Roslender and Hart (2003), strategic management accounting is an external approach to accounting that focuses on how actions and cost structures made by competitors will affect the business's future operations. According to Alleyne and Weekes-Marshall (2011), there is a lack of a robust theoretical framework in strategic management accounting. This point of view has been supported by numerous other academics who contend that because internal factors receive more attention than exterior factors, the external environment is typically ignored. According to Nurullah and Kengatharan (2015), states that the management accounting information systems is important to making timely and accurate information to managerial decision-making processes.

Previous studies indicate that the companies used strong management accounting information systems (MAIS) are more knowledgeable about investment prospects, inventory control, and production scheduling. Richard et al. (2009), state that firm performance can be divided into simply three different types: These assessing results include market performance (such as sales, market share, etc.), shareholder return (total shareholder return, economic values-added, etc.), and financial performance (profits, rate of return of assets, rate of return of investment, etc.). We found that organizations at the business-function level that adopt such strategies related to product differentiation were better placed when they adopted higher levels of sophisticated management accounting techniques such as activity-based management, benchmarking and quality improvement activities(Almatarneh et al., 2022).

However, Sri Lankan businesses and others in developing countries face problems getting these into practice as efficiently because they lack the resources or infrastructure (Kariyawasam, 2018). The present research attempts to contribute to filling this gap in the management accounting theory regarding its practical application in a Sri Lankan context by investigating how MAPs impact the financial performance of listed manufacturing companies in the country (Hapuarachchi, 2019). This is a study "Analyzing Role of Management Accounting Practices on the Financial Performance of the Manufactured Companies listed in the CSE, Sri Lanka" which examines the positive effect of the practice of management accounting (MAPs) on the performance of the Sri Lankan manufacturing firms operating at the CSE.

Current economic conditions, market competition, regulatory framework and corporate governance impact the financial performance of companies but This research study will focus on Management accounting practices only. However, there are many companies that operate in the Colombo Stock Exchange but this research has selected only Manufacturing Sector listed Companies. On this premise, the study aims to identify the relationship that exists between those management accounting practices and the financial performance of such manufacturing companies, which are listed in Sri Lanka.

In a highly competitive corporate world today, corporate entities are using cut throat strategies to maximize profits and attain competitive advantage and management accounting has been seen to be playing a central role in this process (Gichaaga, 2014). The competitiveness of industries due to consumers' demand, technology, and changes in the business environment exert pressure on companies to pay attention to activities that increase their sales volume and, at the same time, reduce costs of production (Adu-Gyamfi, 2020). Current management accounting practices especially in manufacturing industries create a much-needed competitive advantage in the organization by enhancing profitability and controlling for waste (Gichaaga, 2014). However, research on the link between MAP and FP in the manufacturing firms of Sri Lanka is scarce, although it is significant (Perera, 2015; Kariyawasam, 2018; Mohomed, 2021). This study aims at filling this gap by assessing the effects of MAPs including costing, budgeting, performance evaluation, and strategic decision-making on the financial performance in terms of profitability, Return on Equity (ROE) and Return on Asset (ROA).

## 2. METHODOLOGY

### 2.1 Introduction

The following study, identifies the relationship between management accounting practices and financial performance concerning Sri Lankan-listed manufacturing companies, based on a conceptual framework, hypothesis development, and operationalization of variables concerning key practices such as costing systems, budgeting systems, performance evaluation, strategic management accounting, and decision-making information.

The target population of 59 listed companies in the Colombo Stock Exchange presents a better representative sampling across various industries. In the mono-method research strategy, the quantitative data collection methodology will be a structured questionnaire survey. There is a basis for appropriate consideration of perception by senior managers and management accountants in the manufacturing industry through a positivist philosophy and a deductive approach. Data collection and data analysis in this research go hand in glove. A self-administered structured questionnaire on a 5-point Likert scale was used to collect views from senior managers and management accountants of selected companies. Afterward, the data from this will be analyzed rigorously with the help of SPSS and SMART PLS.

The independent variable of costing system was measured using five questions (items) as "How often does your firm divide costs with a plant-wide overhead allocation?"; the budgeting systems was measured using another five items as "How frequently does your company use budgeting as a tool for planning future operations and activities?"; the performance evaluation system was measured from five questions as "What is the frequency with which your business uses financial standards to analyze overall performance and its financial health?"; strategic accounting analysis system measured from another five questions as "How frequently does your company utilize long-range forecasting to support strategic decision-making and planning?"; information for decision making also measured from five questions as "How often does your company use the discounted cash flow method to evaluate major capital investment projects?"; the dependent variable of perceived financial performance was measured from five items as "To what extent has the gross profit margin of your company improved due to the application of management accounting practices?" (Gichaaga, 2014).

