

A CASE STUDY ON ACCOUNTING SYSTEM OF NEPAL BANK LIMITED

A THESIS

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VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by

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A CASE STUDY ON ACCOUNTING SYSTEM OF NEPAL BANK LIMITED

And found the thesis to be original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements of the Masters of Business Studies (MBS)

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DECLARATION

I hereby, declare that the work reported in this thesis entitled “**A CASE STUDY ON ACCOUNTING SYSTEM OF NEPAL BANK LIMITED**” submitted to office of the Dean, Faculty of Management, Tribhuvan University in my original work done in the form of partial fulfillment of the requirement of Masters of Business Studies (M.B.S.) under the guidance and supervision of the reader Keshab Nath Wagle, of Nepal Commerce Campus.

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ABBREVIATIONS

AAA	American Accounting Association
A/C	Account
A.D.	Anno domini
AIS	Accounting Information System
A.O.C	Advance on Credit
A/R	Account Receivable
B.C.	Before Christ
B.S.	Bikram Sambat
B/S	Balance Sheet
Co.	Company
e.g.	For Example
FC	Foreign currency
F.I	Formalities Incomplete
FIFO	First In First Out
F/Y	Fiscal Year
GAAP	General Accepting Accounting Principle
G/L	General Ledger
G/N	The Government of Nepal
IAS	International Accounting Standard
i.e.	That is
J.B.R.	Janga Bahadur Rana
JVB	Joint Venture Banks
Ktm.	Kathmandu
L.C	Letter of Credit
Ltd.	Limited
MA	Management Accounting
NABIL	Nepal Arab Bank Ltd.
NAS	Nepal Accounting Standard
NBA	Non Banking Assets
NBL	Nepal Bank Limited
NIDC	Nepal Industrial Development Corporation
NJVB	Nepalese Joint Venture Bank
NPA	Non Performing Assets
NPE	Nepalese public Enterprises
NRB	Nepal Rastra Bank
NRs	Nepalese Rupee.
NMB	Nepal Merchant Bank
ODFD	Over Due Fixed Deposit
Orgn.	Organization
PER	Price Earning Ratio
P/L	Profit and Loss Account
RBB	Rastriya Banijya Bank
Sb	Somebody
Sth	Something
T-Bills	Treasure Bills
TIA	Tribhuvan International Airport
T.T	Telex Transfer

CHAPTER - ONE

INTRODUCTION

1.1 General Background of the study:

Nepal is a landlocked beautiful country situated between two giants China and India. Although it is least developed countries of the world and basically it is an agricultural country where more than 80 % of the population relies in agricultural. During the Rana regime, it was in the path of backward development. Rear developmental activities were seen at the period. After the emergence of democracy in Nepal, it is proceeding in the path of development step by step. Its developmental move is seen in each and every sector but not so satisfactorily. It stands at the bottom range even among the least developed countries. Well-organized financial institution, including finance companies, commercial banks and other plays an important role for the development of the country. They collect scattered financial resources from the mass and invest among those who are associated with the economic, commercial and social activities of the country which develop the economic power of people.

Concept of banking has developed from the ancient Goldsmith who practiced storing people's gold and valuables. The first modern banks are the Bank of Venice (1171), Bank of Geneva (1320) and Bank of Amsterdam (1609). In Nepal, Nepal Bank Ltd. was established as the first modern bank in 1994 B.S. There was one Central Bank and two other commercial and development banks before 2046 B.S. After declaring liberal economy and privatization policy, the government encouraged for joint venture banks. There are 26 Commercial banks, 61 development banks, 78 finance companies and 13 micro-credit

development banks, 16 saving and credit co-operatives (Limited Banking) and 45 non-government organizations at end of F/Y 2065/066.

Generally, the organization that transacts money is called bank. Bank and banking activities have always played a significant role for developments of various segment of country economy. Banks collect funds as a saving form from the community and invest them into most desirable and high yielding sectors in the process of economic development. It develops savings habits of people. "Bank assists both the flow of goods and services from the producers to the consumers and the financial activities of the government. Banking provides the country with a monetary system of making payments and is an important part of the financial system, which makes loan to maintain and increase the level of consumption and production in the economy" (The American Banker Association, 1972: 162).

"Accounting is regarded as a formal mechanism for gathering, organizing and communicating information about an organization's activities. That is why accounting is often accepted as the 'Language of Business' or as an 'information system'" (Wagle & Dahal, 2006, 1.1). The basic function of a language is to serve as a means of communication. Therefore, the accounting is regarded as an information generating system designed to measure and report upon economic aspects of entities that are related for decision making". "Process of identifying, measuring and communicating economic information to permit, informed judgments and decisions by users of information". American Accounting Association. The key words in the given definition are as follows:

- ❖ It suggests that accounting is about providing information to others. Accounting information is economic information.
- ❖ It relates to the financial or economic activities of the business or organization.
- ❖ Accounting information needs to be identified and measured. This is done by way of a "set of accounts", based on a system of accounting known as

double-entry bookkeeping. The accounting system identifies and records "accounting transactions".

- ❖ The "measurement" of accounting information is not a straight-forward process. It involves making judgments about the value of assets owned by a business or liabilities owned by business. It is also about accurately measuring how much profit or loss has been made by a business in a particular period. As we will see, the measurement of accounting information often requires subjective judgment to come to a conclusion.
- ❖ The definition identifies the need for accounting information to be communicated. The way in which this communication is achieved may vary. There are several forms of accounting communication (e.g. annual report and accounts, management accounting reports) each of which serve a slightly different purpose. The communication need to understand who needs the accounting information, and what they want to know!

The objective of accounting is to provide sufficient information to meet the need of the various users at the lowest possible cost. Accounting has many tools for recording business transactions, analyze it and for presentation. It is a perfect record keeping and informative system. Accounting is mainly three types. These are Financial Accounting, Cost Accounting and Management Accounting. The latest accounting system is management accounting. Financial accounting provides information about operating performance and financial positions of the organization. Cost accounting is basically designed to collect, analyzed, determine and control cost according to the products, divisions, customers, territories and other cost objectives. And management accounting is the process of identifying, measuring, analyzing, interpreting and communicating information to help manager in decision making.

“Accounting provides information to internal and external users. Businessmen, managers, accountants and other staffs are the internal users, while the external users are creditors, money lenders, government and financial analyzers. Thus,

accounting is not only to record the transactions in systematic manner and to analyze and interpret them, but it also communicates the information and data to users who have to make decisions or to form judgments. Accounting can be supposed as a vehicle to communicate the essential data and information to various users” (Dangol & Dangol, 2062, 2).

All commercial banks are profit earning organization by providing to services to the public. Functions of bank are service oriented but guided by profit motives. That is why for creating profit management should be strong and well performer. For strong management there should be strong planning and its implementation by utilizing best information. Accounting record gives more information to the management for making good decision. Therefore, developed and modern accounting system and its implementation play vital role for development of banks. Every bank have account department which is responsible for maintaining accounting records, formulating the bank's annual budget, effecting various payments and keeping accounts of various reserves of the bank. Almost bank use double entry system of accounting. In bank, there are two types of transactions, one is cash transaction and other is non cash or journal transaction. Proper record keeping, well analyzed and keeping good information measure the performance of management. Few years ago, oldest bank have had manual record keeping system. But now almost bank have adopted computerized record keeping system. It facilitates in fast services, well performance and profit. In conclusion, good accounting system is not only a part but it is an important part of banking development.

1.1.1 Meaning and function of commercial Banks

Commercial banks are those banks which pool together the saving of the community arranging them for the productive use. Commercial banks transfer the money in different areas and it play most important role in the economy. They provide loans and advances from the money which they receive through deposits.

“A commercial bank is a bank, which deals in exchanging currency, accepting deposits, giving loans and doing commercial transaction” (The Commercial Bank Act ,2031). It shows that bank is a commercial pool of depositor and lender. In absence of bank and financial institutions, the country can't achieve its development of economy.

A) Functions of Commercial Banks:

There are many functions of commercial banks. The following are the main functions performing by the commercial banks: (Singh, 2009; 21).

- ❖ Advancing Loan
- ❖ Accepting Deposit
- ❖ Discounting of bill of exchange
- ❖ Payment of cheque
- ❖ Remittance
- ❖ Collection and Payment of credit Instruments
- ❖ Exchange foreign currency
- ❖ Consultancy
- ❖ Bank guarantee
- ❖ Agency functions
- ❖ Other Functions

1.1.2 Evolution of Banking/ Financial Sector in Nepal

A) Commercial Banks:

Commercial Banking in Nepal started with the establishment of Nepal Bank Limited (NBL) in 1937. Government and the private sector had 51% and 49% shares respectively. With the objective of expanding banking services to nooks and corners of the country, Rastriya Banijya Bank was set up in 1966 with 100% government investment. In early '80s, the government opened-up Nepalese banking sector for foreign investment. As a result, Nepal Arab Bank Limited (renamed NABIL Bank Limited on 1st January 2002) was established in 1984

with joint venture between Dubai Bank Limited, Dubai, Nepalese financial institutions (Rastriya Beema Sansthan, Nepal Industrial Development Corporation and Security Exchange Centre) and general Nepalese public. In 1986 and 1987, Nepal Indosuez Bank Limited and Nepal Grindlays Bank Limited came into operations with 50% holding by Banque Indosuez, Paris and ANZ Grindlays Bank Limited, Australia respectively.

With the restoration of multi-party democracy in 1990, the government pursued liberal economic policy which paved the way for establishment of commercial banks by the private sector with or without foreign investment. Presently, there are 26 commercial banks in the country. Commercial banks are major players of the financial market as they have lion's share in country's deposits (81%) and credit (72%).

B) Central Bank:

Nepal Rastra Bank (NRB) has been carrying out the functions as the central bank since 1956.

C) Development Banks

Nepal Industrial Development Corporation (NIDC) was setup in 1959 by the government under a special charter with the objective of promoting private industrial sector. Similarly, Agricultural Development Bank was established in 1968 under a special Act with the objective of providing institutional credit for giving a fillip to agricultural sector. With the introduction of Development Bank Act 1996, the number of development banks increased. Currently, there are 61 development banks (including rural development banks) with 11% and 18% share in country's deposits and advances respectively.

D) Finance Companies:

Though Finance Company Act was enacted in 1985; the first finance company named Nepal Housing Development Finance Company came into operations

only in 1992. Currently, there are 78 finance companies with 7 % share in country's deposits and 9% share in advances.

E) Cooperatives:

Despite the concept of cooperative being very old in Nepal, the formal cooperative working under NRB regulation and supervision was established in 1993 only. Nabajeeban Cooperative Society is the first of its kind. Currently, there are 16 cooperatives working under NRB with around 1% market share in both the deposits and advances.

In the last 12 years, a large number of commercial banks, development banks, finance companies and cooperatives have been established. To expand their business, they have aggressively expanded branch]network (specially urban areas).Number of banks/financial institutions and their branches have increased at a time the country was going through a turbulent period due to the Maoist insurgency which impacted economic growth severely.

Establishment of these institutions triggered competition in the market. As a result customers got better and new services at a competitive price, however, the number of professionals and size of economy did not grow to keep up with the increase in number of banks and financial institutions. It gave rise to reckless lending which contributed for high level of non-performing loans in the industry.

In sum, the overall health of financial sector with particular reference to Banking Sector is not in a good shape due to a host of factors such as lack of transparency, permissive banking practices, weak legal system, weak regulatory environment, high level of impaired debt, dearth of skilled manpower/specialists/professionals etc.

There are many commercial banks and financial institutions in Nepal. The following table shows the data of commercial banks working in Nepal.

Figure No.1.1
Commercial Banks in Nepal

S.No.	Names	Operation Date (A.D.)	Head Office
1	Nepal Bank Limited	1937/11/15	Kathmandu
2	Rastriya Banijya Bank	1966/01/23	Kathmandu
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu
4	NABIL Bank Limited	1984/07/16	Kathmandu
5	Nepal Investment Bank Limited	1986/02/27	Kathmandu
6	Standard Chartered Bank Nepal Limited.	1987/01/30	Kathmandu
7	Himalayan Bank Limited	1993/01/18	Kathmandu
8	Nepal SBI Bank Limited	1993/07/07	Kathmandu
9	Nepal Bangladesh Bank Limited	05/06/1994	Kathmandu
10	Everest Bank Limited	1994/10/18	Kathmandu
11	Bank of Kathmandu Limited	1995/03/12	Kathmandu
12	Nepal Credit and Commerce Bank Limited	1996/10/14	Siddharthanagar, Rupendehi
13	Lumbini Bank Limited	1998/07/17	Narayangadh, Chitawan
14	Nepal Industrial & Commercial Bank Limited	1998/07/21	Biaratnagar, Morang
15	Machhapuchhre Bank Limited	2000/10/03	Pokhara, Kaski
16	Kumari Bank Limited	2001/04/03	Kathmandu
17	Laxmi Bank Limited	2002/04/03	Birgunj, Parsa
18	Siddhartha Bank Limited	2002/12/24	Kathmandu
19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa
20	Citizens Bank International Ltd.	2007/6/21	Kathmandu
21	Prime Commercial Bank Ltd	2007/9/24	Kathmandu
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu
24	Development Credit Bank Ltd.	2001/01/23	Kamaladi, Kathmandu
25	NMB Bank Ltd.	1996/11/26	Babarmahal, Kathmandu
26	Kist Merchant Bank Ltd.	2003/02/21	Kamalpokhari, Kathmandu

(Source www.nrb.com.np)

1.1.3 Introduction of Nepal Bank:

A) Nepal Bank History:

His Majesty King Tribhuvan inaugurated Nepal Bank Limited on Kartik 30, 1994 Bikram Sambat. This marked the beginning of an era of formal banking in Nepal. Until then all monetary transactions were carried out by private dealers and trading centers.

Then Prime Minister Maharaja Juddha Shumsher J.B.R. speaking on the occasion with the kind permission of His Majesty the King stated this work which is being done in the larger interest of the nation is a great moment for me. Until today a bank could not be opened in Nepal. Therefore this bank, which is being established under the name of Nepal Bank Limited to fill that, need and to be inaugurated by His Majesty the King. The Bank's objectives are to render service to the people whether rich or poor and to contribute to the nation's development.

In the absence of any bank in Nepal the economic progress of the country was being hampered and causing inconvenience to the people and therefore with the objective of fulfilling that need by providing service to the people and for the betterment of the country, this law is hereby promulgated for the establishment of the Bank and its operation.

In that era, very few understood or had confidence in this new concept of formal banking. Issuing equity shares were not so easy and mobilization of deposits was even more difficult. This was evident when the bank floated equity shares worth NRs. 2,500,000, but was successful only in raising NRs. 842,000.

The total deposits for the first year was NRs. 17,02,025 where current deposits was about NRs. 12,98,898 fixed was about NRs. 3,88,964 and saving was NRs. 14,163. Loan disbursed and outstanding at the end of the first year was NRs. 1,985,000.

From the very conception and its creation, Nepal Bank Ltd, was as joint venture

of the government and the private sector. Out of 2500 equity shares of NRs. 100 face value, 40% was subscribed by the government and the balanced i.e. 60% was offered for the sale to private sector. There were only 10 shareholders when the bank first started.

B) Overview of Nepal Bank:

Nepal Bank Limited, The first bank of Nepal was established in November 15, 1937 A.D (Kartik, 30, 1994). It was formed under the principle of Joint venture (Joint venture between govt. & general public). NBL's authorized capital was Rs. 10 million & issued capital Rs. 2.5 million of which paid-up capital was Rs. 842 thousand with 10 shareholders. The bank has been providing banking through its branch offices in the different geographical locations of the country.

C) Vision Statement of Nepal Bank:

- ❖ "To remain the leading financial institution of the country"

D) Mission Statement of Nepal Bank:

Nepal Bank Limited seeks to provide an environment within which the bank can bring unique financial value and services to all customers. It will be a sound institution where depositors continue to have faith in the security of their funds and receive reasonable returns; borrowers are assured of appropriate credit facilities at reasonable prices; other service- seekers receive prompt and attentive service at reasonable cost; employees are paid adequate compensation with professional career growth opportunities and stockholders receive satisfactory return for their investment.

E) Values Statement of Nepal Bank:

Nepal Bank Limited believes that their banking should be based on:

- ❖ Respect, service and safety for the customers we serve
- ❖ Respect, reward and opportunity for the people with whom we work
- ❖ Respect, cooperation and support for the economic community of Nepal

F) Objectives of Nepal Bank:

Nepal Bank Limited has the following objectives

- ❖ Continue to maintain leading share of banking sector with a significant presence in all major geographical areas in the country.
- ❖ Provide competitive and customer oriented banking services to all customers through competent and professional staff.
- ❖ Reclaim leadership within the national financial community.

