

IMPACT OF MANAGEMENT ACCOUNTING PRACTICES ON FINANCIAL PERFORMANCE OF MANUFACTURING ENTERPRISES

DR. Mamatha K. R.

Associate Professor, Dept. of Commerce
GFGC(A)GUBBI.

Abstract

Management accounting has become an important managerial tool for manufacturing enterprises because of increasing competition, rising production costs, technological changes and the need for timely decision-making. Practices such as budgeting, standard costing, variance analysis, cost-volume-profit analysis, performance measurement, strategic management accounting and management accounting information assist managers in planning, controlling costs and improving resource utilisation. This study examines the impact of management accounting practices on the financial performance of manufacturing enterprises, with particular reference to India. The study is based primarily on secondary data and published empirical literature. The latest available Annual Survey of Industries (ASI) data for 2023–24 provide the 2024 manufacturing-sector context. During 2023–24, India's manufacturing sector recorded gross output of ₹153.27 lakh crore, gross value added (GVA) of ₹24.58 lakh crore and total employment of approximately 1.96 crore persons. GVA increased by 11.89% over the previous year, while industrial output increased by more than 5.80%. The study finds that systematic budgeting, cost accounting, performance measurement and the effective use of management accounting information can contribute to improved planning, cost control, operational efficiency and financial performance. However, Indian evidence also indicates that the adoption and effectiveness of management accounting systems vary according to organisational characteristics, managerial capability, firm size and technological conditions. The study recommends greater integration of traditional techniques with contemporary tools such as activity-based costing, target costing, strategic management accounting, data analytics and digital management accounting systems.

Keywords: Management Accounting Practices, Financial Performance, Manufacturing Enterprises, Budgeting, Cost Accounting, Performance Measurement, India, Strategic Management Accounting.

Introduction

Manufacturing enterprises contribute significantly to employment, investment, industrial output and economic development. In a highly competitive environment, manufacturing organisations face continuous pressure to reduce costs, improve productivity, maintain product quality and achieve sustainable profitability. Consequently, financial information alone may not be sufficient for managerial decision-making. Managers require timely information relating to product costs, production efficiency, budgets, variances, inventory, profitability and resource utilisation.

Management accounting provides such information for internal managerial purposes. It assists managers in planning, controlling, evaluating performance and making strategic decisions. Major management accounting practices include budgeting, standard costing, variance analysis, marginal costing, cost-volume-profit analysis, activity-based costing, responsibility accounting, performance measurement and strategic management accounting.

The importance of these practices is particularly relevant to Indian manufacturing enterprises. The Government of India's ASI 2023–24 indicates substantial growth in the manufacturing sector. Gross value added increased by 11.89% in current prices and industrial output increased by more than 5.80% compared with the previous year. Such growth creates opportunities but also increases the need for effective cost and performance management. Management accounting practices can help enterprises convert operational information into managerial decisions and thereby improve profitability and competitiveness.

Statement of the Problem

Manufacturing enterprises operate with complex cost structures involving direct materials, labour, overheads, energy, technology, logistics and inventory. Poor cost information may lead to incorrect pricing, excessive wastage, inefficient production and poor resource allocation.

Although traditional techniques such as budgeting and standard costing continue to be important, modern manufacturing requires more sophisticated approaches. Activity-based costing, target costing, strategic management accounting, balanced scorecards and real-time management information systems can provide broader information for decision-making.

Indian research has shown that traditional management accounting practices remain widely used, while adoption of newer techniques has historically been comparatively limited. Joshi's study of Indian manufacturing companies found particularly high adoption of budgeting and performance-related techniques.

Therefore, the present study examines how management accounting practices can contribute to financial performance in the Indian manufacturing context.

Objectives of the Study

1. To examine the role of management accounting practices in manufacturing enterprises.
2. To analyse the relationship between management accounting practices and financial performance.
3. To review Indian empirical studies relating to management accounting and manufacturing performance.
4. To identify major management accounting practices that can improve cost control and profitability.
5. To provide suggestions for strengthening management accounting practices in manufacturing enterprises.