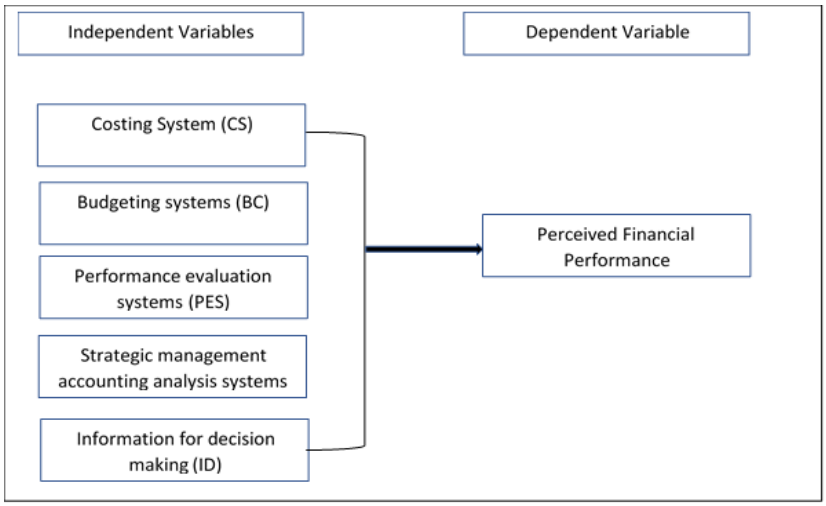


*Figure 1: Conceptual Framework*

## 2.2 Analytical method

Partial Least Squares Structural Equation Modeling (PLS-SEM) is a variance-based approach to structural equation modeling that focuses on maximizing the explained variance of the dependent constructs. Unlike covariance-based SEM, which prioritizes model fit, PLS-SEM is more appropriate for exploratory research and predictive analysis. It is particularly well-suited for studies that involve complex models, small sample sizes, or non-normally distributed data.

The decision to use PLS-SEM in this study was driven by several methodological considerations. This research investigates the relationships between management accounting practices and financial performance, an area where theory is still evolving. PLS-SEM is suitable for testing and refining such predictive models. Secondly, the primary goal of the study is to predict the impact of management accounting practices (costing system, budgetary system, performance evaluation systems, strategic accounting information analysis systems and information for decision making) on firm performance. PLS-SEM prioritizes predictive accuracy over model fit, making it ideal for this objective.

Thirdly, preliminary analysis revealed that some variables deviate from normal distribution. PLS-SEM does not require strict normality assumptions, making it robust in handling real-world data. PLS-SEM provides reliable estimates even with a relatively small sample size, unlike covariance-based SEM, which requires larger samples to achieve stable estimates.

The following steps were undertaken in the PLS-SEM analysis:

- *Model Specification*: The structural model was specified to include relationships among latent constructs based on theoretical foundations.
- *Measurement Model Assessment*: The reliability and validity of the constructs were assessed using Cronbach's Alpha, Composite Reliability, and Average Variance Extracted (AVE).
- *Structural Model Evaluation*: Path coefficients were estimated, and their significance was tested to examine the hypothesized relationships.
- *Goodness-of-Fit*: Explained variance ($R^2$) were evaluated to determine the model's predictive capability.

The analysis was conducted using *SmartPLS 4*, a widely recognized software for PLS-SEM. SmartPLS offers user-friendly functionalities for estimating both measurement and structural models, ensuring rigorous assessment of reliability, validity, and hypothesized relationships.

## 3. RESULTS – DATA ANALYSIS

### 3.1 Descriptive Statistics

From Table 1, demonstrated descriptive statistics include mean, standard deviation of both independency and dependent variables.