G) Shareholding Composition:

In NBL there are many shareholders. Mostly the share percentage of Government of Nepal and General Public are high than others. The following Figure gives the overall composition of Shareholders.

Figure No 1.2

Compositions of Shareholders

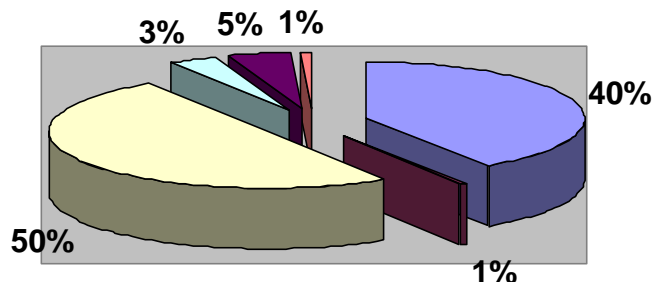
S.N	Ownership	Percent
1	Government of Nepal	40.49
2	'A' Class Financial Institutions	4.92
3	NRB Licensed Financial Institutions	3.42
4	Other Institutions	0.52
5	General Public	49.94
6	Others	0.71
	Total	100

(Source: www.nbl.com.np)

H) Shareholding Composition (Pie-Chart View):

Chart No 1.1

Share Capital Composition



Government of Nepal	Other Institutions
General Public	NRB Licenced Financial Institutions
'A' Class Financial Institutions	Others

I) Composition of Board of Directors:

The management of Nepal Bank Limited was taken over by NRB on 2058/12/1 (mid March 2001). 3 members Management Committee was formed for the operation of the bank. Subsequently, under the financial sector reform program of G/N, it has appointed Bank of Scotland (Ireland) Limited, ICC Consulting for restructuring and operation of the bank effective July 22, 2002 for the initial period of 2 years subject to renewal. On expiry of the contract of ICC Consulting on July 22, 2007, NRB has again appointed 3 members of Management Team for the operation of the bank. Now, NRB has appointed a four members management committee. This management committee performs as the board of director of the bank. It is under the leadership of NRB appointed Chief Executive Officer Dr. Binod Atreya, Director of NRB.

J) NBL Network Overview:

NBL has 99 branches spread all in rural areas of Nepal. It is a huge networking in banking sector as well as computer branches. No. of computerized branches of NBL is 46 and branches under single computer networks is 44. The following table shows the regional branch no. of NBL.

Figure No 1.3

Branches of NBL as Region Wise

Region wise Branches	No of Branches
Kathmandu Region	25
Biratnagar Region	26
Birgunj Region	16
Pokhara Region	16
Nepalgunj Region	16
Total No of Branches	99

(Source: www.nbl.com.np)

K) Organization of the Accounting Department:

In NBL there are many department and large volume of transaction. The involvement of employee in accounting system is around 500. So, there is a better combination and structuring of accounting.

In many cases the same person will do many of accounting works. It may be a cause of fraud. However, there are large areas and controlling system we'll found in NBL for an effective accounting system.

The duties and areas of responsibility of NBL's accounting department are as follows.

- ❖ Overall responsibility for the accounting system
- ❖ Management of the computer system
- ❖ Accounts receivable

- ❖ Accounts payable
- ❖ Order entry
- ❖ Cost accounting
- ❖ Yearly reporting to NRB
- ❖ Inventory control
- ❖ Payroll
- ❖ Internal accounting control
- ❖ Fixed assets accounting

1.2 Focus of the Study

This study mainly focuses to analysis accounting system in Nepalese commercial banks. It has been done with help of the concept of accounting. Analysis of accounting system helps to find out the condition of banks accounting system, its trend position and requirement for improvement. At, present 26 commercial banks have been established in the countries and some more are in process of being established. Their performance is expected to improve by computerized accounting system. Therefore, the study is made. Being so many commercial banks, only one commercial bank is selected as sample, namely Nepal Bank Ltd. Basically, the study directed for examining the condition of accounting system in commercial banks, its impact in management performance and services, the power of accounting system for forecasting financial position, its condition of utilization as informative function and its overall impact in planning.

1.3 Statement of the Problems

A well functioning accounting system is an essential element in banking efficiency. It is essential for good planning and work performance. Through a better accounting system a manager can bring more useful information and increase his/her performance. The main problem area of the study is to find out the condition of accounting system in commercial banks, its impact in management performance and services, the power of accounting system for

forecasting financial position, its utilization as informative function and its overall impact in planning. Following are the questions to be answered in the above contest.

- ❖ How far banks are practicing accounting system and tools for recording transactions, analyze it and use it as informative ways.
- ❖ What are the major difficulties in the applications and implementation of accounting tools?
- ❖ What is the power of accounting system in forecasting financial position?
- ❖ How far banks are utilizing its accounting information in planning process?
- ❖ What steps should be taken for improvement of accounting system in Commercial banks?

1.4 Objectives of the study

The basic objective of the present study is to analyze the condition of accounting system being practiced in commercial banks, its impact in management performance and services, the power of accounting system for forecasting financial position, its utilization as informative function and its overall impact in planning. The specific objectives are as follows;

- ❖ To identify the practices of accounting system and principles being present in Nepal Bank Limited.
- ❖ To review the accounting system and policies being practiced in Nepal Bank Limited.
- ❖ To evaluate the contribution of accounting systems in the overall performance of the Bank.
- ❖ To explore the general environmental factors regarding to the accounting system.
- ❖ To provide the recommendations for the improvement of accounting system in Nepal Bank Limited.

1.5 Significance of the Study

The study will have a great importance in the present context of banking business in Nepal. A well develop banks indicate the better success of managing team. Good accounting system gives a power of good decision and best planning which is possible by using various accounting tools and methods in banks. This study covers the analytical part of the condition of accounting system, its impact in management performance and services, the power of accounting system for forecasting financial position, its condition of utilization as informative function and its overall impact in planning in commercial banks. So, it gives huge power for the manager. Some pointing significances are as follows;

- ❖ It examines overall accounting system and its position in Nepal bank limited.
- ❖ It explains problems of accounting system and advice for improvement in Nepal bank limited.
- ❖ It explains the problem and potentialities of using accounting information in decision making.
- ❖ It focuses to apply many useful accounting tools for analyzing the transactions.
- ❖ It is useful to concerned company policy maker, company manager, practitioners, researchers and students.
- ❖ It provides literature to the researcher, who wants to carry out further research in this field.

1.6 Limitations of the Study

Each and every study has its limitation. Limited resources, reliability of analytical tools used and lack of research experience are the major limitation of the study. Some other limitations can be enlisted as follows;

- ❖ Time is a major limitation of the study as the present study is conducted for the partial fulfillment for the degree of Masters of Business Study.

- ❖ The studies based on primary as well as secondary data. So, the reliability of data depends upon the responses of the respondents. Also the relevancy of the secondary data relies on published financial documents, annual reports and other books and journals.
- ❖ The study analyzes the eight year data only i.e. from 2057/58 to 2064/65.
- ❖ The study is limited in the accounting system of Nepal Bank Limited.
- ❖ The focus is given to the quantitative aspects of the sampled bank, qualitative factors are not studies.
- ❖ Due to availability of the limited information this study does not cover every part of the performance aspects.

1.7 Organizational Structure (Plan) of the Study

This study has been organized into five chapters, which is as follows:

Chapter one: Introduction

The first chapter contains the introduction part of the study followed by overview of banks and its accounting system, focus of the study, statement of the problems, objectives of the study, significance of the study, limitations of the study and organization of the study.

Chapter two: Review of Literature

Chapter second includes the conceptual review, review of previous studies and review of article and journals and research gap.

Chapter three: Research Methodology

Chapter third explains the research methodology. It consists of introduction, research design, nature and sources of data, population and sample of the studies, data collection procedure, data analysis tools and techniques and presentation procedures.

Chapter four: Presentation and Analysis of Data

Chapter four consists of presentation of data, analysis of data with different tools and includes major findings of the study.

Chapter five: Summary, Conclusion and Recommendation

The whole study is summarized and concluded in chapter five. There is found summary, conclusion and recommendations.

Bibliography and Appendices are also included in last part of the study.

CHAPTER - TWO

REVIEW OF LITERATURE

2.1 Conceptual / Theoretical reviews:

This Chapter includes the theoretical /conceptual review and review of related studies, which helps to understand the present accounting system in Nepalese commercial banks and practices of accounting system in different banks in Nepal. It may be the base for future study and way to management of Banking accounting system.

2.1.1 Concept/ Meaning of Accounting:

Accounting is an information generating system designed to measure and report upon economic aspect of entities that are relevant for decision making. It is the process of quantitative information about economic entities to aid users in making decisions concerning the allocation of economic resources. It is regarded as analytical process starting from the collection and recording the financial transactions and ending with the reporting the performance to the various interested parties. It is an art of recording, classifying and summarizing transaction of financial character in terms of money and finally interpreting the result there by .it is a systematic means of collecting information, recording and communicating it by way of somewhat standardized report format.

We can define account as many aspects. The word "Account" is used in different sense. According to Oxford Advance Learner's Dictionary, the Account is an arrangement that sb has with a Bank to keep money there, takes some out. Likewise, it represents as a regular customer, as an internet/e-mail Account (as an arrangement that sb has with a co. that allows them to use the internet, send & receive messages by e-mail), as an explanation or a description of an idea, a theory or a process (as a written or spoken description of sth that has happened). In Business view; Account is a process to keeps record of different transaction of

business, Banks and individuals. According as from Oxford Advance Learner's Dictionary; "A written record of money that is owed to a business and of money that has been paid by it". So, we can say that Account is a record keeping or book-keeping work. It keeps records of many transactions as systematic an easy way. It is a first part of Accounting.

Businessmen must keep a systematic record to know what happen from his day to day Transactions. The art of keeping records in a regular and systematic manner is called "Book-Keeping". Book-Keeping is an elementary stage of accounting. Accounting means the process of analysis financial transactions and recording them in the books of account to show the result of financial positions. Accounting is also known as an administrative tool, a means to an end which produces the financial information needed for successful administrator. However account is a mirror which shows a clear picture of revenue and expenditure made for a specific period. The financial picture mostly has two parts one showing profit or loss through income statement and other showing assets and liabilities through balance sheet.

2.1.2 Definitions of Accounting:

It is said earlier that accounting means the systematic record and analysis of financial transaction maintained in regular and proper manner. Accounting has been subjected to numerous studies. Some definitions concerning the term accounting have been mentioned here.

Accounting is a system of generating and communicating financial information to tabulate the result of operations of enterprises.

Accounting contributes to the decision making process by providing some of the information needed in determining how to allocate limited resources as efficiently as possible. The information supplied by accounting is in the form of quantitative

data, primarily financial in nature and is concerned with origination units called economic entities

Accounting is a service activity designed to accumulate, measure, and communicate financial information about organization for decision making purposes. A committee of the American Institute has defined "Accounting is the art of recording, classifying and summarizing in significant manner and in terms of money".

"Accounting is considerable a one of the most effective tools of the management for measuring efficiency". (H.M Suran, 2004; 3)

Therefore, it is clear that, accounting means the collection and processing of financial data of an entity to report the decision makers. In general terms, there are three aspects of accounting function which adapts to suit business requirements. The first aspect is that the system it lays down for recording business transactions. The second aspect deals with the method of controlling day to day business operations. The third is the managerial or service aspect which analysis business situations for appraising the past and deciding the best action to be followed in the future.

2.1.3 Book –keeping and Accounting:

The Terms Book-keeping and Accounting are used sometimes synonymously though they are substantially different in nature. Book-keeping is a part of accounting. It is the preliminary stage of accounting. Book –keeping in an activity, complementary to the accounting process which is concerned with the recording financial data relating to business operations in a significant and orderly manner. However, accounting is much more extensive in its scope. It does the designing of system for internal and external purpose.

2.1.4 Functions of Accounting:

Accounting is a main part of a business. There is many function are in accounting. The main functions are mentioned as following: (Munakarmi, 2004; 6).

- ❖ To keep permanent record of the financial transactions of the business systematically in chronological order.
- ❖ To help to determine the amount of profit or loss made during the accounting period by keeping proper records of income and expenditure of the business.
- ❖ To help to determine the financial position of the business entities with the help of proper records of assets and liabilities.
- ❖ To keep record of the value of assets and liabilities along with change in their value.
- ❖ To help reduce and control cost.
- ❖ To provide financial information as per ledger requirement and tax assessment.

2.1.5 Objective of Accounting:

Record keeping is the main objective of accounting. It is a simple view. But in modern time it doesn't cover the whole objectives. Objectives of an accounting are different in different organization. In summarized form the main objectives are given below: (Munakarmi, 2004; 7).

- ❖ To maintain records of financial transactions.
- ❖ To ascertain the amount of profit or loss made by business operation.
- ❖ To dispatch the financial position of the entity.
- ❖ To make information available to various groups and users; internal and external.
- ❖ To help determine the tax amount.
- ❖ To facilitate to detect the inefficiencies and make decisions.

2.1.6 Importance of Accounting System:

Accounting is a crucial part of running a business. Many people mistakenly believe that if one is starting a business, he /she really don't need accountants. However, this is not true. If one wants his/her business to reach its full potential, he/she have to follow basic accounting practices. One might find accounting boring but you can't avoid it.

When one starts a business, he/she need an accounting system in place. This will help to create a record of all the revenues and the expenditures of business on a daily basis. Maintaining this data is crucial because one will need it when he/she file for tax returns. In banking sector it is important also for legal purposes.

Another important reason for maintaining an accounting system is that it provides a tool to assess business' performance. An accounting system provides information about business that will help to analyze its weak and the strong points. It provides way to find out what is helping to business and what is not.

By pointing out how important accounting is, it will be more than eager to put in that extra effort. It is needed to ensure that financial records accurately reflect or not the business income and expenditure.

Most businesses maintain their records in a ledger, which is a record of sales receipts and expenditures. It should be transfer all of receipts and expenditures to this ledger. It must to do on a daily, weekly or a monthly basis. Basically, this will depend on business.

Accounting for a bank usually consists of the following financial measures: Balance Sheet, Profit and Loss Statement, Cash Flow Statement, Income and Expenditure statement, and other related statements.

The Balance Sheet portrays how much business is worth. This statement will list all assets and liabilities. If it is done in a proper manner, the Balance Sheet can show exactly where business stands. Ledger will not show accounts payables and receivables but balance sheet will.

The Profit and Loss Statement shows how business is performing. This statement covers a time period which could be monthly or quarterly. The Cash Flow Statement provides an assessment of future cash needs for business.

The income and Expenditure statement shows the income and expenses in detail and forecast the actual income.

A) The main important of accounting system is as follows:

- ❖ Planning: The financial information is required for the purposes of costing, forecasting, budgeting and planning.
- ❖ The financial information is needed for the managed shareholders, creditors, bankers.
- ❖ It is difficult to remember the various financial receipt and payments taking place during the period of time. Accounting shows that a payment has been made when and what for?
- ❖ Accounting is considerable as one of the most effective control tool.
- ❖ Proof: Taxation authorities are likely to believe the facts contained in the set of an accounting book, which are maintained according to generally accepted accounting principles.
- ❖ Evidence: Accounting records, backed up by proper and authenticated vouchers are good evidence in the court of law.
- ❖ Goodwill: Accounting increases the goodwill of the business. It keeps the smooth relation with its customers, suppliers etc.

- ❖ Decision making: Accounting contributes to the decision making process determining how to allocate limited resources as efficiently as possible.
- ❖ Profitability: An entity can increase profitability using various accounting techniques such as cash management in venture management.

B) Responsibilities of an accountant in modern time:

Traditionally, the accountant was expected to compile and present the financial information to the owner of the entity at the end of the accounting period. But with the advent of cost accounting, management accounting and financial accounting the duties of the accountant are grown enormously. The function of accounting beyond the traditionally accepted double entry routines can be grouped under.

1. Financial Function
2. Central Function
3. Planning Function.

Traditionally, accounting system was concerned with only financial accounting. The area of accounting is concerned with periodically measuring and reporting on the financial status and operating results of the organization to outside parties. This obligatory function of accounting system was useful to record the transactions and maintain ledgers, prepare financial statement and report to the interested external parties. Besides, the traditional accounting system was of little use for the management while planning and controlling, and making decision. For this purpose, management accounting system is developed. In other words, management accounting system is a resource of management that supplies financial information at all the levels. Especially in planning and administering of business.

