

# CHAPTER ONE

## INTRODUCTION

### 1.1 Introduction

Accounting is a systematic development and analysis of information about the economic affairs of an organization. This information may be used in number of ways: by the organization's managers to help them plan and control the organization's operation, by owners and legislative or regulatory bodies to help them apprise organization's performance and make decision as to its future, by owners, lenders, suppliers, employees and other to help them decide how much time or money to devote to the organizations, by governmental bodies to determine how much tax the organization must pay and occasionally by customers to determine the price to be paid when contracts calls for cost based payments. accounting is the process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by user of the information. Accounting is not only to record the transaction in systematic manner and to analyze and interprets them, but also communicates the information and data to user who have to make decisions or form judgments. Accounting can supposed as a vehicle to communicate the essential data and information to various users (Encyclopedia Britanica,2002).

Accounting system is means of collecting, summarizing, analyzing and reporting in monetary terms the information of the business (R. N. Anthony). Accounting may be defined as the identifying, measuring, recording and communicating of business information (R. Lewis and Ian Gillesple ). Besides, it interprets and communicates information about the financial position of business. Economic development has become one of the most popular slogans in almost all the developing countries all over the world and Nepal is not the exception in this respect. Most accounting information is historical that is the accountant observes the things that the organization does, records their effect and prepares reports summarizing what has been recorded, the rest consist of forecast and plans for current and future period.

Accounting practice is based on body of principles and procedures designed to act as a guide in recording and reporting those affairs and activities of an economic unit that are capable of expression in monetary values(Porwal, 1999).

Management accounting is the application of the appropriate techniques and concepts in processing historical and projected economic data of an assist management in establishing plans for reasonable economic objectives in the making of rational decision with a view towards those objectives. It is concerned with reframing the accounting information to make it useful for the management. It also clearly indicates that any system of accounting which assists management in carrying out its functions more efficiently may be termed as management accounting (Dangol, 2064).

Commercial bank should be responsible to change the economic and financial activities of the fiscal year of government. Therefore for transparency, the accounting system of bank should entice significant accounting policies, guidelines and disclosure with respect to statutory requirement understanding the financial statements more clearly on presentation. The aforesaid three element's exigency are conducive to enhance understanding and developing capabilities of financial statements for the users including employees, lenders, suppliers, other trade creditors, government, customers, agencies public in general and potential investors. The need of greater and detail disclosure is on public accountability confidentiality between banks and the customers reputation and credit worthiness in the presentation of published accounts because of generating more accurate information to analyze cost, revenue, capital employed and investment. The qualitative characteristics such as understandability, relevance reliability and comparability can be determined the usefulness of information presented in financial statement thought better accounting practice (Gautam, J. R., 2001)

Accounting system plays the vital role in the functioning of any corporate organization. Accounting system provides the guidelines for better utilization of available resources so that competitive advantages at this hyper competitive environment can be achieved through various tools and technique of accounting practices. Management accounting tools have proved beneficial in every aspect of management activities from

planning to decision making. It helps manager in overall managerial activities by providing information and helping them in planning, controlling and decision-making.

Nepal has no long history of development of Commercial Bank as compared to other South Asian as well as other developed countries. Banking business is becoming more complex because of the cutthroat competition. For smooth running of banking sectors, the only reliable option is good management, which protects organization from the unexpected and painful happenings. The performance of well-manage organization is high as compared with the organization which have poor management. Management accounting is the term used to describe the accounting methods, system and techniques, which coupled with special knowledge and ability. It assists management in maximizing profit or minimizing losses.

Accounting practices is based on body of principles & procedures designed to act as a guide in recording and reporting those affairs and activities of an economic unit that are capable of expression in monetary values. Accounting practice of commercial bank of Nepal is mainly governed by the directives issued by the NRB, Commercial Bank Act 1974, Rasta Bank Act 1955, Foreign Exchanges Regulation Act, Nepal Accounting Standard and Companies Act 1997. Commercial banks are established under company act as a company with limited liabilities on the recommendation of the Nepal Rastra Bank. Therefore in the context of Nepal various operations and practices depend up on the legislation and supervision of NRB.

Bank accounting is the art of systematic recording, presenting and interpreting financial; transactions. The accounting system of the bank has certain distinctive feature. Bank play a major role in maintaining confidence in the monetary system through their close relationship with regulatory authorities and governments hence there is considerable and wide spread interest in the well being of banks and particulars their solvency and the relative degree of risk that attaches to the different type of their business. The operations and thus the accounting and reporting requirement of banks are different from those of commercial enterprises (International Accounting standards, 1993). The business activities results in certain unique accounting practices that may

differ from regulatory reporting system. There is often highly regulated system of review and approval and a strong emphasis an exception transaction monitoring and reporting.

There are certain basic data needs to be satisfied in all banks. Every bank must Maintains accounting record to supply data for regulatory reports, such as the call report to the NRB, incomes and dividends reports as well as for tax returns. In addition, accounting records must supply information for reports to management, depositors, stock holder and the public at large. Accurate and adequate accounting records are essential to a well managed bank. The regulators tend to focuses on specifying information which is useful for taxation or to protect the economy and do not consider the potential usefulness of the information to prepare.

A sound profitable and constructive bank system must be based on proper procedures, practices and operations. The wide recognition given this principle can best be illustrated by pointing to the considerable degree of external control exercised over banking by regulatory authorities created by the government. Also widely recognized is that external controls are not sufficient in themselves. Safe and sound banking accounting systems are must be effectively controlled and policed from within (American Institute of Banking and the American bankers Association.1972). Seen in this light, the study of accounting practice in commercial banks assumes special importance. With today's increasing liberalization and expansion of commercial banking business, it has become increasingly important: for the general people to be aware of accounting practice of commercial banks, for the commercial banks to know about how they are doing and to strengthen the accounting practice to achieve the sound accounting information for them and for all.

## **1.2 Commercial Banks in Nepal**

Commercial banks are those financial institutions, which deal in accepting deposit of person and institutions and giving loans against securities. They provide working capital needs of trade, industry and even to agriculture sectors. More over commercial banks also provide technical and administrative assistance to industries, trade and business enterprises. The main purpose of priority sector investment scheme

is to uplift the backward sector economy. Commercial banks are the corporations, which accepts demand deposits subject to check and make short term loans to business enterprises regardless of the scope of its other services (American Institute of Banking Principle of Operation, USA, 1972). A commercial banker is dealer in money and substitute for money such as cheque or bill of exchange. He also provides a variety of financial services. Principally commercial bank accepts deposit and provides loans, primary to business firms, there by facilitating the transfer of funds in the economy. The origin of banking is traceable to ancient Assyrian, Baby Lorians, and Athenicians but fore runner of modern banks is considered to be the bank of Venice (1171). The bank of Genoa (1320) and the bank of Msterdam (1609), the Martins bank in London has been operating on it on its original site. Since Sir Thomas Gresham, a goldsmith, established on its original site it in 1563 " at the sign of grasshopper". Bank in America is strongly influenced by its heritage although banks have evolved into professionally managed and electronically connected brokers (Edmister, 1980).

The concept of financial institutions in Nepal dates back more than seventy years. In 1994 BS, the first commercial bank, Nepal bank ltd. was established under the Banking Act-1993. The government took 51% equity of the bank and the promoter shared the rest. Nepal Rastra Bank, the central bank emerged in 2013 BS under the Rastra Bank Act- 2012. Since then it has been providing policies and guidance to the financial sector in one hand and it monitoring and controlling them in the other. Realizing the need of adequate banking services for the integrated and speedy development of industrial sector, Rastriya Baniya Bank come in to existence in 2022 BS with 100% equity of government. After the establishment of Agricultural Development Bank in 2040 BS growth of banking institutions remained almost stagnant till 2040 BS. No new banks have been opened in this period though some branches of previously established banks were extended. Liberalization policy of government formulated in 2038 BS allowed private sectors to open joint venture bank in foreign collaboration. Nepal Arab Bank Ltd. (Renamed as Nabil Bank Ltd.) became the first commercial bank to register under the new arrangement in 1984 AD. It is an associated of Dubai Bank Ltd., UAE and Nepalese promoters. Nepal IndoSuez Bank (Renamed as Nepal Investment Bank Ltd.) in 1985 AD with joint venture banks between Nepal and

France, Nepal Grinlays Bank (Renamed as Standard Chartered Bank Ltd.) in 1986AD. was other joint venture banks established after them and before the democracy. Himalayan Bank (1992) joint venture bank with reputed bank of Pakiustan, Nepal SBI Bank (1993) joint venture bank with State Bank of India, Nepal Bangladesh Bank (1993) joint venture bank with Bangladesh Bank, Everest bank Ltd. (1994) joint venture bank with Panjab National Bank of India. Bank of Kathmandu(1995) joint venture bank with Thailand bank, Nepal Bank of Cylon (1996) renamed as Nepal Credit & Commerce Bank. Nepal Industrial & Commercial Bank (1998). And with the 1990's liberal economic policy adopted by the successive governments, many commercial banks come into being table 1.1 present the development of the commercial banks in Nepal.

**Table 1.1**  
**List of Licensed Commercial Banks as of March 2012**

*Rs. In million*

S.N	Name of Bank	Establishment Date	Head Office	Paid up Capital
1	Nepal Bank Ltd.	1937/11/15	Kathmandu	380.00
2.	Rastriya Banijya Bank Ltd	1966/01/23	Kathmandu	1172.30
3.	Nabil Bank Ltd	1984/07/16	Kathmandu	2029.77
4	Nepal Investment Bank Ltd.	1986/02/27	Kathmandu	3012.92
5	Standard Chartered Bank Nepal Ltd..	1987/01/30	Kathmandu	1610.17
6	Himalayan Bank Ltd.	1993/01/18	Kathmandu	2400.00
7	Nepal SBI Bank Ltd.	1993/07/07	Kathmandu	2102.97
8	Nepal Bangladesh Bank Ltd.	1994/06/05	Kathmandu	2009.40
9	Everest Bank Ltd.	1994/10/18	Kathmandu	1391.57
10	Bank of Kathmandu Ltd.	1995/03/12	Kathmandu	1604.19
11	Nepal Credit and Commerce Bank Ltd.	1996/10/14	Rupandehi	1400.00
12	Nepal Industrial & Commercial Bank Ltd.	1998/07/21	Biaratnagar,	1311.55
13	Lumbini Bank Ltd.	1998/07/17	Narayangadh,	1430.00
14.	Machhapuchhre Bank Ltd	2000/10/03	Pokhara, Kaski	1627.20
15	Kumari Bank Ltd	2001/04/03	Kathmandu	1485.00
16	Laxmi Bank Ltd.	2002/04/03	Birgunj, Parsa	1613.52
17	Siddhartha Bank Ltd.	2002/12/24	Kathmandu	1618.26
18	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu	9474.30
19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa	1601.45
20.	Citizens Bank International Ltd	2007/06/21	Kathmandu	2101.84
21	Prime Commercial Bank Ltd	2007/09/24	Kathmandu	2245.75
22	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu	2000.00
23	Sunrise Bank Ltd.	2007/10/12	Kathmandu	2015.00
24	DCBL Bank Ltd.	2008/05/25	Kathmandu	2000.00
25	NMB Bank Ltd.	2008/06/05	Kathmandu	2000.00
26	Kist Bank Ltd.	2009/05/07	Kathmandu	2000.00
27	Janata Bank Nepal Ltd.	2010/04/05	Kathmandu	1400.00
28	Mega Bank Nepal Ltd.	2010/07/23	Kathmandu	1631.00
29	Commerz & Trust Bank Nepal Ltd.	2010/09/20	Kathmandu	1400.00
30	Civil Bank Ltd.	2010/11/26	Kathmandu	1200.00
31	Century Commercial Bank Ltd.	2011/03/10	Kathmandu	1080.00
32	Sanima Bank Ltd.	2012/02/15	Kathmandu	

(Source: Nepal Rastra Bank's website [www.nrb.org.np](http://www.nrb.org.np))

### 1.3 Statement of the Problems

A sound banking system is important because the key roles it plays in the economy, intermediation, maturity transformation, facilitating payment flows, credit allocation and maintaining financial discipline borrowers. Banks provide important positive externalities as gathers of saving, allocation of resources and providers of liquidity and payment services. In transition and developing economics with less well developed financial market, banks typically are the only institutions producing the information necessary for intermediation, providing the portfolio diversification required for maturity transformation and risk reduction and helping monitor corporate governance. Even in economics with highly developed financial markets, banks remain at the centre of economic and financial activity and stand a part from other institutions as primary providers of payments services and as a fulcrum for monetary policy implementation (IMF, 1996). Hence there is considerable and widespread interest in the well being of banks, and in particular their solvency and the relative degree of risk that attaches to different type of their business. The operation and thus the accounting and reporting requirement of banks are different from those of commercial enterprises (IAS, 1993).

Accounting practice of commercial Banks of Nepal is largely governed by the directives issued by the NRB, Commercial Bank Act 1974, Rastra Bank Act 1955, Foreign Exchange Regulation Act and Companies Act 1997. Commercial banks are established under the Company Act as a company with limited liabilities on the recommendation of the Nepal Rastra Bank. This Commercial Bank Act has provided various powers to NRB such as power of inspection and to issue necessary directives to the commercial banks. Hence in the contest of Nepal, various operations and practices depend upon the legislation and supervision of NRB.

A sound, profitable and constructive banking system must be based up on the effective accounting practice it may be differ from regulatory reporting; the banking transaction include various risks; so bank need well developed accounting control system and there numerous interlocked and interdependent transaction; in the view of volume velocity, risky and complexity banking accounting practice differ from other

companies. Thus there is need of discovering the actual accounting practice in commercial bank in Nepal. The evidence of two largest commercial banks RBB and NBL shows that there is need of improving the existing Accounting and Auditing. There is a need of maintaining financial discipline through adequate transparency and competition. It is said that balance sheet shows the situation of commercial banks, but actual situation cannot be seen from it.

Until now there is no such study which tells the accounting system, policy and procedures adopted by the Nepalese Commercial Banks, how they are preparing various reports for regulatory authority at the same time how they are disclosing the public accountability to the general public and how they are practicing internal accounting system? So that the validity and reliability of the accounting or financial information can be tested. So there is need to discover following issues:

- How the commercial banks maintain their books of account?
- How they disclose their financial information?
- Do they follow the regulatory guidance/directives on disclosing financial statement?
- Can we believe the information provided by commercial banks?
- Whether the existing accounting system sufficiently presents their transactions and how far it is applicable for decision?
- Are they equally practicing different management accounting tools ?
- Whether the accounting control system is efficient?
- Is current practice efficient to disclose the actual condition of the banks and what is the weakness of current practices?
- Are there any possibilities for further improvement in accounting practice so as to strengthen the current position?
- Are commercial banks properly followed Nepal Accounting Standard or not?

## 1.4 Objective of the Study

The major objective of the study is to find out the accounting practices among commercial banks. How the commercial banks are maintaining their books of account for the regulatory reporting purpose. More specifically following are the objectives of the study.

- To find out existing recording practices of commercial banks.
- To find out the reporting practices of commercial banks.
- To discover the possibilities of further improvement in order to strength the accounting practice of commercial banks.
- To evaluate the effectiveness of accounting practices in commercial banks.

## 1.5 Hypothesis

Budgetary (B), Cost Volume Profit Analysis(CVPA), Capital Budgeting(CB), Standard Cost(SC) and Decision Making for value addition(DM) are the five Mgmt. accounting tools practiced by commercial banks.

Following Hypothesis has to be tested in dissertation

- Null Hypothesis (H0):- Five different management accounting tools are being equally practiced by all commercial Banks
- Alternative Hypothesis(H1):- Five different management accounting tools are not being equally practiced by all commercial Banks

## 1.6 Significance of the Study

This research study is the supporting study about Nepalese Commercial Banks. Banks have the top position in overall economic environment, so we can't imagine the total development of economic sector in absence of banking development, in this global networking, bank also trying to manage the trade activities by financial manner and challenges are going to increase day to day the effect of global networking. The Research work is the study of the practice of accounting tools of commercial banks in Nepal. The study is significant in the following ways.

- It is the analysis of recording and reporting practice of commercial banks. It helps them to improve the better accounting practices.
- This study has explored for possibility of better accounting practice and represents their current status.
- It explores the problem and potentialities of the Commercial Banks. It is useful to the potential investors, lenders, managers, policymaker, academician and stakeholder of the Banks.
- This study has given some suggestion to the NRB in order to make the transparent accounting practices.
- This study has given some suggestion to commercial banks in order to make the transparent accounting practice and important financial information.

- Last but not least, it will provide literature to the researcher who wants to carry out further research in this field.

### **1.7 Limitations of the Study**

All research studies are done to solve the particular research problem. It requires various kinds of data, material and other relevant information, which may not be sufficient to the researcher. This study can not escape from the frame of limitation. Due to limitation of the time and resources this study has been combined by different factors. But it definitely represents all the commercial banks in some extent. Some limitations of the study are given below.

1. This study only focuses on accounting practices of selected commercial banks only.
2. This study has excluded development banks financial companies and Co- operative Organizations.
3. This study is dependent on the primary data, in some extent Secondary data can also use. The accuracy and reliability of data depend on the information provided by concern authority.
4. Due to the time constraint it is not possible to access overall accounting system of commercial banks.

### **1.8 Organization of Study**

The study is organized in five different chapters. Each devoted to some aspects of the study on Accounting Practice of Commercial Banks in Nepal.

Thesis outlook is divided into the following five chapters:

#### **1. Introduction:**

It entitles 'introduction chapter' explaining why researcher chooses this topic. The reading material of this chapter is general background of the study, general introduction of commercial banks, statement of problems, objectives of the study, significance of the study, limitation of the study and organization of the study.

## **2. Review of literature:**

The reading materials of this chapter are conceptual review and review of related literature. Review of literature includes about previous research study of accounting practices of commercial banks. It also focuses different book for literal study due to sufficient materials related concepts, rules, principles and practice of commercial banks. For this study various books, publication, dissertations, journal, articles, newspapers, websites were reviewed and try to explain sufficient materials related concepts, rules, principles and accounting practices of commercial banks.

## **3. Research Methodology:**

This chapter deals with the research methodology to express the way and use technique while studying. It refers to the various sequential steps calling with relation of each such steps to be adopted by the researcher in studying a problem with research projects are not meaningful, unless they are in sequential order. It's consisting research design, nature & sources of data, data gathering procedure, population and sample, research variable and data processing procedure.

## **4. Presentation and Analysis of Data:**

It deals with presentation, analysis and interpretation of data. It consists testing of hypothesis, analysis of questionnaires and analysis of open-end opinions and major finding of the research. This chapter present and analysis the information derived through study.

## **5. Summary, Conclusion and recommendation:**

This study mainly aims to find out existing recording practices, reporting practices, possibilities of further improvement in order to strength the accounting practice, evaluate the effectiveness of accounting practices in commercial banks. This chapter is concerned with output of dissertation as summary, conclusion and recommendation for improvement.

## **CHAPTER TWO**

### **REVIEW OF LITERATURE**

Review of literature is basically a stock-taking of available literature in the field of research. The textual constrains would help the researcher to support the area of research in order to explore the relevant and true facts for the reporting purpose. The chapter is developed under two major heading; review of supportive text and review of pilot studies. This chapter deals with the review of studies relating to 'Accounting Practice of commercial Bank' the more details descriptive manner. For this study various books, publication, dissertations, journal, articles, newspapers, websites were reviewed and try to explain sufficient materials related concepts, rules, principles and accounting practices of commercial banks.

#### **2.1 History of Banking in Nepal**

It is assumed that the regular history of coinage in Nepal began from the 5th century A. D. The advent of 12th century marked a new period in economic history of Nepal. Silver coinage was introduced in the period, which widened the scope for trade. The second major logical order of development was found in the innovation of interest bearing private debt such as bonds, mortgages and loans.

In the year 879/80 A.D. a low cast merchant named 'Sankhadar Shankhwa' introduced a newera after playing all the debts that existed in the country. The team 'Tanka Dhari' was one of the 64 castes classified on the basis of occupation, indicating money changing was adopted as a profession by a action of people in Nepal at that time. For many years, the indigenious individuals, wealthy agriculturists, landlords, merchants and traders conducted same banking activities as a side business to their normal business activities.

In 1877 A.D. Prime Minister Ranoddip Singh introduced many financial and economic reforms. The 'Tejarath Adda' established at that time. The basis purpose of the establishing this 'Tejarath Adda' was to provide credit facilities to the general public at very concessional interest rate. This 'Tejarath Adda' disbursed credit to the people on

the basis of collateral of gold and silver. All employee of government were also eligible for this type of loan, which was settled by deducting from their salary. Under the Prime Ministership of Chandra Shamsher, 'Tejarath Adda' extended its services outside the Kathmandu Valley. Legal provision was made to private dealers. Hence, the establishment of 'Tejarath Adda' is regarded as the foundation of modern banking in Nepal. However 'Kaushi Tosh Khana' established during the regime of King Prithvi Narayan Shah is also considered as the first steps towards initiating banking development in Nepal.