**Table 1:** *Descriptive statistic of Independent and Dependent Variables*

| *Dimension* | *Mean* | *Standard Deviation* | *Skewness* | *Kurtosis* | *Decision* |
|---|---|---|---|---|---|
| CS_M | 4.0000 | .69835 | -1.439 | 1.185 | High level |
| BS_M | 3.7774 | .79582 | -.871 | -.354 | High level |
| PES_M | 3.8981 | .74691 | -1.355 | .568 | High level |
| SMAAS_M | 3.9283 | .81815 | -1.515 | 1.034 | High level |
| ID_M | 3.7019 | .86079 | -.702 | -.419 | High level |
| FP_M | 3.9585 | .76093 | -1.312 | .690 | High level |

*(Source: Survey Data, 2024)*

Since the descriptive analysis result shown in Table 1, the obtained mean value for the Costing System was 4.00 and the SD was 0.69835. The analysis in the SD reveals that the individual responses is approximately 0.69 point away from the mean. These mean values are pins down into male interval of $3.5<X\leq5$. Last of all, the researcher can assert that the costing system has supported a high level among the selected listed companies in Sri Lankan.

The budgeting system was determined from the analysis result of the mean and standard deviation as indicated in Table 1. Testing on the Budgeting System, the mean was 3.7774 and the standard deviation was 0.79582. Thus, the analysis of variance indicates that, on average, individual responses deviate from the mean by 0.79 of a point. These mean values are between 3.5 of relative importance X and 5 of large relative importance. Last of all, the researcher can state that the budgeting system has a high level among the selected and the listed companies in Sri Lanka. Besides, based on the descriptive analysis of the above Table 1, the mean and SD of the Performance Evaluation System were presented as follows. The mean value of the Performance Evaluation System was 3.8981 and SD was 0.74691. The SD assigns approximately a 0.74-point deviation to an individual response from the mean. These mean values are of the order, $3.5<X\leq5$. CONSEQUENTLY, the researcher can conclude that the Performance Evaluation System is at a highly-rated level among the selected listed companies in Sri Lanka.

Descriptive analysis in finding the mean and SD of the SMAAS was presented. For the strategic management accounting analysis system, the mean value was 3.9283 with SD that was 0.81815. The SD reveals that the individual responses fluctuate about the mean points by 0.81 of a point. These mean values range within $3.5 <X \leq 5$. In conclusion, the researcher can conclude that the level of SMAA System is high among select listed companies in Sri Lanka.

Based on the results of descriptive analysis of the above Table 1, the indices of mean and SD in Information for Decision-making were presented. The overall AM of Information for Decision-making was 3.7019, and the SD was 0.86079. Looking at the individual responses, the SD proves that they vary by .86 points from the mean on average. These mean values range between $3.5<X\leq5$. Last, the researcher can assert that the level of Information for Decision Making among the selected listed companies in Sri Lanka is high.

As indicated in Table 1, descriptive results indicated mean and SD of the dependent variable of this study. The mean value of Financial Performance was 3.9585 and SD was 0.76093. It is also shown by the SD that on an average basis, each of the individual responses deviate 0.76 point from the mean response. These mean values are within range of 3.5 less than 5. Last of all, the researcher can conclude that the level of Financial Performance is high among selected listed companies in Sri Lanka.

### 3.2 Bivariate Analysis

*Pearson's Correlation Analysis*

According to Anderson (2014) Pearson correlation coefficient reflects the direction of the strength together with the level of significance of the bivariate relationships among all the variables that were measured using interval level of measurement. As well as in the opinion of Bolboaca and Jantschi (2006) Pearson correlation checks not only for the presence (indicated by the p-value) but also the direction (indicated by the coefficient r) and the magnitude (ranging between -1 and +1) between the two variables.

*Correlation Analysis Between Management Accounting Practices and Financial Performance*

**Table 2:** *Pearson's Correlation Analysis*

| | | Financial Performance |
|---|---|---|
| Costing System | Pearson Correlation | .960** |
| | Sig. (2-tailed) | .000 |
| | N | 53 |
| Budgeting System | Pearson Correlation | .843** |
| | Sig. (2-tailed) | .000 |
| | N | 53 |
| Performance Evaluation System | Pearson Correlation | .929** |
| | Sig. (2-tailed) | .000 |
| | N | 53 |
| Strategic Management Accounting Analysis System | Pearson Correlation | .956** |
| | Sig. (2-tailed) | .000 |
| | N | 53 |
| Information for Decisions Making | Pearson Correlation | .778** |
| | Sig. (2-tailed) | .000 |
| | N | 53 |

*(Source: Survey Data, 2024)*

The Pearson correlation coefficients of this study (Table 2) were 1.000 for the Costing System construct and 0.960 for the Financial Performance construct, for the respondents. Furthermore, the attained correlation coefficient lies in the coefficient range between 0.5 and 1. Value of the p is 0.000 which is less than alpha value of 0.05. This provides evidence that there is a positive significant association between Costing System and Financial Performance of those selected listed firms in Sri Lanka.