2.1.7 Scope of Accounting:

The scope of accounting is very wide. Accounting is required both the trading and the non-trading organizations. It is also necessary for Governmental and Quasi Governmental Organizations. Further the accounting knowledge is very

helpful to professional and individual. As a result, the accounting is very much necessary and helps to following groups: (Munakarmi,; 2004; 8).

- ❖ Public accounting which includes:
 - a) Auditing
 - b) Management advisory services
 - c) Tax services
- ❖ Governmental, Quasi-governmental and Business Organizations which includes:
 - a) Governmental bodies
 - b) Quasi-governmental and non-profit organization
 - c) Business Enterprises: Sole Trading, Partnership, Company and Corporation
- ❖ Management Accounting which includes:
 - a) Design and operating of accounting system
 - b) Budgeting
 - c) Cost Accounting
 - d) Internal auditing
 - e) Tax accounting

2.1.8 Accounting Principles (Concept & Conventions):

Accounting is the language of business and it is used to communicate financial information. In order for that information to make sense, accounting is based on various fundamental concepts. These fundamental concepts then form the basis for all of the Generally Accepted Accounting Principles (GAAP). By using these concepts as the foundation, readers of financial statements and other accounting information do not need to make assumptions about what the numbers mean. For this reason it is imperative to know and understand the eleven key concepts.

By understanding and applying these principles you will be able to read, prepare, and compare financial statements with clarity and accuracy. The bottom-line is

that the ethical practice of accounting mandates reporting income as accurately as possible and when there is uncertainty, choosing to err on the side of caution.

1. Accounting concepts and
2. Accounting conventions

Accounting Concepts:

It is considered as a postulates. Basic assumptions or conditions upon which, the science of accounting is based. There is no authoritative list of these concepts but some of the usual concepts are discussed here.

1.Entity:

Accounts are kept for entities and not the people who own or run the company. Even in proprietorships and partnerships, the accounts for the business must be kept separate from those of the owner(s).

2.Money-Measurement:

For an accounting record to be made it must be able to be expressed in monetary terms. For this reason, financial statements show only a limited picture of the business. Consider a situation where there is a labor strike pending or the business owner's health is failing; these situations have a huge impact on the operations and financial security of the company but this information is not reflected in the financial statements.

3. Going Concern:

Accounting assumes that an entity will continue to operate indefinitely. This concept implies that financial statements do not represent a company's worth if its assets were to be liquidated, but rather that the assets will be used in future operations. This concept also allows businesses to spread (amortize) the cost of an asset over its expected useful life.

4. Cost:

An asset (something that is owned by the company) is entered into the accounting records at the price paid to acquire it. Because the “worth” of an asset changes over time it would be impossible to accurately record the market value for the assets of a company. The cost concept does recognize that assets generally depreciate in value and so accounting practice removes the depreciation amount from the original cost, shows the value as a net amount, and records the difference as a cost of operations (depreciation expense.) Look at the following example:

Truck	NRs.10,000	purchase price of the truck
Less depreciation	NRs. <u>1,000</u>	amount deducted as a depreciation expense
Net Truck:	NRs. 9,000	net book-value of the truck

The NRs.9000 simply represents the book value of the truck after depreciation has been accounted for. This figure says nothing about other aspects that affect the value of an item and is not considered a market price.

5. Dual Aspect:

This concept is the basis of the fundamental accounting equation:

Assets = Liabilities + Equity

1. Assets are what the company owns.
2. Liabilities are what the company owes to creditors against those assets
3. Equity is the difference between the two and represents what the company owes to its investors/owners.

All accounting transactions must keep this equation balanced so when there is an increase on one side there must be an equal increase on the other side or an equal decrease on the same side.

6. Objectivity:

The objectivity concept states that accounting will be recorded on the basis of objective evidence (invoices, receipts, bank statement, etc...). This means that

accounting records will initiate from a source document and that the information recorded is based on fact and not personal opinion.

7. Time Period:

This concept defines a specific interval of time for which an entity's reports are prepared. This can be a fiscal year (1st Shrawan-31st Ashad), natural year (1st Baishak-31st Chaitra), or any other meaningful period such as a quarter or a month.

8. Conservatism:

This requires understating rather than overstating revenue (income) and expense amounts that have a degree of uncertainty. The rule is to recognize revenue when it is reasonably certain and recognize expenses as soon as they are reasonably possible. The reasons for accounting in this manner are so that financial statements do not overstate the company's financial position. Accounting chooses to err on the side of caution and protect investors from inflated or overly positive results.

9. Realization:

Revenues are recognized when they are earned or realized. Realization is assumed to occur when the seller receives cash or a claim to cash (receivable) in exchange for goods or services. This concept is related to conservatism in that revenue (income) is only recorded when it actually occurs and not at the point in time when a contract is awarded. For instance, if a company is awarded a contract to build an office building the revenue from that project would not be recorded in one lump sum but rather it would be divided over time according to the work that is actually being done.

10. Matching:

To avoid overstatement of income in any one period, the matching principle requires that revenues and related expenses be recorded in the same accounting period. If you bill NRs.20,000 of services in a month, in order to

accurately represent the income for the month you must report the expenses you incurred while generating that income in the same month.

11.Consistency:

Once an entity decides on one method of reporting (i.e. method of accounting for inventory) it must use that same method for all subsequent events. This ensures that differences in financial position between reporting periods are a result of changed in the operations and not to changes in the way items are accounted for.

12.Materiality:

Accounting practice only records events that are significant enough to justify the usefulness of the information. Technically, each time a sheet of paper is used, the asset “Office supplies” is decreased by an infinitesimal amount but that transaction is not worth accounting for.

In View of different people, there is different principal. So, it is necessary to know about general accepted accounting principal which are given below in figure.

Figure No 2.1

Generally Accepted Accounting Principles (GAAP)

Generally Accepted Concept	Generally Accepted Principles
1. Business Entry Concept	1. Cost Principle
2. Going Concern Concept	2. Realization Principle
3. Money Measurement Concept	3. Matching Principle
4. Accounting Period Concept	4. Objectivity Principle
	5. Consistency Principle

(Munakarmi, 2004; 9)

2.1.9 Accounting Process:

The sequence of accounting procedures used to record, classify, and summarize accounting information is often termed the accounting process or cycle. The accounting process includes as follows: (Munakarmi, 2004; 20).

- ❖ Financial/Business transactions or economic events
- ❖ Documents of financial transaction
- ❖ Recording the economics event in the book of original entry, i.e., journal and subsidiary books
- ❖ Posting into ledger account
- ❖ Preparation of unadjusted trial balance
- ❖ Preparing adjustment entries for internal event and unrecorded transactions
- ❖ Preparation of adjusted trial balance, and
- ❖ Preparation of final accounts.

2.1.10 Accounting Cycle:

Accounting cycle is the procedure for recording, summarizing, classifying, and reporting the transactions of an entity. In order to determine how well an entity is managing its sources, the result of these and similar transactions must be analyzed. The accounting cycle makes that analysis possible by recording; classifying and summarizing an entity's transactions and preparing report that present the summary results.

Accounting cycle refers to complete sequences of accounting procedure which are required to be repeated in the same order during each accounting period. Accounting cycle includes the following items:

- ❖ Recording: First of all transactions should be recorded in the journal of Book of original entry know as subsidiary books whenever they take place.
- ❖ Classifying: All entries in the journal of books of original entry should be posted the appropriate ledger accounts to find out at glance the total effect of all such transactions in a particular account.

- ❖ Summarizing: The last step is to prepare trial balance and final account with a view to ascertain the profit or loss made during a trading period and the financial positions of the business on particular date.

The following steps were found as accounting cycle: (Source: www.quickmba.com)

Steps in the Accounting Cycle

Identify the Transaction

Identify the event as a transaction and generate the source document.

ù

Analyze the Transaction

Determine the transaction amount, which accounts are affected, and in which direction.

ù

Journal Entries

The transaction is recorded in the journal as a debit and a credit.

ù

Post to Ledger

The journal entries are transferred to the appropriate T-accounts in the ledger.

ù

Trial Balance

A trial balance is calculated to verify that the sum of the debits is equal to the sum of the credits.

Ù

Adjusting Entries

Adjusting entries are made for accrued and deferred items. The entries are journalized and posted to the T-accounts in the ledger.

Ù

Adjusted Trial Balance

A new trial balance is calculated after making the adjusting entries.

Ù

Financial Statements

The financial statements are prepared.

Ù

Closing Entries

Transfer the balances of the temporary accounts (e.g. revenues and expenses) to owner's equity.

2.1.11 Historical Development of Accounting System:

Historical development of accounting is as long as money. Accounting was practiced in India twenty three centuries ago. It clear from the book named "Arthashastra" written by Kautilya. Written record of accounting have been traced back as far as 5000 B.C to the Egypt & Babylonia empire, which used to record on a clay tablets such transactions as the payment of wages and taxes. During the roman period detail tax records were maintained. In England under Henry I period, investigation of financial records similar to contemporary audits were concluded. However, the modern system of accounting was originated from Italian Franciscan Monk, Luca Pacioli. He published the system of double entry system on his book "Accounting of Venice" which was published in 1494 at Venice in Italy. This system is still in use. He had described three kinds of accounts. They are

1. Quarderno or Final account
2. Memoraile or ledger account and
3. Geornal or Journal

In the 17th and 18th centuries the Industrial Revolution in England provided the impetus for the developing new approaches in accounting that focused on the accumulation of data about the cost of manufacturing each product.

Manufacturing processes started to evolve from individualized, handicraft systems to mass production, factory systems. Technological advances not only provided new machinery but required new types of expenditures as well as cost accounting system had to be developed to analyze and control the financial operations of this increasingly complex manufacturing process. During the late 1930 and 1940's attempts were made to formalize the framework underlying the rules for recording and reporting financial matters. The works of Sanders, Hat Field and Moore (1938) Gilman (1939) Patton and Littleton (1940) and other attempted to rationalize existing practice and to sell the framework within which alternative ideas and procedure might be evaluated. F.W Taylor designed many

of the complex cost systems used by large manufacturing firms during the late nineteenth century.

Early accounting practice was to record transactions and accumulates such records. It was later developed to consider the usefulness of the balance sheet and profit and loss account. It provides cost effective information for operating a business and for the purpose of control and accountability. The important factor to the evolution of accounting was the development of the corporate form of business. Government laws and requirement also have caused changes in the business environment and have stimulated the growth of accounting evolved in response to the increased planning and controlling responsibilities of the management.

2.1.12 Evolution of Accounting in Nepal:

The history of account keeping in Nepal by government is very old Mandev 1st; the king of Nepal in Lichhavi period had circulated first coin called "Mananka Coin" during the period 464-491 A.D. Similarly, the Mahendra Malla had circulated the coin named "Mahendra Mally" in Malla period of Nepal. This seems to be the main step to record the national transactions in a proper way and manner. It is said that a few number of financial transactions used to be performed in Lichhave and Malla periods. It proved that there was a certain form of accounting to record transactions.

Written records of accounting have been traced back after 18th centuries in Nepal. After the unification of the nation in 1768 (1825 B.S) by the king Prithivi Narayan Shah, the chief of the district level soldiers used to keep the account of the government offices. In 1814, a book called "Lal Dhadda" was created for recording revenue and administrative expenses. Similarly, in 1822 for recording land management (Kitab Byabastha), another book called "Mothdhadda" was used. These two records are important steps in the history of accounting in Nepal. Again after along gap, in 1868 A.D, an office called "Kitab Khana" was

formed for recording the salaries paid to government personnel which is still in use. In the process of development of accounting in 1879 A.D Kharidar Gunawanta, a senior official was made for recording all the governmental transactions. After that Syaha Shresta Pranali was propounded which was advanced from of accenting Faram Shresta Pranali was introduced in 1911 A.D especially which was used in terai regions.

After the overthrow of Rana Regime, first budget system was started in Nepal in 1951. The auditor General office was started in Nepal. Later on Bhuktani Shresta Pranali was adopted which was little based on the double entry book-keeping system. In 1960 A.D committee was formed to study the accounting procedure which was practiced in Nepal. The four members studied for 288 days and developed a standard form which is called as New Accounting System. Nowadays this types accounting system are follow in the government offices of Nepal.

2.1.13 The Current Accounting System in JAPAN:

Japan is a well managed country in every sectors organizational job it increase the overall performance of Japan in management. So the researcher includes the accounting system of Japan as a sample study.

A) Legal framework: Interrelation between the commercial code, the securities and exchange law, and tax laws;

Japan is a developed country. The commercial code, the securities and exchange law, and various tax laws provide the legal framework for Japanese business accounting system. The financial accounting principle for business enterprises works as a supplement to provisions of these laws. The business accounting deliberation council, an advisory body to the Minister of Finance, is charged with formulating accounting standard that furnish useful information for investors under the securities and exchange law. The council has also made important

contributions to the establishment of accounting standards under the commercial code and tax laws.

B) Purpose of Business Accounting:

The primary purposes of business accounting are:

- ❖ To disclose management's performance of its stewardship function;
- ❖ To calculate the distributable income, i.e. the profit available for distribution and taxable income; and
- ❖ To provide information needed for making investment decisions.

However, reflecting its diversity of parties' concerned and statutory objectives, the above mentioned legal basis contains different standards for the formulation of accounting rules.

C) Interested Parties:

For instance, the commercial code assumes that the interested parties are:

- ❖ Shareholders who are concerned about dividend payments and fluctuations in stock prices,
- ❖ Investors who are planning to make investments based on expected price earnings ratios (PER),
- ❖ Creditors, including bondholders and
- ❖ Potential creditors who intend to make loans or purchase corporate bonds.

D) Objectives:

Its main statutory objectives are:

- ❖ to stipulate appropriate method to calculate the profit available for distribution so as to balance the interests between current and future shareholders, as well as between shareholders and creditors and
- ❖ To provide sufficient information pertinent to the interests of current and future shareholders or investors, as well as current and future potential creditors.

E) Differences between manual and automated ledgers:

Think of the G/L as a sheet of paper on which transactions from all four categories of accounts – assets, liabilities, income, and expenses are recorded. Some of them flow up from various sub ledgers, and some are entered directly into the G/L through a general journal entry. An example of such a direct entry would be the payment on a loan.

The same concept of a sheet of paper holds for each sub ledger that feeds the general ledger. A computerized accounting system works the same way, except that the general ledger and sub ledger are computer files instead of sheet of paper. Entries are posted to each and summarized, and then the summary is sent up to the G/L for posting (Akio et al.1994).

2.1.14 Components of the Accounting System:

Think of the accounting system as a wheel whose hub is the general (G/L). Feeling the hub information are the spokes of the wheel. The component of accounting system is as follows:

A) Financial Accounting components:

- ❖ Accounting Basics
- ❖ Accounting Careers
- ❖ Accounting Equation
- ❖ Accounting Principles
- ❖ Accounts Receivable and Bad Debts Expense
- ❖ Adjusting Entries
- ❖ Balance Sheet
- ❖ Bank Reconciliation
- ❖ Bonds Payable
- ❖ Bookkeeping
- ❖ Cash Flow Statement
- ❖ Chart of Accounts

- ❖ Debits and Credits
- ❖ Depreciation
- ❖ Financial Accounting
- ❖ Financial Ratios
- ❖ Future Value of a Single Amount
- ❖ Income Statement
- ❖ Inventory and Cost of Goods Sold
- ❖ Lower of Cost or Market
- ❖ Payroll Accounting
- ❖ Present Value of an Ordinary Annuity
- ❖ Present Value of a Single Amount
- ❖ Stockholders' Equity

B) Managerial & Cost Accounting Components:

- ❖ Activity Based Costing
- ❖ Break-even Point
- ❖ Evaluating Business Investments
- ❖ Improving Profits
- ❖ Manufacturing Overhead
- ❖ Non-manufacturing Overhead
- ❖ Standard Costing

2.1.15 Double Entry Bookkeeping:

A business transaction involves an exchange between two accounts. For example, for every asset there exists a claim on that asset, either by those who own the business or those who loan money to the business. Similarly, the sale of a product affects both the amount of cash (or cash receivable) held by the business and the inventory held.

Recognizing this fundamental dual nature of transactions, merchants in medieval Venice began using a double-entry bookkeeping system that records each transaction in the two accounts affected by the exchange. In the late 1400's,

Franciscan monk and mathematician Luca Pacioli documented the procedure for double-entry bookkeeping as part of his famous *Summa* work, which described a significant portion of the accounting cycle. Double-entry bookkeeping spread throughout Europe and became the foundation of modern accounting.

Two notable characteristics of double-entry systems are that 1) each transaction is recorded in two accounts, and 2) each account has two columns.