Review of Literature

Joshi – Indian Manufacturing Companies

Joshi examined management accounting practices in **60 large and medium-sized Indian manufacturing companies**. The study found that Indian companies relied considerably on traditional techniques, particularly budgeting and performance evaluation. Budgeting for day-to-day operations, cash-flow planning, budget variance analysis, ROI and cost control were among the highly adopted practices. Modern techniques had relatively lower adoption.

Highlight: Budgeting and performance evaluation remain important components of management accounting in Indian manufacturing.

Sharma and others – Evolution of Management Accounting in India

Research examining management accounting in India following economic liberalisation found that changes in competitive conditions influenced the evolution of management accounting practices. Firms exposed to international markets increasingly required broader and more strategically relevant information.

Highlight: Competitive strategy and environmental conditions influence the design of management accounting systems in Indian firms.

Pradhan, Swain and Dash – Indian Manufacturing

Pradhan, Swain and Dash examined the impact of management accounting techniques on supply-chain and firm performance in Indian industries. Their study focused on the adoption of management accounting techniques and their role in improving supply-chain performance. The research used confirmatory factor analysis and structural equation modelling. The study concluded that the adoption of appropriate management accounting techniques can support supply-chain performance and overall firm performance.

Highlight: Management accounting is not limited to financial control; it can support supply-chain efficiency and overall organisational performance.

Indian Manufacturing Sector – Management Accounting Systems

A study of **338 respondents from India's manufacturing sector** investigated the relationship between management accounting systems and financial efficiency. The study considered broad-scope information, timeliness, aggregation and integration. Interestingly, the findings did not establish a significant direct effect of broad-scope management accounting systems and integration on financial efficiency.

Highlight: The relationship between management accounting and performance is not automatically positive; managerial capability, organisational context and the actual use of information may determine effectiveness.

Kukreja and Shah – Indian Steel Industry, 2024

Kukreja and Shah examined management accounting practices in the Indian steel industry using data from **16 organisations and 48 respondents**. The study examined cost accounting and management accounting practices across different firm sizes. ANOVA results showed statistically significant differences associated with firm size in both cost accounting and management accounting practices.

The study reported the use of traditional costing, activity-based costing, cost classification and cost sheets. It also identified management commitment, internal expertise and technology as important issues affecting management accounting implementation.

Highlight: Firm size and organisational characteristics influence the level and sophistication of management accounting practices.

Research Methodology

Research Design

The study adopts a **descriptive and analytical research design**.

Nature of Data

The study uses **secondary data** obtained from:

- Government of India's Annual Survey of Industries.
- Published research articles.
- Academic journals.

- Research databases and published empirical studies.
- Official statistical publications.

The principal current-sector dataset is ASI 2023–24, representing the financial year April 2023 to March 2024. The Government released these results in 2025, so they should technically be described as **2023–24 manufacturing data**, rather than data collected entirely during calendar year 2024.

2024 Indian Manufacturing Sector Data

The following table presents official ASI data relevant to the study.

Table 1: Selected Manufacturing-Sector Indicators

Indicator	2022–23	2023–24	Change/Observation
Fixed Capital (₹ lakh)	41,21,79,458	46,24,09,035	Strong increase
Invested Capital (₹ lakh)	61,39,21,255	68,01,32,999	Increased
Persons Engaged	1,84,94,962	1,95,89,131	Increased
Total Emoluments (₹ lakh)	6,40,49,070	7,16,46,903	Increased
Input (₹ lakh)	1,22,89,54,623	1,28,68,83,003	Increased
Output (₹ lakh)	1,44,86,60,228	1,53,27,16,609	Increased
GVA (₹ lakh)	21,97,05,605	24,58,33,605	Increased
NVA (₹ lakh)	18,80,41,113	21,03,14,335	Increased

Source: Government of India, MoSPI, Annual Survey of Industries 2023–24.

The data indicate that Indian manufacturing expanded considerably. GVA increased from ₹21,97,05,605 lakh in 2022–23 to ₹24,58,33,605 lakh in 2023–24. Output increased from ₹1,44,86,60,228 lakh to ₹1,53,27,16,609 lakh. Employment increased from approximately 1.85 crore to 1.96 crore persons.