The regression coefficient of Budgeting System against Financial Performance was 0.843 among the respondents. Furthermore, the value of the coefficient of correlation also lies in the coefficient interval of 0.5 to 1. The value of p is 0.000 and this is less that alpha value. They all affirm that there is a good positive correlation between Budgeting System and Financial Performance of selected listed companies in Sri Lanka.

With regards to Performance Evaluation System and Financial Performance the correlation coefficient (r) value obtained was 0.929. Furthermore, the value of the correlation coefficient also belongs to a coefficient range of 0.5-1.0. Once again p-value is equal to 0.000 and less than alpha value of 0.05. Thus, the study finds a strong positive significant correlation exists between Performance Evaluation System and Financial Performance of the selected listed companies in Sri Lanka.

From the analysis result of this study (Table 2), the correlation coefficient (r) was 0.956 for Strategic Management Accounting Analysis System and Financial Performance among the respondents. Furthermore, it means that the obtained value of the coefficient is in the range of a coefficient from 0.5 to 1. The p-value is equal to equal to 0.000 and less than the alpha value. This confirms that there is a positive correlation between the SMMA System and Financial Performance amongst selected listed companies in Sri Lanka.

The respondents got an r-value of between Information for Decisions Making and Financial Performance 0.778. Also, the correlation coefficient value is within the coefficient range of 0.5-1.0 as shown in the figure above. Here they show that p-value = 0.000 which is less than the alpha value. This proves that IM also has a great positive interaction on FDIR and Financial Performance among the selected Listed Companies in Sri Lanka.

From these descriptions above, the result witnesses show that most of the management accounting practices have a positive significant correlation between MA practice and the financial performance of selected listed

**Table 3:** *Summary of Correlation Analysis Result*

| *Relationship* | *Strength* |
|---|---|
| Cost system and financial performance | Strong positive relationship |
| Budgeting system and financial performance | Strong positive relationship |
| Performance evaluation and financial performance | Strong positive relationship |
| Strategic management accounting analysis system and financial performance | Strong positive relationship |
| Information for decision-making and financial performance | Strong positive relationship |

*(Source: Survey Data, 2024)*

*Structural Equation Modeling*

*Reliability Analysis*

Reliability refers to the consistency of a set of indicators used to measure a construct. In this study, reliability is assessed using Cronbach's Alpha and Composite Reliability (rho_c and rho_a). Cronbach's Alpha assesses the internal consistency of the constructs. Values above 0.7 are generally acceptable, indicating that the indicators reliably measure their respective constructs. Composite Reliability (rho_a and rho_c) metrics provide an alternative to Cronbach's Alpha, particularly suited for confirmatory research. Values greater than 0.7 are indicative of adequate reliability.

**Table 4:** *Summary of Reliability Analysis*

| *Construct* | *Cronbach's Alpha* | *Composite Reliability (rho_a)* | *Composite Reliability (rho_c)* |
|---|---|---|---|
| BS | 0.851 | 0.864 | 0.893 |
| CS | 0.903 | 0.908 | 0.928 |
| FP | 0.892 | 0.900 | 0.921 |
| ID | 0.898 | 0.924 | 0.925 |
| PES | 0.890 | 0.899 | 0.921 |
| SMAAS | 0.895 | 0.901 | 0.923 |

*(Source: Survey Data, 2024)*

All constructs show high reliability, with Cronbach's Alpha and Composite Reliability exceeding the threshold of 0.7.

*Convergent Validity Analysis*

Convergent validity examines whether a set of indicators correlates well with their corresponding construct. It is assessed using the Average Variance Extracted (AVE). Average Variance Extracted (AVE measures the proportion of variance captured by the construct in

relation to the variance due to measurement error. AVE values above 0.5 indicate adequate convergent validity.

**Table 5:** *Summary of Convergent Validity Analysis*

| *Construct* | *AVE* |
|---|---|
| BS | 0.628 |
| CS | 0.720 |
| FP | 0.702 |
| ID | 0.713 |
| PES | 0.702 |
| SMAAS | 0.708 |

*(Source: Survey Data, 2024)*

All constructs have AVE values greater than 0.5, confirming adequate convergent validity.