In a double-entry system, two entries are made for each transaction - one entry as a debit in one account and the other entry as a credit in another account. The two entries keep the accounting equation in balance so that:

Assets = Liabilities + Owners' Equity

To illustrate, consider a repair shop with a transaction involving repair service performed on Baishak, 4 for a cash payment of NRs.275.00. In a single entry bookkeeping system, the transaction would be recorded as follows:

A notation may be added to this journal entry to indicate that the revenue was from repair services.

Note that two accounts (revenue and cash) are affected by the transaction. If the customer did not pay cash but instead was extended credit, then "accounts receivable" would have been used instead of "cash."

In this system, the double entries take the form of debits and credit, with debits in the left column and credits in the right. For each debit there is an equal and opposite credit and the sum of all debits therefore must equal the sum of all credits. This principle is useful for identifying errors in the transaction recording process. Double-entry accounting has the following advantages over single-entry:

- ❖ Accurate calculation of profit and loss in complex organizations
- ❖ Inclusion of assets and liabilities in the bookkeeping accounts.
- ❖ Preparation of financial statements directly from the accounts
- ❖ Easier detection of errors and fraud

To appreciate the importance of double-entry bookkeeping, it is interesting to note that the industrial revolution might not have been possible without it. At that time, businesses increased in size and complexity. Accurate bookkeeping was required for managers to understand the financial status of their businesses in order to keep them solvent and offer a degree of transparency to investors. While a single-entry system can be adapted by a skilled bookkeeper to meet some of these needs, only a double-entry system provides the required detail systematically and by design: (Source: www.quickmba.com).

2.1.16 Single Entry Bookkeeping:

Most of financial accounting is based on double-entry bookkeeping. To understand and appreciate the advantages of double entry, it is worthwhile to examine the simpler single-entry bookkeeping system. In its most basic form, a single-entry system is similar to a checkbook register and is characterized by the fact that there is only a single line entered in the journal for each transaction. In a simple checkbook, each transaction is recorded in one column of an account as either a positive or a negative amount in order to represent the receipt or disbursement of cash. This system is demonstrated in the following example for a repair shop business:

While extremely simple, because the above system uses a single column, only the difference between revenues and expenses is totaled - not the individual values of each. Knowing the individual total amounts of revenues and expenses is important to a business, for example, when formulating a budget. The revenues and expenses also are reported in the income statement. In the above example, the individual revenue and expense amounts can be determined only by sorting through the transactions and tabulating the revenue and expense totals. This process can be designed into the system by using a separate column for revenues and expenses:

While the above example now uses two columns, it still is considered to be a single-entry system since only one line is used to record each transaction in the cash account. This single-entry system often is expanded to provide more useful information. For example, additional columns can be added to classify the revenues as sales and sales tax collected, and the expenses as rent, utilities, supplies, etc. Some single-entry systems may add dozens of columns for different types of revenues and expenses. Many small businesses utilize such a system. However, even with columns to classify the revenues and expenses, single-entry bookkeeping is limited in its ability to provide detailed financial information. Some disadvantages of a single-entry system includes as follows: (Source: www.quickmba.com).

- ❖ Does not track asset and liability accounts such as inventory, accounts receivable and accounts payable. These must be tracked separately.
- ❖ Facilitates the calculation of income but not of financial position. There is no direct linkage between income and the balance sheet.
- ❖ Errors may go undetected and often are identified only through bank statement reconciliation.
- ❖ Because of these drawbacks, a single-entry system is not practical for many organizations such as those having many thousands of transactions in a reporting period, significant assets, and external suppliers of capital. The more sophisticated double-entry bookkeeping system addresses the more demanding needs of such businesses.

2.1.17 Accrual Accounting:

Accrual accounting is a system of accounting in which revenues and expenses are recorded as they are earned and incurred not necessarily when cash is received or paid. Accrual accounting requires that revenue and expenses be assigned to their proper accounting periods. There are two principles for accrual accounting.

A) Revenue Recognition Principle:

How are revenue assigned to particular period? First how revenues are determined? The revenue recognition principle states that revenues are record when two main criteria have been met.

- ❖ The earning process is substantially complete which generally means that a sale has been made or service has been performed.
- ❖ An exchange has taken place.

B) The Matching Principle:

Once a company determines which revenues should be recognized during a period. How does it identify the expenses incurred? The matching principle requires that all expenses incurred to generate the revenue recognized in an accounting period be matched with those revenues. The cost of the merchandise sold, should be matched to the revenue derived from the sale of the merchandise during the period. Expenses that can not be matched with revenues are assigned to the accounting period in which they are incurred.

Recognized Revenue - Matched expenses = Net Income for the period.

Accrual basis accounting is the foundation of accounting for most business today.

2.1.18 Cash Basis Accounting:

Some small business records the transactions and recognizes revenues and expenses only when cash is received or paid with the cash basis approach. Income is what is left when cash disbursement of a period are subtracted from cash receipts during the period. Cash basis accounting is a system of accounting in which transactions are recorded and revenues and expenses are recognized only when cash is received or paid.

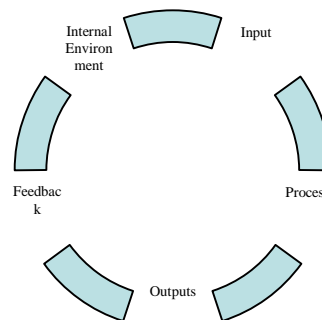
This system does not making a complete record of financial transaction of a trading period a it does not record outstanding transaction like outstanding expenses and outstanding incomes. The system being used on a record of actual

cash received and actual cash payment will not be able to disclose correct profit or loss for a particular period and will not exhibit true financial position on the business on a particular day.

2.1.19 Accounting Information System:

Accounting information system has expanded from its traditional confines of historical transactions data to analyze the present situation and forecasting the future prospects.

Chart No 2.1
Accounting Information System



Data Processing Cycle of Accounting

Source document – Journal – Ledgers – Trial Balance – Financial Statement –
Files other report and analyze
Collection Refinement: Processing and maintenance Output

Accounting information system (AIS) does two tasks these are Plan, Co-ordinate and Control activities of an organization and supply information to the required parties: (Pradhan,2008; 42).

2.1.20 Accounting System & Areas:

Accounting is a main function of a business. It is a back bone and most necessary part by which a business organization can records, classify,

summarized its transactions and find out financial position. There are three major branches or areas of accounting. They are described as follows:

A. Financial Accounting:

Financial accounting concerns with the recording of financial transactions of the business. It provides financial information to related people. It is that part of accounting which is employed to communicate the financial information of a business unit. Mainly it is a part of financial analysis of recorded transaction for the test of financial position and finds other financial information which is important for future guidelines.

i) Functions of Financial Accounting:

- ❖ Recording of financial transactions
- ❖ Classification of data
- ❖ Preparation of financial statements
- ❖ Interpreting financial information
- ❖ Communicating results
- ❖ Making information more reliable

ii) Limitation of Financial Accounting:

- ❖ Historical nature
- ❖ Not helpful in price fixation
- ❖ Cost control is not possible
- ❖ Appraisal of policies is not possible
- ❖ Record only actual costs
- ❖ Not helpful in taking strategic decisions
- ❖ Provide information about the concern as a whole, not product wise, department wise
- ❖ Provide quantitative information, not qualitative one

B. Cost Accounting:

Being many limitations of financial accounting, cost accounting is developed in practice. It is a specialized branch of accounting. It is a foundation of the internal financial information system which helps to management for plan, control and making decision and increase performance in costing system. It concerned with classifying, recording and appropriate allocation of expenditure for determination of products/services for purpose of control. The main objective of cost accounting is to find out the exact cost pre unit of product, every order, job, contract, process and services.

i) Functions of Cost Accounting:

- ❖ It is a process of accounting for cost.
- ❖ It records incomes and expenditures relating to production of goods and services.
- ❖ It provides statistical data for future estimates and helps to prepare and submit quotations.
- ❖ It is concerned with cost ascertainment and cost control.
- ❖ It established budgets and standards.
- ❖ It involves the preparation of right information to the right person at the right time for helping management in planning, control and decision making.

ii) Limitation of Cost Accounting:

- ❖ It is not an independent system of accounts.
- ❖ It involves inherent elements of judgment as it is not an exact science.
- ❖ Cost varies with purpose.
- ❖ It present base for taking best decisions but not give solution of problem.
- ❖ Most of the accounting techniques are based on some presumed notices.
- ❖ Different views are held by different cost accountants about included items in cost.

C. Management Accounting:

Management accounting is a process of identifying, measuring, analyzing, interpreting and communicating information to help the management for planning, controlling and decision making. It is an accounting system as a part of management function. Now-a-days, a manager could not be successful without using management accounting.

i) Functions of Management Accounting:

- ❖ To provide information for managers for decision making and planning.
- ❖ To assist manager in directing and controlling operational activities.
- ❖ To motive managers and employees for attainment towards goals.
- ❖ To measure the performance of activities, subunits, managers and employees.
- ❖ To ensure the long-term survival by safeguarding assets and maintaining good relationship with parties of the organization.

ii) Scope of Management Accounting:

- ❖ Financial accounting
- ❖ Cost accounting
- ❖ Budgeting and forecasting
- ❖ Inventory control
- ❖ Statistical method
- ❖ Interpretation of data
- ❖ Reporting to management
- ❖ Internal audit and tax accounting
- ❖ Methods and procedures

iii) Limitation of Management Accounting:

- ❖ Difficulty in installation.
- ❖ Dependent on other sources for information.
- ❖ It is in development stage.

- ❖ No substitute for management.
- ❖ For effectiveness of management accounting vast knowledge must be required to the manager.
- ❖ Its important depends on personal qualities of management accountant.

2.2 Factors Affecting to Banking Accounting:

Banking accounting system is an important for a bank. It keeps record as a systematic way. In implementation, there are so many factors that affect the banking accounting system. Mainly some factors are as follow.

- ❖ Government policy
- ❖ Policy of Nepal Rastra bank.
- ❖ Policy of Nepal bank ltd.
- ❖ New technology
- ❖ Knowledge of human resource
- ❖ National and international accounting standard.
- ❖ Requirements of bank.
- ❖ Satisfaction and motivation of employees.
- ❖ Accounting software.
- ❖ Monitoring and directing.

2.3 Accounting Policy of NRB:

NRB provides accounting rules under the directives no 4/061-062 through NRB Act.2058 serial no. 79.

I. Directives relating to financial statement for level of KA, KHA and GA commercial banks.

- ❖ Define Fiscal Year: The fiscal year for commercial banks includes days between 1st Shrawan to last Ashad of next year. But in the establishment year F/Y is called from the establishment year to last of Ashad.
- ❖ Statutory form of financial statement: Financial report i.e. B/S, P/L A/C, Cash flow etc. should be prepared under the provision and

direction of NRB and audit should be completed within five month after complete of F/Y.

- ❖ Follow the Accounting Standard: Accounting record should be kept maintained under National Accounting Standard (NAS) and International Accounting Standard (IAS), if there is no. specific provision from NRB.
- ❖ Disclose the financial statement: After complete various financial statement reports should be disclose for National, Regional and District level News paper.
- ❖ Accounting for internal purpose: This directive doesn't disturb to determine other internal accounting report for internal purpose.
- ❖ No provision of changing Accounting Standard provided by NRB. It is strictly directed that they can't change and ignore of any topics in the financial statement.
- ❖ Submission of financial Report: Financial report should be submitted in NRB within a fixed rules and regulations.

II. Important Accounting Rules:

- ❖ Disclose Accounting Rules: Every commercial bank should prepare design and disclose accounting policies under the basis of NRB directives, NAS and internal purpose.
- ❖ Subject should be include in Accounting Rules:

A) Depreciation Rules:

Percent and process of depreciation rules should be prepare under the NRB directives or GAAP which determine by the management committee. It should clearly mention in accounting rules.

B) Income Tax Rules:

To charge the tax amount on return only P/L A/C is not suitable, there is need to prepare taxable income statement and should be disclosed.

C) Investment Policies:

Separate includes for business investment and temporary investment (held in maturity). Investment i.e. share, bond, debenture, government security should be valued which over is low price, market or face value is include in report. If market price is lower than face value it should be prepare with provision.

D) Fluctuation on exchange rate:

Exchange rate policies should be mention clearly in accounting rules. It is necessary to provision of profit or loss in trading and revaluation and separately management. Readjustment is necessary in every month /year to present in P/L account. It is gives profit for trading 25% profit should be transferred to provision account of foreign exchange.

E) Accounting Rules for Non Banking Assets:

Accounting amount can be determined under the selling price of non banking assets. If it is not possible the valuated price and principle amount whichever is lower, should be kept record in statement and adjust of profit/loss in P/L account.

F) Accounting of Non Capitalized Assets:

It is clearly mentioned that if management decide for not capitalized up to a certain value of assets.

G) Accounting Rules for Income/Expenses:

Rules for accounting for income/expenses should clearly mentioned in accounting manual. Every income should be accounted in accrual basis but interest received from loan should be entry in cash basis.

H) Possible Loan Loss or Management of Doubtful Debt:

Accounting rules should be prepared for loan loss provision and doubtful debt. It should be treat/Accounting under the rules and regulation.

I) Others:

Other rules and regulation could be determine to understand and management of B/S, P/L A/C in detail.

1. Accounting's Tippani:

- ❖ Account record should be included;
- ❖ Description of principle and interest on loan and advances.
- ❖ Fluctuates in amount of deposit liabilities in every fiscal year.
- ❖ Weighted average interest rate spread.
- ❖ Description of expenses remaining for written off.
- ❖ And others

III. Some topics/subject in Balance Sheet:

Side of capital and liabilities:

1. Share capital
2. Reserve and Fund
 - ❖ Statutory Reserve
 - ❖ Capital fund Reserve
 - a) Share Premium
 - b) Capital Reserve
 - c) Revaluation Reserve
 - c) Other Capital Fund
 - ❖ Dividend Provision Fund
 - ❖ Reserve (p/L)
 - ❖ Other provision Fund
3. Debenture or Bond
4. Outstanding Loan
5. Deposit (Liabilities)
6. Bills Payable
7. Outstanding Bonus (Dividend)
8. Income Tax (Liabilities)
9. Other Liabilities:

- ❖ Outstanding Bonus, Interest on Deposit, Commission, Sundry Creditors, Audit Charge, Retirement Benefit, Employee Provident Fund, Branch Record.

Side of Assets:

1. Cash Deposit
2. Deposit in NRB
3. Balance in Banks
4. Marketable Securities
5. Investment
6. Loan and Bills Purchase
7. Fixed Assets
8. Non-Banking Assets
9. Other Assets
10. Possible Liabilities

IV. Topics included in P/L Account:

- ❖ Interest Received
- ❖ Interest Expenses
- ❖ Commission and discount
- ❖ Other Operating Income
- ❖ Return/ Fluctuate from exchange
- ❖ Expenses Relating to Employee
- ❖ Other Operating Expenses
- ❖ Less from Exchange
- ❖ Provision from Loss
- ❖ Non operating Income
- ❖ Return back From Management of Profit/Loss
- ❖ Return and Loss from Abnormal Transaction
- ❖ Bonus to Employee
- ❖ Income Tax Provision
- ❖ Net Profit/Loss

V. P/L Allocation Record Provision:

Debit side:

- ❖ Last Year Reserve Loss
- ❖ General Reserve Fund
- ❖ Casual (Bhaipariaaune) Fund
- ❖ Organization Development Fund
- ❖ Bonus Fund
- ❖ Provision for Employee
- ❖ Propose Bonus
- ❖ Propose Bonus Share
- ❖ Special Reserve Fund
- ❖ Exchange Fluctuate Fund

Vi. Provision for Charge in Equity:

Vii. Cash Flow Statement Provision:

2.3.1 Direction of Nepal Rastra Bank (NRB):

Nepal Rastra Bank (NRB) provides various rules and regulation for the Nepalese Commercial Banks, which helps to determine uniform accounting system in Nepalese Commercial Banks. These are as follows:

A) Provision relating Account, Record, Description and reporting:

- ❖ Accounting record should be realistic.
- ❖ Accounting record, accounting system, Ledger, Report should be real, which Banks get permission to operate.
- ❖ The account should be kept in the form of double entry system.
- ❖ Accounting record could not be disclosed outside without permission of NRB.