Analysis of 2023–24 Manufacturing Performance

The official ASI results show that:

- GVA increased by 11.89% in current prices.
- Industrial output increased by more than 5.80%.
- Employment increased by 5.92%.
- Output per person engaged was approximately ₹78.24 lakh.
- Net value added per person engaged was approximately ₹10.74 lakh.
- GVA per person engaged was approximately ₹12.55 lakh.
- Output-to-input ratio was 1.19 in 2023–24.

These indicators demonstrate an improving manufacturing environment, but they also emphasise the importance of controlling input costs and improving productivity.

Table 2: Selected Productivity Indicators

Indicator	2022–23	2023–24
Output per Worker	₹99.11 lakh	₹98.76 lakh
Output per Person Engaged	₹78.33 lakh	₹78.24 lakh
NVA per Person Engaged	₹10.17 lakh	₹10.74 lakh
GVA per Person Engaged	₹11.88 lakh	₹12.55 lakh
Output/Input Ratio	1.18	1.19

Source: ASI 2023–24.

The slight movement in output per person engaged alongside increased GVA per person engaged suggests that value creation and productivity should be monitored using both financial and non-financial performance measures

Major Management Accounting Practices and Their Impact

Budgeting

Budgeting helps manufacturing firms estimate sales, production, materials, labour, overheads and cash requirements. It establishes financial targets and provides a basis for comparison between planned and actual performance.

Effective budgeting can:

- Control expenditure.
- Improve resource allocation.
- Reduce unnecessary costs.
- Support cash-flow management.
- Improve coordination between departments.

Cost Accounting

Cost accounting provides information regarding product, process and departmental costs. Accurate cost information helps management determine selling prices, identify inefficient operations and evaluate product profitability.

Standard Costing and Variance Analysis

Standard costing establishes predetermined cost standards. Variance analysis compares actual costs with standard costs and identifies deviations.

Cost-Volume-Profit Analysis

CVP analysis helps managers understand the relationship between cost, volume and profit. It supports decisions concerning:

- Pricing.
- Production volume.
- Product mix.
- Break-even point.
- Contribution margin.

Performance Measurement

Financial indicators such as ROI, profit margin and cost ratios should be combined with non-financial indicators such as quality, delivery time, customer satisfaction, productivity and defect rates.

Strategic Management Accounting

Strategic management accounting provides information concerning competitors, markets, customers, suppliers and long-term strategies. It is increasingly important in an environment characterised by global competition and technological change.

Conceptual Framework



Findings of the Study

The study arrives at the following major findings:

1. Management accounting is an important internal information system for manufacturing enterprises.
2. Budgeting remains one of the most important management accounting practices in manufacturing.
3. Cost accounting helps managers understand product and process costs and supports pricing and cost-control decisions.
4. Variance analysis allows managers to identify deviations from planned costs and take corrective action.
5. The 2023–24 Indian manufacturing sector demonstrated strong growth in GVA, output and employment.
6. Basic metals, motor vehicles, chemicals, food products and pharmaceuticals were among the major contributors to manufacturing GVA.
7. Indian literature suggests that traditional management accounting techniques remain important, although modern techniques are increasingly relevant.
8. The 2024 Indian steel-industry study found significant differences in management accounting practices associated with firm size.
9. Indian empirical evidence is not entirely uniform. One manufacturing-sector study involving 338 respondents did not find significant direct effects for some dimensions of management accounting systems on financial efficiency.
10. Therefore, the effectiveness of management accounting depends not only on adopting techniques but also on management commitment, employee expertise, technology and effective use of information.

Suggestions

1. Strengthen Budgetary Control

Manufacturing enterprises should prepare flexible budgets and compare actual performance with budgeted performance regularly.

2. Improve Cost Information

Enterprises should maintain accurate product-wise, process-wise and department-wise cost information.

3. Adopt Modern Costing Techniques

Large and technology-intensive enterprises should consider:

- Activity-Based Costing
- Target Costing
- Life-Cycle Costing
- Kaizen Costing
- Strategic Cost Management

4. Integrate Digital Technology

ERP systems, business intelligence, data analytics and real-time dashboards can improve the speed and accuracy of management accounting information.