Tejarath Adda extended credit only; it did not accept deposits from the public. Hence, the 'Tejarath Adda' finally faced financial crisis making it impossible to meet the credit need of the general population of the country.

Prior to the establishment of Nepal Bank Limited, people relied on borrowing from the corrupt moneylenders, who charged very high interest rate and added other dues. These money lenders extended loans on the collateral of land, house and precious metals like gold and silver. With the cooperation of Imperial Bank of India, Nepal Bank Limited came into existence under the Nepal Bank Act 1937. The preamble of the Nepal Bank Act 1937 states the objective of setting up the Nepal Bank Ltd. as follows

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 services for the people and the betterment of the country, this law is hereby promulgated for the establishment of the bank and its operation.

Nepal Bank Ltd. played a dual role of the commercial bank and the central bank. Until the establishment of Nepal Rastra Bank on 26th April, 1956, it carried all the functions of central bank. Nepal Bank was a semi government bank so it was unwilling to go to many sectors where the government felt the need of providing banking services. Hence, Rastriya Baniya Bank, a fully government owned bank was established on 23rd January, 1966.

Until 1984, Nepalese financial sectors were dominated by two commercial banks viz. Nepal Bank Ltd. (semi government) and Rastriya Banijya Bank (fully government owned) till 1984. Commercial Bank Act 1974 was amended in 1984 to increase competition between commercial banks. So, provision was made to allow private sector including foreign investment to open commercial banks. As a result, NABIL Bank Ltd. the then Nepal Arab Bank Ltd. was established in July, 12 1984 with the partnership of Dabai Bank Ltd., Dubai. The number of commercial banks are operating in the country are increasing everyday and many more in the pipeline to commence their business. (Shretha Madhu Sundar 2007)

**Table No. 2.1**

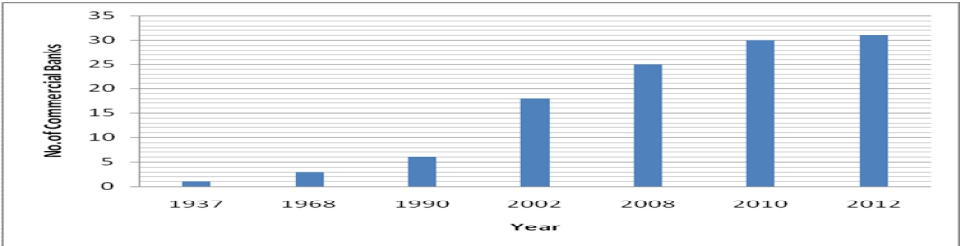
**Development of Nepalese Commercial Banks ( March 2012)**

Year (A. D.)	No of Commercial Banks
1937	1
1968	3
1990	6
2002	18
2008	25
2010	30
2012	32

(Source: Nepal Rastra Bank's website [www.nrb.org.np](http://www.nrb.org.np))

**Figure No. 2.1**

**Development of Nepalese Commercial Banks (March 2012)**



Source: Table No. 2.1

## 2.2 Commercial Bank and Economy

Commercial banks play an important role in the directing the affair of the economy in various ways. The operations of commercial banks record the economic plus of the economy. The size and composition of their transitions mirror the economic happenings in the country. For example, the mass failures of commercial banks during the 1930s reflected the phenomenon of severe global depression in the world. Commercial banks have played a vital role in giving the direction to economy's development over time by financing the requirements of trade and industry in the country. By encouraging thrift among people, banks have fostered the process of capital formation in the country. In the context of deposit mobilization, given the saving income ratio, commercial bank induce the savers in the community to hold their saving in the form of socially useful assets of which bank deposits constitute the most important element. Commercial banks draw the community savings into the organized sector which can then be allocated among the different economic activities according to the priorities laid down by planning authorities in the country. Banks bring together the diverse decisions of the income-earners to save, the decisions of the savers to hold their saving in the form of bank deposits and decisions of the producers to draw upon the savings of community for the purpose of capital assets formation. They help the process of saving and of the holding of savings in a socially desirable form. Through their advances, banks also help the creation of the incomes out of which further savings by the community and further growth potentials emerge for the good of the economy. In a planned economy, banks make the entire planned productive process possible by providing funds for all type of production incorporated in the plan regardless of whether the production is in the public sector, joint sector, or in the privates sector, or whether the production is undertaken by one type of organization or another. All employment, income distribution and other objective of the plan are as far as possible subsumed into the production plans which banks finance.

The importance of the commercial banks in directing the economics activities in the system be it a capitalist or socialist system dominated economy is indeed overwhelming. Not only in the highly developed industrial and non-industrial economics

of the world where in a way the commercial and industrial activities are paralyzed in the absence of banks keeping their door open, even in the developing countries most economic activities, particularly in the economy's organized sector are bank-based. This is evident from the fact that a threat of strike by bank employees union is views seriously by trade, industry and government in these countries. In several developing industries, banking has been placed in the category of 'essential services' in which strike by the worker is declared illegal. In short, the growth of the economy is tied with the growth of the commercial banks in the economy. Where the commercial banking system is in its primitive stage of development, there the economy has scarcely come out of the primitive stage of barter with total absence of division of labour and specialization in production. Consequently, people practice primitive methods of production bearing the hardships of primitive culture and life. No development takes place in the economy. With the establishment of commercial banks in the country, the floodgates of accelerated economic development promising great hopes for people in life open. Production no longer remains dependent on the mercy of the small size of local demand. Once it happens, the multiplying process of an ever- expanding demand and supply holds the economy fast in its grip. The banking culture spreads its blessings far and wide in the economic system benefiting the whole community.

## **CURRENT MACRO ECONOMIC SITUATION**

**Monetary Supply:** Broad money (M2) grew by 9.5 percent in FY 2010/11 compared to a growth of 14.1 percent in the same period last year. Likewise narrow money (M1) registered a growth of 4.5 percent in the review period. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 2.93 billion (1.4 percent) in the review year against a decline of Rs. 3.63 billion (1.6 percent) in the previous year.

**Domestic Credit:** Domestic credit increased by 12.9 percent in the review period compared to 17.2 percent growth in corresponding period previous year. During the review year, claims on private sector increased by 11.7 percent compared to a growth of 14.2 percent in the previous year. The policy measures initiated to curb the excessive

credit flow to unproductive sector and a decline in import growth contributed to slower growth in credit to the private sector during the review year.

**Deposit Mobilization and Credit Flow:** In the review year, deposits of commercial banks increased by Rs. 59.62 billion. In the previous year, total deposits had increased by Rs. 69.93 billion . The growth of loan and advances of commercial banks increased by Rs. 79.80 billion in 2010/11 while the same was 76.71 billion in the previous year. The credit to the private sector expanded by Rs.57.94 billion in the review year compared to a growth of Rs. 65.61 billion in the previous year.

Of the private sector credit, credit to the production sector increased by Rs. 20.13 billion in the review year compared to a growth of Rs. 6.84 billion a year ago. Similarly, banks' credit to wholesale and retail trade, and construction sectors increased by Rs. 20.63 billion and Rs. 2.02 billion respectively during the review year. On the contrary, credit to agriculture, and transportation, communication and public services declined by Rs. 1.77 billion and Rs. 2.46 billion respectively during the review year.

**Liquidity Management:** The net liquidity of Rs. 71.39 billion was injected through secondary market operations. In the review year, Rs. 21.0 billion and Rs. 19.0 billion were mopped up through outright sale auction and reverse repo auction respectively, while Rs. 92.39 billion and Rs. 8.44 billion were injected through repo auction and outright sale auction respectively. Rs. 135.06 billion was injected through outright purchase auction and repo auction in the previous year.

In 2010/11, NRB injected net liquidity amounting to Rs. 174.30 billion through purchase of USD 2.41 billion from foreign exchange market (commercial banks). A net liquidity of Rs. 118.66 billion was injected through the net purchase of USD 1.6 billion in the previous year. The NRB purchased Indian currency equal to 198.15 billion by selling of USD 2.74 billion in the Indian money market in 2010/11. In the previous year, Indian currency equal to Rs.163.35 billion was purchased by selling of USD 2.19 billion.

Widening trade deficit with India on account of sharp increase in the import of petroleum products led to higher amount of INR purchase in the review year.

**Standing Liquidity Facility and Inter Bank Transactions:** Inter-bank transaction of commercial banks reached Rs. 397.56 billion in 2010/11 compared to Rs. 268.85 billion in the previous year. Banks and Financial Institutions used standing liquidity facility (SLF) amounting to Rs. 216.67 billion in the review year. The use of the SLF by commercial banks had amounted to Rs. 95.94 billion in the previous year. The outstanding amount of SLF was Rs. 310 million as at mid-July 2011 whereas there was no outstanding amount of SLF as at mid-July 2010.

**Short-term Interest Rates:** The short-term interest rates increased slightly in the review period. For example, weighted average monthly 91-day Treasury bill rate stood at 7.41 percent in 2010/11 compared to 6.5 percent a year ago. Similarly the annual weighted average inter bank rate stood at 8.44 percent in review period, compared to 7.74 percent to that of the previous year.

**Securities market:** The year on year (y-o-y) NEPSE index decreased by 24.1 percent to 362.85 points in mid July 2011. This index was 477.73 a year ago. Overwhelming supply of securities in the market as well as prolonged adverse economic and political situation of the country lead the NEPSE to follow downward trend. The market capitalization declined to Rs. 323.48 billion in mid- July 2011 from Rs. 376.87 billion in mid-July 2010.

**The highlights of major indicators in the NEPSE are as follows:**

Total paid up capital of the listed companies stood Rs. 100.23 billion an increase of 25.6 percent over a period of one year. The increase is due to additional listing of the securities. Among the increased amount, the portion of right share was 41.3 percent, bonus share 18.2 percent and ordinary share 40.5 percent. In Mid-July 2010, the right share was increased by 52 percent, bonus share by 20 percent and ordinary share by 28 percent.

Total number of companies listed at the NEPSE reached 209 (bank and financial institutions were 177 production and processing industries 18, hotels 4, business entities 4, hydro power 4 and other groups 2) in mid July 2010 compared to 176 a year ago.

## **Inflation**

**Consumer Inflation:** The annual average consumer price inflation remained constant at 9.6 percent in mid July 2011.

**Wholesale Price Inflation:** The annual average wholesale price inflation increased by 9.9 percent in mid July 2011 compared to 12.6 percent a year ago.

**Foreign Trade** In 2010/11, the growth rate of exports outpaced the growth of imports for the first time in ten years. While exports rebounded after a slump in the previous year, the growth rate of imports declined markedly, resulting in a significant fall in the growth of trade deficit.

**Exports:** In the FY 2010-11, export increased by 6.1 percent to Rs.64.56 billion compared to decrease of 10.2 percent in the corresponding period of the previous year. Of the total exports, export to India went up by 8.4 percent in 2010-11 in contrast to a drop of 2.5 percent in the same period of 2009-10. Exports to other countries increased by 1.8 percent in comparison to plunge of 22.0 percent in the comparable period of the previous year.

**Imports:** Merchandise imports grew by 5.5 percent in 2010/11 compared to an increase of 31.6 percent in the corresponding period of the previous year. While imports from India soared by 20.5 percent in the review period compared to a growth of 33.7 percent in the corresponding period of 2009/10. imports from other countries plummeted by 15.2 percent compared to a rise of 28.8 percent in the previous year.

**Balance of Payments:** The overall balance of payments (BOP) posted a surplus of Rs 2.93 billion in the FY 2010-11 as against a deficit of Rs 3.63 billion in the corresponding period previous year.

**Foreign Exchange Reserves:** The gross foreign exchange reserves reached at Rs. 272.10 billion in mid July 2010<sup>1</sup>, increased by 1.2 percent compared to mid July 2010. Such reserves had decreased by 6.2 percent in the corresponding period of the preceding year. Out of total reserve, NRB's reserve augmented by 3.8 percent to Rs. 213.09 billion in mid-July 2011 from a level of Rs. 205.37 billion a year earlier. The gross foreign exchange reserves in dollar terms increased by 6.2 percent to US\$ 3.84 billion in mid-July 2011 as against a drop of 1.6 percent last year. Based on the trend of import in the twelve months of the review year, the current level of reserves is sufficient for financing merchandise imports of 8.4 months and merchandise and service imports of 7.3 months.

**Price of Oil and Gold in the International Market:** The price of oil (Crude Oil Brent) in the international market surged by 54.5 percent to USD 118.06 per barrel in mid-July 2011 from USD 76.40 per barrel in mid-July 2010. Similarly, the price of gold also escalated by 33.4 percent to USD 1,587.00 per ounce in mid-July 2011 from the level a year ago.

**Exchange Rate Movement:** In comparison to mid July 2010 the Nepalese currency appreciated by 4.92 percent vis-à-vis the US dollar in mid July 2011. It had appreciated by 4.85 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs 70.95 in mid- July 2011 compared to Rs. 74.44 in mid-July 2010.

*Source: NRB Report - Current Macroeconomic Situation, based on Annual Data of the FY 2010/11*

### **2.3 Impact of National & International Events on the Banking Business**

During 2067/68, due to unfavorable circumstances, the industrial growth was adversely impacted. The investment climate remained unfavorable.

Despite economic slowdown in the country, a number of new Banks and other financial institutions were granted licenses to start their operations. This resulted in a fierce competition among Banks to entice good quality customers by offering fine pricing, low service charges and a host of other concessions. Banks innovated ways to offer low priced loan products to good quality customers whereas interest rates on deposits continued to hover below the rate of inflation. With the trend of each Bank trying to outsmart the other to capture the available business by fine pricing and the economic outlook continuing to be bleak, the pressure on spreads, margins and profitability of the Banks increased.

### **2.4 Commercial Bank**

A bank is an institution, which deals with money and credit. It accepts deposit from the public, makes the fund available to those who need them, and helps in the remittance of money from one place to another. In fact the modern commercial banks perform such a variety of functions that it is difficult to give a precise and general definition of it (paul, 2002 P.7B). Commercial banks are private and Public Cooperate bodies which, like any other commercial firm, strive to maximize their profit by carrying on transaction in money. Vaish state banks earns some income by providing services, such as opening the current and saving deposits accounts, providing safe deposit boxes and remittance facilities, collecting cheque, monies etc. to their customers. Bulk-over 75 % OF commercial bank profit is however earned from interest on loans and investment which the bank makes by using the money belonging to its depositors.

Commercial Bank act 1974 defines a commercial bank: 'A commercial bank means bank which deals in exchanging currency, accepting deposit, giving loans and doing commercial transactions.' Commercial banks are the largest sources of finance and its business is largely confined to business institutions. Hence, the name is termed as commercial banks. Thought the commercial banks were established with the concept of

supplying short-term credit and working capital need of the industries, they started to provide long-term loans for up to 10 years by the provision made in Commercial Bank Act 1974. After the enforcement to lend in priority and deprived sector, these banks initiated to provide credit to small and cottage industries, agriculture, services etc. Bank undertaking business with the objective of earning profit are commercial banks pool scattered fund and channel it to productive use. Commercial bank can be of various forms such as Deposit Banks, Saving Banks, Industrial Banks, Mixed Banks, Exim Banks etc.

Commercial banks render a variety of services. In the absence of commercial banks, it will be impossible to meet the financial needs of the country. Commercial Bank Act 1974 define a commercial bank: 'A commercial bank means bank which deals in exchanging currency, accepting deposits, giving loans and doing commercial transactions.' (Shretha Madhu Sundar 2007). Commercial bank is dealer in money and substitute for money such as cheque or bill of exchange. It also provides a variety of financial services. Principally commercial banks accept deposits and provide loans, primary to business firms, there by facilitating the transfer of funds in economy. (The New Encyclopedia Britannica the World Bank London, Vol: 14, 1985 P, 600)

## Functions of Commercial Banks

### Primary Functions

1. Collect deposits in various types of accounts.
2. Provide credit in the form of various loans, overdraft, co-financing to industry, commerce, agriculture, export and services.
3. Remit funds

### Subsidiary Functions

1. Invest in government securities, treasury bills etc.
2. Deal in foreign exchange, bills, promissory notes etc.

3. Execute standing instructions such as payment of rent, insurance premium, and Income tax etc. on behalf of their customers.
4. Involve in collection of dividends and interest on shares and debentures.
5. Purchase of sale of securities.
6. Act as a trustee when so nominated.
7. Act as a customer's correspondent or representative in dealing with other banks.
8. Underwrite shares floated by Government bodies and public bodies.
9. Supply trade information and statistical data.
10. Act as a referee with regard to the financial status of customers.

## **2.5 Accounting Environment**

Since accounting ' covers the entire administration/management of information for all social economic activities and conditions in both micro and macro economic sectors covering internal and external information needs of interested group, a clear analysis and assessment of this accounting environment is of prime important. The environment in developing and under developed economics is different from that prevailing in developed economics. Naturally, we found sophisticated accounting system process and procedures in developed economics compared to the simple & obsolete system and processes in use in undeveloped economics.' (Porwal, 1999).

We have reached a stage where cost benefit analysis is considered more significant the limited study of revenue and expenses, environmental pollution, product or service contributions to customers and society, physical resources and environmental contributions, human resources as well as community development have come with in the domain of corporate social accounting and reporting. Accounting theory methodology and practice are influenced strongly by requirement in the company's acts or in legal and tax decrees and other regulatory measures, such as Monopolies and

Restrictive Trade Practices Acts, Foreign Exchange Regulation Acts etc. This neither increases the comparability nor usefulness of accounting information, neither the absence of legal and statutory measure nor is their strict adherence desirable. It depends upon the stage of economic and social development in a country. In USA the private sector is dominant. The statements of concept and standards issued from time to time by FASB and the regulatory guidelines issued by the AICPA, NAA and other have a self-regulating mechanism. (Niswongel et.al, 1965)

## **2.6 Accounting**

Accounting is the systematic development and analysis of information about the economic affairs of an organization. The information may be used in a number of ways: by the organization's managers to help them plan & control the organization's operation; by owners, and legislative or regulatory bodies to help them appraise organization's performance and make decision as to its future; by owners, lenders, suppliers, employees and others to help them decide how much time or money to devote to the organization; by governmental bodies to determine how much tax the organization must pay; and occasionally by customer to determine the price to be paid when contracts call for cost based payments. Accounting is the process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by user of the information. Accounting is not only to record the transaction in systematic manner and to analyze & interpret them, but also communicates the information and data to user who have to make decisions or form judgments. Accounting can be supposed as a vehicle to communicate the essential data and information to various users.

Accounting system plays the vital role in the functioning of any corporate organization. Accounting system provides the guidelines for better utilization of available resources so that competitive advantages at this hyper competitive environment can be achieved through various tools and technique of accounting practices. Management accounting tools have proved beneficial in every aspect of management activities from planning to decision making. It helps manager in overall managerial activities by providing information and helping them in planning, controlling and decision-making.

Generally, it is said book-keeping is the first stage of accounting. It is also said that Accounting begins when book-keeping ends. Its means the term 'Accounting' has a broader meaning as compared to the term 'Book-keeping'.

Bookkeeping is mainly concerned with systematic and scientific recording of business transactions and their classification. But term 'Accounting' goes beyond this and further includes summarizing, analysis and interpretation of the transactions recorded under book-keeping. Actually, it is the process of identifying, measuring recording, classifying, summarizing, analyzing, interpreting the financial transactions and communicating the results thereof the persons interested in such information. Accounting is also known as 'Language of Business' and language is a means of communication. It involves the collection, recording, classification and presentation of financial transactions for the benefit of internal and external users. It is a discipline which records, classifies, summarizes and interprets financial information about the activities of concern so that intelligent decisions can be made about the concern.

“Accounting is the art of recording, classifying and summarizing in a significant manner and in term of money, transactions and events which are, in part at least of financial character and interpreting the result thereof.”

*American institute of Certified Public Accountant, Committee on Terminology*

“Accounting system is a means of collecting, summarizing, analyzing and reporting in monetary terms, the information about the business.”

*R. N. Anthony*

“Accounting may be seen as consisting of recording, classification, reporting, in monetary terms, information about the business.”

*R. Lewis and Lan Gillespie*

From the above definitions, it can be said that accounting is a broader term as compared to book-keeping, which includes not only recording and classification of financial transactions but also summarizing classified transactions and interpreting the

result and communicating them to interested persons or institution that are directly and indirectly related to the organization to permit judgments and decision to user.