B) Balance Sheet, P/L Account and Auditing:

- ❖ Commercial Banks should keep record of balance sheet, P/L account, Cash flow statement and other record on the basis of standard form and format provided by NRB.
- ❖ Commercial Banks should prepare and audit of Balance Sheet, P/L account Income statement Cash flow statement and other financial statement with in five month of completion of fiscal year. The signature should be included in audited format of minimum two member's of Board of Directors, executive chief and auditors.
- ❖ Commercial Banks should request to NRB further time to complete the financial statement and audit in this circumstances NRB can give further three months, If banks will unable to complete and audit report with in fixed time.
- ❖ NRB can appoint special auditors, if banks unable to prepare audit report further three months.
- ❖ The auditor is responsible to prepare audit report and should submit concerned Banks and NRB.
- ❖ The auditor should get remuneration from concerned Banks on the basis of NRB directives.

2.2 Review of Related Studies:

2.2.1 Review of Articles (Journals):

The article writtem by Mahesh Dhakal(Sharma), 2008, describe and discuss about the "Accounting System of Banks In Nepal" on Nepal Bank Samachar-Kartik, 2066 published by Nepal Bank Ltd. His article discuss on the Accounting related Acts, NRB directions, other Acts and its impact and accounting system. His analysis summarized as below.

- ❖ The Act relating to Banks and Financial institute 2063 says the transaction of banks should be kept clearly on account, ledger, and other transaction. It should be prepare B/S, P/L account, Cash flow statement and other

transaction and statement on the basis of Accounting Standard and Directives of NRB.

- ❖ NRB directs to the banks on its Direction No. 4.: NRB clearly directs to banks for the transaction and preparation record. It is the base of accounting, there is no provision to change accounting system. The base of accounting system is NRB directives, Nepal Accounting Standard (NAS) and International Accounting Standard (IAS). The audit report should be prepared within five months after the completion of F/Y and it should be disclosed in National News Paper. Annual report should be submitted to NRB, kept in Company register office, Website of Banks and published through National level Newspaper.
- ❖ Company Act 2063: From the company Acts 2063 account should be kept on the basis of double entry book keeping system. The language of accounting is Nepali and English. B/S, Income Statement, Cash flow Statement are prepared in general accounting standard presented by authorized organization. The reports and financial statement should be kept safely within the coming five years.
- ❖ According to NAS B/S, Income Statement, Description of change in Capital, Cash flow Statement and Notes with General Accounting Policy are must be prepared for fulfillment of financial statement.

Banks should prepare other extra statement and record out of directives and Acts and can prepare its own Accounting policy and directives for bringing equality on the basis of NRB directions, NAS and IAS.

2.2.2 Review of Thesis:

Mr. Sagar Sharma (2002) had conducted a research on "Management Accounting Practice in the Listed Company of Nepal". For this study Mr. Sharma classified the different companies listed in Nepal Stock Exchange to the different groups according to their nature of service i.e. manufacturing, trading, service, financial etc. He collected the data required for the study from primary sources. Questioners and discussion with the stakeholders was the base of study.

The prime objectives of the study were

- ❖ To find out how far the Nepalese companies practice the management accounting tools and techniques.
- ❖ To identify the areas where management accounting tools can be applied to strength the companies.
- ❖ The management accounting tools not in use and the difficulties on application.
- ❖ To recommend the areas and measures for the application of management accounting tools and techniques.

Major findings of the research works were:

- ❖ Different types of management accounting tools, which are taught in the colleges, were not found applied by the listed companies.
- ❖ Nepalese listed companies were infant stage in practicing the management accounting tools such as Zero Base Budgeting, Activity base costing, Target costing, Capital budgeting, Ratio analysis etc.
- ❖ While preparing budgets most of the companies based on actual expenses, 26% of companies used past estimates to prepare budgets. There is no practice of Zero Base Budgeting due lack of information and cognizance about the format and the way of developing it.
- ❖ On budget preparation, there is no practice of taking consultancy services.

Some remarkable recommendations of the study were:

- ❖ A separate management accounting dept should be established and furnished with the experts.
- ❖ Companies can be improved by allowing greater autonomy and more accountability.
- ❖ It should hire the professional experts for the budget preparation and other planning activities.

- ❖ Enterprises should be motivated for his application of new advance and modern management accounting tools.

Mr. Ailendra Kumar K C (2006) had submitted a thesis on the topic "A Management Accounting Practices on Public Enterprises in Nepal". For this study Mr. K C categorized the public enterprises of Nepal to different sector regarding their nature of services i.e. industrial, commercial, financial, public utility, social and service sector. Data required for the study was based on primary data. Information was collected through schedule questionnaire and discussion.

The main objectives of the study were

- ❖ To examine the present practice of management accounting tools in the public enterprises of Nepal.
- ❖ To find out the major difficulties on application of tools.
- ❖ To identify the areas where management accounting tools could be applied.
- ❖ To recommend the measures for the application of management accounting tools and techniques.

The major findings of the research works were

- ❖ Most of the enterprises practiced "capital budgeting", "cash flow", "ratio analysis", "annual budget" for the planning and controlling and decision making.
- ❖ While preparing budget, almost all the enterprises practiced "Overall master budget" rather than "cash budget and operational budget"
- ❖ "Actual past expenses" was the base for preparation of budget. The advanced tools like "Zero Base Budgeting" and "Activity Based Costing" were not practiced in the public enterprises. Similarly in most of the enterprises "Committee" prepared the budget, there was no practice of taking consultant service.

- ❖ For the measurement of overall performance in the public enterprises, most of the enterprises practiced "Profit and Loss" criteria. The practice of "Standard costing" and "Ratio Analysis" was almost nil to measure their overall performance.
- ❖ Regarding cost segregation into fixed and variable, it was found that 61% of the enterprises practiced "High Low" method and 50% of the enterprises practiced "Analytical Method".
- ❖ While examining different enterprises, it was found that management accounting tools were in practiced in one way or other but enterprises were practicing almost of the privileged tools.

Some of the remarkable recommendations were as follows:

- ❖ To implement the tools congenial environment is the most. For this, a separate management accounting should be established and experts should be hired.
- ❖ It is necessary to interact regularly in between academicians and the organization.
- ❖ While preparing budgets and other planning activities, enterprises should hire professional expert.
- ❖ Cost and revenue estimation should be based on tools like zero base budgeting, market survey and statistical tools rather than past trend.
- ❖ Public enterprises must be out of political interference and the political stability.

Mr. Raj Kumar Duwadi (2007) had submitted a thesis on the topic "A Study on Management Accounting Practices in Joint Venture Banks". For this study Mr. Duwadi collected the data from six joint venture banks with the head office located in Kathmandu valley. Data required for the study was based on primary data. Information was collected through schedule questionnaire and discussion.

The main objective of the study were

- ❖ To study and analysis the practices of management accounting tools being used in joint venture banks.
- ❖ To identify the areas where management accounting tools can be applied.
- ❖ To study the method used in evaluation of investment proposals and the types of securities accepted in providing loan.
- ❖ To make recommendations to overcome from the difficulties in applying management accounting tools.

The Major findings of the research work were

- ❖ Capital budgeting, cash flow analysis, ratio analysis and annual budgeting practiced by almost 100% of banks. Break even analysis and responsibility accounting were practiced about 83% and 33% respectively where as the tools like activity base costing, standard costing, long term and zero based budgeting were unusual in joint venture banks.
- ❖ While preparing the budget there was no practice of taking consultancy service. The committee and the chief of finance division prepared the budget.
- ❖ While evaluation loan proposal all the JVB focused on valuation of assets, purpose of loan, analysis of customer back ground with customer social status and the chances of loan recovery.
- ❖ JVBs monthly accepted the securities like land and building, government bonds, treasury bills, shares and debentures, gold and other valuable assets.

Some remarkable recommendations of the research work were

- ❖ Techniques like high-low point method, average method and analysis method should be used to segregate costs.
- ❖ Joint venture needs to use responsibility accounting for the cost control and performance evaluation.
- ❖ Use of outside expert should be used by JVBs for the budget preparation.

- ❖ JVBs were not found practicing cash budget. So, they should practice cash budget which gives all details about sources and uses of cash.

Mr. Krishna Bdr. Karki (2006) had conducted a research study on "Management accounting practice in joint venture Banks of Nepal". He had focused his study to examine the practice of MA tools in joint venture banks of Nepal. Mr. Karki's research study was based on only primary sources of data collection. In this research, he had pointed out various objectives & findings. Some remarkable objectives were as follows:

- ❖ To study and analysis the present practice of management accounting tools in the Joint Venture Banks of Nepal.
- ❖ To identify the areas where management accounting tools can be applied to strengthen the banks in commercial activities.
- ❖ To make recommendations to overcome the difficulties in applying management accounting tools in Joint Venture Banks.

Some major findings were as follows:

- ❖ Different types of MA tools, which are tough in the colleges, are not found applied by the Joint Venture Banks of Nepal. So, it shows gap between the theory and practice.
- ❖ MA is help to managers to formulate organizational strategies as well policy for decision making.
- ❖ In NJVBs, practice of hiring outside expert almost nil. Thus it can be concluded that NJVBs's are in infant stage in practicing of MA tools. Now, here in the banks cannot find MA experts.
- ❖ In NJVBs practicing the MA tools such as capital budgeting, annual budget, ratio analysis and cash flow. And not practicing MA tools such as zero based budgeting, activity based costing, target costing, Value engineering.
- ❖ They are with concept that TIA is similar to financial accounting.

- ❖ Lack of information and cognizance about Management Accounting tools are the main factors causing problem in the application of such tools.

Mr. Narayan Prasad Acharya (2006) had conducted research study on the topic "Management Accounting Practice in Nepalese Public Enterprises". He had focused his study to examine the practices of MA tools in NPE's. Mr. Acharya's research study was based on only primary sources of data collection. In his research, he had pointed out various objectives and findings. Some remarkable objectives were as follows:

- ❖ To study and examine the extent of practice of MA tools and techniques made in Nepalese PEs.
- ❖ To identify the business sector, where MA tools can be applied to strengthen the PEs.
- ❖ To identify the major difficulties for applying the MA tools in Nepalese companies.
- ❖ To make recommendation to overcome the difficulties in applying MA tools and techniques in Nepalese PEs and other business companies.
- ❖ Some major findings were as follows:
- ❖ Different types of MA tools, which are though in the colleges, are not found applied by the NPE's. So, it shows gap between the theory and practice. MA is a new discipline and still in developing stage in the context of modern business organization.
- ❖ In NPE's not practicing MA tools such as Standard Costing, Cost Segregation and allocation activity based costing. The usage of overall Master Budgets was very low. Activity based Budgeting and Zero-based budgeting were not proper practicing to prepare the budget.
- ❖ The pricing strategy was completely based on cost of production and government's decision.
- ❖ The traditional inventory valuation technique FIFO was widely practiced.
- ❖ NPE's overall performances are fully measured by profit and loss account.

- ❖ In NPE's past trend was most used technique to forecast the future cost and revenue.
- ❖ Government's policy was affecting to more than half of NPE's for making the account related decisions.
- ❖ Role of MA tools and techniques were found negligible for making MA related decision.

2.3 Research Gap:

There is a gap between the present research and previous research. Previous researches conducted on management accounting or profit planning and control were related to public enterprises as well as private enterprises based on case study of particular company or a comparative study of two more companies. Similarly previous researchers conducted studies on the Budgeting practices in different companies and public enterprises and on Management Accounting Practices or on various accounting tools in company or different public enterprises.

There was no research conducted in banking accounting system and its conditions. To fill up gaps in research, the current research has been conducted concentrating on the study of banking accounting system and its problem, banking accounting environment and accounting practices in the NBL as a sample bank. This kind of research work helps to know very much about the organization's accounting practices by which the management as well as other related users gain more information. It has disclosed about the problem and practices of accounting system.

CHAPTER - THREE

RESEARCH METHODOLOGY

The study was aimed to find out the condition of accounting system of Nepal Bank Ltd. Research Methodology refers to various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. Suitable research design is followed for the study to achieve the objectives. Primary as well as secondary data are used for the study and suitable tools and techniques are employed for the study. Following section deals about the research design, nature and sources of data, population and sample of the study, data collection method, data collection procedures and instruments, and tools or techniques employed for analysis.

3.1 Research design:

Keeping in mind the objectives of the study, descriptive as well as the analytical research design has been followed. The research design is basically focus on analytical study. This study focus to analyze the condition of accounting system of sampled commercial bank, taking data and information. Financial accounting and statistical tools will be used for analyzing the research.

3.2 Nature and Sources of data:

To conduct the research, data collection is a major task. This research is mainly based on the primary and secondary sources of data. Primary data has been collected using a carefully designed instrument (Questionnaire). Basic sources of primary information were employees of the selected bank and accounting expert. The source of secondary data is the annual report, accounting direction audited and no audited report

3.3 Population and sample of the study:

At present, 26 commercial banks are working in Nepal. Since, it is difficult to study the entire population within a short period of time, only one commercial bank i.e. Nepal Bank Ltd is taken as a sample for the study. It is assumed that the bank has many branches and covers a large volume of transactions. This bank represents the other banks also.

3.4 Data collection procedure:

Study is based on primary and secondary data. Through questionnaires, primary data are collected. A convenient sampling technique is followed to collect the opinion of the employees i.e. view of respondents. For secondary data, personal observation of banking offices of the sample bank is made. Besides this, various publications, books, journals, seminar papers which are available in banks; library and relevant articles in websites are used.

3.5 Necessary Tools and Techniques:

This study is based on descriptive analysis method. Accounting systems are related to theoretical research study. Generally different methodologies of data analysis are adopted. However, in this study descriptive analysis method is adopted. The main tools used for the analysis are analytical tools.

3.6 Data Analysis and Presentation:

Descriptive analysis method is used for the study, to explain the policy and system. Necessary tables, charts, diagrams and figures are designed for the presentation and analysis of data.

CHAPTER - FOUR

DATA PRESENTATION AND ANALYSIS

4.1. Accounting Rules prepared/ applied by NBL:

Accounting record should prepare on the basis of General Accepted Accounting Standard. Some Basic Accounting Principle of NBL is as follows: (Accounting Manual of NBL, 2060; 03).

- ❖ Continuing of organization: continuing of organization should be considered while preparing accounting record.
- ❖ Principle of accrual: Accounting record should be prepared on the basis of accrual.
- ❖ Continuing of accounting policies: Commercial Banks should follow accounting rules and regulations. There is not provision to change accounting rules without direction of National and International accounting standard.
- ❖ Historical Cost Concept: Accounting record should be maintained on the basis historical standard.
- ❖ Structure of accounting Statements: Accounting record should be prepared on the basis of direction of NRB and accounting standard.
- ❖ Record keeping rules: Banks follows record keeping system as on the basis of accrual basis and cash basis.

4.1.1 Accounting Policies: (Accounting Manual of NBL, 2060; 18).

- ❖ It indicates the accounting of financial transaction which follows the clear and transparent rules and regulation.
- ❖ Accounting policies is determined on the basis of NRB directions, International accounting standard, local accounting standard and different Acts related to Accounting.

4.1.2 Basic Accounting Principles: (Accounting Manual of NBL, 2060; 20).

A. Regulation of organization: Accounting records has to be kept for forever period.

B. Accrual principle: Different transactions should be recorded as a receivable or payable. It is not necessary to keep record after receiving or payment of cash. Banks should prepare accounts on the basis of accrual if there is any provision.

C. Continue of Accounting Rules: Accounting rules will be followed for a long time. To follow the international standard (If Changed) former rules may change in future.

D. Historical Cost Concept: Accounting record should be maintained on the basis of historical cost.

E. Structure of Economic Statement: Accounting record should be prepared on the basis of direction of NRB and accounting standard.

F. Rules for Revenue Accounting:

- ❖ Interest received on loan and advance: Interest is involved on the basis of cash received.
- ❖ Interest received on investment: This interest has to be included on an accrual basis.
- ❖ Dividend Return: It is calculated on the basis of cash received.
- ❖ Income tax charge in (received) revenue: Total interest (before charging tax from concern agencies) is included as revenue.
- ❖ Discount and commission: Discount received on service should be included in revenue as on received date on cash.
- ❖ Donation or commission from NRB: Accounting should be kept on cash basis of donation & commission received from NRB or involves providing

services of other banks i.e. Government's transaction, provided and exchanging counter.

G. Accounting Rules for Investment:

- ❖ Accounting records has to be kept on the basis of cash for investment amount there also included other processing charge.
- ❖ Income or expenses (P/L) should be determined and kept record, if investment or sales of investment in discount.
- ❖ Discount received in ending of F/Y should be record as income on the basis of ratio.

H. Accounting Rules for Foreign Exchange:

- ❖ Foreign exchange Assets or liabilities (return in investment and deposit) should kept record on the basis real value in transaction day.
- ❖ Devotion of selling price and purchase price of foreign currencies is based to identify the income/Loss in foreign exchange.
- ❖ Last day of every month should reevaluate of foreign deposit and investment for identifying the income or loss as on purchasing rate.
- ❖ Real income or loss from foreign exchange and deposit should be record in concerned fund and P/L account.
- ❖ The description of (4) should not followed by branch office.