*Structural Model Analysis*

In Partial Least Squares Structural Equation Modeling (PLS-SEM), the structural model analysis involves evaluating the *R-square* ($R^2$) values and the *f-square* ($f^2$) effect sizes. The $R^2$ value assesses the explanatory power of the model, while the $f^2$ values assess the effect size of each predictor variable on the dependent construct, Financial Performance (FP), in this case. The $R^2$ value indicates the proportion of variance in the dependent variable (Financial Performance - FP) explained by the independent variables. Higher $R^2$ values suggest better explanatory power of the model. *$R^2$ for FP is 0.957*. This value indicates that approximately 95.7% of the variance in Financial Performance is explained by the independent constructs (BS, CS, ID, PES, and SMAAS). An adjusted $R^2$ of 0.952 confirms the model's stability when accounting for the number of predictors, indicating a strong predictive capability of the model.

The $f^2$ value, or effect size, measures the change in $R^2$ when a specific independent variable is included or excluded from the model. According to Cohen's guidelines, an $f^2$ value of 0.02, 0.15, and 0.35 indicates small, medium, and large effect sizes, respectively.

**Table 6:** *Summary of Structural Model Analysis*

| *Path* | *f-Square ($f^2$)* | *Effect Size Interpretation* |
|---|---|---|
| *BS -> FP* | 0.108 | Small to medium effect |
| *CS -> FP* | 0.150 | Medium effect |
| *ID -> FP* | 0.231 | Medium to large effect |
| *PES -> FP* | 0.142 | Small to medium effect |
| *SMAAS -> FP* | 0.354 | Large effect |

*(Source: Survey Data, 2024)*

Budgeting Systems (BS) has a small to medium effect on Financial Performance (FP), with a notable contribution to the variance in FP, supporting its importance in driving financial outcomes *($f^2 = 0.108$).* Costing Systems (CS) have a medium effect on FP, emphasizing that Costing Systems contribute substantially to enhancing financial performance *($f^2 = 0.150$).* Information for decision-making (ID) demonstrates a medium to large effect on FP, indicating that innovation has a strong influence on financial outcomes *($f^2 = 0.231$).* Performance Evaluation Systems (PES) show a small to medium effect on FP, underscoring those efficient processes are beneficial but may not be as influential as other constructs *($f^2 = 0.142$).* Strategic Management Accounting and Analysis (SMAAS) has the largest effect on FP, with a large $f^2$ value. This result highlights the critical role of effective strategic management accounting systems in achieving financial performance *($f^2 = 0.354$).*

The $R^2$ and $f^2$ analyses reveal that the structural model has strong explanatory power, with all independent constructs contributing significantly to the explained variance in Financial Performance (FP). SMAAS has the most substantial impact on FP, followed by ID, CS, PES,

and BS. The findings confirm the model's robustness and highlight the importance of strategic, sustainable, and innovative practices in driving financial success.