### **2.6.1 Feature of Accounting**

- Accounting deals only with those transactions which have financial character. Its does not include non-financial transactions.
- Accounting is a continuous process. It involves recording, classifying and summarizing of financial transactions regularly in a systematic manner.
- Accounting also involves analysis and interpretation of results of the business. It means drawing conclusions about the profitability and financial position from the data found in financial statements of the business.
- Accounting involves recording of past transactions only; therefore, it is historical in nature.
- Accounting is based on certain principles that guide how transactions should be recorded and reported.

### **2.6.2 Objectives or Functions of Accounting**

- The first aim or function of accounting is to keep systematic and complete record of all financial transactions for the future reference and also to avoid the possibility of error and frauds.
- The second objectives or function of accounting is to ascertain operating result by preparing profit and loss account.
- Accounting analyzes and interprets the result of business to draw conclusion. With the help of such conclusions, the parties concerned in the business can have full information about its profitability and financial position.
- A concern, whether trading or non-trading should know its true financial position. For this purpose, it prepares a balance sheet at the end of every year, which informs about its position of assets, liabilities and capital and reflects economic strengths and weakness of business.
- Accounting provides necessary information for all stakeholders as per their need.

Business has to pay different types of tax to the government. Accounting provides financial information to the tax authorities to determine tax liability.

The scope of accounting is very wide. It is not only to business organization, but also to non-business organization, government and non-government organization, various professionals and individuals in their monetary affairs. The important or advantages of accounting are complete record, knowledge of profitability, knowledge of financial position, reduction in errors, helpful in decision making, availability of information etc.

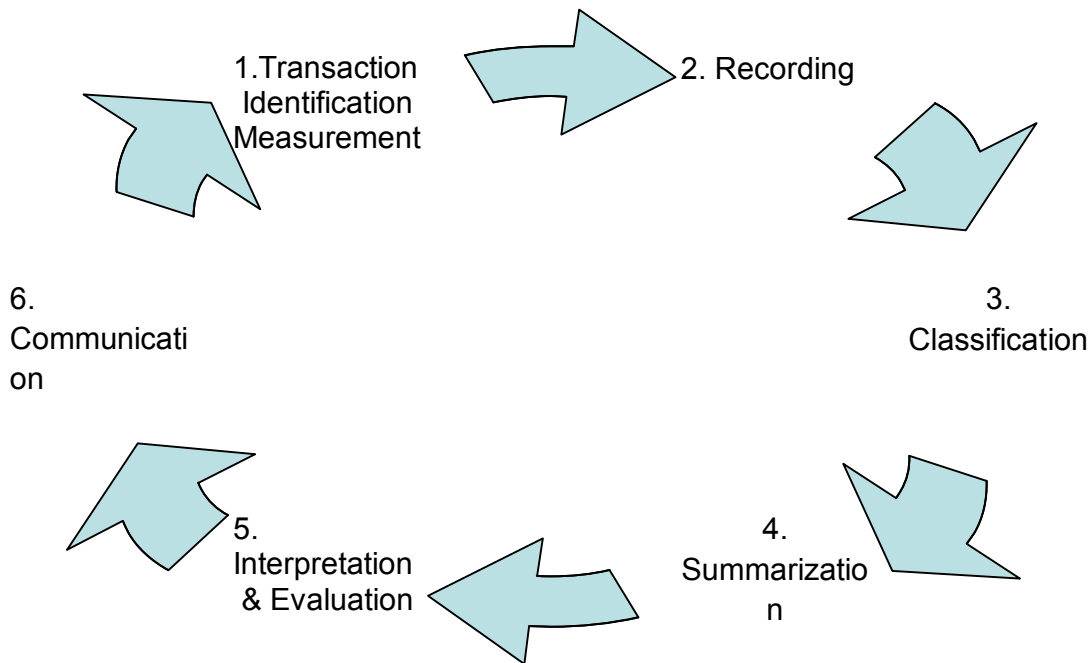
Modern accounting is based on certain assumption for keeping systematic records of financial transactions. It is done by junior staffs. The “Accounting Concept” refers the basis accounting rules and assumption for recording financial transactions. Without accounting concept, we can’t keep systematic and proper accounting. International Accounting Standard Committee (IASC) recognizes several concepts of accounting which are commonly used all over the world. Hence, these concepts are called “Generally Accepted Accounting Principles (GAAP). These principles are the guiding principles to perform the accounting job. Some of the accounting concept or assumptions are as follows:

- Business Entry Concept: Business is treated as a unit from the owner of business.
- Money Measurement Concept: Only those transactions are recorded which can be express in monetary units.
- Going Concern Concept: Business continues to exist forever.
- Accounting Period Concept: The entire life of business is divided into different period (generally one year) to know the result of business operation.
- Cost Concept: Transactions are recorded at cost price.
- Realization Concept: Revenue is recorded at the time when goods are sold or service is rendered.
- Matching Concept: Cost or expenses of a particular period are matched or compared with the revenue of that period in order to calculate profit or loss.

### 2.6.3 Accounting Process or Cycle

Accounting is a continuous process. It is a complete sequence of accounting activities. It starts with the primary entry of transactions in journal and ends with the preparation of final account. It includes identifying, recording, classifying, summarizing and communicating financial transactions. These business transactions are recorded in the set of books, such as journal, cash book etc. Unless these transactions are recorded properly, a businessman will not be in a position to know where the business stands. The following figure shows the component of accounting process or cycle.

**Figure No. 2.3**  
**Accounting Cycle**



Source: Dr. Yadav Raj Koirala, (2006), *Principle of Accounting*, Asmita Publication, Kathmandu, p-14

### 2.6.3 Accounting Equation

In accounting every business transaction involves double effect of equal value. Such double effect of equal value create an equation, which is called accounting equation. Such accounting equation should always be in balance. The accounting equation shows the relationship between the economic resources is belonging to the business and the claims against these resources. The next term of economic resources is assets and claims consist of creditor's claim (liabilities) and owner's claim (owner equity). It can be expressed as follows.

$$\text{Assets} = \text{Capital} + \text{Liabilities}$$

Accounting equation signifies that assets of a business are always equal to the total of capital and liabilities. The accounting equation, also known as the balance sheet equation, is the expression of balance sheet items in equation. The balance sheet items, in one side are the sources of funds and in another side are the uses of funds. Therefore, by using the above equation capital and liabilities of the business can also be ascertained.

$$\text{Capital} = \text{Assets} - \text{Liabilities}$$

$$\text{Liabilities} = \text{Assets} - \text{Capital}$$

Accounting Equation can be prepared by using the following format.

#### Accounting Equation

S.N	Transaction	Assets	=	Capital	+	Liabilities
1	.....					
	Beginning or starting equation					
2	.....					
	New Equation					
...						
	Final equation					

### 2.6.5 Journal

All the transactions of a business are recorded first, in a book of original entry as and when they take place. Such book of original entry is popularly known as 'Journal'.

The term 'Journal' is derived from the French word 'Jour' that means a day. Journal, therefore, means a day book or a daily record of business transactions. It is the books in which all business transactions are recorded at the first instance. Therefore, it is also known as 'Book of Prime Entry'. In journal, all the financial transaction is recorded in chronological order i.e. in the order of dates. Similarly, each transaction is classified into debit and credit aspects and both aspect are recorded in one entry with a brief explanation of transaction, which is called 'Narration'.

The main objectives of journal are to provide systematic and date wise record of all business transactions, to ensure the application of double entry book keeping system in recording the transactions, to provide the record with detail of accounts debited and credited together with their respective amount, to facilitate the preparation of ledger, to use as legal evidence of financial transactions etc.

The format which is used to prepare journal is follow.

#### Journal Entries

Date	Particulars	L.F	Debit Amount	Credit Amount
Year/Month /Date	Name of the account to be debited...Dr To Name of the account to be credited.....Cr (Being.....)			
	Total			

#### Rules for Debit and Credit

Debit: Its means the amount owned to an account for the benefit received by th account. It is derived from the Latin word 'Debere', which means 'to owe'.

Credit: Its means the amount owned to an account for the benefit given by that account. It is derived from the Latin word 'Credere', which means 'to believe'.

To record the transactions according to double entry book-keeping system, the following two approaches can be applied as the rules for debit and credit.

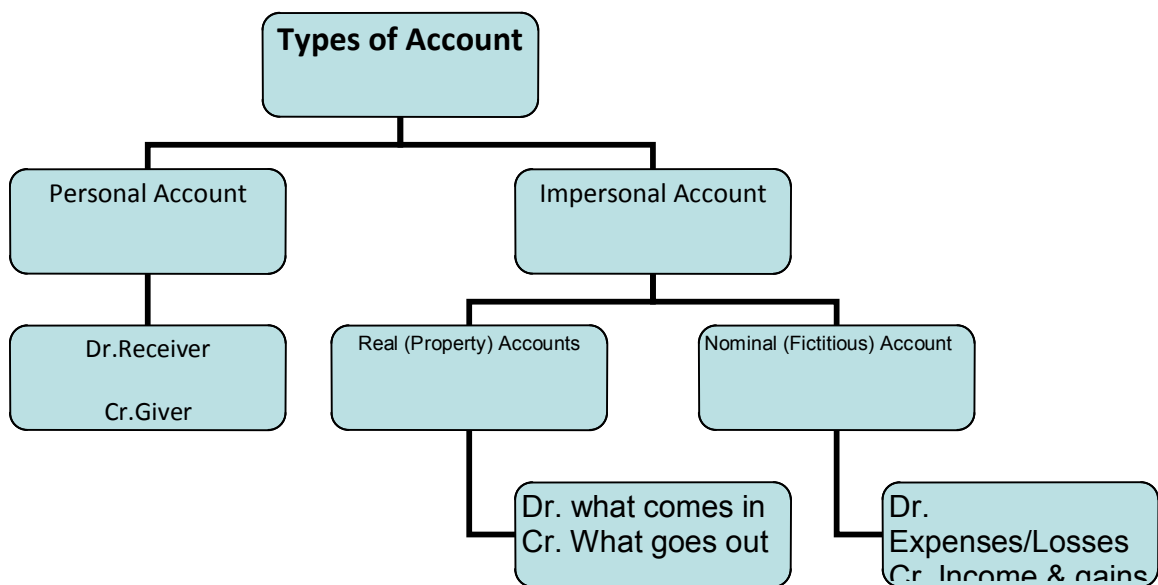
1. Traditional Approach/On the basis of types of account
2. Modern Approach/On the basis of changes in assets, liabilities and capital

**On the Basis of Types of Account:**

This approach is also known as 'English Approach'. Under this approach, First of all, the accounts involved in a transaction are classified into different kinds according to their nature. Then after, the debit and credit aspects of that transaction are determined. So, in order to keep a proper record of the two aspects of a transaction, accounts are classified as under.

**Figure No. 2.4**

**Rules for Debit and Credit On the Basis of Types of Account**



Source: Dr. Yadav Raj Koirala, (2006), *Principle of Accounting*, Asmita Publication, Kathmandu, p-37

### **On the Basis of Changes in Assets, Liabilities and Capital:**

Under this approach, the effects of each transaction are analyzed using the principle of accounting equation. This approach is also known as 'American Approach'. For this purpose, all the accounts are grouped in to the following five categories:

- Assets accounts
- Liabilities accounts
- Capital account
- Income and gains accounts
- Expenses and losses accounts

After grouping all transactions, the following rules of debit and credit are applied.

- Increase in assets debit and decrease in assets credit.
- Increase in capital and liabilities credit and decrease in capital and liabilities debit.
- Increase in expenses and losses debit and decrease in expenses and losses credit.
- Increase in incomes and gains credit and decrease in incomes and gains debit.

Analyzing the effects of each transaction on the basis of accounting equation, it is easier to apply the rules for debit and credit. It can be stated as follows:

Assets, Expenses, Losses

Increase-Dr    Decrease-Cr

Capital, Liabilities, Income and Gain

Increase-Cr                      Decrease-Dr

## Normal Account Balances:

Each account has a normal balance and their normal balances can be presented as follows:

Types of Account	Normal Balance
Assets.....	Debit
Liability.....	Credit
Owner's equity (Capital).....	Credit
Income.....	Credit
Expenses.....	Debit

### 2.6.6 Ledger

We know very well that all the transactions are recorded first in the journal in a chronological order. Then in the next step, those journalized transactions are classified periodically into the various accounts as per their nature. When all transactions of a particular account are collected at one place, then it is called 'Ledger'. Ledger is book where different accounts are prepared to have a consolidated view of the similar transactions. In other words, a ledger is a book in which all the accounts of business relating to persons, assets, expenses, incomes etc are maintained. In a ledger, a separate account is opened for each different type of transaction. The journal is known as the book of original entry and ledger is known as the principle book of accounts.

The term 'Ledger' is derived from the Dutch word 'Ledger', which means to 'lie'. Therefore, the ledger means a book where the various accounts lie or are kept. It is the book where transactions of the same nature are classified and grouped together in one place in the form of an account.

Therefore, a ledger is simply the grouping of accounts that are used to prepare financial statements of a business. The main function of ledger is to classify and summarize all the items appearing in journal and other books of original entry under appropriate accounts, so that at the end of the accounting period, each amount contains the entries information of all transaction relating to it.

The main objectives of the ledger are to classify the financial transactions in to different heads of account according to their nature and relevance, to help in preparing the trial balance, to help in ascertaining profit and loss, to depict the financial position, to provide the information about purchase and sales, to provide the information about creditors and debtors etc.

There are two formats for preparation of the ledger:

- T-Shaped Ledger
- Continuous Balancing Ledger

Preparing of T-Shaped Ledger:

This is the most popular format of ledger. Its basic form us as same as the English letter ‘T’. Each ledger account is divided into two parts. The left hand side of the account is known as the debit side and the right hand side is known as the credit side.

.....**Account**

Dr				Cr			
Date	Particulars	JF.No	Amount(Rs.)	Date	Particulars	JF.No	Amount(Rs.)

**Preparing Continuous Balancing Ledger:**

This type of ledger is simple and most often maintained by banks. In this type of ledger, the balance is ascertained after the posting of each transaction. The following format is used to prepare a continuous balancing ledger:

.....**Account**

Date	Details	JF.	Debit Amount(Rs.)	Credit Amount(Rs.)	Dr/Cr	Balance

### 2.6.7 Cash Flow Statement

Cash flow statement as a statement setting out the flow of cash under distinct heads of sources of funds and their utilization to determine the requirements of cash during the given period and to prepare for its adequate provision. It describes the sources and uses of cash. It is also provides information about the inflow and outflow of

cash of a company in an accounting period. It can thus be defined as a statement which explains the change in cash position from one balance sheet date to the next balance sheet date.

The statement which reports cash flows during the period classified by operating, investing and financing activities is known as Cash Flow Statement. For this purpose of cash flow statement cash means cash and cash equivalents. The main objectives of cash flow statement to provide information about a cash receipt and cash payment of company during the accounting period, to provide information about a company's operating, investing and financing activities during the accounting period, to provide information about the changes in the cash position of the company, to evaluate the financial policies of the company, to help in understanding liquidity position of the firm, to locate the reasons for variations in cash position, to assist the firm in short term cash planning etc. on the basis of operating, investing and financing, the classification of cash inflows and cash outflows related to different activities can be summarized as follows:

**Figure No. 2.5**  
**Classification of Cash Inflows and Cash Outflows on The Basis of Operating, Investing, Financing Activities**

<b>Activities</b>	<b>Inflow</b>	<b>Outflow</b>
Operating Activities	- From Sales of Goods and Services to Customers - From Receipt of Interest Dividends on Loan or Investment	-To Employee for Wage -To Supply for Inventory -To Other for Expenses -To Creditors for Interest -To Government for Taxes
Investing Activities	- From Sales of Property, Plant and Equipment and Other Long Term Assets - From Sale of Long or Short Term Marketable Securities - From Collection of Loans	- To Purchase Property and Other long term Assets - To Purchase Long or Short Term Marketable Securities - To Make Loans
Financing Activities	-From Sales of Stocks - From Issued of Debt	- To Reacquire Stocks - To Repay Debt - To Pay Dividends

*Source: Dandol, Ratna Man, (2064), Accounting for Financial Analysis and Planning, Teleju Prakashan, Kathmandu, p-419*

## 2.6.8 Subsidiary Books

Subsidiary books are the preliminary recorded books. The regular transactions are organized and grouped suitably according to their nature. A separate journal is devoted for each group in such a way that a separate book is used for each class of transaction that are of recurring and adequately large in number. Each of such books is known as subsidiary books. To overcome the problems of journalizing, a new practical accounting system evolved under which transaction of common nature are recorded in related books is called subsidiary books. It is also called sub-division of journal. It is prepared to record the transactions of similar nature and avoid the needs of journal entries. A separate subsidiary book is prepared for those transactions, which are of particular class and recurring in nature.

The following the subsidiary books which can be prepared by the form:

- Purchase Book
- Sales Book
- Purchase Return Book / Return Outward Book
- Sales Return Book / Return Inward Book
- Bills Receivable Book
- Bills Payable Book
- Cash Book

### 2.6.8.1 Purchase Book

Purchase book may be defined as the subsidiary book which is prepared to record the goods purchase on credit for selling purpose. Purchase book shows the information of supplier, quantity, and price of goods purchase, availability of discount and other terms and condition regarding the purchased goods, delivery of goods and mode of payment. It is also known as 'Purchase Journal', Purchase Day Book or Invoice Book. It includes only purchase of trading goods.

Normally, the Purchase book's format is as follow:

### Purchase Book of.....

Date	Particulars	Invoice No.	LF	Amount	
				Debit	Credit
	Total				

### 2.6.8.2 Sales Book

Sales book may be defined as the subsidiary book which is prepared to record the goods sold on credit. Sales book depicts the information of customer, quantity and price of the goods sold, discount allowed and other terms and conditions regarding the sales of goods, delivery of goods and mode of payment. Sales book contain the following format:

### Sales Book of .....

Date	Particulars	Invoice No.	LF	Amount	
				Details	Total
	Total				

### 2.6.8.3 Purchase Return Book / Return Outward Book

Goods purchase may be returned to the supplier for various reasons such as not as per sample given, goods delivered without order, goods damaged in transit, good priced difficulty than the catalogue etc. Purchase return book is prepared to record all the goods returned to suppliers. Purchase return book states the quantity and price of goods returned to suppliers due to the particulars cause. Format of Purchase Return Book is as Follow:

**Purchase Return Book of .....**

Date	Particulars	Debit Note No.	LF	Amount	
				Details	Total
	<b>Total</b>				

**Debit Note:**

The buyer sends a debit note to the seller by reducing the amount payable to him under the same three situations a credit note was made with the amount of return because the buyer finds that the goods are not according to specifications; the amount of allowance for defects which can easily be corrected by the buyer, and acknowledging the under charges if located after the purchase deal has been made.

**2.6.8.4 Sales Return Book / Return Inward Book**

Sales return book or return inward book is prepared to record all the goods returned from the customers. Sales return book states the quantity and price of goods returned from debtors due to different causes. The specimen of sales return book is as follow:

**Sales Return Book of .....**

Date	Particulars	Credit Note No.	LF	Amount	
				Details	Total
	<b>Total</b>				

**Credit Note:**

A credit note is a document accompanying the goods returned. As the particulars are almost similar to an invoice, a separate color is used for credit note to distinguish it easily. The seller of the goods, like an invoice, who is now receiving the sold goods back, makes the note.

### 2.6.8.5 Cash Book

It is well known that the number of cash transactions is quite large in every business and it is quite difficult to record all cash transactions in the journal. In this situation, a separate book is needed to maintain for recording all cash transactions of a business, which is called a cash book.' A cash book is a book, which is used to record all cash transactions of a business i.e. receipts and payment of cash. It is books of original entry, as all cash transaction are first recorded in it. The objective of cash book is to keep a daily record of transactions relating to receipts and payments of cash. Different types of cash book are used by different business concerns. But the most important types of cash book are:

- Simple Cash or Bank Book
- Double Column Cash Book
- Triple Column Cash Book (Cash Book with Discount, Cash and bank)
- Petty Cash Book

#### Simple Cash or Bank Book

This type of cash book records all cash receipts and cash payments of the business. Its format is similar to an account; therefore, it is divided into two sides. The debit side i.e. the left hand side, is used for recording cash receipts and credit side i.e. right hand side, is used for recording cash payments. The following format is used to prepare a simple cash book:

#### Simple Cash Book (Cash Column Only)

Date	Particulars	LF.No	Amount(Rs.)	Date	Particulars	LF.No	Amount(Rs.)

## Double Column Cash Book

The cash book, which contains an additional column for discount of bank on each side along with cash column, is known as 'double column cash book'. Generally, the following three types of double column cash book can be found:

- Cash book with cash and discount column.
- cash book with bank and discount column.
- Cash book with cash and bank column.