I. Provision of Loan:

- ❖ Amount should be managed for risk management on loan & advance on the basis of requirement.
- ❖ Fund create to minimize the risk on loan should be review in every 3 month and must be calculate income or loss.

J. Provision for Investment:

- ❖ NBL have not any provision on investment in investment on securities of National and International government and NRB.

- ❖ Accounting should be kept record on the basis of cost price in share and debenture of any company and revaluated on the basis of market price.
- ❖ Average price is determine, and recording of no-listed share and debenture.

K. Provision for unsure Debtors:

Banks managed for doubtful debtors on the basis of requirement.

L. Sales of collateral and Adjustment of non banking assets:

- ❖ All the expenses of operating and insurance should be incurred in the account of customer.
- ❖ Surplus amount received from sales of collateral must be return to customer, after payment of principle, interest and every expenses of loan.
- ❖ If amount of sales of collateral or NBA is less than loan amount, it is included in loan account before write-off or collected.
- ❖ And, others.

M. Accounting for Reserve and Surplus Fund:

It is necessary to fulfill the requirement of direction of NRB and other provisions.

Basically, NBL create provision as following heads.

- ❖ General Reserve Fund And
- ❖ Retirement Benefit Fund

N. Fixed Assets and Depreciation:

NBL gives the following heads for fixed assets;

-Land - Building - Furniture, Fixtures and Equipment - Vehicle - Other assets

- ❖ The value of assets less than NRs.2000/ is recorded as expenses in purchasing year.
- ❖ Depreciation is maintained as on Income Tax Law 2058.

O. Accounting for Stationary and Stock:

- ❖ NBL apply FIFO method of accounting of stock in store.
- ❖ They kept record as expenses for the stationary which is purchase for using in a years but stationary for long period i.e. more than one year are kept as stock.

P. Internal Management Policy:

- ❖ F/Y and account closed: NBL keep records from 1st Shrawan to 31st Ashad as a fiscal year.
- ❖ Notional Interest: It is maintain for measurement of the profitability of branches.
- ❖ Fixed Deposit: NBL kept as a fixed deposit for saving of Dormant amount of current & saving account, amount of overdue fixed deposit, payable bills, other payable amount and unclaimed amount.

Q. Disclose Accounting Policy:

NBL disclose its accounting statement on the basis of NRB direction, NAS and IAS.

4.2 Segregation of Accounting Head/Subjects:

A) Introduction:

Various Accounting head are used to calculate and analysis the data by Nepal Bank Limited. Various subjects help to keep record systematically and transparently: (Accounting Manual of NBL, 2060; 40).

- ❖ Not applied for all Branches/Department:
In the NBL various accounting head are using which is not necessary to use in every department of all accounting head. Different must used various subject of accounting head which are necessary.
- ❖ Group Division:
Various groups are divided in on the basis of nature and feature
- ❖ Uniformity in Account head:

For the same transaction in every Branch, uniform accounting head has to use to create uniformity in transaction and record.

- ❖ Permission to open new Accounting head

For the change in accounting head and topic (Other than the financial report) permission should be taken from head of account. If it is necessary to open the extra subject/head should be taken permission from concerned department.

- ❖ Specify of group in Journals:

To prepare the Journal various group should be specify and must be maintain in recording process.

- ❖ Classification of Symbol No.

Various symbol no. are defined, separate and segregate to makes easy for understand and recording transactions.

- ❖ Major Accounting heads;

B. Major Accounting Group:

- ❖ Capital and liabilities:

Share capital, Reserve and Fund, Debenture Loan, Deposit Liabilities, Payable bills, Other Liabilities, Branch record.

- ❖ Assets:

Cash in hand, Cash at Bank, Marketable Securities and Investment, Advance loan, Receivable, Fixed Assets, Other assets, Non-banking assets.

- ❖ Probable Liabilities/Liabilities out of B/S

Claim in Bank but not accepted, Letter of credit, Discount Bill, Guarantees, Unpaid up capital, Bills received, Agreement and Support, Guarantee for securities and loan, Other Liabilities

- ❖ Revenue:

Interest revenue, Commission Discount, Exchange Fluctuate (Loss), Non operating revenue (Loss), other revenue

❖ Expenses:

Interest, Salary to employee, Office operating expenses, loan written-off, provision for risk bearing, settlement of last year, Bonus to employee, provision for income tax, proposed dividend.

C) Descriptive List of Accounting Head:

- ❖ Capital Liabilities: Ordinary share capital, Non redeemable preference share, redeemable preference share.
- ❖ Reserve and Surplus: Ordinary reserve fund, share premium, Provision for Vaipariaaune, Revaluation of assets fund, Exchange fluctuate fund, Capital fund, Bank development fund, Special revenue fund, Bonus fund, Investment Fluctuate fund, Other fund.
- ❖ P/L Account: Loss/Profit from last year, Income for the year, Expenses for the year.
- ❖ Loan from NRB: Priority sector loan, Export loan,
- ❖ Deposit liabilities: Commercial Banks, Finance Co., Developments Banks, Other financial institutions.
- ❖ Securities and Debt of Cooperatives: Provident Fund, Local government, Non Banking orgn.
- ❖ Current: Foreign money
- ❖ Saving in NRs.
- ❖ Saving in Foreign
- ❖ Fixed deposit: From different sources and periods, Fixed deposit in foreign price, ODFD (Over Due Fixed Deposit)
- ❖ Short term received (In demand)
- ❖ Margin Lending
- ❖ Employee retirement fund
- ❖ Payable bills to Branch or Regional offices : Draft, T.T, Pay order, Documentary bills
- ❖ Other Liabilities: Staff Fund, Loan Loss Provision,

- ❖ Other provisions: Interest suspense, Payable interest, Napakeko discount and commission,
- ❖ Sundry Creditors: Tax deducted at source, Retentions and Dharuti, Payable salary and expenses, bills payable, ODFD, F.I,
- ❖ Inter Branch Transactions:
- ❖ Cash Balance: cash in transit, cash in FC counter
- ❖ Bank Balance: In NRB, Other local banks, Foreign banks, short term securities
- ❖ Investment:
- ❖ Loans and Advances: Priority sector loan. Commercial loan, Guarantees loan, social loan, Home loan, Hire purchase loan, ABC loan
- ❖ Bills Receivable: Drafts, T.T, Credit cards, Travelers cheque
- ❖ Fixed Assets:
- ❖ Other Assets: Receivable Interest, Stationery stock, Loan and advance to employee, Sundry debtors, Advance payments, Stock of Clearing Cheque, other stocks, Bills payable, receivable other income, suspense Account, NBA
- ❖ Possible Liabilities: L.C. for import, Bank guarantees, Bills collections, other liabilities
- ❖ Profit Loss Income: Interest income in loan, Interest in Investment, other Interest incomes
- ❖ Commission and Discount:
- ❖ Income in exchange rate fluctuation:
- ❖ Non operating profit: Sale of Investment, Sale of assets, Dividend income, Donation from NRB other income
- ❖ Profit Loss Expenses: Interest expenses on deposits, Interest on Loan, other Interest
- ❖ Staff expenses: Salary, Allowances, Provident fund, Other allowances
- ❖ Office expenses: House rent, Lighting and water expenses, Maintenance expenses, Insurance, Communication expenses, Stationary and printing, Fund transfer, asset bearing low cost, News paper books and other,

Advertisement, Legal and consultancy fee, promotional expenses, Audit fee, Commission, Tax expenses, securities expenses, donation, Fuel expenses, Meeting fee and allowance, Miscellaneous expenses,

- ❖ Depreciation on fixed asset
- ❖ Provision for investment
- ❖ Written off expenses
- ❖ Addition in Risk Bearing fund
- ❖ Last year Profit/Loss
- ❖ Staff Bonus
- ❖ Provision for tax and Proposed Dividend
- ❖ Provision for expenses or Loss

4.3 Explanation of Accounting head and Accounting System:

The NBL explain and describe the accounting head and system. It helps to create easiness to understand. Keeping record and segregate the accounting head. The accounting subject and head are used in head office only which is symbol by “#”.

- ❖ In this accounting system the word “Total” is called for credit and the word “Expenses” means Debit.

4.4 Accounting process for deposit Collection:

Deposit is important source of Banks. Accounting system should be kept in well formatting and well defined with using Computer software. The head of deposit are as follows:

- ❖ Current Deposit
- ❖ Saving Deposit
- ❖ Fixed Deposit
- ❖ Deposit, which head to pay during demand and information
- ❖ NBL employee retirement fund.

A) Accounting System:

- ❖ Various branches can be used and applied employee retirement fund itself.
- ❖ Amount can be withdrawn by the person with the use of cheque.
- ❖ Required ledger should be used.

B) Deposit Ledger:

Required ledger will be used to prepare accounting records.

- ❖ Ledger on current and saving deposit
- ❖ Foreign amount: Current and saving deposit Ledger
- ❖ Fixed deposit Ledger
Subsidiary Deposit Register, Deposit ledger for Balance Book, Dormant, Interest rate change, Exchange rate charge, Expenses of interest amount, Service charge, F.I

C) Cash Transaction Accounting Process:

- ❖ Cash transaction is important and sensitivity, which is head to keep record in systematic way.
- ❖ Cash deposit
- ❖ Cash payment
- ❖ Exchange transaction
- ❖ Accounting for external exchange counter
- ❖ Fund transfer
- ❖ Accounting balance for cash balance
- ❖ NRs. Currency fund
- ❖ Indian rupees fund

D) Loan and Advance Accounting Process:

- ❖ Arrangement of loan
- ❖ Outstanding interest on loan
- ❖ Interest suspense

- ❖ Fixed deposit loan
- ❖ Other accounting process
- ❖ Loan ledger
- ❖ Loan and advance balance book
- ❖ Subsidiary book of Loan and advance
- ❖ Arrangement of risk management fund
- ❖ Interest received and suspense accounting
- ❖ Loan securities and compensation accounting
- ❖ Interest discount
- ❖ Collecting process
- ❖ Non banking assets
- ❖ Information to consumers

E) Bill Purchase Accounting Process:

- ❖ Accounting subject/head
- ❖ Accounting process
- ❖ Incase of non payment of bills
- ❖ Excluding in bill purchase
- ❖ Not necessary to pass the purchased bill
- ❖ Outstanding on bill purchase
- ❖ Accounting of exchange rate charge
- ❖ Bills purchase register
- ❖ Accounting of national bill purchase
- ❖ Closed register daily
- ❖ record of outstanding bills
- ❖ bills purchase register

F) Bills Collection Accounting Process:

- ❖ Accounting head
- ❖ collecting from clearing house
- ❖ Outward bills collection

- ❖ Cheque, draft, and documentary bill collection register
- ❖ Process to maintain of register
- ❖ Inward bills collection
- ❖ Security of returned cheque from collection

G) Draft, T.T, Remittance Accounting System:

- ❖ Accounting of issue
- ❖ Accounting system for quit draft
- ❖ T.T and Remittance cancel
- ❖ Bill Returned
- ❖ Not increase time
- ❖ Register of draft, remittance Prepare for Branches
- ❖ Payment Accounting
- ❖ Not received of schedule
- ❖ Sales of Traveler checks
- ❖ Payment system of draft received from Arabian country
- ❖ Special arrangement for Ktm. banking office received of draft, fax transfer

H) Investment Accounting Process:

- ❖ Accounting head
- ❖ Accounting system
- ❖ Receivable interest on investment
- ❖ Debenture investment register
- ❖ Register in share investment

I) Accounting of Letter of Credit:

- ❖ Margin amount
- ❖ Possible liabilities
- ❖ Exchange rate
- ❖ Accounting process
- ❖ Transfer to letter of credit to A.O.C

- ❖ Collection of interest
- ❖ Practical shipment
- ❖ Revolving letter of credit
- ❖ Discrepancy
- ❖ Register to o/ah letter of credit
- ❖ Customer limitation and L.C register
- ❖ Register of L.C. settlement
- ❖ Filling
- ❖ Endorsement of usance bill
- ❖ Back to back letter of credit
- ❖ L.C of export

J) Bank warranty Transaction and Accounting process:

- ❖ Margin
- ❖ Bank warranty and liabilities record
- ❖ Bank warranty and commission accounting
- ❖ Warranty claim
- ❖ Renew of warranty
- ❖ Register of bank warranty
- ❖ Register of bank warranty limitation

K) Fixed assets accounting procedure:

- ❖ Classification of fixed assets
- ❖ Simple direction
- ❖ Land accounting
- ❖ Building
- ❖ Furniture and fixture
- ❖ Vehicles
- ❖ Computer
- ❖ Other assets
- ❖ Fixed assets in transit

- ❖ Accounting of construction
- ❖ Depreciation
- ❖ Assets transfer
- ❖ Sales of assets
- ❖ Assets write-off
- ❖ Insurance claim
- ❖ Utilization the symbol no.

L) Store Record/Issue and Accounting Process:

- ❖ Accounting of stock material
- ❖ Assets purchase agreement
- ❖ Bills of store record
- ❖ Register of stock record
- ❖ Valuation of stock record
- ❖ Payment procedure
- ❖ Issue of material
- ❖ Valuation of stored issued
- ❖ Accounting balance of store issued
- ❖ Store transfer
- ❖ Ledger of store stock
- ❖ Store supervision and physical observation

M) Inter Branch Transaction, Accounting Procedure and Reconciliation

Procedure:

- ❖ Head of transaction Accounting
- ❖ Procedure to be a old transaction
- ❖ Department of accounting
- ❖ Schedule used
- ❖ Design number and keeping schedule
- ❖ Arrangement of description, collection of schedule and transfer to reconciliation

- ❖ Procedure of accounting in head office and branch office
- ❖ Rules and regulation necessary applied
- ❖ Pay order and office expenses payment
- ❖ Primary reconciliation from office
- ❖ Reconciliation in head office

N) Salary, Allowances, Advance Accounting Procedure:

- ❖ Accounting head and salary allowances distribution of employee expenses
- ❖ Salary allowances expenses and accounting procedure
- ❖ Transfer in mid period and salary distribution
- ❖ Loan to employee
- ❖ Interest on advance and loan
- ❖ Provident fund
- ❖ Advance visit
- ❖ Office expenses advance
- ❖ Advance clearance
- ❖ Advance to insured employee
- ❖ Loan to employee

O) Journal and sub-ledger Accounting:

- ❖ Voucher
- ❖ Journal voucher
- ❖ Journal ledger and Depart/"Phat"
- ❖ Subsidiary ledger
- ❖ Journal head
- ❖ Journal ledger
- ❖ Balancing book
- ❖ Registration of record
- ❖ Store accounting description
- ❖ Adjustment of daily ledger
- ❖ Day book and journals (Non cash transaction)

- ❖ Day book and journals (Cash transaction)
- ❖ Daily journals description
- ❖ Filing of voucher
- ❖ Determine accounting description and unification

P) Other Provision:

- ❖ Adjustments
- ❖ Statements to head and regional office
- ❖ Monthly accounting description

Q) Reimbursement:

- ❖ Normal accounting policy
- ❖ Types of transaction
- ❖ Government transaction
- ❖ Provide to Nepal Army
- ❖ Provide to Civil Service
- ❖ Draft to RBB
- ❖ Interest and principle payment to marketable securities and debenture
- ❖ Currency fund (NRs.)
- ❖ Indian currency fund

The accounting directive (2060), of Nepal bank limited includes the various subject and issues then the previous report and directives. Nepal bank includes the various areas of accounting on the basis of NRB directives, Nepal accounting standard and international accounting standard. The above mention accounting system creates the facility to keep record, provide and prepare accounting information and financial report.

4.5. Contribution of accounting system in performance of NBL:

This topic helps to identify the contribution of accounting system in the performance of NBL.