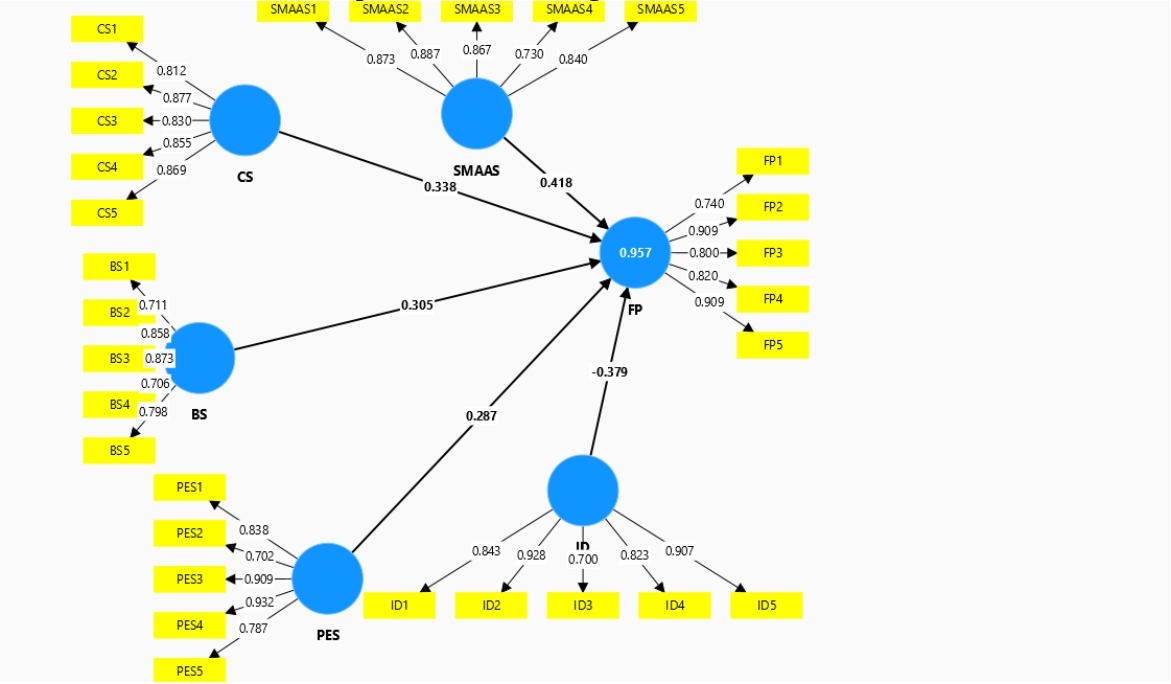


**Figure 1:** *Summary of Structural Model Analysis*

*Bootstrapping Results Analysis*

Bootstrapping is a non-parametric resampling technique used in Partial Least Squares Structural Equation Modeling (PLS-SEM) to assess the statistical significance of path coefficients. In this study, 5,000 bootstrap samples were used to estimate the precision of the model's path coefficients and their associated t-statistics and p-values.

- *Path Coefficients and Significance Testing*

Table 07 presents the bootstrapping results for the structural model, including the original sample estimates (O), sample means (M), standard deviations (STDEV), t-statistics, and p-values for each path:

**Table 7:** *Summary of Path Coefficients and Significance Testing*

| | Original sample (O) | Sample mean (M) | Standard deviation (STDEV) | T statistics (\|O/STDEV\|) | P values |
|---|---|---|---|---|---|
| BS -> FP | 0.305 | 0.302 | 0.112 | 2.726 | 0.006 |
| CS -> FP | 0.338 | 0.332 | 0.134 | 2.512 | 0.012 |
| ID -> FP | -0.379 | -0.391 | 0.104 | 3.648 | 0.000 |
| PES -> FP | 0.287 | 0.279 | 0.127 | 2.261 | 0.024 |
| SMAAS -> FP | 0.418 | 0.446 | 0.145 | 2.880 | 0.004 |

*(Source: Survey Data, 2024)*

The results indicate the significance of the paths between independent constructs and financial performance (FP):

The relationship between Budgeting System (BS) and Financial Performance (FP) is positive and statistically significant at the 1% level, indicating that firms with stronger budgeting systems tend to exhibit better financial performance ($\beta = 0.305$, $p = 0.006$).

Costing System (CS) positively influences Financial Performance (FP), significantly at the 5% level. This suggests that the costing system contributes to improved financial outcomes ($\beta = 0.338$, $p = 0.012$).

Information for decision making (ID) shows a significant negative relationship with Financial Performance (FP) at the 1% level, indicating that under certain conditions, Information for decision making may temporarily reduce financial performance, possibly due to initial decision-making provision costs ($\beta = -0.379$, $p = 0.000$).

The relationship between Performance Evaluation Systems (PES) and Financial Performance (FP) is positive and significant at the 5% level, highlighting the financial benefits of efficient and sustainable processes ($\beta = 0.287$, $p = 0.024$).

Strategic Management Accounting analysis (SMAAS) has the strongest positive impact on Financial Performance (FP), significant at the 1% level, underscoring the importance of robust strategic management accounting analysis systems in driving financial performance ($\beta = 0.418$, $p = 0.004$).

The bootstrapping results confirm the statistical significance of all hypothesized relationships. These findings demonstrate that various aspects of corporate sustainability, innovation, and strategic management significantly influence financial performance, either positively or negatively, emphasizing the multifaceted nature of these interactions.

## 4. CONCLUSIONS AND RECOMMANDATIONS

The findings of the bootstrapping and structural model demonstrate how different management accounting techniques have a major impact on financial performance. Strategic management accounting analysis has the biggest positive impact on financial performance, followed by information for decision-making, costing systems, performance assessment systems, and budgeting systems. This indicates that the model has good explanatory power. Similar results were found in other studies (Adu-gyamfi & Chipwere, 2020; Alleyne & Weekes-Marshall, 2011; Mohomed, 2021; Hapuarachchi, 2019), where all researchers have found a positive association between SMAAS and financial performance: that means the financial performance of companies has increased with the adoption of SMAAS.