A general format of different cash book is given below

### Double Column Cash Book (Cash and Discount Column)

Dr.

Cr.

Date	Particulars	LF.No	Discount	Cash	Date	Particulars	LF.No	Discount	Cash

### Double Column Cash Book (Bank and Discount Column)

Dr.

Cr.

Date	Particulars	LF.No	Discount	Bank	Date	Particulars	LF.No	Discount	Bank

### Double Column Cash Book (Cash and Bank Column)

Dr.

Cr.

Date	Particulars	LF.No	Bank	Cash	Date	Particulars	LF.No	Bank	Cash

### Triple Column Cash Book (Cash Book with Discount, Cash and bank)

The cash book, which contains cash column in addition to discount and bank column, is called 'Triple Column Cash Book'. In other words, it is the cash book, in which three columns are maintained in each side i.e. discount, cash and bank. The amount of cash and cheque received, amount received directly through the bank and discount allowed are shown on the debit side of these type of cash book. Similarly, all cash payments and payment through the bank as well as discount received are shown on its credit side. Both cash and bank column are balanced but discount column are totaled.

### Triple Column Cash Book

**Dr.**

**Cr.**

Date	Particulars	L F	Discount	Cash	Bank	Date	Particulars	L F	Discount	Cash	Bank

### Petty Cash Book

The term 'petty' is derived from the French word 'Petit', which means 'Small'. Therefore, petty cash means cash for small payments. Generally, business concern makes all transactions through the bank. It means, all payments are made by cheques and all receipts are banked, but there are numerous small payments on account of expenses like bus fare, stationary, cartage, postage stamp, refreshment to guest etc., which are required to be paid in cash and not by cheque. Petty expenses are shown in a separate book called 'Petty Cash Book'. These expenses are not shown in main cash book. The reason is that it will become very bulky, if all these payments are entered in the cash book. A small amount of fund is given to a separate staff, who is known as 'petty cashier'. Therefore petty cashier is given a certain sum of money to make such small payment and he or she enters them in petty cash book. The petty cash cashier can operate the fund either on the ordinary system or on the imprest system. There are two type of petty cash book:

- Simple Petty Cash Book
- Analytical Petty Cash book

### Simple Petty Cash Book

A petty cash book can be kept in a very simple way just like a simple cash book. Such type of petty cash book is known as 'simple petty cash book'. It has one amount column and one received on debit amount column. For payment on credit side, with common date and particular. Total cash received is recorded on debit side and all the payments are recorded on credit side.

### Simple Petty Cash Book

Amount Received (Rs.)	Date	Particulars	Voucher No.	Amount

### Analytical Petty Cash Book

While recording the transaction in petty cash book, if all the expenses are analyzed and entries are recorded in cash book on the basis of this analysis, such petty cash book is called analytical petty cash book. Under this system separate column is provided for each type of petty expenses. Debit side columns are same as simple column cash book. Numbers of column of petty expenses are maintained on the basis of petty transactions.

### Analytical Petty Cash Book

Amount Received (Rs.)	Date	Particulars	V.No.	Total	Wages	Stationary	Conveyance Postage	Remarks

### 2.6.9 Trial Balance

After recording all transactions of the particulars period in the journal and various subsidiary books and their postings in respective ledger accounts, it is desirable to

verify whether all the entries in the books of accounts are correctly made. For this, a list of debit and credit totals or balance of all the ledger accounts is prepared on the particular date, which is called a 'Trial Balance'. The trial balance is that statement which shows either the balances or total amount of debit items and credit items of all the ledgers. It is a statement of debit and credit totals or balances of the ledger account, which is prepared to check the arithmetical accuracy of the recorded transactions.

"A trial balance is a statement of debit and credit totals, or balances extracted from the ledger with a view to test the arithmetic accuracy of the books".

*C. L. Chaturvedi and L. N. Agrawal*

In conclusion the trial balance is a statement prepared periodically taking total or balances of ledgers to see whether they are correct or not. The agreement of the trial balance shows that accounting is arithmetically accurate and if it differs it indicates that some errors are there in accounting process. The main objectives of preparing trial balance to check arithmetic accuracy, to help in locating errors, to provide summary of ledger, to help in preparation of final accounts.

The trial balance can be prepared under the following two methods.

#### **Total Method:**

Under this method, totals of debit and credit of each ledger account are incorporated in trial balance. If the total debits given to all account tally with the total credits given to all accounts, then such method of trial balances is called total method. Generally, this method is not so used in practice.

#### **Balance Method:**

When the trial balance is prepared on the basis of given ledger balances, then it is called 'balance method'. In other words, if the total debit balance of all the account tally with the total credit balances of all the accounts, then it is called 'balance method'. Generally, a trial balance is prepared using this method.

However, common format of Trial Balance is as follows:

**Trial Balance of .....**

**As at.....**

<b>S.N</b>	<b>Account Head</b>	<b>L.F</b>	<b>Debit (Rs)</b>	<b>Credit (Rs)</b>
1				
2				
3				

Alternatively,

**Trial Balance of .....**

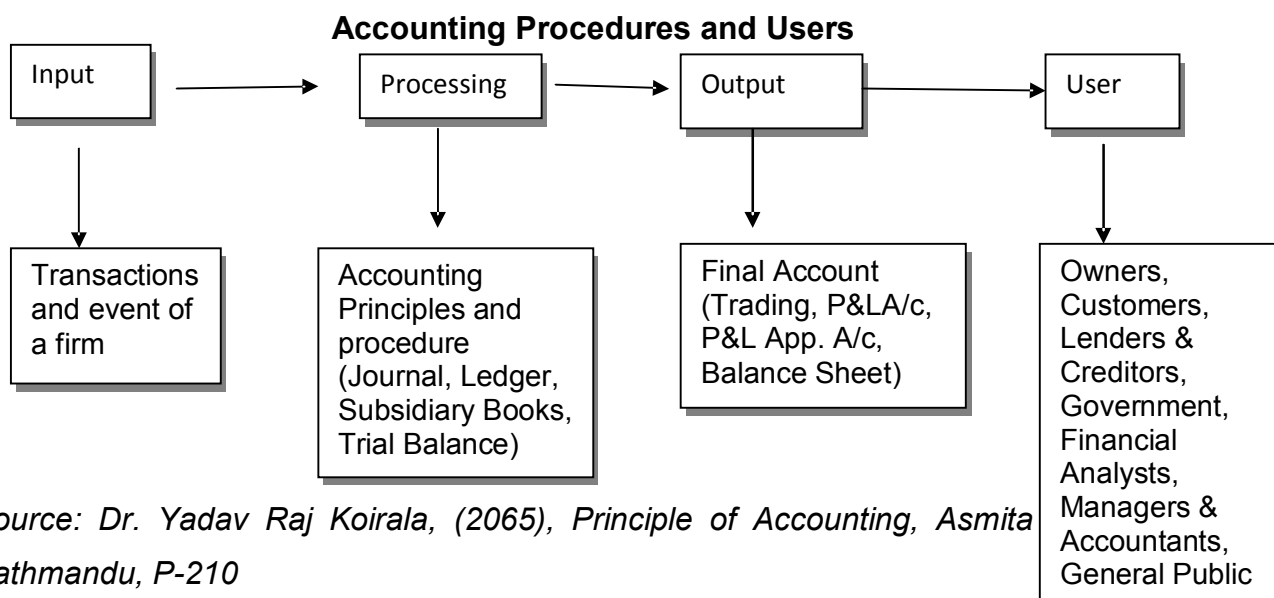
**As at.....**

<b>Name of Account Head</b>	<b>Debit (Rs)</b>	<b>Name of Account Head</b>	<b>Credit (Rs)</b>

**2.6.10 Final Account**

After the preparation of trial balance, the businessman wants to ascertain the profit earned or loss suffers during the year and also financial position of his business at the end of the year. For this objective, they prepare final account. It is prepared to achieve the objectives of accountancy. Thus, there are mainly two objectives of preparing the final account i.e. to find out profit or loss at the end of accounting year and to know the financial position of the business on a given date.

**Figure No. 2.6**



### 2.6.10.1 Trading Account

It is the first step of final account. The main objective of preparing the trading account is to ascertain gross profit or loss of a business. It is an account which shows the results of buying and selling goods or services during on accounting period. A trading account records the amount of purchase of goods which are incurred in bringing the commodities to a salable state.

The main objectives of preparing a trading account are to know gross profit of loss, to provide safety against possibility losses, to provide information about the direct expenses, to comparison of closing stock with the stock at last years.

The format of trading account is as under:

**Trading Account of.....**

**For the Year Ending.....**

**Dr.**

**Cr.**

Particulars	Amount	Particulars	Amount
-------------	--------	-------------	--------

To Opening Stock		By Sales .....	
To Purchase .....		Less: Sales Return .....	
Less: Purchase return .....			
To Direct Expenses		By Closing Stock	
.....		By Gross Loss c/d( B\F)	
To Gross Profit c/d (B\F)			
Total	.....	Total	.....

**2.6.10.2 Profit and Loss Account**

After preparing trading account, the next step is to prepare profit and loss account with a view to ascertain net profit or net loss during the accounting period. The profit and loss can be defined as a report that summaries the revenues and expenses of an accounting period. It is a normal account. Normally, its record all the transaction which is related to office, selling and distribution, and abnormal losses occurred in business. The main objectives of profit and loss account, to known the net profit for a certain period earned by business, to get information about the various indirect expenses of a particulars period, to know the information about different sources of income except by sales, to help in preparing in balance sheet etc.

The format of profit and loss account is given below:

## Profit & Loss Account of.....

For the Year Ending.....

Dr.

Cr.

Particulars	Amount	Particulars	Amount
To Gross Loss b/d (if)		By Gross Profit b/d (if)	
To Administration expenses		By Other Incomes	
To Selling and Distribution Exps.		By Non Trading Incomes	
To Maintenance Expenses		By Abnormal Gains	
To Financial Expenses		By Net loss c/d (B\F)	
To Abnormal Losses			
To Net profit c/d (B\F)			
Total	.....	Total	.....

### 2.6.10.3 Profit and Loss Appropriation Account

Profit and loss appropriate account is the account which sets aside available profit of different purposes. It is prepared after the preparation of P&L a/c. it shows the distribution of available profit in the way of dividend and creation of reserves. It is also adjust the depreciation and tax of previous year. Although the companies act, 2053, of Nepal has not provided a company to prepare its profit and loss appropriation account. It is a common practice that the Nepalese companies prepare the present this account as a part of final account. The main objective of P & L App. a/c is that, its helps to find out the total undistributed profit, its helps to create reserve and fund for further contingencies and developments, its help to declare dividend and bonus, it help to readjust tax and depreciation of the previous year.

## Profit & Loss Appropriation Account of.....

For the Year Ending.....

Dr.

Cr.

Particulars	Amount	Particulars	Amount
To General Reserve and Fund		By Balance b/d (Last year's Profit)	
To Adjustment of Exps. For previous year		By Net Profit b/d ( Current year's profit from P&L account)	
To Dividend		By Provision (Provision for longer required)	
To Tax paid (Last Year)		By Provision for Tax (Last Year)	
To Balance c/d (B\F)		By Balance c/d (B\F)	
Total	.....	Total	.....

### 2.6.10.4 Balance Sheet

Balance sheet may be defined as accounting statement of financial position of business presented at specific point of time usually at the end of accounting period. Balance sheet shows assets on one side and liabilities and capital on the other, the balancing of the statement being immediately apparent. Thus, balance sheet discloses the information regarding assets, liabilities and capital.

The objectives of the balance sheet, it shows the financial position of the business at given date, it provides the information regarding trade debtors and creditors, it provides the information about capital and owner's equity, it provides the detail information about the value and nature of assets, it makes easier for borrowing loan from outsider.

Format of balance Sheet is:

## Balance Sheet

As on.....

<b>Capital and liabilities</b>	<b>Amount</b>	<b>Assets</b>	<b>Amount</b>
Capital	.....	Current Assets	.....
Liabilities	.....	Fixed Assets	.....
Reserve and Surplus	.....		
Total	.....	Total	.....

### 2.6.11 Depreciation

The term depreciation represents loss or diminution on the value of assets consequent upon wear, obsolescence, effluxion of time or permanent falls in market value. Depreciation may be treated as expenses. It represents a portion of the total cost of the fixed assets which has expired and turned in to expense in the process of its use during a particular accounting period. The depreciation is essential for ascertainment for cost of production, for correct ascertainment of net profit or loss, for equitable financial position, for replacement of assets, to keep capital safe, to follow the company act, for correct assessment of income tax. There is several method of depreciation. The selection of method of providing depreciation depends on various important factors, such as types of assets nature of use of assets, management policy, legal requirement etc.

Mainly, two method of depreciation are being used by Nepalese commercial banks, these are as follows:

#### **Straight Line Method**

According to this method every year a fixed amount of depreciation is deducted from the value of assets and same amount is debited to P&L a/c.

The formula for calculating depreciation is as follows:

Annual Depreciation =  $\frac{\text{Original Value} - \text{Scrap Value}}$

Estimated Life of The Assets

If the rate of depreciation is given, the depreciation is calculated with the help of following formula:

Annual Depreciation = Original Value \* Rate of Depreciation/100

### **Diminishing Balance Method**

In this method, rate or percentage of depreciation is fixed, instead of amount. the depreciation is calculated every year on the balance brought forward from the previous year. As the depreciation is charged at the rate of fixed percentage, the depreciation amount continues to diminish in succeeding year.

The formula for calculating depreciation is as follows:

Annual Depreciation = Remaining Value of Assets\* Rate of Depreciation/100

Income Tax Act, 2058 has abolished the system of providing right to tax payer for selecting the depreciation system. The new act has made the pool based diminishing balance method for structure, office equipment, vehicle and mandatory. Accordingly, it has prescribed straight line system of depreciation for intangible assets.

- Income Tax Act, 2058 has kept certain provisions in Appendix 2 of the act as regards the depreciation. As per the law, the assets classified for depreciation purpose are five- comprising buildings, structures, and similar works of permanent nature in class 'A', computer, data handling equipment, fixtures, office furniture, and office equipment in class 'B', automobiles, buses and minibuses in class 'C', likewise, the assets include in class 'D' are construction and earth moving equipment, capitalizes amount of research and development expenses and pollution control expenses as per Sec. 17 and any depreciable assets not including in another class. Maintenance and improvement expenditure capitalized in last year is also included in depreciation base. The assets categorized for class 'E' purpose are intangible one.

- For the purpose of deriving the amount of depreciation per year, Income Tax Act, 2058 has prescribed a formula based on pool system. The formula, according to the law, is depreciation amount = Depreciation base  $\times$  Depreciation rate.
- The depreciation rate applicable to each pool are: Class 'A' 5 percent; Class 'B' 25 percent; Class 'C' 20 percent; Class 'D' 15 percent; and Class 'E' the cost divided by the useful life of the asset in the pool calculated at the time the assets is most recently acquired by the person and rounded to the nearest half year.
- If the depreciation basis of tangible assets at the end of an income year reduced by depreciation produces an amount that is less than Rs. 2000 additional depreciation of the pool is calculated as equal to that amount.
- Costs that are included in a person's pool of depreciable assets are added to the depreciation basis of the relevant pool in two portions. The first portion is added at the time the asset is added to the pool or the cost is incurred, whichever is later, and the remaining portion of the cost is added during the next income year if the pool has not been dissolved. If the portion is to be added between the start of the income year and the end of Poush the whole is added; if the portion is to be added between the beginning of Magh and end of Chaitra, 2/3 is added and if the portion is to be added between the beginning of Baisakh and end of the income year; 1/3 is added.

### **2.6.12 Management Accounting**

Management accounting is the application of the appropriate techniques and concepts in processing historical and projected economic data of an assist management in establishing plans for reasonable economic objectives in the making of rational decision with a view towards those objectives. It is concerned with reframing the accounting information to make it useful for the management. It also clearly indicates that any system of accounting which assists management in carrying out its functions more

efficiently may be termed as management accounting. The basic objectives of management accounting is to keep the management well informed about the operation of business, further more are, assistance in planning and formulating future policies, help in the interpretation of financial information, helpful in controlling performance, help in making decision, help for co-ordinating , helping in motivating employees, help in communication, use of qualitative information etc.

### **2.6.12.1 Budget**

Budget denotes a planning for future. It is formal business plan for some future period. A budget is both a 'plan' as well as a 'control tools'. Budget is to be referred as a plan because it is a planning for future operation. Similarly, budget can be taken as a basis for subsequent evaluation of performance and can be referred as a control. Budget is defined as 'overall financial plan for future activities'. It is a plan for the utilization and co-ordination of various resources available in an organization. The process of preparing and using budgets to achieve management objectives is called budgeting. It is the formal expression of the enterprise's plan, goals and objectives stated in financial terms for specific future period of time. The main objectives of budgeting are, to fixed the targets and express them in monetary or quantitative terms, to state the firm's expectations or goals in clear and formal terms to avoid confusion, to communicate expectations to all concerned departments of the firm, to determined the policies for achieving the objectives or target etc.

### **2.6.12.2 Cost Volume Profit Analysis**

The relationship between cost volume and profit is shown by cost-volume profit-analysis. It is an analytical tool for analyzing the relationship among cost, price, profit, sales and production volume. Mainly, there are three elements in cost volume profit analysis. They are cost, sales or production volume and profit. Cost-volume-profit-analysis can be regarded as a sophisticated method or analytical tool used in management. The use of this method helps in determining the different levels of product or sales to avoid losses, to earn a desired net profit and so on. The CVP relationship also helps management to find out right solution for, what sales volume is needed to

breakeven? What sales volume is necessary to earn desired profit? How will the change in selling price affect the profit position of the company? How will the change in cost affect profit? Which product mix is profitable? What will be the new breakeven sales if these certain changes on fixed and variable cost? Etc. The relation among cost, volume and profit can be found out clearly through break-even analysis. The break-even point is used under break-even analysis. Break even point is the level of activity where total cost are equal to total revenue. It is a point of 'no profit, no loss'. If the sales or production is higher than break-even volume, there will be profit. In the same way if the sale is less than break-even sales, there will be a loss.

### **2.6.12.3 Capital Budgeting**

Capital budgeting is the decision-making regarding long-term assets or fixed assets which are in operation and yield returns over a period of time exceeding one year. One may say that a capital expenditure is a cash outlay which is expected to generate benefits that extends beyond one year. Thus capital budgeting involves a decision regarding current outlay of funds with the expectation to yield results in the future years. So that the purpose of capital budgeting is to evaluate expenditure decisions involving current outlays with the probability to produce benefits over a longer period usually exceeding one year. In this way, the scope of capital budgeting is to spread addition, disposition, modification, new project, mutually exclusive projects and even replacement of fixed assets. The important investment appraisal and tools are Pay-back Period, Average Rate of Return, Net Present Value, Profitability Index or Benefit Cost Ratio and Internal Rate of Return.

### **2.6.12.4 Standard Costing**

Standard costing can be defined as a technique of applying standard cost. It is the preparation of standard cost and applying them to measure the variation from standard cost and analyzing the causes of variation with a view to maintain maximum efficiency in production. The objectives of the standard costing are, to assist in setting budget and evaluating managerial performance, to act as a control device by highlighting those activities that do not conform to plan thus alerting decision makers to those situations

that may be out of control and in need of corrective action, to provide a prediction of future that can be used for decision making purposes, to provide a challenging target that individuals are motivated to achieve.

#### **2.6.12.5 Decision Making for Value Addition**

Decision making is a future oriented activity. It involves forecasting and planning. It is the process of evaluating two or more alternatives leading to final choice. Decision making is closely involved with the planning for the future and is directed towards a specific objectives or goals. Decision making is a fundamental part of management it consists of choosing among alternatives with an intermediate or limited end in view. Relevant costs are the out of pocket costs that will change with decision and those cost which will be affected by decision are known as relevant cost. The role of these cost are important to decision making. There are different types of alternatives choice decisions. Some are make or buy decision, drop or continue decision, accept or reject a special order decision, replacement or continue of equipment decision, sale or further process of joint product decision, leasing or purchase decision etc.

#### **2.7 International Accounting Standard Committee (IASC)**

IASC has laid down a framework for the preparation and presentation of financial statements as well as international standard (IASs) in a number of specific accounting and disclosure subjects. IAS 30, disclosures in the financial statements of banks and similar financial institutions, is particularly relevant to their current topic. IAS 32, Financial Instruments Disclosure and presentation, a standard issued in 1995, also apply to commercial banks.