A) Financial Position before issuing NBL Direction (Accounting Manual):

Table No. 4.1

Financial Position of NBL unto 2057/58-2059/60

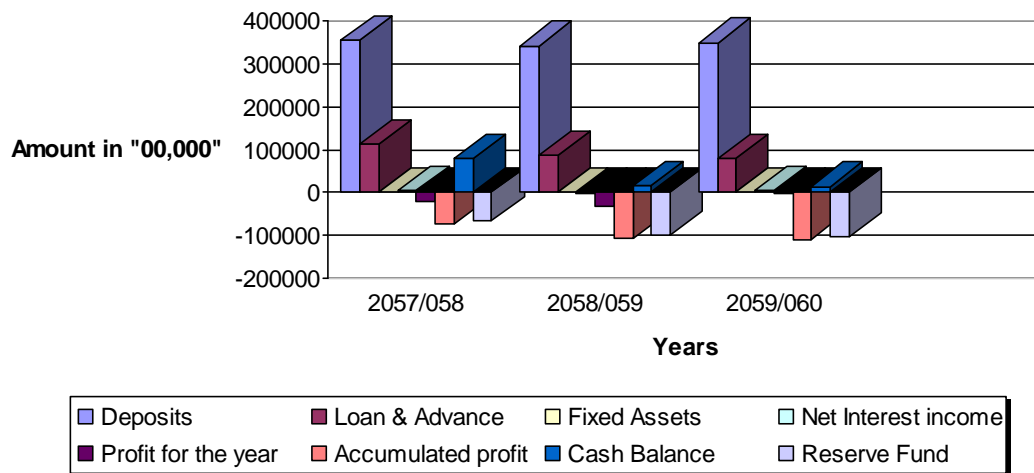
S.N	Particulars	2057/058	2058/059	2059/060
1	Deposits	35,618,590,475	34,264,846,061	35,014,001,443
2	Loan And Advance	11,450,266,642	8,638,438,159	7,971,097,498
3	Fixed Assets	146,937,762	139,640,568	137,795,450
4	Net Interest Income	623,699,113	(186,213,644)	614,714,178
5	Profit for the year	(2,177,908,369)	(3,071,296,048)	(251,730,672)
6	Accumulated Profit	(7,381,148,865)	(10,636,086,098)	(10,887,816,770)
7	Cash Balance	7,916,264,440	1,665,103,665	1,416,545,173
8	Reserve Fund	(6,734,896,874)	(9,934,258,213)	(10,211,514,301)
9	Time of Financial statement prepared	-	2059/11/20	2060/9/25

(Source: annual reports)

The above table no. 4.1 helps to identify the financial position of Nepal bank before implementation of accounting direction in 2060, Ashad. the position can be presents in following chart also.

Chart No. 4.1

Financial Position of NBL before issuing NBL accounting Manual



B) Financial Position after Issuing NBL Direction (Accounting Manual):

NBL issue an accounting Manual in 2060, Ashad based on NRB direction NAS and IAS. After the Accounting Manual issued, NBL financial statement can be presented as below. The five years data, which can shows the performance of NBL after new manual.

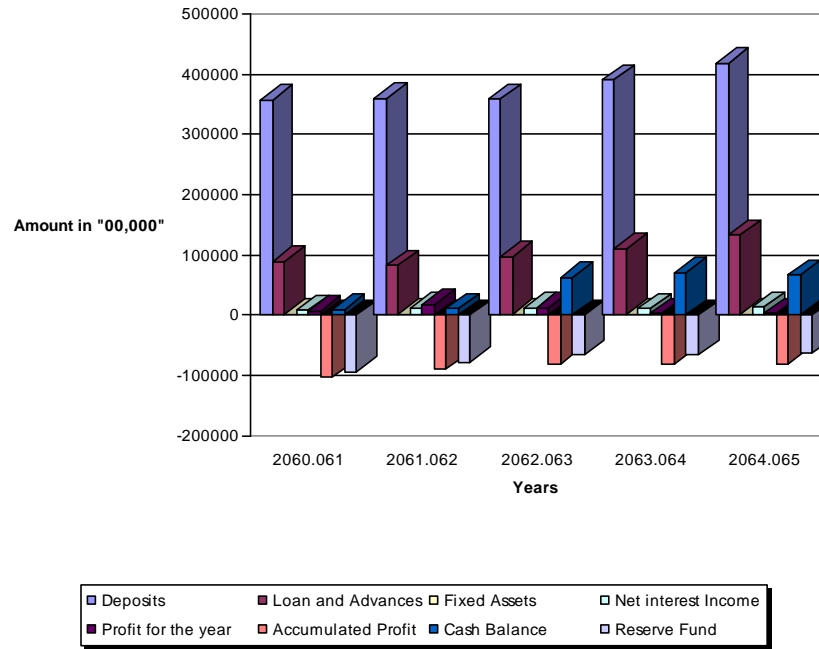
Table No. 4.2
Financial Position of NBL unto 2060/61- 2064/65

S.N	Particulars	2060/061	2061/062	2062/063	2063/064	2064/065
1	Deposits	35,735,044,427	35,934,163,645	35,829,765,050	39,014,204,359	41,829,391,063
2	Loan And Advance	8,881,823,323	8,218,909,609	9,756,162,747	11,058,477,657	13,251,962,768
3	Fixed Assets	195,046,508	187,084,618	191,705,831	205,768,262	207,527,502
4	Net Interest Income	799,508,631	1,238,166,482	1,274,705,251	1,075,967,519	1,322,248,517
5	Profit for the year	710,391,389	1,730,129,700	1,207,264,860	226,952,911	239,214,010
6	Accumulated Profit/loss	(10,332,069,373)	(9,024,042,134)	(8,122,002,960)	(8,151,491,861)	(8,023,441,085)
7	Cash Balance	1,010,231,467	1,069,613,535	6,159,337,483	7,117,293,084	6,616,992,587
8	Reserve Fund	(9,394,908,49)	(7,805,928,489)	(6,681,838,285)	(6,627,898,343)	(6,388,684,333)
9	Financial statement prepared/disclosure period	2061/8/28	2060/8/12	2063/09/29	2064/09/20	2065/09/22

(Source: Annual Reports)

The data presents in table no 4.2. Helps to identify the contribution of accounting system in banks performance which is presents in following figure 4.2

Chart No. 4.2
Financial Position of NBL after NBL accounting Manual Issue



The above table 4.2 and figure no. 4.2 shows financial performance is better of NBL. Deposit, loan and advances, interest on investment is in increasing scale.

Net interest income, operating profit, accumulate profit, cash balance are increased and non banking assets are decreased. This is the positive result of banks. It shows accounting system increase the banks performance after using of accounting system and rules (Ashad, 2060) of Nepal bank limited. Other variable directly influence to financial performance. But this new accounting system helps to increase the existing performance also.

4.6. Need and Requirements of primary research study:

The primary research study covers the conception, design and practices of various accounting system in Nepal Bank. So it is important to study and analyze.

4.7. Analysis of primary data:

4.7.1. Accounting is a backbone of bank:

To test the conception of various employees of NBL about the requirements of accounting systems, a question was “accounting is backbone of the bank or not?” the response is presented in the table below.

Table no. 4.3
Understanding of Accounting

S.N.	Particular	No. of Respondents	Percentage (%)
1	Yes	23	100%
2	No	0	0%
Total		23	100%

(Annex: 1A)

The above table no. 4.3, shed light the requirements of accounting .to test that the researcher have given option it is backbone or not. Among 23 respondents of NBL cent percent respondents said accounting is the backbone for the bank. Thus it can be concluded that accounting system is consider as backbone.

4.7.2. NBL followed NRB directives about accounting:

The researcher had asked to the respondents that whether the NBL has followed NRB directives about accounting or not, for the test of application of NRB rules and directives of accounting system by the NBL. The response of respondents is as follows.

Table no 4.4
Application of NRB Rules of accounting

S.N.	Particular	No. of Respondents	Percentage (%)
1	Yes	20	86.96%
2	No	3	13.04%
Total		23	100%

(Annex: 1A)

The above table no 4.4 shows the level of application of NRB directives. Approximately 87 percent respondents told that NBL followed NRB directives about accounting but 13 percent responded that NBL don't follow NRB directives.

4.7.3. Role of NRB in NBL:

NRB can play vital role in NBL to apply the rules and regulation. This creates positive and negative impact in the performance of bank. For that purpose the researcher asked "whether there is negative or positive impact of NRB in banks?" The response of respondents is as follows.

Table no 4.5
Role of NRB

S.N.	Particular	No. of Respondents	Percentage (%)
1	Positive	22	95.65%
2	Negative	1	4.35%
Total		23	100%

(Annex: 1A)

In the above table no 4.5 that about 95.65% respondents says that NRB play positive role in NBL's accounting system and 4.35 % says NRB plays negative role in accounting system.

4.7.4. Base of accounting record keeping:

The researcher when try to identify the basis of preparing accounting record in NBL. For that purpose the question was asked as 'on what basis does your bank kept record of transaction?' The responses of respondents are as follows.

Table no 4.6
Bases to keep accounting record

S.N.	Particular	No of respondents	No of responses	Percentage (%)
1	International Accounting Standard	23	2	7.14%
2	NRB directive or Related Acts		8	28.57%
3	Nepal Accounting Standard		4	14.29%
4	Banking Accounting Manual		12	42.86%
5	Other		2	7.14%
Total		23	28	100%

(Annex: 1A)

In the above table no 4.6 shows that 42.86 percent respondents says that banking accounting manual is the base to prepare banks records. NRB directives and other rules is another important base. Nepal accounting standard and international accounting standard are also the other bases.

4.7.5 Person involved in preparing Accounting reports:

The researcher asked “who prepare the accounting report in your bank?” for the identification of the participants and department involved to prepare accounting report. The response of respondents is as follows.

Table no 4.7
Involvement in preparation of accounting report

S.N.	Particular	No. of Respondents	Percentage (%)
1	Accounting committee	6	26.09%
2	Chief of accounting department	17	73.91%
3	Planning Department	0	0%
4	Outside experts	0	0%
5	Other	0	0%
Total		23	100%

(Annex: 1A)

As per the above table no 4.7, chief of accounting department can play vital role in preparing accounting report (about 73.91%) followed by accounting committee (by 26.09%) and other do not involve in the preparation of accounting report .

4.7.6 Accounting and financial statement:

The researcher asked to respondents “Whether the following accounting and financial statement are used in your banks?” the responses of respondents are as follows.

Table no 4.8
Accounting and Financial statements prepared by NBL

S.N	Particular	No of respondents	No of responses	Percentage (%)
1	Journal entries	23	17	7.87%
2	Ledger Account		19	8.80%
3	Purchase Books		8	3.69%
4	Sales Book		6	2.78%
5	Bank Reconciliation statement		23	10.65%
6	Trial Balance		15	6.94%
7	Balance sheet		24	11.11%
8	Profit and Loss account		23	10.65%
9	Trading Account		7	3.24%
10	Cash Flow statement		19	8.80%
11	Funds Flow statement		13	6.02%
12	Budget sheet		19	8.80%
13	Income statement		16	7.41%
14	Receipt and Payment Statement		7	3.24%
Total		23	216	100%

(Annex: 1A)

In the above table no 4.8 shows among the various statements balance sheet, p/l account ,cash flow statement, funds flow statement , bank reconciliation statement are used and prepare respectively.

4.7.7 Accounting Types:

Different accounting is important in banks but accounting discipline is used to prepare report in NBL is as follows. For that purpose the researcher have been given following alternatives. The response of respondents is as follows.

Table no 4.9
Different accounting areas

S.N	Particular	No of respondents	No of responses	Percentage (%)
1	Financial Accounting	23	15	62.5%
2	Managerial Accounting		0	0%
3	Cost Accounting		0	0%
4	All these three Accounting		9	37.5%
Total		23	24	100%

(Annex: 1A)

In the above table no 4.9 shows that financial accounting areas is used by NBL to prepare report by 62.5 percent and rest 37.5 percent respondents told all the area are used to prepare the report in NBL.

4.7.8 Accounting Tools:

The researcher has been given various accounting tools for the test of using various tools in NBL or not. For preparation of record the tools are important the responses of respondents are as follows.

Table no 4.10
Different accounting tools used in bank

S.N	Particular	No of respondents	No of responses	Percentage (%)
1	Accounting for Leverage	23	8	3.2%
2	Accounting for Labor		10	3.98%
3	Ratio Analysis		20	7.97%
4	Accounting for O.H.		18	7.17%
5	Funds Flow Analysis		17	6.77%
6	Cost volume Analysis		10	3.98%
7	Cash Flow Analysis		25	9.96%
8	ABC and Service costing		5	1.99%
9	Accounting of Depreciation		24	9.56%
10	Cost Estimation and Evaluation		8	3.2%
11	Accounting for Working Capital		13	5.18%
12	Variable /Absorption Costing		4	1.59%
13	Accounting for cost of Capital		10	3.98%
14	Budgeting		22	8.76%
15	Capital Budgeting		14	5.58%
16	Decision Making Tools		15	5.98%
17	Pricing Analysis		12	4.78%
18	Inventory Management		9	3.58%
19	Standard Costing		5	1.99%
20	Responsibility Accounting		2	0.8%
Total		23	251	100%

(Annex: 1A)

In the above table no 4.10 various accounting tools like cash flow statement, budgeting, ratio analysis, decision making, accounting for working capital are used respectively.

4.7.9 Problems in accounting tools:

The researcher has been asked the question to test the level of problem in using of accounting tools. The response of respondents is as follows

Table no 4.11

Problems to used accounting tools

S.N	Particular	No of respondents	No of responses	Percentage (%)
1	Lack of proper direction	23	9	24.33%
2	Having no information of accounting tools		4	10.81%
3	Lack of experience/ Practices		13	35.13%
4	For being unnecessary		4	10.81%
5	High cost		7	18.92%
6	Other		0	0%
Total		23	37	100%

(Annex: 1A)

In the above table no 4.11 Shows lack of experience and practice is the main difficulties to use the accounting tools about 35.13 percent and proper direction is another problem to use the accounting tools by 24.33 percent. About 18.92 percent is the third problems of high cost incurred to prepare accounting tools and human resource. The other problems are nominal.

4.7.10 Accounting System:

Different accounting system are used in banks, but which is used in NBL is important so researcher has been asked to respondents for the test of practice in NBL the response is as follows.

Table no 4.12

Accounting system used in NBL

S.N	Particular	No of respondents	No of responses	Percent age (%)
1	Manual Accounting	23	15	34.09%
2	Computerized Accounting System		12	27.27%
3	Computer Software Accounting System and manual		17	38.64%
Total		23	44	100%

(Annex: 1A)

In the above table no 4.12 shows about 38.64 percent respondents told NBL is used Computer Software Accounting System and manual accounting system.

Other 34.09 percent and 27.27 percent respondents told manual accounting and computerized accounting system is used in banks respectively.

4.7.11 Problem in Accounting Process:

The researcher has been asked to respondents for the test of any problem might be happened in accounting process. The respondents' views are as follows

Table no 4.13

Problem faced by NBL in accounting process

S.N	Particular	No of respondents	No of responses	Percentage (%)
1	Lack of Proper justification in accounting Manual	23	9	18%
2	Uneasy for applying accounting rules and policies		4	8%
3	Lack of proper Knowledge about Accounting		10	20%
4	Unavailable of necessary material		6	12%
5	Problem in staff's participation		6	12%
6	Lack of proper Training		7	14%
7	Lack of Computer system in all branches		8	16%
Total		23	50	100%

(Annex: 1A)

In the above table no 4.13 among the various problems poor accounting knowledge, lack of proper justification, lack of computer system in all branches, lack of proper training, limited accounting material, and nominal participation of employee are the major problems in accounting.

4.7.12 Measurement and control of the overall performance:

The researcher has been asked the questions to the respondents to by which your bank measure and control the overall performance at the end of the accounting year. The responses view and opinion are as follows.

Table no 4.14

Base of measurement and control of performance

S.N	Particular	No of respondents	No of responses	Percentage (%)
1	Financial statement made by the bank	23	20	40.82%
2	Standard costing		1	2.04%
3	Budget implementation and effectiveness		7	14.28%
4	Ratio Analysis		8	16.34%
5	Cash Flow analysis		5	10.2%
6	Income statements		6	12.24%
7	Other Managerial accounting tools		2	4.08%
8	Other		0	0%
Total		23	49	100%

(Annex: 1A)

In the above table no 4.14 shed light the measurement tools to evaluate the overall performance of banks are financial statements made by bank, Ratio analysis, Budget implementation and effectiveness, Income statements and cash flow analysis respectively. So, there are the different tools which help to measure and control of performance.

4.7.13 Involvement of keeping record:

The researcher was asked to the respondents that they are involved in record keeping system or not, for, the test of knowledge in accounting. The response of respondents is as follows.

Table no 4.15

Ratio of involvement of respondents

S.N	Particular	No. of Respondents	Percentage (%)
1	Yes	13	56.52%
2	No	10	43.48%
Total		23	100%

(Annex: 1A)

The above table no 4.15 shows the level of involvement of respondents in accounting record keeping system. Approximately 57 percent Respondents involve in record keeping but there is not involvement around 43 percent.

4.7.14 Report preparation time:

NRB can play as regulatory roles to prepare necessary report in every commercial banks and financial institutions. For that purpose the researcher was asked NBL prepare necessary statement in time or not the response of respondents is as follows.