5. Develop Management Accountant Competencies

Management accountants should develop skills in data analytics, strategic planning, technology and business decision-making.

6. Combine Financial and Non-Financial Measures

Performance measurement should include profitability as well as productivity, quality, delivery, customer satisfaction and innovation.

7. Strengthen Strategic Management Accounting

Indian manufacturing enterprises should increasingly use competitor analysis, customer profitability analysis, value-chain analysis and strategic cost management.

Conclusion:

Management accounting practices have considerable potential to improve the financial performance of manufacturing enterprises by strengthening planning, cost control, resource allocation and managerial decision-making. Budgeting, cost accounting, standard costing, variance analysis and performance measurement continue to provide essential managerial information, while contemporary techniques such as activity-based costing, target costing and strategic management accounting can enhance competitiveness.

The Indian manufacturing sector demonstrated strong performance during 2023–24. According to ASI, GVA increased by 11.89%, industrial output increased by more than 5.80% and employment increased by 5.92%. This expansion reinforces the need for manufacturing enterprises to manage costs and resources effectively.

References

1. Adler, R., Everett, A. M., & Waldron, M. (2000). Advanced management accounting techniques in manufacturing: Utilization, benefits, and barriers to implementation. *Accounting Forum*, 24(2), 131–150.
2. Anthony, R. N. (1965). *Planning and control systems: A framework for analysis*. Harvard University.

3. Chenhall, R. H., & Morris, D. (1986). The impact of structure, environment, and interdependence on the perceived usefulness of management accounting systems. *The Accounting Review*, 61(1), 16–35.
4. Davila, T., & Wouters, M. (2006). Management accounting in the manufacturing sector: Managing costs at the design and production stages. In *Handbooks of Management Accounting Research* (Vol. 2, pp. 831–858). Elsevier.
5. Horngren, C. T., Datar, S. M., & Rajan, M. V. (2015). *Cost accounting: A managerial emphasis* (15th ed.). Pearson.
6. Joshi, P. L. (2001). The international diffusion of new management accounting practices: The case of India. *Journal of International Accounting, Auditing and Taxation*, 10(1), 85–109.
7. Kukreja, M., & Shah, M. D. (2024). An investigation between firm size and management accounting practices in the steel industry of India. *Pacific Business Review International*.
8. Mia, L., & Chenhall, R. H. (1994). The usefulness of management accounting systems, functional differentiation and managerial effectiveness. *Accounting, Organizations and Society*, 19(1), 1–13.
9. Otley, D. (1999). Performance management: A framework for management control systems research. *Management Accounting Research*, 10(4), 363–382.
10. Pradhan, D., Swain, P. K., & Dash, M. (2018). Effect of management accounting techniques on supply chain and firm performance—An empirical study. *International Journal of Mechanical Engineering and Technology*, 9(5), 1049–1057.
11. Sharma, U., & others. (1999). Economic transition, strategy and the evolution of management accounting practices: The case of India. *Accounting, Organizations and Society*, 24(5–6), 379–412.
12. Assad, S. N. B., Hamda, N., & Zakaria, N. (2024). The impact of managerial accounting practices on financial performance: A preliminary review. *iBAF e-Proceedings*. The review identified 103 relevant Scopus documents covering 2018–2024.
13. Baby, A., Mia, M. A., & Pitchay, A. A. (2024). A systematic review of financial performance in the manufacturing industry. *Future Business Journal*, 10, 70.
14. Government of India, Ministry of Statistics and Programme Implementation. (2025). *Annual Survey of Industries 2023–24: Results and key indicators*. Government of India.
15. *The propensity of risk-taking and financial efficiency: Exploring the role of management accounting system—Evidence from the manufacturing sector*. (2021). *Cogent Business & Management*. Study based on 338 respondents from India's manufacturing sector.

Copyright & License:



© Authors retain the copyright of this article. This work is published under the Creative Commons Attribution 4.0 International License (CC BY 4.0), permitting unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.