The users of bank financial statement need a better understanding of the special operation of the bank and in a particular its solvency, liquidity and also the relative degree of risk that attaches to the different areas of its business. The objective of this IAS are to describe the reporting requirement of a bank, encourage management to provide a commentary on the financial statements that describes the way it manages and controls its liquidity and solvency as well as the full spectrum of risk associated with the operations of the bank.(Greuning and Koen, 2001)

Banks are exposed to various operational and financial risks. Although some of the banking risks may be reflected in the financial statements, user obtains a better understanding if management provides the commentary risks. Although management commentary is only recommended by IAS 30, this is now a required disclosure in IAS. IAS 30 is applicable to all banks. Banks are defined as those financial institutions that interlaid, take deposits and borrow from the general public with the objectives of lending and investing within the scope of banking or similar legislation.

The standard does not establish specific recognition and measurement criteria for bank, because the same exact accounting principle (as set out in the other standards) should be applied by a bank for recording of transactions and events, so, this IAS therefore deals with disclosure only.

Although a bank is subject to supervision and provides the regulatory authorities with information that information is not always available to all users. Therefore, disclosure in the financial statement needs to be sufficiently comprehensive to meet the needs of user and with the reasonable constraints.

The Basle Committee has been working for the number of years on guidelines for the capital requirements for banks and this has resulted inter alia in the International Convergence of Capital Standards and the Amendment to the Capital Accord to Incorporate Market Risk. More recently the Basle committee has been working with the technical committee of international organization of securities commission to study banking exposure problems relating to financial derivative transactions. Two documents were jointly issued. The first report describes the credit risk, market risk and earning information that banks need to develop and disclose concerning their activities in derivatives transactions. The second report comparing the qualitative and quantitative disclosure made. The report makes recommendations for disclosures in future report by banks and securities firms also at their activities in this area.

Considering the important attached in the financial press in recent year to the significant loss experienced by banks and commercial industrial companies as a result of transactions in financial derivatives instruments this guidance as well as guidance

IASC is particularly timely and useful to governments and others interested in bank accounting and reporting standards.

## **2.8 National Accounting Standards**

Nepal Rastra Bank (NRB) is the central bank of Nepal and banker to Nepal government. It was established in 1955 by the Nepal Rastra Bank Act 1955 (Which was repeated in 2002 by the new NRB Act.2002) as an autonomous corporate and managed with perpetual succession. It is fully owned by Nepal Government and managed by Nepal Government. This NRB Act authorized NRB to issue mandatory directives to commercial banks and financial institutions on banking operations, currency and credit. So far NRB has issued 21 directives dealing respectively with maintenance of minimum capital fund by commercial banks, loan classification and loan loss provision, limit an credit exposure and facilities to a single borrower group or sector, accounting policies and format of financial statements minimization commercial bank risk, good corporate governance, time frame for implementation of regulatory directives, investment in share and securities, statistics and information to be furnished to NRB and transferor sales of share of the promoters. (NRB banking and financial institutions supervision Department)

## **2.9 The Directives Published by NRB**

Auditors from a list approved by NRB, and only for three successive terms. In addition Nepal Rastra Bank is committed to strength and ensures the stability and soundness of the banking system. In order to achieve the role of protecting the interests of depositors, the department has crafted a number of prudential requirements to be complied with by banking institutions. The prudential requirements advised on banking institutions are designed to limit risk taking to levels that are manageable and that do not place the individual banking institution and the banking system at risk.

In addition other prevailing laws, the main legislative framework for supervision function includes:

- Nepal Rastra Bank Act, 2002
- Bank and Financial Institutions, Act 2006 (Umbrella Act)

- Company Act, 2006
- Supervision By- laws
- Directives to commercial banks and financial institutions

NRB has continued to review the relevant legislations and regulations in 2006/07 in order to put in place up-to-date regulatory framework that meets international standards and resolve the issues of banking industry.

The latest directives require commercial banks to prepare their accounts in accordance with International Accounting Standards (IAS); there is similar requirement for development bank and financial companies. Commercial banks are required to publish their annual financial reports or statements in national newspaper, to charter audit committees and carryout internal audits. Banking and financial institution supervision department, (2059 B. S.) has prescribed principle of accounting policies, consistency in accounting head, notes on account and contingent liabilities. All these acts have remarkable similar provision governing operations and financial management of bank. All requirements to be set up as limited liability companies except those prescribed by the law, and only with the authorization of NRB. All have to prepare accounts according to the directives issued by NRB, provide statistical and other information periodically as required by NRB, have their annual financial statement prepared in a format approved by NRB, and audited with in five months following the end of fiscal year, lay the audited account before the annual general meeting (AGM), which also appoints their to the matters auditors are required to specify by the company act.

## **2.10 Accounting Practices of Commercial Banks**

Commercial bank's accounts are related with cash. Double entry system of book-keeping is adopted in banking companies. The slip system is popular in bank for efficient and quick record of all transaction. There is not a separatesystem of maintaining accounts but only a device to expedite the posting in personal ledgers of customers. The day to day transactions of banking company being numerous and the accounting entries are to be completed before the completion of transaction, the slip

system is quicker and speedier apart from smooth flow of work. The main slips are pay-in-slips withdrawals cheques etc. Client of the bank fill in the slips. These slips serve as a basis of entry in the ledger, which are analyzed on the basis of these slips. For instance when a pay slip is dually filled in and in and given to the counter along with cash, the cashier signs of the counter foil which is returned to the client. The portion retained by the cashier, passes on to the concerned persons, who makes entries in the concerned ledger and lastly go to file. Thus the slip system keeps the accounts up to date, apart from speedy work by avoiding subsidiary books. The slip can be passed vary easily instead of bulky registers from person to person. When the customers gives a pay in slip along with cheques, notes and coins for credit to his account, the amount is first entered from the pay in slip in cash received counter book. The amount is then entered in received waste book, general cash book and finally in general ledger. The pay in slip is then handed over to the current account ledger Clark who posts the amount to the credit of the customer's account; the double entry is thus complete. In the same manner, when a customer's cheque is presented for payment

Kamal Gupta (1999) has highlighted certain distinctive feature of bank records keeping system on his book contemporary auditing accounting to him.

The general ledger of the bank contains control accounts of all subsidiary ledger apart from other accounts, e.g. assets account, contra accounts (for letter of credit, bills received and sent from collection guarantee give), etc. Subsidiary ledgers include the personal ledger of customer i.e. current account, saving account, fixed account, cash certificate, loans, cash, credits etc. Various type of bills register are also maintained for bills purchased, inward bills for collection and outward bills for collection. Other subsidiary register include those for demand draft, telegraphic and main transfer, letter of credit and guarantee letters. The larger banks also maintain sepreate subsidiary ledger for detailed expenses heads. Banks maintain a day book to record entries chronologically. Each department of the bank also maintains a journal to record the entries originating from the department. These departmental journals are memoranda books only.

Further Gupta has given the main characteristics of banks system of bookkeeping are as follow:

- Entries in the personal ledger are made directly from vouchers instead of being posted from the books of prime entry.
- The voucher entered in to different personal ledger each day summarized on summary sheet, total of which are posted to the control account in the general ledger.
- Expecting for cash transactions, always two vouchers are prepared for each transaction one for debit and another for credit.
- The financial trial balance of the general ledger is extracted and agreed every day.
- Trial balance of customer ledger is prepared periodically and agreed with the balance in the general ledger control accounts to ensure their accuracy.
- The bills registers other subsidiary registers, departmental journal etc. are kept up to date and are subject to suitable checks.
- Controls on records maintained on computers.
- Where the system of ATM"s (Automatic Teller Machines/ Any Time Money) is prevalent, adequate control should exist on hardware and other systems.

### **2.11 Internal Accounting, Audit and Control**

In view of the numerous risks inherent in their business, financial institutions need well-developed control system to manage and control such risk. These risks are exacerbated by the high volume and value of transactions and the fundability of the medium of must transaction money. The internal accounting control systems can range from the most sophisticated artificial intelligence systems to the maintenance of the fundamental segregation fo duties. There is often a highly regulated system if review and approval and strong emphasis on exception transaction monitoring and reporting.

NRB's regulatory directives also strongly emphasis in internal accounting controls. NRB has given the regulatory directives regarding internal audit and control. Bank shall develop the procedure work method to perform with in the rules regulations

and legal provision in order to make effective internal control. It emphasizes on development of control mechanism that must includes following matters.

- Development of procedure regarding appraisal of banks true condition and safe guarding bank assets, bank management and internal control system.
- Procedure of testing reliability of bank statistics.
- Procedure of managing financial risk ( liquidity, assets/ liabilities, foreign exchange management)
- Procedure of assets quality appraisal.
- Procedure of investigating the behavior of loan flow, treasury operation etc.

These plans, policies and procedures be approved by NRB and NRB can also approve with amendments.

## **2.12 Reporting Issue**

The annual accounting statements or financial statements as they are called as classified summarized of the books of account. There are several objectives for compiling the financial statements. The main function of these statements is to convey relevant information to the user. According to the Commercial Bank Act 1974, sec.25 the bank shall prepare its balance sheet and profit & loss a/c according to the form and procedure prescribed by the Rastra Bank, and complete their audit with in a period of five months from the date of expiry of its financial year. The balance sheet and profit and loss a/c shall bear his signature of the executive chief, the chief of accountant and more than half of the director of the bank. The balance sheet and profit and loss account so audited shall be published in prominent news paper for the information of the public. Section 82 (2) provide the guideline for preparation of the account. It states the account should be maintain in the accordance with the approved accounting standards in each manner as to clearly reflect the actual situation of the transactions of the company to have the balance of amount more than prescribed in the board of directors and provides that the transaction should be done through the bank. All commercial banks shall comply all such directives in the case such directives are not complied with action may be taken according to the Nepal Rastra Bank Act.

## 2.13 Commercial Banks Auditing

The Commercial Bank Act 1974, states that the account of the bank shall be audited under the Company Act by an auditor appointed by the Auditor- General of Nepal if it is fully owned by Nepal government, and in the case of other banks by a general meeting of the shareholders from among the auditors approved by the Nepal Rastra Bank. Sec. 27 provides that the general meeting shall not appoint the same auditor for more than three consecutive times.

The auditor shall submit a report, addressed to the authority having appointed him, to the office and the company, certifying the books of accounts, records and balance sheet, statement of income and expenses as well as cash flow report and by following others NRB directives by him. A copy of this report along with the notice of AGM, in the case of public company, and as mentioned in the articles or unanimous agreement in the case of private company, shall be forward to each authentic body.

The audit report shall also indicate the following others:

- Whether necessary information and explanations have been made available or not to complete the auditing.
- The financial statements properly reflect the actual economic situation of the company or not.
- Whether the accounts and records have been properly maintained by these company in accordance with the law or not.
- Whether the board of directors or any representative or any employee has acted contrary to law or committed misappropriation or caused loss or damage to the company or not.
- Whether or not the information received from the branches and sub branches of the bank are adequate for the purpose of audit.
- Whether or not action has been taken according to the directives of the Nepal Rastra Bank.

The auditor shall submit a copy of his report to the Rastra bank also. While submitting such report the other documents relating to audit prescribed by the Nepal Rastra bank shall also be enclosed. (Commercial Bank Act, 1974)

## **2.15 Research Framework**

The research framework is the basis or foundation upon which the study is established. It is within the framework of this theory that the entire study proceeds. It reflects the variable or characteristics selected for inclusion in the investigation. This research work has based on the following variable

Variables:

- Management Accounting
  - Budgeting
  - Cost Volume Profit Analysis
  - Capital Budgeting
  - Standard Costing
  - Decision Making for Value Addition
- Record- Keeper
  - (Manager, Accountant, Others)
- Record Keeping System
  - (Manual and Computerized)
- Further Improvement
- Accounting software
- Internal control system
- Annual general meeting
- Internal Reporting system

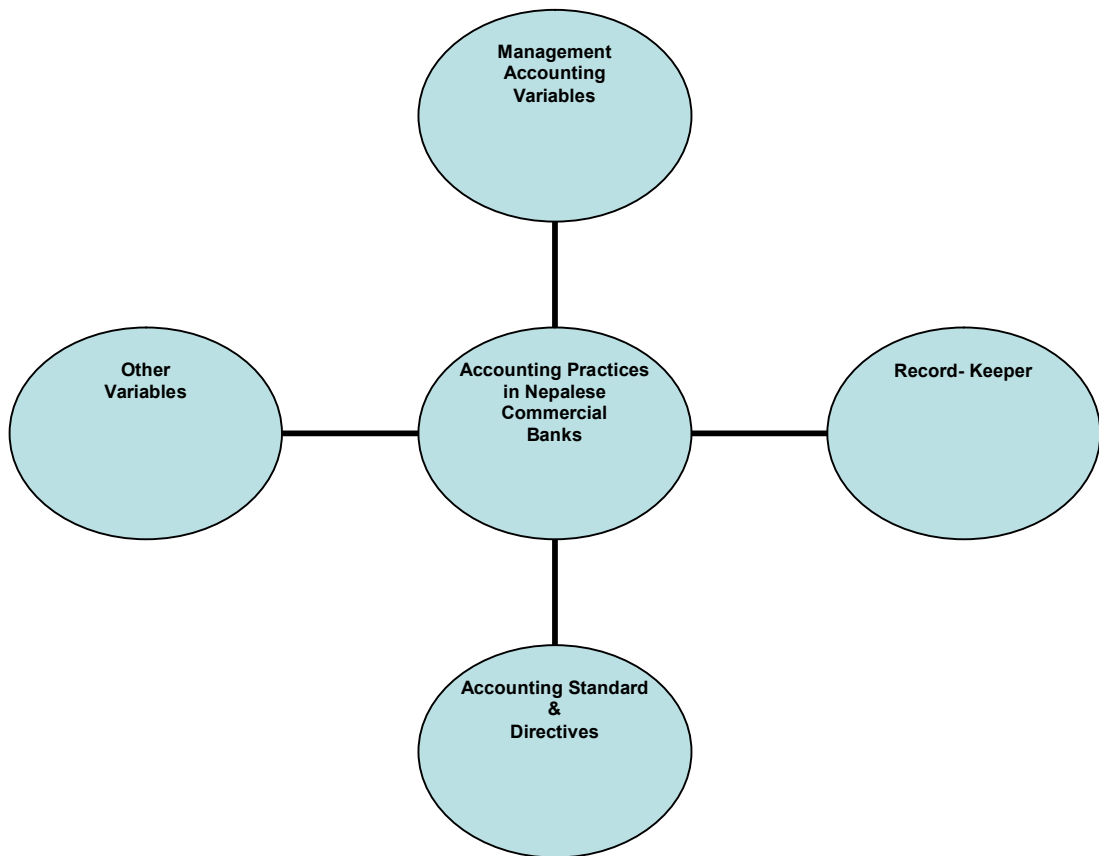
- Depreciation policy
- Accounting Standards
- Accounting System (Cash, Accrual, Hybrid)
- Financial Statement
- NRB's Directives

(Performance of Software, Problems from NRB's Directives and Other

Major Accounting Problems

**Figure No. 2.7**

**Schematic Diagram of the Research Framework**



I have selected accounting practices of Nepalese commercial banks as the dependent variable and all the above mention variables are independent for research work. The above independent variables having effects on accounting practice. From the above arguments, we can theorize that there would be some correlation between accounting practices and each of above independent variables.

## **2.16 Research Gap**

Merely few researches had been done before this research 'Accounting Practices of Nepalese Commercial Banks'. Previous research is far from the analysis of real and actual accounting practices due to the various unfavorable reasons. This research is tries to analysis about the real and actual accounting practices, which is being practiced by Nepalese commercial banks. In this research includes the detail analysis of the impact on accounting practices from NRB's directives, Nepalese Accounting Standard, International Accounting Standard and Generally Accepting Accounting Practices. This research study further analysis about on the real situation of management accounting tolls are being practiced by Nepalese commercial banks. This research study is different from previous research because this study further tries to explain, what is the effectiveness of accounting practices in commercial banks? Have they any further improvement in order to strength accounting practice of commercial banks? This research has based on the sample around 36% of total population. This study further analysis depreciation policy which is being practiced by Nepalese commercial banks and how far them from compelling the depreciation policy regarding to the Income Tax Act 2058. This research has based on the analysis of various type of accounting variable from primary data collection as well as secondary data. This research is based on the appropriate analysis of accounting and statistical tools as well as testing of hypothesis of different accounting variables for fulfillment of the research objectives. From all above mention points of view this research is quit superior from previous research.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research methodology is a way to systematically solve the problems. In other words Research methodology refers to the various sequential steps to be adopted by researcher in studying a problem. This chapter deals with sampling techniques, data collection methods, data analysis tools, research instruments etc. To achieve the stated objectives the following methodology has been used.

#### **3.2 Research Design**

By research design we mean an over all frame work or plan for the collection and analysis of data. The research design serves as a framework for the study, guiding the collection and analysis of data. The researcher thinks that descriptive survey method as well as analytical method is best suited for this type of study. With the help of maintained research design the study will examine the accounting practice in Nepalese Commercial Banks.

#### **3.3 Nature and Sources of Data**

The researcher was used two types of data. primary data and secondary data. Primary data has been collected through the questionnaire and interview survey. The interview and questionnaire have been asked to the respondents of sample banks. The secondary data has been collected from the annual report of Commercial banks, Nepal Rastra Bank's directives, various Acts, other government & non-government publications, published articles of different authors, various accountancy book of different authors and publications, previous studies and reports, journals, websites, newspapers, centre library T. U. Kirtipur etc.

#### **3.4 Population and Sample**

The population of this study comprised all the commercial banks operating in Nepal there are 32 commercial banks operating in the Nepalese economy. From the listed commercial Banks in Nepal Stock Exchange and from others, eleven commercial

banks are selected from judgmental sampling method. The list of population commercial banks are:

1. Nepal Bank Ltd.
2. Rastriya Banijaya Bank
3. Agriculture Dev. Bank Ltd.
4. Nabil Bank Ltd.
5. Nepal Investment Bank Ltd.
6. Standard Charter Bank Ltd.
7. Himalayan Bank Ltd.
8. Nepal Bangladesh Bank Ltd.
9. Nepal SBI Bank Ltd.
10. Everest Bank Ltd.
11. Bank of Kathmandu Ltd.
12. Nepal Credit & Commercial Bank Ltd.
13. Lumbani Bank Ltd.
14. Nepal Industrial & Commerce Bank Ltd.
15. Machhapuchhere Bank Ltd.
16. Kumari Bank Ltd.
17. Laxmi Bank Ltd.
18. Siddhartha Bank Ltd.
19. Global Bank Ltd.

20. Citizen Bank Ltd.
21. Bank of Asia Ltd.
22. Prime Bank Ltd.
23. Sunrise Bank Ltd.
24. Development Credit Bank Ltd.
25. NMB Bank Ltd.
26. KIST Bank Ltd.
27. Janata Bank Nepal Ltd.
28. Mega Bank Ltd.
29. Commerce and Trust Bank Ltd.
30. Civil Bank Ltd.
31. Century Bank Ltd.
32. Sanima Bank Ltd

**From the above population, the sample banks are:**

1. Nepal Bank Ltd.
2. Nabil Bank Ltd.
3. Nepal Investment Bank Ltd
4. Himalayan Bank Ltd.
5. Nepal SBI Bank Ltd.
6. Everest Bank Ltd.
7. Nepal Credit & Commercial Bank Ltd.

8. Lumbani Bank Ltd.

9. Kumari Bank Ltd.

10. Laxmi Bank Ltd.

11. Siddhartha Bank Ltd.

### **3.5 Data Collection & Processing Procedure**

As the study is based on primary data, information were being collected, questionnaire were being developed and distributed to Manager, Accountant and Finance Chief. Tick mark questions and open-end questions have been included in the questionnaire. To check whether question could be understood or not by the respondents, questionnaires to be distributed to three different banks for pre-test. After receiving positive response, questionnaires were distributed to rest of the banks afterwards.

To get Reliable information, discussions was conducted with Managers, Accountants and Finance Chiefs. Data Collected from questionnaire and discussions were classified and tabulated in the require form. Simple arithmetical percentage tools were used for analysis and appropriate statistical tools and test was also used. Major finding were based on the analysis and interpretation of data.

### **3.6 Data Analysis**

Data analysis means to study the tabulated material in order to determine inherent facts of meaning. It involves breaking down the existing complex factor into simpler parts and putting them together in new arrangement for interpretation. Larger divisions of material should be broken down in to smaller units and rearranged in new combinations to discover new facts and relationship.

Data analyzing is to change it form an unprocessed from to an understandable presentation. So the analysis of data consists of organizing, tabulating, performing statistical analysis and drawing inferences. Hence data have been processed, organized, tabulated and presented in suitable form. SPSS program was used for

analysis of raw data which is collected from questionnaires. Appropriate financial, accounting and statistical tools and techniques have been applied.