Although the majority of the correlations are positive overall, the negative correlation between financial performance and decision-making information raises the possibility that performance may be momentarily hampered by the initial expenses of decision-making. Other similar studies found positive findings between decision-making and financial performance (Adu-gyamfi & Chipwere, 2020; Hapuarachchi, 2019), identifying companies which utilized IDM have ended up with higher financial performances. The results highlight how crucial sound strategic, and long-term strategies are to achieving financial success. managerial accounting skills, streamline decision-making and guarantee that their budgeting, performance evaluation, and costing systems are effectively synchronized to maintain long-term profitability.

These results help maximise the internal validity of this study so that the findings are reliable and valid. One of the notable findings of the studies covered in this research is that the use of management accounting practices, including SMA, can increase the company's financial performance and need to incorporate enhanced economic estimate approaches, budgeting and performance assessment tools for enhanced imagining and resource allocation. It also stresses a call for the management accountants to integrate with other organizational segments like the marketing, operations and human resource segments to enhance the overall imprint of the management accounting practices.

In addition, the research has important implications for financial managers, management accountants, organisational leaders, academicians, and policymakers. It offers

potential insights into the ways that managers of financial institutions can manage their institutions in accordance with generally accepted principles in management accounting in order to make sound strategic purposes in the establishments. It also postulates that there is a need for continuous professional development of management accountants to point towards effective practice concerning current trends and practices.

Through training and developing the personnel and promoting cooperation between departments, manufacturing organizations may increase financial results and make better decisions. It also underlines the importance of creating an organisational culture more supportive of the rational use of financial data within the context of the enterprise at various tiers. Such an approach will assist firms in the strengthening of their capacity to adapt to the volatile business environments and in the subsequent facilitation of organisational efficiency.

In addition, it advises that policy makers should formulate a legal environment in which companies practice sound management accounting based on accountability and corporate financial reporting. The research was conducted only on Sri Lankan listed manufacturing companies which restricts the study to some extent to the results of other industries or non-listed companies. The analysis was based on the self-completion questionnaire data, which risks contain bias and the cross-sectional research method does not take into account the dynamic changes in the management accounting practices. In addition, the study mainly relied on a quantitative approach which might not capture the qualitative elements relating to the management accounting practices, which includes culture and leadership to name but a few.

The several recommendations mentioned below are the results of the research, which should be implemented to improve management accounting practices and manufacturing companies' financial performance: The business needs to use technology by investing in modern accounting software and making use of data analytics. A culture of collaboration should be fostered by the organization through cross-functional teams and regular communication channels. Performance evaluation should be appropriately prioritized by the organization through the use of clear performance metrics and regular performance reviews. The organization may improve training and development programs by implementing customized training initiatives and supporting professional certifications.

The business has to create explicit policies and processes to improve its frameworks for management accounting. The business would have to use a balanced scorecard methodology, it is appropriate for the company to focus on ethical practices by establishing a code of ethics and offering ethics training. It is also appropriate for the company to engage stakeholders through regular communication and involve them in decision-making processes. The company is appropriately engaging in continuous improvement with regular assessments and fostering a culture of innovation.

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## APPENDIX

SECTION A

01. Name of the company.
02. What is the industrial sector of your company engaging in?

| | |
|---|---|
| | Energy |
| | Material |
| | Capital Goods |
| | Automobiles & Components |
| | Commercial & Professional Services |
| | Food, Beverage & Tobacco |
| | Consumer Durables & Apparel |
| | Healthcare Equipment & Services |
| | Household & Personal Products |
| | Utilities |
| | other |

03. The number of years in operation.

| | |
|---|---|
| | 1 – 5 years |
| | 6 – 15 years |
| | 16 – 25 years |
| | Above 25 years |

04. What is your position in the company?

| | |
|---|---|
| | Accountant |
| | Account Executive |

05. What is your age?

| | |
|---|---|
| | Below 25 years |
| | 25 – 35 years |
| | 35 – 45 years |
| | 45 – 55 years |
| | Prefer not to say |

06. What is your gender?

| | |
|---|---|
| | Male |
| | Female |

| | |
|---|---|
| | Other |

07. What is your educational qualification?

| | |
|---|---|
| | A/L only |
| | Bachelor Degree |
| | Master Degree |
| | Phd |

SECTION B: Management Accounting Practices
How often does your company use the following management accounting practices?
Score using the key which ranges from 1 (Never) to 5 (Very Frequently).