Table no 4.16

Time consume to preparation report

S.N	Particular	No. of Respondents	Percentage (%)
1	Yes	23	100%
2	No	0	0%
Total		23	100%

(Annex: 1A)

In the above table no 4.16, shed light the time consume to preparation report to test that the researcher have given option it is maintain in time or not. Among 23 respondents of NBL about 100% respondents said necessary report prepare in time. So this it is found that NBL is preparing report in time.

4.7.15 Personnel satisfaction in report:

I have asked the question to test the satisfaction of employees in report prepare by NBL on the requirements of accounting systems. The response of respondents is presents in below.

Table no 4.17

Satisfaction in report prepare by NBL

S.N	Particular	No. of Respondents	Percentage (%)
1	Yes	23	100%
2	No	0	0%
Total		23	100%

(Annex: 1A)

In the above table no 4.17 to test the satisfaction of prepare report by NBL that the researcher has given option are yes or no. Among 23 respondents of NBL about 100% respondents said satisfied from report prepare by NBL. So this it is found that NBL is preparing report as a standard way.

4.7.16 System able to provide overall information:

The researcher asked a question for examined the accuracy of accounting system applied in NBL for providing necessary information. The result of test was as follows.

Table no 4.18

Accounting system is able to provide required information

S.N	Particular	No. of Respondents	Percentage (%)
1	Yes	21	100%
2	No	0	0%
Total		21	100%

(Annex: 1A)

From the above table no 4.18 it can found that among 23 respondents only 21 gives opinions and all of them said that the accounting system of NBL is able to provide required information to the concern users.

4.7.17 accounting software:

The researcher was asked to the respondents that the NBL has followed different accounting software, for, the test of application of accounting software in accounting practices of NBL. The response of respondents is as follows.

Table no 4.19

Accounting software covers the total accounting system

S.N	Particular	No. of Respondents	Percentage (%)
1	Yes	12	52.17%
2	No	11	47.83%
Total		23	100%

(Annex: 1A)

In the above table no 4.19 shed light the application of accounting software as accounting tools, to test that the researcher give a question of yes or no. Among 23 respondents 52.17% said yes and remaining 47.83% said no.

4.7.18 System should be change or not:

The researcher give a question for testing the requirement to change in current accounting system, the result of respondent's response shows the table of below.

Table no 4.20

Requirement to change accounting system

S.N	Particular	No. of Respondents	Percentage (%)
1	Yes	5	21.74%
2	No	18	78.26%
Total		23	100%

(Annex: 1A)

In the above table no 4.20 shows that the requirement position to change the current accounting system. Among 23 responses 78.26% said that it is not necessary to change in accounting system but 21.74% respondents gives opinion for necessary to change.

4.7.19 Participation approach is better:

For testing participation approach in preparing report is better or not, the researcher, given a question to 23 respondents. The result of this question is presented in following table.

Table no 4.21

Participation approach to prepare financial report

S.N	Particular	No. of Respondents	Percentage (%)
1	Yes	21	91.30%
2	No	2	8.70%
Total		23	100%

(Annex: 1A)

From the above table no 4.21 the respondents among 23, 91.30% said yes for the participation approach to prepare financial report is better and 8.70% said no. it refers for participation is better for preparing financial report.

4.7.20 Importance of Accounting:

There is various importance of accounting in the banks. The researcher study helps to identify the importance of accounting in different areas. The following various option which helps to clear to identify the importance of accounting.

Table no 4.22
Importance of accounting in Bank

S.N	Particular	No. of Respondents	No of responses	Percentage (%)
1	To find out operating profit	23	15	21.74%
2	To measure financial performance		16	23.19%
3	To record the transaction		11	15.94%
4	To kept record in systematic ways		18	26.09%
5	To stop the action of NRB against not applying accounting direction		9	13.04%
Total		23	69	100%

(Annex: 1A)

In the above table no 4.22 cleared that the main important of accounting is to keep record in systematic way, to measure financial performance, to find out operating profit, to record the transaction and to follows the direction of NRB.

4.7.21 User of accounting Information:

The user of accounting information is important in the business organization and banks itself. So, this study helps to identify the main user of accounting information through the design of different questions. The responses of respondents are as follows:

Table no 4.23
Main users of accounting information

S. N	Particular	No of respondents	No of responses	Percentage (%)
1	Bank itself	23	21	24.70%
2	Shareholders		18	21.18%
3	NRB		17	20.00%
4	NBL Staffs		15	17.65%
5	Other outsider e.g. domestic and international		14	16.47%
Total		23	85	100%

(Annex: 1A)

In the above table no 4.23 shows the main user of accounting information are banks itself, shareholders, NRB, Staff of NBL, Outsiders and Domestic and international markets respectively.

4.7.22 Contribution of accounting system:

The researcher asked a last question for measuring contribution of accounting system in banks performance. The responses of respondents are different. In the following table views of respondents are listed.

Table no 4.24
Contribution of accounting system in banks performance

S.N	Particular
1	To find out financial positions and operating profit
2	To provide report to NRB
3	To publish financial report
4	Profit Maximization
5	Cost control
6	Wealth maximization
7	For banks performance
8	Knowledge of finance
9	Cash control by budgeting
10	Provide information to decision making and policy making
11	To assist auditing
12	Better planning
13	Trust of information users
14	Trust and fair view of the operating result and financial position
15	To gain trust of people
16	To control the whole financial function
17	Helps in fund management
18	Find out taxable income and tax liabilities
19	Increase management performance

(Annex: 14)

In the above table no 4.24 shows the contribution of banking accounting in different field, which help to increase the performance of banks.

4.8 Major Findings of the Study:

The major findings of the study are determined on the basis of primary and secondary data analysis. The specific findings are as follows.

- ❖ Nepal Bank design and issue various directives on the basis of NRB directives and National as well as International accounting standard.
- ❖ The accounting directives include and cover all the issues and subject matter.
- ❖ Subject and accounting head is determined on the basis of directives and actual transaction.
- ❖ Each and every part in the accounting manual of NBL is determined in detail.
- ❖ The accounting directives cover more area than the principles and concepts of accounting system.
- ❖ Nepalese Banking accounting system is determining to create the uniformity in international accounting system also.
- ❖ Different section follows the different accounting software and system.
- ❖ NBL follows manual accounting system also which create the confidence to the organization.
- ❖ Various accounting software are used in Nepal Bank to keep record relating to different accounting transactions.
- ❖ The manual accounting system and computer software are determined on the basis of double entry book keeping system.
- ❖ Interest received in investment and loan is collected as revenue on the basis of cash received basis not in accrual basis.
- ❖ After the issuing of NBL accounting manual (2060), accounting reports are prepared with in fixed time.
- ❖ Accounting reports are prepared on the basis of real information.
- ❖ Accounting subject and head is determined on the basis of transactions.
- ❖ NBL strictly follows the rules and regulation provided by NRB, NAS and IAS.
- ❖ Financial statement of NBL; balance sheet, P/L account, Cash flow statement includes all subject of transaction.
- ❖ Banking performance is increased after the issue and follow of accounting directives by Ashad, 2060.

- ❖ Account is considered as the backbone of Banks.
- ❖ NRB play positive Role in NBL accounting system.
- ❖ Concerned department (Accounting Department) is directly involved and responsible to prepare accounting report.
- ❖ Financial accounting system is mostly used in NBL.
- ❖ Various accounting tools are used in NBL.
- ❖ Lack of experience and proper direction are the problem in using accounting tools in NBL.
- ❖ Computer software and manual accounting system are mostly used. Accounting software covers the overall transaction in average level of branch.
- ❖ Lack of knowledge justification, proper training about accounting system and absence of computerized accounting system in all branches is the major problems in accounting system in NBL.
- ❖ Financial statement, ratio analysis, income statement, cash flow statement are the main tools to determine the performance of NBL.
- ❖ Participation approach in determining accounting policy and statement is average.
- ❖ The stakeholders/employees are satisfied to the reports and statements prepared by Bank.
- ❖ Present Accounting system is able to provide various accounting information. There is no requirement for change.
- ❖ Accounting system is better for keeping record, measure financial performance and find out operating profit.

CHAPTER - FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is completely a conclusive and suggestive chapter which contain summary, conclusion of the findings and actionable plan i.e. suggestions for further improvement. Summary comprises the brief introduction of all the chapters of the study and shows the actual facts of the present situation under the topic of the study. Conclusions of the findings are based on the consequences of the analysis of relevant data using percentage tools, which presents the position of NBL. The recommendations are presented in terms of suggestions, which are prepared on the basis of findings and conclusion.

5.1 Summary:

The study mainly follows to banking accounting system in Nepal on the topic "Accounting System in Nepalese Commercial Banks (A case study of Nepal bank limited)". This study includes the primary as well as secondary data. It covers the eight years data from fiscal year 2057/058 to F/Y 2064/065. For analytical study questionnaire method is used.

The study includes one commercial Banks as a sample for the study among 26 commercial Banks. This research study is the case study of Nepal Bank Limited relating to practices of accounting system, its problems, and position.

The chapter one contains the introduction which includes the general background of the study. It helps to clear about the related environment and relation among

business, economy, banking environment and accounting system. It shows a brief overview about the sample company i.e. NBL.

The focus of the study gives the priority of concentration of study area. Statement of the problem shed light the problems relating to accounting system. The objectives of the study are as to study the policy, practices and principle of accounting system, evaluation of contribution of accounting in Nepalese commercials banks, to explore the general environmental factors and to provide recommendation for the future development of accounting system.

Significance of the study helps to identify the importance of study to the different areas and aspects. Limitation of the study includes the different difficulties for the study area and chapter plan explain different topic of the study in different chapter.

Review of literature included in chapter two is segregated into two parts. One is review of concept of the accounting system, accounting policy, rules and directives of NRB and another is review of related study.

In chapter three, research methodology is presented. Research design show the way of analysis. Sources of data gives knowledge that which source are used for data collection for analysis. For analysis, NBL is taken as a sample. Data collection procedure is clarified and shows the process of collecting data. For analyzing the data, data analysis tools and techniques gives a technical support to judge the efficiency of the bank.

In chapter four, data are presented and analyzed. The secondary and primary data are presented and analyzed in this chapter. The practices of banking accounting system and policies are proofed by secondary and primary data. Direction of accounting rules and regulation prepared by NBL, direction of NRB and analysis of primary data, and financial performance consists in this chapter.

Chapter five includes the summary, conclusion and recommendation. Summary consists of overall activities from chapter one to five. Conclusion draw out findings and recommendation consists of suggestions and advice for further development

5.2 Conclusion:

Various conclusions are drawn and mention on the basis of findings of the research study which can be used in recommendation and improving of the accounting system in NBL and it may support to further researcher.

- ❖ Nepalese commercial banks have determined the accounting policy clearly.
- ❖ Computer software could not represent all accounting variables.
- ❖ The poor relation in determine the accounting software between computer science engineer and specialists of accounting.
- ❖ The maintaining and evaluation process of NRB is held once a year. It creates difficulties and problems to control.
- ❖ Various commercial Banks and departments are using accounting software.
- ❖ Accounting software and manual accounting system covers all of accounting system of NBL but using both systems is May misunderstanding, creates difficulty in the operation of bank and inconsistent
- ❖ NBL follows all and every rules of NRB.
- ❖ For proper development of accounting system, NBL don't have any unit or committee.
- ❖ Lack of Proper knowledge and training to the staff creates many problems in accounting system.

5.3 Recommendations:

This study is focus to identify the problems of accounting system in Nepalese commercial banks. On the basis of this study, major findings and conclusion provides various information and following recommendation are draw out, the aim of recommendation is to improve and development of banking accounting system.

Financial report should be prepared and disclose infixed time. To fulfill the new requirements of customers and stakeholders in dynamic business environment computer software should be used. It increases the efficiency and performance on banking service.

- ❖ Accounting report should be prepared and disclosed in every three month, which helps to minimize the risk in missing data.
- ❖ Accounting software should be prepared with the coordination between the accounting specialist and computer scientist.
- ❖ Bank should change its manual accounting system into computer software accounting system in all branches for better performance.
- ❖ NRB should prepare accounting software and must issue it in different commercial banks.
- ❖ Uniformity should be created in different commercial banks by providing similar directions.
- ❖ It must be create a separate accounting unit in NBL for finding accounting problems and giving proper recommendation for improving accounting system.
- ❖ Proper training and necessary knowledge should be given to staff as per requirement of the accounting department of the NBL for better performance.
- ❖ Employee should be involved to make accounting policy.
- ❖ Accounting rules, provision, policy and system should be reviewed in time to time.
- ❖ Required training should be manage and provide to the employee.

Appendix- 1 A

Questionnaire

Please kindly tick () which you have practice of the Accounting System in your Bank from the following mentioned question. Your small effort plays vital role in my research report.

1. Accounting is a backbone of Bank.

a) Yes <input type="checkbox"/>	b) No <input type="checkbox"/>
---------------------------------	--------------------------------

2. Is your bank followed the Banking Accounting System directed by Nepal Rastra Bank?

a) Yes <input type="checkbox"/>	b) No <input type="checkbox"/>
---------------------------------	--------------------------------

If there is not practiced any of directions, what might be reasons?

# Lack of experience	# Have no. information about directives
# High cost/ Quite expensive.	# Other, please specify.....

3. Role played by NRB in accounting system of your Bank's is

a) Positive <input type="checkbox"/>	b) Negative <input type="checkbox"/>
--------------------------------------	--------------------------------------

4. On what basis does your Bank kept record of transaction?

# International Accounting Standard	# NRB directive or related Acts
# Nepal Accounting Standard	# Banking Accounting manual
# Other, please specify.....	

5. Who prepare the accounting reports in your Bank?

# Accounting Committee	# Chief of accounting department
# Planning department	# Outside experts
# Other please specify.....	

6. Please tick (), if the following Accounting and Financial statements are prepare in your Bank.

# Journal Entries	# Ledger Account
# Purchase Books	# Sales Books
# Bank Reconciliation Statement	# Trial Balance
# Balance Sheet	# Profit & Loss A/C
# Trading Account	# Cash flow Statement
# Funds flow Statement	# Budget sheets
# Income Statement	# Receipt & Payment Statement

7. Which accounting is mostly applied in your Bank?

# Financial Accounting	# Managerial Accounting
# Cost Accounting	# All these three Accounting

8. Following tools are used in your Bank's Accounting system, if yes; please tick ().

# Accounting for Leverage (Profit)	# Accounting for Labor
# Ratio Analysis	# Accounting for O.H.
# Funds Flow Analysis	# Cost Volume Profit Analysis
# Cash Flow Analysis	# ABC & Service Costing
# Accounting of Depreciation	# Cost Estimation and Evaluation
# Accounting for Working Capital	# Variable / Absorption Costing
# Accounting for Cost of Capital	# Budgeting
# Capital Budgeting	# Decision Making Tools
# Pricing Analysis	# Inventory Management
# Standard Costing	# Responsibility Accounting

9. What are the problems of applying above accounting tools?
 # Lack of proper direction # Have no information of accounting tools
 # Lack of experience/ practices # For being unnecessary
 # High cost # If other, please specify.....

10. What types of accounting system is used in your Banks?
 # Manual Accounting #Computerized Accounting System
 # Computer Software Accounting System

11. What problems might be happened in accounting process?
 # Lack of proper justification in accounting Manual
 # Uneasy for applying accounting rules and policies
 # Lack of proper knowledge about accounting
 # Unavailable of necessary material
 # Problem in staff's participation
 # Lack of Proper Training
 # Lack of computer system in all branches

12. How does the Bank measure and control the overall performance at the end of the accounting year?
 # Financial statement made by the Bank # Standard costing
 # Budget implementation and effectiveness # Ratio analysis
 # Cash flow analysis # Income statements
 # Other managerial accounting tools # Other, please specify

13. You are involved to keeping Record.

- a) Yes b) No

14. Your Bank is able to prepare financial report with in fixed time.

- a) Yes b) No

15. You are satisfied on financial report prepare by Bank.

- a) Yes b) No

16. Accounting system of your Bank is able to provide overall effective information.

- a) Yes b) No

17. Different accounting software includes the total accounting system.

- a) Yes b) No

18. Accounting system should be change.

- a) Yes b) No

If yes, what are the factors should be include in New accounting system, please specify

- # #
 # #

19. Participation approach is better to prepare financial report

- a) Yes b) No

20. Importance of Accounting in your Bank is

- # To find out operating profit # To measure financial position
 # To record the transaction # To kept record in systematic ways
 # To stop the action of NRB against not applying accounting direction

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