A percent is the number of hundredth parts one number is of another. This is the simplest statistical device used in the interpretation of phenomenon. Percentages are recorded to one decimal place. In some case to grasp the relationships, whole percentages are shown. Arithmetic mean also called 'the mean' or 'average' 'arithmetic average' is the most popular and widely used measure of central tendency. Simple arithmetic mean is the ratio of the sum of all observations to the number of observations.

Circle diagram is a diagram in the form of a circle whose area represents the total value. The circle diagram dividing into different sectors by radial lines such that, the area of each of the sector representing the component value of total value is said to be the pie-diagram.

## **Hypothesis**

A hypothesis is defined as tentative theory of supposition provisionally adopted to explain certain facts and to guide in the investigation of others. However, in statistics, hypothesis means a statement about the values of one or more parameter of the population. It means the presumption or quantitative statement of the population parameter which may be true or false. In order to make proper decision about the quantitative statement of the population, testing of hypothesis technique was used. Note that the testing of hypothesis was carried out by using sample information.

### **Steps in Testing of Hypothesis:**

Testing of hypothesis includes the following steps in order to make precise decision about the value which has to be tested

### **Null Hypothesis (H<sub>0</sub>):**

It is the hypothesis of no difference. For instance, if we want to test whether the population mean ' $\mu$ ' has some specified value ' $\mu_0$ '. Then the null hypothesis is set as follows:

$$H_0: \mu = \mu_0$$

### **Alternative Hypothesis (H1):**

It is a hypothesis complementary to null hypothesis and set in such a manner that the rejection of null hypothesis implies the acceptance of the alternative hypothesis. Again depending upon the nature of the problem it is set as follows:

$$H_1: \mu \neq \mu_0$$

$$H_1: \mu > \mu_0$$

$$H_1: \mu < \mu_0$$

### **Deciding Proper Test Statistic:**

After setting proper hypothesis then select suitable test statistic which depends upon appropriate sampling distribution. In general the test statistic is defined as

$$T = \frac{\text{Different}}{\text{SE of Statistic}}$$

### **Level of Significance:**

Next step is to the level of significance  $\alpha$ . It is the maximum probability of committing type I error. Generally, in practice, the values of  $\alpha$  are fixed at 5% and 1%.

### **Critical Region:**

The forth step in testing of hypothesis is to establish a decision rule. In this regard the entire sample space is divided in to two subset one corresponding to acceptance region and another corresponding to rejection region. The value which separates those regions is called critical value (C).

**Decision:**

The last step in text of statistical hypothesis is to make decision about the null hypothesis. For this, a representative sample is selected. Based on the observed information, calculate the value of appropriate test statistic (T). Compare this calculated test with the critical value (C). Reject  $H_0$  if calculated test statistic (T) is greater than critical value and accept otherwise.

## **CHAPTER FOUR PRESENTATION AND ANALYSIS OF DATA**

### **4.1 Presentation and Analysis of Data**

Accounting is the systematic development and analysis of information about the economic affairs of an organization. The information may be used in a number of ways: by the organization's managers to help them plan & control the organization's operation; by owners, and legislative or regulatory bodies to help them appraise organization's performance and make decision as to its future; by owners, lenders, suppliers, employees and others to help them decide how much time or money to devote to the organization; by governmental bodies to determine how much tax the organization must pay; and occasionally by customer to determined the price to be paid when contracts calls for cost based payments. Accounting is the process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by user of the information. Accounting is not only to record the transaction in systematic manner and to analyze & interprets them, but also communicates the information and data to user who have to make decisions or form judgments. Accounting can be supposed as a vehicle to communicate the essential data and information to various users.

The basic objective of the study was to find out existing recording practices of commercial banks, to find out the reporting practices of commercial banks, to discover the possibilities of further improvement in order to strength the accounting practice of commercial banks, to evaluate the effectiveness of accounting practices in commercial banks. This chapter presents and analysis the information derived through study. First section briefly describes from the aspect of existing record keeping practices of commercial banks. The Second section analyzes and interpretation of the reporting practices of commercial banks. In third section describes the further improvement aspect in order to strength the accounting practice of commercial banks. The forth section of the chapter analyze the effectiveness aspect of accounting practices in commercial banks.

The population of this study comprised all the commercial banks operating in Nepal there are 32 commercial banks operating in the Nepalese economy and eleven commercial banks was selected from judgmental sampling method. The descriptive way has been followed where its necessities and raw data have been properly processed, tabulated and analyzed.

#### **4.2 Record Keeping Aspect of Commercial Banks**

Commercial bank's accounts are related with cash. Double entry system of book-keeping is adopted in banking companies. The slip system is popular in bank for efficient and quick record of all transaction. There is not a separate system of maintaining accounts but only a device to expedite the posting in personal ledgers of customers. The day to day transactions of banking company being numerous and the accounting entries are to be completed before the completion of transaction, the slip system is quicker and speedier apart from smooth flow of work. The main slips are pay-in-slips, withdrawals cheques etc. Client of the bank fill in the slips. These slips serve as a basis of entry in the ledger, which are analyzed on the basis of these slips. For instance when a pay slip is dually filled in and in and given to the counter along with cash, the cashier signs of the counter foil which is returned to the client. The portion retained by the cashier, passes on to the concerned persons, who makes entries in the concerned ledger and lastly go to file. Thus the slip system keeps the accounts up to date, apart from speedy work by avoiding subsidiary books. The slip can be passed vary easily instead of bulky registers from person to person.

When the customers gives a pay in slip along with cheques, notes and coins for credit to his account, the amount is first entered from the pay in slip in cash received counter book. The amount is then entered in received waste book, general cash book and finally in general ledger. The pay in slip is then handed over to the current account ledger Clark who posts the amount to the credit of the customer's account; the double entry is thus complete. In the same manner, when a customer's cheque is presented for payment. The general ledger of the bank contains control accounts of all subsidiary ledger apart from other accounts, e.g. assets account, contra accounts (for letter of credit, bills received and sent from collection guarantee give), etc. Subsidiary ledgers

include the personal ledger of customer i.e. current account, saving account, fixed account, cash certificate, loans, cash, credits etc. Various type of bills register are also maintained for bills purchased, inward bills for collection and outward bills for collection. Other subsidiary register include those for demand draft, telegraphic and main transfer, letter of credit and guarantee letters. The larger banks also maintain separate subsidiary ledger for detailed expenses heads. Banks maintain a day book to record entries chronologically. Each department of the bank also maintains a journal to record the entries originating from the department. These departmental journals are memoranda books only. Entries in the personal ledger are made directly from vouchers instead of being posted from the books of prime entry. The voucher entered in to different personal ledger each day summarized on summary sheet, total of which are posted to the control account in the general ledger. Expecting for cash transactions, always two vouchers are prepared for each transaction one for debit and another for credit. The financial trial balance of the general ledger is extracted and agreed every day. Trial balance of customer ledger is prepared periodically and agreed with the balance in the general ledger control accounts to ensure their accuracy. The bills registers other subsidiary registers, departmental journal etc. are kept up to date and are subject to suitable checks. Control on records maintained on computers. Where the system of ATM's (Automatic Teller Machines/ Any Time Money) is prevalent, adequate control should exist on hardware and other systems.

Nepal Rastra Bank is committed to strength and ensures the stability and soundness of the banking system. In order to achieve the role of protecting the interests of depositors, the department has crafted a number of prudential requirements to be complied with by banking institutions. The prudential requirements advised on banking institutions are designed to limit risk taking to levels that are manageable and that do not place the individual banking institution and the banking system at risk ledger.

In addition other prevailing laws, the main legislative framework for supervision function includes:

- Nepal Rastra Bank Act, 2002
- Bank and Financial Institutions, Act 2006 (Umbrella Act)
- Company Act, 2006
- Supervision By- laws
- Directives to commercial banks and financial institutions

NRB has continued to review the relevant legislations and regulations in 2009/10 in order to put in place up-to-date regulatory framework that meets international standards and resolve the issues of banking industry.

The financial statements have been prepared in accordance with Nepal Accounting Standards (“NAS”) issued by the Nepal Accounting Standard Board except otherwise stated, Generally Accepted Accounting Principles (“GAAP”), Bank & Financial Institutions Act 2063, presentation requirement of Nepal Rastra Bank directive and in conformity with the companies Act 2063. The latest directives require commercial banks to prepare their accounts in accordance with International Accounting Standards (IAS). Banking and financial institution supervision department has prescribed principle of accounting policies, consistency in accounting head, notes on account and contingent liabilities. All these acts have remarkable similar provision governing operations and financial management of bank. All requirements to be set up as limited liability companies except those prescribed by the law, and only with the authorization of NRB. All have to prepare accounts according to the directives issued by NRB, provide statistical and other information periodically as required by NRB, have their annual financial statements prepared in a format approved by NRB, and audited within five months following the end of fiscal year, lay the audited account before the annual general meeting (AGM), which also appoints their to the matters auditors are required to specify by the company act. The financial statements are presented in Nepalese Rupees, rounded off to the nearest Rupee. They are prepared on the historical cost basis. The preparation of financial statements in conformity with NAS and GAAP require

the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Bank's accounting policies.

Record- keeper is a person who keeps the record of financial statements. Main function of record-keeper is not only recording and classification of financial transactions but also summarizing, classified transactions and interpreting the results and communicating them to interested persons or institutions that are directly and indirectly related to the organization. The table no 4.1 shows the response of the respondents about who is performing account **keeping records in your organization**.

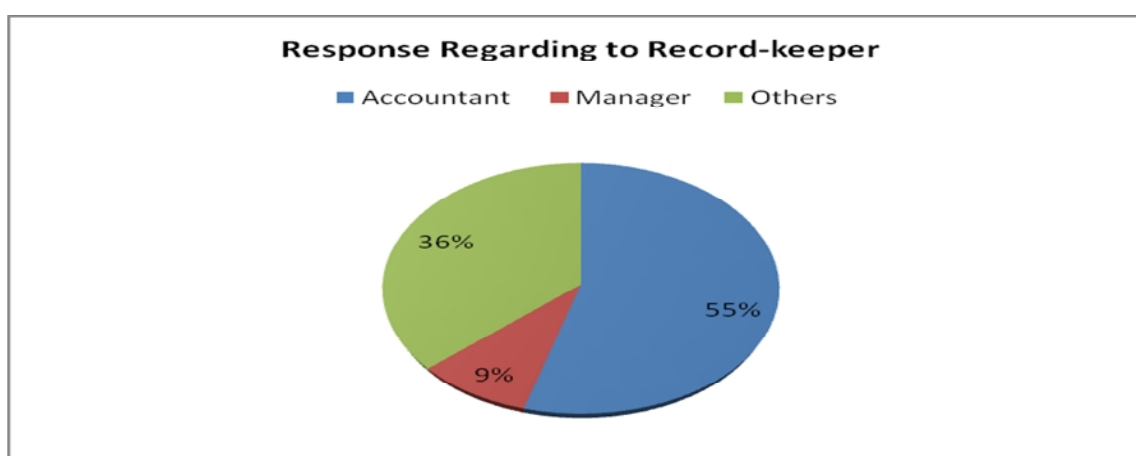
**Table No. 4.1**

**Response Regarding to Record-keeper**

<b>Record Keeper</b>	<b>Frequency</b>	<b>Percent</b>
Accountant	6	54.5
Manager	1	9.1
Others	4	36.4
Total	11	100

*Sources: Primary Data*

Figure No. 4.1



*Source: Table No. 4.1*

Out of eleven respondents, six respondents of sample commercial banks sustain that account keeping records are being performed by accountant in their organization. One respondent maintained that account keeping records is being performed by manager and four respondents of the commercial banks said that account keeping records are being performed by other (Teller, Cashier, Everyone etc.).

In the view of volume and velocity of transactions that may be processed, there is often a high utilization of computerized information processing by banks. The reliance on data processing is generally far greater in commercial banks than other companies of comparable size. The transactions may be recorded, processed and executed with minimum manual intervention. Further more, with the increased emphasis on maintenance of electronic records; paper trail of transactions may be minimal.

**Table No. 4.2**

**Response Regarding to Record-keeping System**

<b>System</b>	<b>Frequency</b>	<b>Percent</b>
Computerized	11	100
Manual	0	0
Total	11	100

*Source: Primary Data*

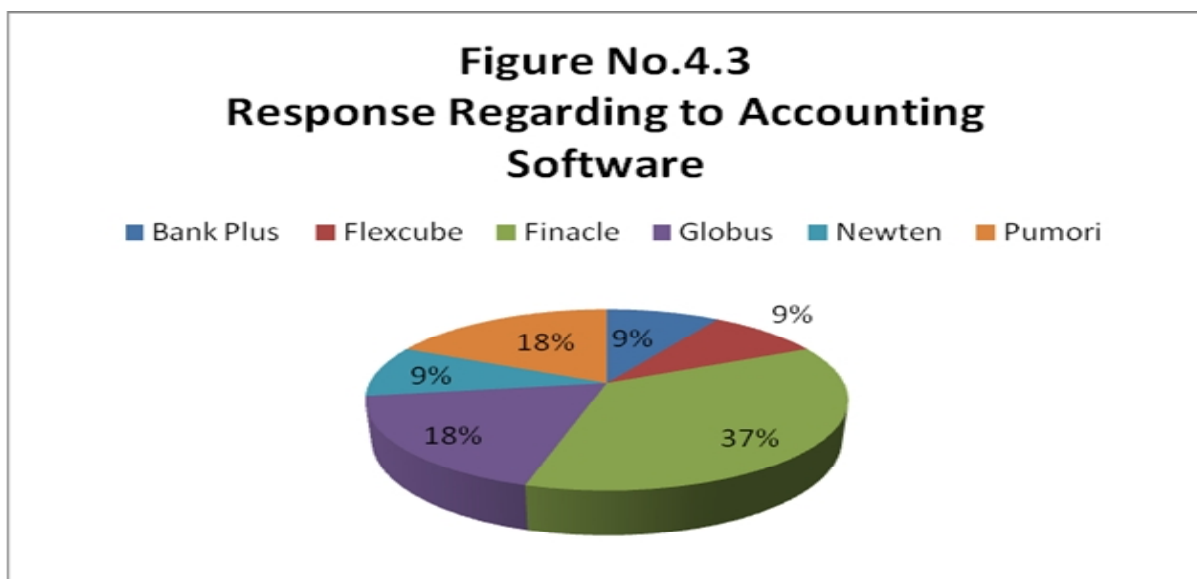
The table no 4.2 shows the response of record keeping system. The respondents view of all sample banks shows that computerized record keeping system are being used by all commercial banks.

Another question was been asked to the respondents of sample commercial banks that which accounting software are being used in your organization, then the response on that as follow:

**Table No.4.3**

**Response Regarding to Accounting Software**

<b>Accounting Software</b>	<b>Frequency</b>	<b>Percent</b>
Bank Plus	1	9.1
Flexcube	1	9.1
Finacle	4	36.4
Globus	2	18.2
Newten	1	9.1
Pumori	2	18.2



*Source: Table No. 4.3*

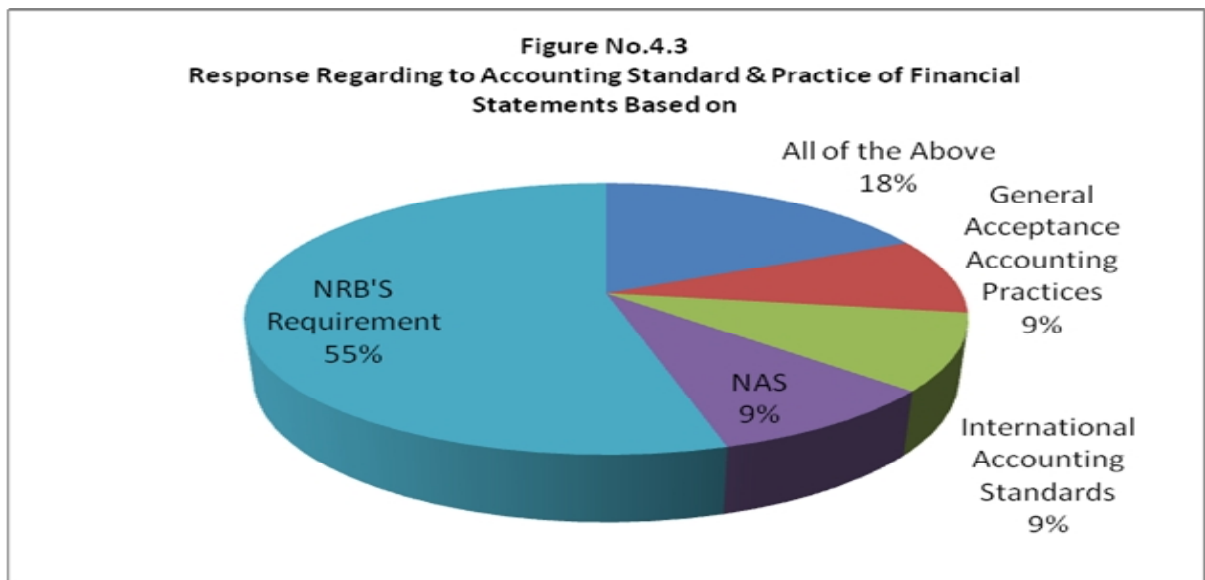
From the above Figure no. 4.2, the study has summarized that different banks are using different type of accounting software according to their suitability. The view of the respondents of sample commercial bank about the accounting standard and practice your financial statement is based on. There are five option to the respondents i.e. Nepalese Accounting Standard, International Accounting Standard. NRB's Requirement and Generally Accepted Accounting Practices and all of the above. The response of the respondents is as follows:

**Table No.4.4**

**Response Regarding to Accounting Standard & Practice of Financial  
Statements Based on**

<b>Variables</b>	<b>Frequency</b>	<b>Percent</b>
All of the Above	2	18.2
General Acceptance Accounting Practices	1	9.1
International Accounting Standards	1	9.1
NAS	1	9.1
NRB'S Requirement	6	54.5
Total	11	100

*Source: Primary Data*



*Source: Table No. 4.4*

54.5% of the respondent's accounting statement is based on NRB's requirement, 18.2% of respondent's statement is based on the all of above accounting standards and

practices and 9.1% respondents view on Nepalese accounting standard, 9.1% of respondents on international accounting standard and 9.1% of respondents on generally accepted accounting practices. In conclusion the study shown that, the financial statement of commercial banks is on NRB's requirement place up-to-date regulatory framework that meets international standards.

The response on the question of which accounting system is being followed in your bank, the respondent view of different sample bank are as follows:

**Table No.4.5**

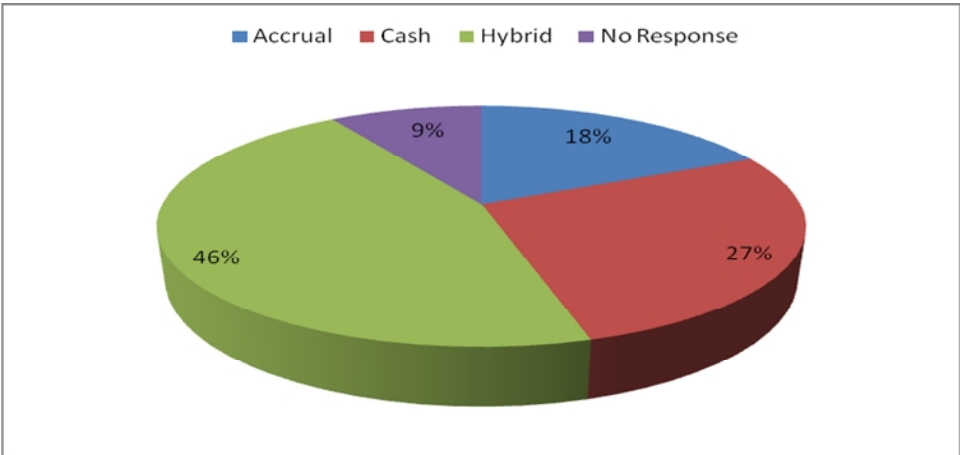
**Response Regarding to Accounting System**

<b>Systems</b>	<b>Frequency</b>	<b>Percent</b>
Accrual	2	18.2
Cash	3	27.3
Hybrid	5	45.5
No Response	1	9.1
Total	11	100

Sources: Primary Data

**Figure No.4.4**

**Response Regarding to Accounting System**



Source: Table No. 4.5

From the above figure no 4.4 shows that, 45.5% of respondents on hybrid system, so on 27.3% of respondents on cash basis and rest 18.2% respondents view is that accrual basis accounting system is being followed by commercial banks.