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| How often does your company use the following management accounting practices relating to costing systems (CS) | | | | | |
| CS1. How often does your company separate variable, incremental, and fixed costs in its financial reporting and production process? | | | | | |
| CS02. How frequently does your company apply a plant-wide overhead rate for cost allocation? | | | | | |
| CS3. How often does your company utilize department-specific or multiple plant-wide overhead rates for more accurate cost allocation? | | | | | |
| CS04. How frequently does your organization implement activity-based costing (ABC) to enhance cost-accuracy? | | | | | |
| CS05. How often does your company set and review target costs for its products to ensure competitiveness? | | | | | |
| How often does your company use the following management accounting practices relating to budgeting systems (BS) | | | | | |
| BS1. How frequently does your company use budgeting as a tool for planning future operations and activities? | | | | | |
| BS2. How often does your company implement budgeting to monitor and control costs throughout the fiscal year? | | | | | |
| BS3. How frequently does your company utilize activity-based budgeting to allocate resources based on the activities that incur costs? | | | | | |
| BS4. How often does your company adopt a zero-based budgeting approach, where every expense must be justified for each new period? | | | | | |
| BS5. How frequently does your company engage in budgeting that aligns with long-term strategic planning goals? | | | | | |
| How often does your company use the following management accounting practices relating to performance evaluation systems (PES) | | | | | |
| PES1. How frequently does your company use financial measures to evaluate overall performance and financial health? | | | | | |
| PES2. How often does your company incorporate non-financial measures related to customer satisfaction and loyalty in performance evaluations? | | | | | |
| PES3. How frequently does your company utilize non-financial measures related to operational efficiency and innovation in its performance evaluations? | | | | | |
| PES4. How often does your company assess non-financial measures related to employee performance and engagement in its evaluation processes? | | | | | |
| PES5. How frequently does your company calculate and use economic value added (EVA) or residual income as a part of its performance evaluation system? | | | | | |
| How often does your company use the following management accounting practices relating to strategic management accounting analysis systems (SMAAS) | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| SMAAS1. How frequently does your company utilize long-range forecasting to support strategic decision-making and planning? | | | | | |
| SMAAS12. How often does your company conduct industry analysis to inform its strategic management accounting practices? | | | | | |
| SMAAS3. How frequently does your company analyse its competitive position as part of its strategic management accounting efforts? | | | | | |
| SMAAS4. How often does your company perform value chain analysis to identify areas for improvement and competitive advantage? | | | | | |
| SMAAS5. How frequently does your company use product life cycle analysis to guide its strategic management decisions? | | | | | |
| How often does your company use the following management accounting practices relating to information for decision making (ID) | | | | | |
| ID1. How often does your company use the discounted cash flow method to evaluate major capital investment projects? | | | | | |
| ID2. How frequently does your company assess major capital investments using the payback period and/or accounting rate of return? | | | | | |
| ID3. To what extent does your company document and report non-financial aspects when evaluating major capital investments? | | | | | |
| ID4. How often does your company evaluate the risk of major capital investment projects using profitability analysis or computer simulation techniques? | | | | | |
| ID5. How frequently does your company perform sensitivity "what if" analysis when assessing major capital investment projects? | | | | | |

SECTION C: Financial performance

| To what extent do management accounting practices affect the following aspects financial performance of your company? (FP)<br>Rate on a scale of 1 (no extent) to 5 (very great extent). | | | | | |
|---|---|---|---|---|---|
| FP1. To what extent has the gross profit margin of your company improved due to the application of management accounting practices? | | | | | |
| FP2. To what extent has the return on equity (ROE) of your company increased as a result of implementing management accounting practices? | | | | | |
| FP3. To what extent has the return on assets (ROA) of your company improved due to the use of management accounting practices? | | | | | |
| FP4. To what extent has financial leverage (measured as Equity / Total Assets) of your company increased as a result of adopting management accounting practices? | | | | | |
| FP5. To what extent does the management accounting function in your company contribute to developing strategies that leverage financial innovations to create a sustainable competitive advantage? | | | | | |