Another question was been asked to the respondents that does your organization adequately disclose the major accounting policies? Then the respondents view of sample commercial banks are as follows:

**Table No. 4.6**

**Response Regarding to Adequately Disclose the Major Accounting Polices**

	<b>Frequency</b>	<b>Percent</b>
No Response	1	9.1
No	0	0
Yes	10	90.9
Total	11	100

*Sources: Primary Data*

From the above table the research study concluded that most of the commercial banks are adequately disclose the major accounting policies. When the organization financial statements are materially miss- stated, it is usually because the records which underline those statements contain material error or material irregularities, or both made by management, staff or in making judgment valuation. The question was asked to the respondents to give a mark on the error & irregularities involved or resulting in recording transaction. (Give the mark on every one with the supposition of full mark '5' at most error)

**Table No. 4.7**

**Response Regarding to Marking of the Error and Irregularities According to  
Their Occurrence in Banking Field**

<b>Respondents</b>	<b>Suppressing a book entry</b>	<b>Making improper book entry</b>	<b>Making improper calculation</b>	<b>Manipulating or suppressing a supporting document</b>	<b>Making an improper posting to a ledger document</b>
S1	4	1	3	5	2
S2	0	0	0	0	0
S3	5	5	4	1	2
S4	0	0	0	0	0
S5	0	0	0	0	0
S6	1	3	4	5	2
S7	0	0	0	0	0
S8	0	1	0	0	0
S9	0	0	0	0	0
S10	0	0	0	0	0
S11	1	1	1	1	1
Total	11	11	12	12	7
Mean	1	1	1.09	1.09	0.63

*Sources: Primary Data*

The response obtain on this list is shown in above 4.7. Six respondents of sample commercial banks were responding that there has not any error and irregularities according to their occurrence in banking field due to the computerized recording system; they respond that if there has any error and irregularities then the computer don't agree for recording. So they were saying that, there are not any possibilities of error and irregularities. Other respondents of sample commercial banks

were giving the highest marks on error and irregularities for Making improper calculation and Manipulating or suppressing a supporting document, giving second highest mark on Suppressing a book entry and Making improper book entry and at last the respondents were giving the lowest marks on that error and irregularities which is related to Making an improper posting to a ledger documents.

### **Depreciation Policy of Commercial Banks:**

The term depreciation represents loss or diminution on the value of assets consequent upon tear, obsolescence, efflux ion of time or permanent falls in market value. Depreciation may be treated as expenses. It represents a portion of the total cost of the fixed assets which has expired and turned in to expense in the process of its use during a particulars accounting period. Fixed assets were depreciated on diminishing balance method or straight line method. The method of depreciation which is being practiced by Nepalese commercial banks as follows:

**Table No 4.8**

#### **Method of Depreciation Practicing by Nepalese Commercial Banks**

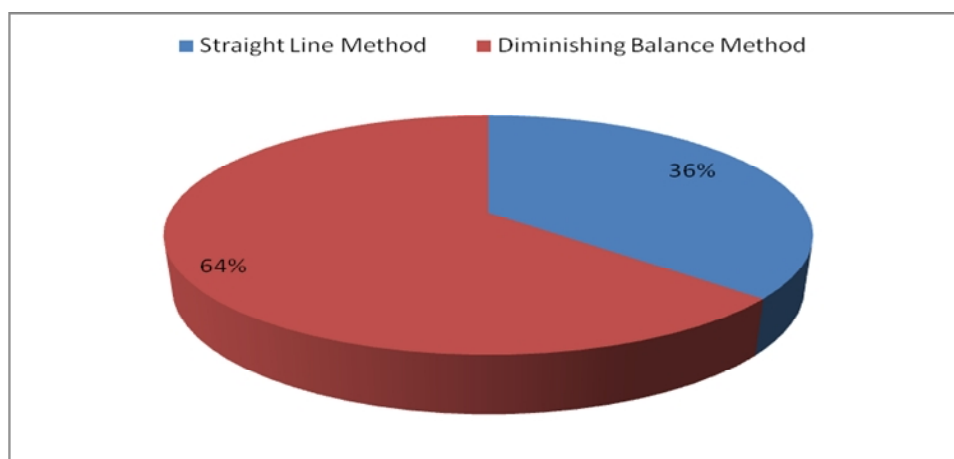
<b>Name of Bank</b>	<b>Straight Method</b>	<b>Line</b>	<b>Diminishing Method</b>	<b>Balance</b>
Nepal SBI Bank Ltd.	√			
Nepal Investment Bank Ltd.	√			
Laxmi Bank Ltd.	√			
Himalayan Bank Ltd.	√			
NCC Bank Ltd.			√	
Everest Bank Ltd.			√	
Siddhartha Bank Ltd.			√	
Nabil Bank Ltd.			√	
Nepal Bank Ltd.			√	
Kumari Bank Ltd.			√	

Lumbani Bank Ltd.		√
Total	4	7
Percentage	36.36	63.64

Source: Secondary Data (Annual Reports)

**Figure No.4.5**

**Method of Depreciation Practicing by Nepalese Commercial Banks**



Source: Table No. 4.5

From above figure no.4.5, diminishing balance method of depreciation are being practiced by 63.64% of total sample and straight line method of depreciation are being practiced by remaining 36.36% of total sample commercial banks.

**4.3 Reporting Aspect of Commercial Banks**

Reporting is the information of the appropriate techniques and concepts in processing historical and projected economic data of an assist management in establishing plans for reasonable economic objectives in the making of rational decision with a view towards those objectives. It is concerned with reframing the accounting information to make it useful for the management. It also clearly indicates that any system of reporting which assists management in carrying out its functions more efficiently may be termed as reporting.

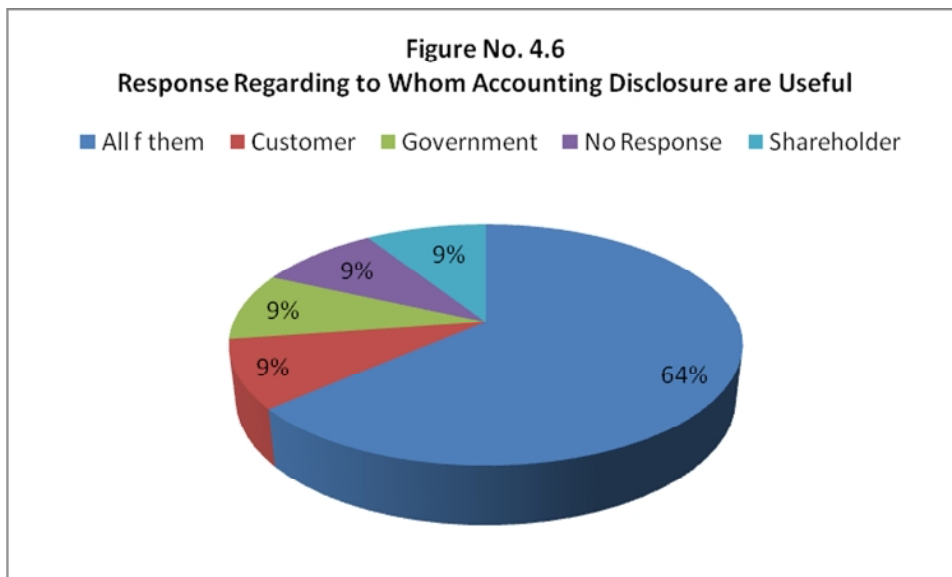
The question was been asked to the respondents of sample commercial banks about that, whom do you think accounting disclosure are useful? Then the respondent view on that as under:

**Table No. 4.9**

**Response Regarding to whom Accounting Disclosure are Useful**

	<b>Frequency</b>	<b>Percent</b>
All f them	7	63.6
Customer	1	9.1
Government	1	9.1
No Response	1	9.1
Shareholder	1	9.1
Total	11	100

*Sources: Primary Data*



*Source: Table No. 4.9*

From the above figure response regarding to accounting disclosure are useful are, 63.6% of respondents say that the accounting disclosure are useful for all of them (i.e. customer, shareholder, government) and 9.1% of total respondents are equally viewed on customer, shareholder and government and 9.1% of total respondents are not response of that questions.

The study try to examined the view of respondents of sample commercial banks about on the Annual General Meeting, which is timely maintain or not. The respondent's response on that as follows:

**Table No. 4.10**

**Response Regarding to Timely Maintain AGM**

	<b>Frequency</b>	<b>Percent</b>
Yes	11	100
No	0	0
Total	11	100

*Sources: Primary Data*

From the above table no. 4.10, all the sample banks are timely maintaining AGM. It is mandatory that commercial bank should hold annual general meeting with 180 days after expire of the banking year.

The next question was asked to the respondents of sample commercial banks about on, are periodical financial statements prepared for internal reporting to management? The respondent's response on that as under:

**Table No. 4.11**

**Response Regarding to Prepare Financial Statement for Internal Reporting**

	<b>Frequency</b>	<b>Percent</b>
Yes	11	100
No	0	0
Total	11	100

*Sources: Primary Data*

From the above table no. 4.11, all the respondents of commercial banks was agreed with the preparation of periodical financial statements for internal reporting to management.

From the questionnaires the researcher asked question to the respondents about on timely submit report to various regulatory bodies, the response on that is as follows:

**Table No.4.12**

**Response Regarding to Submit Timely Report to Various Regulatory Bodies**

	<b>Frequency</b>	<b>Percent</b>
Yes	11	100
No	0	0
Total	11	100

*Sources: Primary Data*

From the above table no. 4.12, All the respondents had agreed on their banks timely submit report to various regulatory bodies. Another question was asked to the respondent about on following the budget system. There are two options to the respondent i.e. yes or no, then the respondent view on that as under:

**Table No.4.13**

**Response Regarding to Follow the Budgeting System**

	<b>Frequency</b>	<b>Percent</b>
Yes	11	100
No	0	0
Total	11	100

*Sources: Primary Data*

Table No.4.13 show that all the sample commercial banks are properly following the budgeting system for their reporting aspects. The question was been asked to the respondents of sample commercial banks about whether the directives of NRB on accounting policy disclosure would increase or decrease the qualitative characteristics of information presented in financial statement? There are three options i.e. increase, decrease and no effect, then the response of respondents about on that as follows:

**Table No.4.14**

**Response Regarding to Qualitative Characteristics of Information  
Presented in**

**Financial Statement from NRB's Directives**

	<b>Frequency</b>	<b>Percent</b>
Increase	8	72.7
Decrease	0	0
No effect	3	27.3
Total	11	100

*Sources: Primary Data*

The response of the respondents on that, 72.7% of respondents was agree on increase the qualitative characteristics of information presented in financial statement from NRB's directives and 27.3% Of respondents of the sample commercial banks was

shown the no effect on qualitative characteristics of information presented in financial statement from NRB's directives.

#### 4.4 Further Improvement Aspect of Commercial Banks

Now the Nepal is entering in WTO, therefore banks provide better services to customer by adopting the international system and quality, it is necessary to improve quality of services provided by banks. This is the age of science and technology. The technology itself is changing rapidly and developing new and new technology. Developing of technology has greater impact in banking sector. The banking services of our country are in development stage. The out dated technology like ATM is still in experimental stage. The concern authorities should take initiation in order to provide such facilities with respect to fast and quality services and it will have the supporting role to the new environment to reliable, fast and quality of information processing and accounting practices.

Different type and version of accounting as well as banking software are being practiced by Nepalese commercial banks. They are making linkage of software in to different branches to prompt recording, processing and reporting purpose.

The question was arranged to the respondents of different commercial banks that whether they are satisfied with current accounting or banking software. The response on that as follows:

**Table No. 4.15**

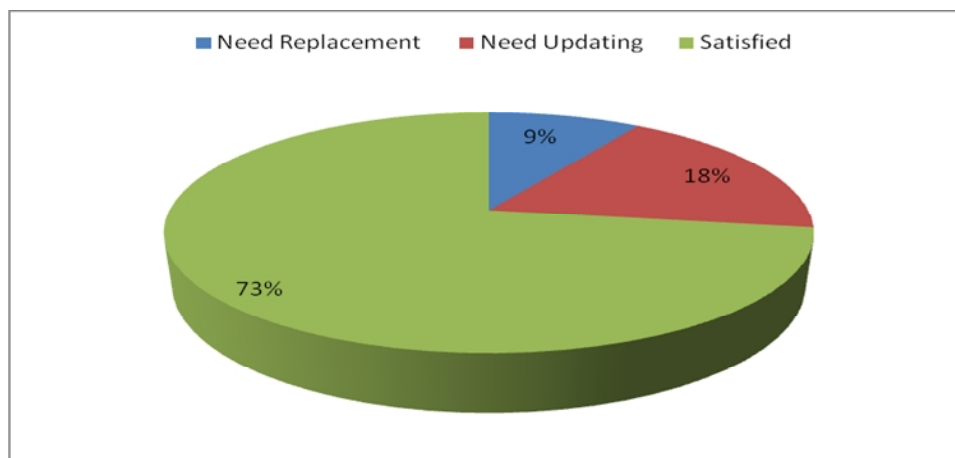
#### **Response Regarding to Performance of Accounting Software**

	<b>Frequency</b>	<b>Percent</b>
Need Replacement	1	9.1
Need Updating	2	18.2
Satisfied	8	72.7
Total	11	100

*Sources: Primary Data*

**Figure No. 4.7**

**Response Regarding to Performance of Accounting Software**



Source: Table No. 4.15

From the above figure 72.7% of respondents responded that they were satisfying with existing computerized accounting software. It was found that 18.2% of respondents are in favor of need updating and 9.1% of total respondents are viewed on need replacement of accounting software which are being used by commercial banks.

Another question was asked to the respondent of sample commercial banks whether your bank have any other problems about accounting practices from NRB's directives? Then the respondent was responded **about that as under:**

**Table No. 4.16**

**Response Regarding to Problems about Accounting Practices from NRB's Directives**

	Frequency	Percent
No	10	90.9
No Response	1	9.1
Yes	0	0
Total	11	100

Sources: Primary Data

The above table shows 90.9% of respondents say, there has not any problems about accounting practices from NRB's directives and 9.1% of respondent are not response on that question. In conclusion, there have not any problems about accounting practices from NRB's directive. By applying the financial disclosure accordance with NRB requirements have overall positive impact on practicing of accounting system. Nepalese commercial banks are not absolutely satisfactory because they need further improvement and adopting advance technology in completion market.

Another question was asked to the respondents of sample commercial banks about on major problems of accounting in your bank then the respondent was answering that there has not any mentionable problems of accounting. There has some rear and not-expressible problems but these problems are being solved by the record-keeper in the stage of accounting treatment.

#### **4.5 Effectiveness Aspect of Accounting Practices of Commercial Banks**

There are fundamental different between accounting and reporting practices of commercial banks from other companies. Accounting practices of commercial banks largely governed by statutory directives. The financial statements have been prepared in accordance with Nepal Accounting Standards ("NAS") issued by the Nepal Accounting Standard Board except otherwise stated, Generally Accepted Accounting Principles ("GAAP"), Bank & Financial Institutions Act 2063, presentation requirement of Nepal Rastra Bank directives.

Internal control is the plan of organization and all of the coordinated methods and procedures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to the prescribed managerial policies. We can say that internal control is a board term with a wide coverage. Its scope extends beyond that those matters which relate directly to the functions of accounting and financial departments. The question was asked to the respondents that your bank have adequate internal control over errors and misappropriations? The respondents viewed on that as follows:

**Table No 4.17**

**Response Regarding to Performance of Internal Control**

	<b>Frequency</b>	<b>Percent</b>
Yes	10	90.9
No Response	1	9.1
Need Improvement	0	0
Total	11	100

*Sources: Primary Data*

The respondents of the sample commercial banks were satisfying with their internal control system in respect over errors and misappropriation. 90.9% of respondents were responding with there bank have adequate internal control over errors and misappropriations.

Another question was asked to the respondents about the financial statements prepared for internal reporting, are sufficiently informative to bring to light abnormal fluctuations and discrepancies? Then the respondents view on that is as follows:

**Table No. 4.18**

**Response Regarding to Informative to Bring to Light Abnormal  
Fluctuations and  
Discrepancies from Financial Statements of Internal Reporting**

	<b>Frequency</b>	<b>Percent</b>
Yes	10	90.9
No Response	1	9.1
No	0	0
Total	11	100

*Sources: Primary Data*

From the above table no. 4.18, 90.9% of the respondents of banks were agreeing with the financial statement of internal reporting which is to informative to bring to light

abnormal fluctuations and discrepancies, and 9.1% of respondents was not responding on this topic.

Management accounting is the application of the appropriate techniques and concepts in processing historical and projected economic data of an assist management in establishing plans for reasonable economic objectives in the making of rational decision with a view towards those objectives. It is concerned with reframing the accounting information to make it useful for the management. It also clearly indicates that any system of accounting which assists management in carrying out its functions more efficiently may be termed as management accounting.

In additional question was asked to the respondents of sample commercial banks, is your bank using management accounting tools for decision making? Then the respondent's responses are as under:

**Table No. 4.19**

**Response Regarding to Using Management Accounting Tools**

	<b>Frequency</b>	<b>Percent</b>
Yes	11	100
No	0	0
Total	11	100

*Sources: Primary Data*

From table no. 4.19, 100% of the respondent's banks are using management accounting tools for their decision making approach. Another question was asked to the respondents about on practicing of management accounting tools. The question is, please gives the mark on following management accounting tools according to their usage or practices. (Give a mark on every one with the supposition of full mark '5'). The response about this question is as follows:

**Table No. 4.20**

**Response Regarding to Management Accounting Practicing**

Tools/Sample	S1	S2	S3	S4	S5	S6	S7	S8	S9	Total
Budgeting	5	4	5	5	5	5	5	5	4	43
Cost Volume Profit Analysis	5	5	4	2	2	5	4	3	4	34
Capital Budgeting	3	3	2	4	3	5	2	4	3	29
Standard Costing	2	2	3	2	1	5	2	2	2	21
Decision Making for Value Addition	4	3	2	3	5	5	3	3	5	33
Total										160

Sources: Primary Data

Form the above table we can conclude that given five different management accounting tools are not being equally practiced by different sample commercial banks. From the table no. 4.20, we can further analysis the data by using statistical analysis.

#### 4.5.1. Statistical Analysis:

##### Test of Hypothesis (F- Test)

Null Hypothesis (H0):  $\mu_B = \mu_{CVPA} = \mu_{CB} = \mu_{SC} = \mu_{DM}$

Five different management accounting tools are being equally practiced by all Commercial Banks

Alternative Hypothesis (H1):  $\mu_B \neq \mu_{CVPA} \neq \mu_{CB} \neq \mu_{SC} \neq \mu_{DM}$

Five different management accounting tools are not being equally practiced by all Commercial Banks

##### **Test of Statistics:**

Under H0:

Tools/Sample	S1	S2	S3	S4	S5	S6	S7	S8	S9	Total
Budgeting	5	4	5	5	5	5	5	5	4	43
Cost Volume Profit Analysis	5	5	4	2	2	5	4	3	4	34
Capital Budgeting	3	3	2	4	3	5	2	4	3	29
Standard Costing	2	2	3	2	1	5	2	2	2	21
Decision Making for Value Addition	4	3	2	3	5	5	3	3	5	33
Total										160

$$\text{Correction Factor (C. F.)} = \frac{(\text{Total})^2}{N}$$

$$= \frac{(160)^2}{45}$$

$$= 568.80$$

$$\text{Total Sum of Square (SST)} = \sum X^2 - \text{C.F.}$$

$$= \sum (5)^2 + (4)^2 \dots\dots\dots + (5)^2 - 568.80$$

$$= 638 - 568.80$$

$$= 69.20$$

$$\text{Sum of Square between the Sample (SSB)} = \frac{\sum R^2}{n} - \text{C F}$$

n

$$= 597.33 - 568.80$$

$$= 28.53$$

$$\text{Sum of Square with in Sample (SSE)} = \text{SST} - \text{SSB}$$

$$= 69.20 - 28.53$$

$$= 40.67$$

Now, One Way ANOVA Table is

Source of Variation	Degree of Freedom	Sum of Squar	Mean Sum of Square	F Cal
Sum of Square Between the Sample (SSB)	$5 - 1 = 4$	28.53	7.1325	$F_{Cal} = \frac{MSSE}{MSSB}$ $= \frac{7.1325}{1.01675}$ $= 7.014$
Sum of Square With in Sample (SSE)	$44 - 4 = 40$	40.67	1.01675	
Total Sum of Square (SST)	$45 - 1 = 44$	69.20		

Level of Significant = 5 %

Degree of Freedom =  $v_1, v_2$  (4, 40)

Critical Value: The tabulate value of F-distribution at 5% level of significance for 4, 40 degree of freedom is 2.61

Decision: Since, calculated value of F-distribution is greater than the tabulated value of F-distribution (i.e.  $7.014 > 2.61$ ). The null hypothesis ( $H_0$ ) is rejected and alternative hypothesis ( $H_1$ ) is accepted i.e. five different management accounting tools are not being equally practiced by all Commercial Banks

Concluding question regarding to NRB requirement was that whether their banks fully compelling the NRB's requirement. The responses have been arranged in table no. 4.21.

**Table No. 4.21**

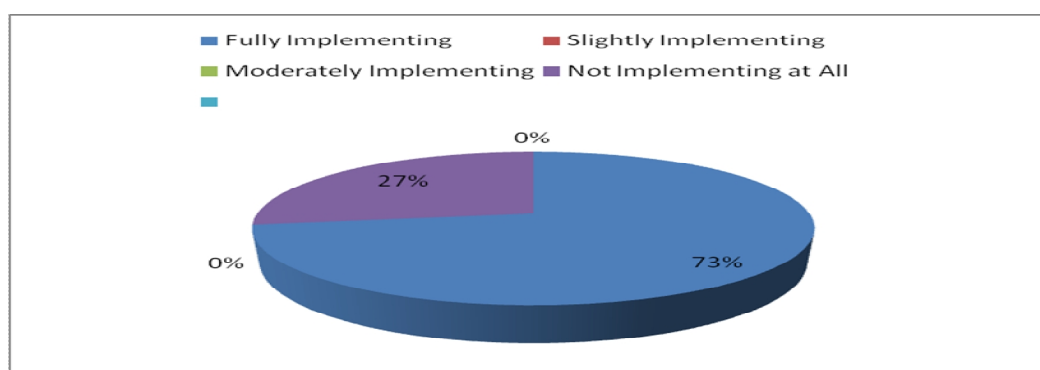
**Response Regarding to Compelling the NRB's Directives**

	Frequency	Percent
Fully Implementing	8	72.7
Slightly Implementing	0	0
Moderately Implementing	3	27.3
Not Implementing at All	0	0
Total	11	100

Sources: Primary Data

**Figure No. 4.8**

**Response Regarding to Compelling the NRB's Directives**



From above figure, 72.70% of respondents agreed that with fully implementing the directives and 27.3% of respondents of total sample agreed on moderately implementing the NRB's directives.

Another question was asked to the respondents regarding to the disclosure of accounting policy significant to user? Then the response of respondents is as follows:

**Table No. 4.22**

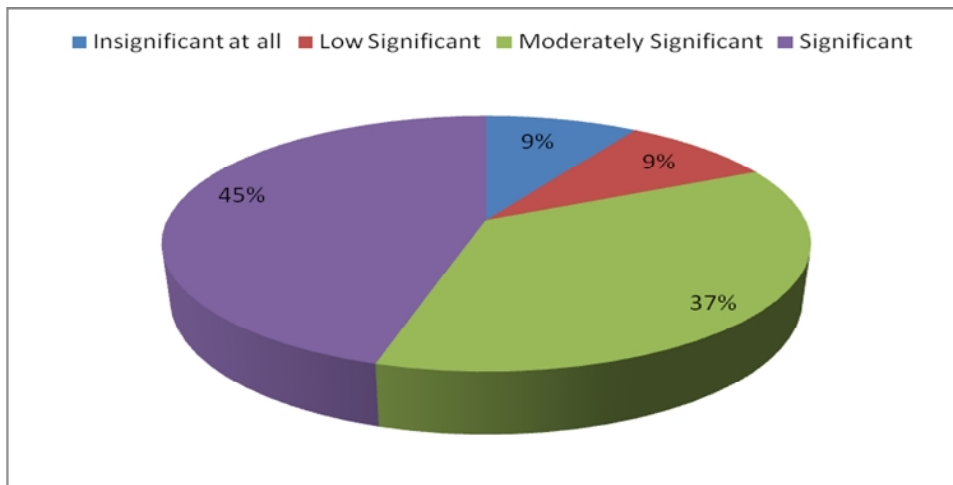
**Response Regarding to Disclosure of Accounting Policy Significant to User**

	Frequency	Percent
Insignificant at all	1	9.1
Low Significant	1	9.1
Moderately Significant	4	36.4
Significant	5	45.4
Total	11	100

Source: Primary Data

**Figure No. 4.9**

**Response Regarding to Disclosure of Accounting Policy Significant to User**



Source: Table No. 4.22

From the above figure, 45.5% of respondents viewed on accounting discloser which is significant to user, 36.4% of respondents on moderately significant to user, and 9.1% of respondents on low significant and 9.1% of respondentsviewed on insignificant at all.

#### **4.6 Major Finding**

The following have been derived from the analysis and interpretation of data.

- Record keeping and classified financial statement are almost same of Nepalese commercial banks by the obligation of NRB's directives following with Companies Act, Income Tax Acts, Generally Accepted Accounting Principle (GAAP) which was recognizes by International Accounting Committee (IASC).
- Computerized records keeping system is being practiced by all sample commercial banks. The respondents view of all sample banks shows that computerized record keeping system are being used by all commercial banks. But manual record keeping system is being practiced in the case journal voucher only.
- Generally record keeping is being maintained by accountants. Out of eleven respondents, six respondents of sample commercial banks sustained that account keeping records are being performed by accountants in their organization. One respondent maintained that account keeping records are being performed by manager and four respondents of the commercial banks said that account keeping records are being performed by other (Taller, Cashier, Everyone etc.).
- Different types of accounting and banking software (Bank Plus, Flexcube, Finacle, Globus, Newton, Pumori) are being used by commercial banks as for their requirement.
- Commercial banks are found to be reporting with in the time limit. AGM is holding by commercial bank within 180 days from completion of fiscal year.
- Alls incomes are being recorded in cash basis and all the expenses are being recorded in accrual basis by all sample commercial banks.

- Majors accounting policies are being adequately disclosed by all commercial banks.
- The respondents response on major problems identified in record keeping practices are, seven respondents of sample commercial banks were responding on there has not any error and irregularities according to their occurrence in banking field due to the computerized recording system, they respond that if there has any error and irregularities then the computer don't agree for recording. So they said that, there are not any possibilities of error and irregularities. Other respondents of sample commercial banks were giving the highest marks on error and irregularities for Making improper calculation and Manipulating or suppressing a supporting document, giving second highest mark on Suppressing a book entry and Making improper book entry and at last the respondents were giving the lowest marks on that error and irregularities which is related to Making an improper posting to a ledger documents.
- There are two methods of depreciation (i.e. Diminishing Balance Method & Straight- Line Method) are being practiced by Nepalese commercial banks. Diminishing Balance Method is being practiced by seven commercial banks but Straight- Line Method is being practiced by rest four commercial banks out of eleven sample banks. Income Tax Acts 2058, approved only the Diminishing Balance Method for depreciation purpose, but Straght-Line Method is being used by four commercial banks out of sample. From that the research decided that, Income Tax Act 2058 is not being fully adopted by some commercial banks in the case of depreciation.
- The respondent's response regarding to for whom the publication of accounting disclosure are useful then, 63.6% of respondents said that the accounting disclosure are useful for all of then (i.e. customer, shareholder, government) and 9.1% of total respondents are equally viewed on customer, shareholder and government.
- All the respondents of commercial banks were agreed with the preparation of periodical financial statements which is being reported to management.

- Budgeting system is being properly followed by all the sample commercial banks for their reporting and profit planning aspects.
- The response of the respondents on the qualitative characteristics of information presented in financial statement from NRB's directives that, 72.7% of respondents was agreed on increase the qualitative characteristics of information presented in financial statement from NRB's directives and 27.3% Of respondents of the sample commercial banks was shown the no effect on qualitative characteristics of information presented in financial statement from NRB's directives.
- The respondent's response on performance of accounting software that, 72.7% of respondents were satisfied with existing computerized accounting software. It was found that 18.2% of respondents were in favor of need updating and 9.1% of total respondents are viewed on need replacement of accounting software which is being used by commercial banks.
- 90.9% of respondents viewed that has not any problems about accounting practices from NRB's directives and 9.1% of respondent are not response on that question. In conclusion, there have not any problems about accounting practices from NRB's directive. By applying the financial disclosure accordance with NRB requirements have overall positive impact on practicing of accounting system.
- Commercial banks have not any mentionable problems about accounting practices. There has some rear and not-expressible problems but these problems are being solved by the record-keepers in the stage of accounting treatment.
- The respondents of the sample commercial banks were satisfying with their internal control system in respect over errors and misappropriation. 90.9% of respondents were responding that there bank have adequate internal control over errors and misappropriations and 9.1% of respondents were not responding on this topic.
- Most of commercial banks are satisfying with the performance of internal reporting. 90.9% of the respondents of banks are agreeing with the financial statement of internal reporting which is to informative to bring to light abnormal

fluctuations and discrepancies, and 9.1% of respondents were not responding on this topic.

- Management accounting tools are being practiced by Nepalese commercial banks for their decision making purpose. By testing of hypothesis about on the practices of five different management accounting tools the research concluded that, those five different management accounting tools are not being equally practiced by all commercial banks. These tools are being practiced by them for their requirement & strategy.
- The respondents view about on the disclosure of accounting policy significant to user?, 45.5% of respondents viewed on accounting discloser which is significant to user, 36.4% of respondents on moderately significant to user, and 9.1% of respondents on low significant and 9.1% of respondents viewed on insignificant at all.
- The respondents view about compelling the NRB's directives that, 72.70% of respondents agreed that with fully implementing the directives and 27.3% of respondents of total sample agreed on moderately implementing the NRB's directives.

## **CHAPTER FIVE**

### **SUMMARY, RECOMMENDATION AND CONCLUSION**

#### **5.1 Summary:**

This research study mainly focuses to accounting practices of Nepalese commercial banks. It focuses what are the recording and reporting practices of Nepalese commercial banks, as well as what are the further improvement in accounting practices and evaluate the effectiveness of accounting practices in commercial banks. The overall accounting and reporting practices have direct and indirect impact in banking field.

This is perhaps one important study of its kind in Nepal. This study is based on the primary data and secondary data. To meet the objective of the research, judgmental sampling methods was used and take sample around 37% of the total population. Questionnaires were arranged to the managers, accountants and operational manager and so on secondary data was collected from various published and unpublished sources.

Bank accounting found to be such a specialized system of record-keeping that it could ensure immediate entry of numerous transactions on the book of accounts. Computerized record-keeping system is being practiced by all sample commercial banks, but manual record keeping system is being practiced in the case of journal voucher only. All sample commercial banks are found to be reporting with the time limit to regulatory bodies. AGM is holding within 180 days from completion of fiscal year by commercial banks. Majority of the respondents agreed that it would increase the qualitative characteristics of information presented in financial statement from NRB's provisions.

Record keeping and classified financial statement are almost same of Nepalese commercial banks by the obligation of NRB's directives with following Companies Act, Income Tax Acts, Generally Accepted Accounting Principle (GAAP) which was recognizes by International Accounting Committee (IASC). Generally record keeping is being maintained by accountants. Different types of accounting and banking software (Bank Plus, Flexcube, Finacle, Globus, Newten, Pumori) is being used by commercial

banks as for their requirement. All incomes are being recorded in cash basis and all the expenses are being recorded in accrual basis by all sample commercial banks. Budgeting system is being properly followed by all the sample commercial banks for their reporting and profit planning aspects. There are two methods of depreciation (i.e. Diminishing Balance Method & Straight-Line Method) are being practiced by Nepalese commercial banks. Income Tax Act 2058, approved only the Diminishing Balance Method for depreciation purpose, but Straight-Line Method is being used by four commercial banks out of sample. From that the research decided that, Income Tax Act 2058 is not being fully adopted by some commercial banks in the case of depreciation. Some respondents of sample commercial banks were responding on there has not any error and irregularities according to their occurrence in banking field due to the computerized recording system, they response that if there are any error and irregularities then the computer don't agree for recording. So they were saying that, there are not any possibilities of error and irregularities. Other respondents of sample commercial banks were giving the highest marks on error and irregularities for Making improper calculation and Manipulating or suppressing a supporting document, giving second highest mark on Suppressing a book entry and Making improper book entry and at last the respondents were giving the lowest marks on that error and irregularities which is related to Making an improper posting to a ledger documents. Commercial banks were agreed with the preparation of periodical financial statements which is being reported to management. Budgeting system is being properly followed by all the sample commercial banks for their reporting and profit planning aspects. Most of the respondents are satisfied with existing computerized accounting software. By applying the financial disclosure accordance with NRB requirements have overall positive impact on practicing of accounting system. Commercial banks have not any mentionable problems about accounting practices. There has some rear and not-expressible problems but these problems are being solved by the record-keepers in the stage of accounting treatment. Management accounting tools are being practiced by Nepalese commercial banks for their decision making purpose. By testing of hypothesis, five different management accounting tools the research concluded that, those five different

management accounting tools are not being equally practiced by all commercial banks. These tools are being practiced by them for their requirement.

## **5.2 Recommendation**

On the basis of major finding some important suggestions have been forwarded. These suggestions should be helpful to Nepalese commercial banks for their accounting practices.

1. Commercial banks should strictly comply with the banking regulation and NRB's directives in order to make transparent in their accounting activities.
2. The commercial banks should minimize unsettled accounts; cash in transit and fund transfer delay, so that they should develop the effective accounting information system.
3. There are satisfying with the performance of accounting software but the technology itself is changing rapidly and developing new and new, thus it is recommend that concerned authority should take initiation in order to present accounting software.
4. Now, Nepal was entering in WTO; therefore, they should provide the better service to customer. Without proper accounting system the organization can't do that, that's why they should apply modern accounting technique for overall accounting activities.
5. Excellence accounting system is a backbone of the organization, so that the organization should make reliable, fast and transperence to their overall accounting system.
6. The IT hackers can hack the accounting software from different way, so the banker should cleaver from them and the government should also introduce appropriates law against them.
7. It is recommends that concerned authorities should take the intention in order to provided such facilities with respect to fast and quality services and it will have the supporting role to the new environment to reliable fast and quality of information processing and accounting practice.

8. It is recommends that, they should analysis of strength, weakness, opportunity and threats (SWOT) condition about on accounting. SWOT analysis can help to developing appropriates accounting system.
9. Management accounting tools are not being sufficiently practiced by commercial banks. It is recommends that management accounting tools should practices by them for their decision making and profit planning purpose.
10. Income Tax Act 2058 is not being fully adopted by some commercial bank in the case of depreciation. It is recommends that, the commercial banks should perform their each accounting activities according to tax law.
11. There are some problems to software operation from the lack of proper knowledge to operator. So that, the commercial banks should have trained their operators about on software.

### **5.3 Conclusion**

From the all above research work the conclusion is that, record keeping and classified financial statement are almost same of Nepalese commercial banks by the obligation of NRB's directives with following Companies Act. Generally Accepted Accounting Principle (GAAP) which was recognizes by International Accounting Committee (IASC) with on complying of Income Tax Act 2058. Computerized records keeping system is being practiced by all sample commercial banks. But manual record keeping system is being practiced in the case journal voucher only. Alls incomes are being recorded in cash basis and all the expenses are being recorded in accrual basis by all commercial banks. Income Tax Act 2058 is not being fully adopted by some commercial bank in the case of depreciation. Commercial banks are found to be reporting with in the time limit. AGM is holding within 180 days from completion of fiscal year by commercial banks. commercial banks was agreed with the preparation of periodical financial statements for internal reporting to management. their banks timely submit report to various regulatory bodies. commercial banks are properly used the budgeting system for their reporting aspects. Now the Nepal is entering in WTO, therefore banks provide better services to customer by adopting the international system and quality, it is necessary to improve

quality of services provided by banks. This is the age of science and technology. The technology itself is changing rapidly and developing new and new technology. Developing of technology has greater impact in banking sector. The banking services of our country are in development stage. The out dated technology like ATM is still in experimental stage. The concern authorities should take initiation in order to provide such facilities with respect to fast and quality services and it will have the supporting role to the new environment to reliable, fast and quality of information processing and accounting practices. Different type and version of accounting as well as banking software are being practiced by Nepalese commercial banks. They are making linkage of software in to different branches to prompt recording, processing and reporting purpose. The research work tries to ascertain that, what is the present situation of practicing five different management accounting tools? By testing the hypothesis the research concluded that, five different management accounting tools are not being equally practiced by commercial banks. They are using these tools according to their requirement, appropriation and strategy. Commercial banks are satisfying with their internal control system in respect over errors and misappropriation.

At last accounting practices of Nepalese commercial banks are satisfactory.

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- Nepal SBI Bank Ltd.
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## APPENDIX-I

### Questionnaire

Dear Sir/Madam

It's the golden opportunity on meeting you during the research study on "Accounting practices in Nepalese Commercial Banks". I have selected you as a respondent hoping that you will share valuable ideas and provide information with suggestion to me filling the given questionnaire format.

I would like to make you that the information filled by you will be kept confidential and will not be published.

A Study on Accounting Practices in Nepalese Commercial Banks

Name of Respondent

Position:

Please, make a tick mark (  ) on your choice or notes your real information

1. Introduction

Name of Bank:

Location/ Address:

Office: Head/ Branch

Date of Establishment:

Legal Status: (I) Private Ltd. (  ) (II) Joint Venture Bank (  ) (III) Others (  )

Capital:

Authorized Capital

Issued Capital

Paid up Capital

Sources of Capital

Share Capital

Borrowed Capital

Total No. of Employee

Male

Female

2. Who is performing account keeping records in your organization?

(I) Manager ( )      (II) Accountant ( )      (III) Others ( )      ..... (Specify)

3. Would you kindly tell which of the following method of record keeping system is practiced in your organization?

(I) Manual Accounting ( )      (II) Computerized ( )

If your choice is (II) then go to question 4 and 5 otherwise 6.

4. Which accounting software are you using?

.....

5. Are you satisfied with the performance for accounting software?

(I) Satisfied ( )      (II) Need Updating ( )      (III) Need Replacement ( )

6. Whom do you think accounting disclosures are useful?

(I) Shareholder ( )      (II) Government ( )      (III) Customers ( )

7. Does your bank timely maintain AGM?

(I) Yes ( )      (II) No ( )

8. Do you think your bank have adequate internal control over errors and misappropriation?

(I) Yes ( )                      (II) Need of improvements ( )

9. Are periodical financial statements prepared for internal reporting to management?

(I) Yes ( )                      (II) No ( )

If yes, are they sufficiently informative to bring to light abnormal fluctuations and discrepancies?

(I) Yes ( )                      (II) No ( )

10. Does your organization submit timely report to various regulatory bodies?

(I) Yes ( )                      (II) No ( )

11. In which of the following accounting standard & practice your financial statement is based on?

(I) Nepalese Accounting Standard ( )

(II) International Accounting Standard [IAS] ( )

(III) NRB's requirement ( )

(IV) Generally Accepted Accounting Practices [GAAP] ( )

12. Which accounting System of your organization is based on?

(I) Accrual ( )                      (II) Cash ( )                      (III) Hybrid ( )

13. Is your organization using management accounting tools for decision making?

(I) Yes ( )                      (II) No ( )

14. Does your organization adequately disclose the major accounting policies?

(I) Yes ( )                      (II) No ( )

15. How far is your organization compelling the NRB directives?

(I) Fully implementing the directives ( )

(II) Moderately implementing with non compliance in certain cases ( )

(III) Slightly implementing ( )

(IV) Not implementing at all ( )

16. Do you follow budgeting system?

(I) Yes ( )                      (II) No ( )

17. Is disclosure of accounting policy significant to user?

(I) Significant ( )

(II) Moderately significant ( )

(III) Low significant ( )

(IV) Insignificant at all ( )

18. Whether the directives of NRB on accounting policy disclosure would increase or decrease the qualitative characteristics of information presented in financial statement?

(I) Increase ( )                      (II) Decrease ( )                      (III) No effect ( )

19. Does your organization have any other problems about accounting practices from NRB's directions?

(I) Yes ( )                      (II) No ( )

If Yes, which problems .....

20. Would you kindly mention the major problems of accounting in your bank?

(I)

(II)

(III)

21. Do you have any other suggestions about accounting system and practices for banks which are not mentioned above?

(I)

(II)

(III)

22. Please give a mark on the error & irregularities involved or resulting in recording transaction. (Give the mark on every one with the supposition of full mark '5' at most error)

(I) Suppressing a book entry ( )

(II) Making improper book entry ( )

(III) Making improper calculation ( )

(IV) Manipulating or suppressing a supporting document ( )

(V) Making an improper posting to a ledger document ( )

23. Please give the mark on following management accounting tools according to their practices in banking field. (Give a mark on every one with the supposition of full mark '5' at most practices)

(I) Budgeting ( )

(II) Cost Volume Profit Analysis ( )

(III) Capital Budgeting ( )

(IV) Standard Costing ( )

(V) Decision Making for Value Addition ( )

Date:

