

**PRESENT SCENARIO OF MANAGEMENT ACCOUNTING
PRACTICES IN COMMERCIAL BANKS IN NEPAL**

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I hereby declare that the work reported in this thesis entitled “**PRESENT SCENARIO OF MANAGEMENT ACCOUNTING PRACTICES IN COMMERCIAL BANKS IN NEPAL**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master’s Degree in Business Study (M.B.S.) under the supervision of **Prof. Dr. K.D. Dhakal** and **D. R. Bhandari** of Shanker Dev Campus.

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ABBREVIATIONS

ABB	Activity Based Budgeting
ABC	Activity Based Costing
AD	Anno Domini
ADB Ltd.	Agricultural Development Bank Ltd.
BS	Bikram Sambat
CAAN	Civil Aviation Authority of Nepal
CIMA	Chartered Institute of Management Accountants
CVP	Cost-Volume-Profit Analysis
FIFO	First in First Out
HLM	High-Low Method
IFAC	International Federation of Accountants
JVB	Joint Venture Banks
MA	Management Accounting
MAIS	Management Accounting Information System
MAS	Management Accounting System
NBBL	Nepal Bangladesh Bank Limited
NBL	Nepal bank limited
NCC Bank Ltd.	Nepal credit and commerce bank limited
NIB Ltd.	Nepal investment bank limited
NRB	Nepal Rastra Bank
PTC	Public Trade Company
RBB	Rastriya Banijya Bank
ROI	Return on Investment
SCB Nepal Ltd.	Standard Chartered Bank Nepal Limited
Sig.	Significant
ZBB	Zero Based Budgeting

CHAPTER- I

INTRODUCTION

1.1 Background of the Study

Nepal is a small, least developed and landlocked country situated between two large countries India and China witnessed an impressive growth in 2008 i.e. 9 percent and 11.9 percent respectively. Whereas Nepal has only 3.9 percent economic growth rate in 2008 and per capita income of Nepal was \$ 470 in 2008 (Economic Survey, 2009).

Nepal is a sovereign independent country formerly known as the Kingdom of Nepal, now Federal Republic of Nepal since 15th Jestha 2065 as per the decision of Constitutional Assembly. In fact, it was the demand of the people of Nepal endorsed by the Second Jana-Andolan 2062-63. But, restructuring of the state is in process through the Constitutional Assembly. Nepal is a landlocked country with an area of 1, 47,181 sq.km and is situated between the world's most populated countries China in the north and India in the rest fronts. The total area of Nepal is 0.3% of Asia which is 0.03% of the world. Nepal is known to be a country of natural beauty between the latitude of 26°22'N to 30°27'N and longitude of 80°4'E to 88°12'E. The elevation of the country ranges from 70 m above sea level to the highest on Earth. The land of Himalayan region is standing vertically up to the height of 8848m with a renown Mt. Everest.

It has lots of problem as well as prospectus too. Unemployment is said to be the biggest problem of the country. Nepal is an agricultural country. Most of the people of the nation are primarily engaged in agricultural sector and they are depended on agriculture to fulfill their basic needs. A weak economy in one country may be offset by a strong economy of Nepal, it is very essential to develop the infrastructure and facilities for the establishment of manufacture and

processing industries. Industries have not been developing to the extent of expectation in Nepal. The reason for it is the lack of dashing entrepreneurs as well as the inappropriate business environment. We can trace the industrial development process in Nepal mainly after establishment of Biratnagar jute mill and Udhyog Parishad in 1936.

1.1.1 Banking History in Nepal

The history of banking in Nepal may be described as a component of the gradual and orderly evolution in the financial and economic sphere of the Nepalese life. Even now the financial system is still in evolutionary stage. The extension of the unorganized money markets, consist of Landlords, Sahukars, Shopkeepers and other indigenous individual moneylenders have acted as barriers to institutionalized credit. Although their influence have been decreasing in the urban areas the absence of banking institutions in the remote areas mean that the people living there still have to depend on the traditional lenders to meet their needs.

In the history of Nepal, banking activities in ancient time can be inferred. Guna Kam Dev did rebuilding of Kathmandu in 723 from borrowing. In the Nepalese chronicle, it was recorded that Shakhadhar and Sudra merchant of Kathmandu introduced a new era known as Nepal Sambat in 879 or 880 AD after having paid all the outstanding debts in the country. This is considered to be an adequate basis for a logical inference that the money lending operations were in practice during that period.

The reign of Jayasthiti Malla is recognized as the glorious age for codifying the law relating to commercial transaction and immovable property. This reform “has left a lasting impression upon the Nepalese Nation of even today; and it is from about Raja Jayasthiti Malla reign onward that the granting of loans against immovable property must have more commonly, if not newly, practiced in the

country” (Panta, 1980). He also classified the people in 64 classes on the basis of their occupations, which included a class called "Tanka dhari" meaning money dealers. This is lenders and bankers during the medieval period of Nepal. It is believed that money lending business, particularly for financing the foreign trade with Tibet, become quite popular during the reign of Mallas. Advance for commercial transactions against personal security or merchandise, remittance service for foreign trade (with India and Tibet) and loans for personal use were common with the increases in demand for these services. A large number of personal talking to this business, demoralization crept in the profession and consequently, several type of malpractice becomes their favourable technique. Thus, cheating and fraud were common in the absence of any regular measure during the Malla period and onward. The unscrupulous money was known to have changed exorbitant rates of interest and other extra dues on loans advanced. Also people were facing great inconveniences in obtaining loans at reasonable terms.

Ranodip Singh, the Prime Minister for 8 years from 1877-1885, took a concrete step by establishing a government institution called "Tejarath" for supplying easy and cheap credit at 5% interest to the public on the security of gold and silver ornaments. At the same time government servants also the privilege of taking loans from this newly established office, repayable in investment from their salaries at source.

In the overall development of banking system in Nepal, the "Tejarath Adda" may be regarded as the father of modern banking institutions, and for quite a long time it rendered a good service to general public as well as to the government servants. Later on, with the evolution of some kind of systematic banking the government's cashier office had the primary responsibility of handling government accounts but not the public account.

Only in 1937, during the time of Juddha Shamsheer, even with the non-existence of a central bank, the first commercial bank of the country, Nepal Bank Limited (NBL) was established on November 15 (Kartik 30, 1994 BS). This marked the beginning of an era of formal banking in Nepal, thus "Tejarath" was replaced by a commercial bank. The establishment of NBL solved to the great extent the problem of commercial banking in Nepal. It made available facilities for depositing and borrowing money for commercial and agricultural pursuits. It also provided remittance facilities for settling internal and external transactions to create banking habits of the people, widening monetized areas and helped the government and business community in various ways.

Despite the above fact, the lone NBL was not in a position to handle with all problems due to its limitation in respect of financial position and scope of business. "The credit needs of the people are still predominantly met by indigenous money lenders and a very large portion of the productive activity of the community banking system" (Pant, 1970). In order to overcome these difficulties the government established in 1956, the first Central Bank, "Nepal Rastra Bank" under the NRB Act of 1954. The setting up of this Central Bank marked another milestone in the history of growth of banking.

While the Nepal Bank Ltd. was facing the problem of utilization of funds mobilized by it, the government came forward with a proposal to set a new commercial bank in the public sector. Accordingly, to spread banking habits and to fulfill the growing credit requirements, a state commercial bank, known as Rastriya Banijya Bank was set up on July 23, 1966. It contributes to the development of the banking system, particularly in the remote areas lying in the hilly regions.

But these institutions could not properly fulfill the demand of the public. There was a great need for other commercial banks. So, Nepal has adopted the policy of

economic liberalization to develop the economic condition through the participation of private sector equally on in the market on the area of industry, trade, business and banking. The government did amend the commercial banking Act 1974 in 1984 to increase competition between commercial banks, to develop their working capacity and also to open the foreign joint-venture banks. As per the provision made in this act, private sector, including foreign investor was given freedom in opening commercial banks.

Table 1.1
Commercial Banks in Nepal

S.N	Names	Operation Date(A.D.)	Head Office	Paid up Capital (Rs. In millions)
1	Nepal Bank Limited	1937/11/15	Kathmandu	380.40
2	Rastriya Banijya Bank	1966/01/23	Kathmandu	1172.30
3	ADB Ltd.	1968/01/02	Kathmandu	10777.50
4	NABIL Bank Limited	1984/07/16	Kathmandu	965.75
5	NIB Limited	1986/02/27	Kathmandu	2407.10
6	SCB Nepal Limited.	1987/01/30	Kathmandu	932.00
7	Himalayan Bank Limited	1993/01/18	Kathmandu	1216.20
8	Nepal SBI Bank Limited	1993/07/07	Kathmandu	874.50
9	NB Bank Limited	05/06/1994	Kathmandu	1822.70
10	Everest Bank Limited	1994/10/18	Kathmandu	838.80
11	Bank of Kathmandu Limited	1995/03/12	Kathmandu	844.40
12	NCC Bank Limited	1996/10/14	Rupendehi	1399.50
13	Lumbini Bank Limited	1998/07/17	Chitwan	1096.10
14	NIC Bank Limited	1998/07/21	Biaratnagar	1140.50
15	Machhapuchhre Bank Limited	2000/10/03	Pokhara	1479.10
16	Kumari Bank Limited	2001/04/03	Kathmandu	1186.00
17	Laxmi Bank Limited	2002/04/03	Birgunj	1098.10
18	Siddhartha Bank Limited	2002/12/24	Kathmandu	952.20
19	Global Bank Ltd.	2007/01/02	Birgunj	1000.00
20	Citizens Bank International Ltd.	2007/6/21	Kathmandu	1000.00
21	Prime Commercial Bank Ltd	2007/9/24	Kathmandu	700.00
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu	1337.50
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu	1000.00
24	Development Credit Bank Ltd.	2001/01/23	Kathmandu	1655.30
25	NMB Bank Ltd.	1996/11/26	Kathmandu	1424.60
26	Kist Merchant Banking & Finance Ltd.	2003/02/21	Kathmandu	2000.00

(www.nrb.org.com / directives, notification)

1.1.2 Introduction of Management Accounting

Managerial accounting provides the essential data with which the organizations are actually run. Managerial accounting is also termed as management accounting. Financial accounting provides the scorecard by which a company's overall past performance is judged by outsiders. Managerial accountants prepare a variety of reports. Some reports focus on how well managers or business units have performed-comparing actual results to plans and to benchmarks. Some reports provide timely, frequent updates on key indicators such as orders received, order backlog, capacity utilization, and sales. Other analytical reports are prepared as needed to investigate specific problems such as a decline in the profitability of a product line. And yet other reports analyze a developing business situation or opportunity. In contrast, financial accounting is oriented toward producing a limited set of specific prescribed annual and quarterly financial statements in accordance with Generally Accepted Accounting Principles (GAAP). (Bromwich & Bhimani, 1989)

Management accounting is a functional technology that helps acting management. It assists rational decision making by providing quantitative information, economic analysis and financial evaluation that support informed, sound choices. It assists rational control by measuring and monitoring the organizations progress towards specific, quantified financial and non financial objectives and allowing “management by control” which activates immediate corrective action. Summing up, management accounting is seen as a practical medium that serves rational management purposes. It is flexible and neutral technical instrument or formal system that can be modeled to the functional aims of its users.

Management accounting must serve the strategic objectives of the firm. It cannot exist as a separate discipline, developing its own set of procedures and measurement systems and applying these uniformly to all firms without regard to the underlying values, goals and strategies of particular firms (Kaplan, 1984).

1.1.3 Role of Management Accounting

Management accounting has played a role in measuring performance in banks but its role in measuring non financial performance has been less significant than its role in measuring financial performance. Financial performance measures profits, sales, revenue generated, rate of return and so on and non financial performance measures quality, customer satisfaction, social responsibility and so on (Hussian & Gunasegaram, 2002).

Management accounting for banking has to contribute to focusing the process of strategic planning and provide information to facilitate decision making and financial control of the different business units involved (products, clients, markets, etc.). Historically speaking, management accounting in banking organizations has experienced a limited development in comparison to companies in other sectors. The reasons for this are related to the characteristics of the productive processes in these organizations and their cost structure, as well as the limited need for information for planning and control in organizations which traditionally operated in highly regulated and predictable environments. However, as these conditions have changed, the role of management accounting has evolved to the point where it is now a tool for obtaining the information necessary for the analysis of business decisions (strategic and tactical) and the measurement of their results. At the same time, it allows a decentralization of responsibility, while maintaining the coordination necessary for individual managers to act in accordance with established policies at a strategic level, by using planning, budgets, analytical accounting, scorecards and management indicators (Fuster, 2007).

Management accounting practices and discourses, along with other organizational systems, play an important role questioning, visualizing, analyzing, and measuring implemented strategies. These practices and discourses have an important

influence on strategic decision-making, and help to legitimize action. As the language and practice of management have shifted towards strategy and marketing discourses, patterns of work, organization and career are being restructured. There was a transformation from a bank culture based on relative job security and, for some, hierarchical careers, to another based more on the strategic marketing discourse of interpersonal customer-orientated skills with individual performance. Banking is a sector where approaches like ABC, with its focus on making overhead costs visible, were always likely to be seen as attractive (Cobb & Innes, 1995).

In the past, bank accountants paid little or no attention to the use of managerial accounting concepts in the banking industry. Viewing managerial accounting from the perspective of the banking industry provides a unique opportunity to explore the development of the internal reporting structure. While the use of internal cost and profitability reports is widespread in merchandising, manufacturing, and other service industries, banks have historically focused only on overall profitability. The reason is simple. In the past, interest rates, branch locations, and service offerings were heavily regulated by the government; banks had little incentive or opportunity to consider issues such as pricing, product mix, or market share strategies. Deregulation has put an end to this complacent approach, and bankers are now running to survive in a quickly changing environment (Rezaee, 2005).

Accounting is so called the universal language of business and management accounting systems (MAS) provide useful information for management to make decision and operate plan and control. But the rapid changes of technology with enormously expanding information processing capabilities and vigorous global competition, Traditional MAS are not providing useful information to fulfill organizational objectives, Decision-making, planning, and control (Johnson & Kaplan, 1987).

Management accounting is designed, firstly, to supply information to internal decision makers of a given organization; secondly, to facilitate their decision making thirdly to motivate their actions and behavior in a desirable direction and finally to promote the efficiency of the organization (Belkaoui, 1980).

Management accounting is concerned with the provisions and use of accounting information to managers within organizations, to provide them with the basis to make informed business decisions that will allow them to be better equipped in their management and control functions. The role of management accounting differs from that of public accounting, since management accountants work at the “beginning” of the value chain, supporting decision making, planning and control, while audit and tax functions involve checking the work after the fact. Management accountants are valued business partners, directly supporting an organization's strategic goals. With a renewed emphasis on good internal controls and sound financial reporting, the role of the management accountant is more important than ever.

Corporate firms that carry economics activities are the backbone of the economy. Their activities impact the economy in one way or the other. Every organization has limited resources. The main problem lies in better utilization of available resources so that competitive advantages can be achieved. Among the various tools and techniques, management accounting tools have proved beneficial in every aspect of management activities from planning to decision making. The main objectives of management accounting is to help managers in overall managerial activities by providing information and helping them in planning, controlling and decision making. In most corporate firms, management accounting has been a strategic business partner in support of management’s role in decision making, planning and controlling (Hilton, 1997).

The need for the quantitative facts for the performance of planning control, coordination, motivation and organization has been newly recognized by management. These quantitative facts should not only be related to the past or present but also play a role in all these areas (Gupta, 1995).

Managerial accounting is concerned with providing information to managers- that is, to those who are inside an organization and who direct and control its operations. Managerial accounting can be contrasted with financial accounting, which is concerned with providing information to stockholders, creditors and others who are outside an organization (Garrison, 1999).

It was realized that management accounting techniques are helpful not only to commercial institutions, business houses but it has much to offer to the civil service administration in terms of controlling cost, forecasting expenses and helping to increase the overall productivity. It was not only in the commercial side of civil services that management accounting was needed but also in the non-commercial part of civil services administration. The role of accounting has changed to reflect prioritization in government expenses. Hence the zero based budgeting has been adopted which is nothing more than management by objectives through financial management. Thus, as an intelligence arm the role of accounting in the government has been to provide a base for the allocation of funds, measurement of achievements and prioritization of expenses.

Management accounting would make its greatest contribution by helping management of business concerns to set our civilization on a high economic level by maintaining control over multifarious and complex activities. This may not be true because the accounting is at the elbow of management in the role of servitor. It is because it has assumed the role of alter ego through the processes and techniques of management accounting properly applied, management is not

merely informed. Thus management accounting has to be regarded as an integrated part of the personality of management (Gupta, 1997).

1.2 Statement of the Problem

Success is not a matter of chance. Profit does not just happen. It is to be planned and managed. Management accounting provides techniques to aid management functions. Nepalese companies are not performing well as is evident from their annual reports. Poor performance is the outcome if poor planning, controlling and decision making. This has raised the question whether Nepalese managers are competent enough? Do they practice management accounting tools and techniques to carryout planning, decision making and controlling functions?

In such a contest the research questions posed in this research were:

-) Whether or not Nepalese commercial banks are practicing management accounting tools?
-) Which tools of management accounting are mostly practiced and which aren't practiced till now?
-) What are the major difficulties in the application of management accounting tools?
-) In which areas of the business operations can management accounting tools be applied to improve the competitiveness of the Nepalese companies?

1.3 Objectives of the Study

The main objective of this research is to examine and study the present scenario of management accounting tools in commercial banks in Nepal. The specific objectives were:

1. To study the present practice of management accounting tools in the commercial banks in Nepal.

2. To explore the areas where management accounting tools can be applied to strengthen the commercial banks.
3. To analyze the difficulties in applying management accounting tools in commercial banks.
4. To make recommendations to overcome the difficulties in applying management accounting tools in commercial banks.

1.4 Significance of the Study

The present research work is the study of the practice of management accounting tools in commercial banks in Nepal. This study will be significant in the following ways:

-) It examines the application of management accounting tools in commercial banks in Nepal.
-) It provides information on the application of the tools under different circumstances. Thus it will encourage the use of management accounting tools in decision making to those banks that have yet used any tools.
-) Last but not the least, it provides literature to the researcher who wants to carry on further research in this field.

1.5 Limitations of the Study

The present research has the following limitations:

-) This study is concerned only with management accounting. It does not consider the economic aspects of the companies.
-) This study is focused on the commercial banks. Thus the findings may not be represented total banking sector in Nepal.
-) Out of total 26 commercial banks only 20 banks are taken as sample which has head office in Kathmandu.

-) This study pays attention to the practices of management accounting tools only. It does not consider the implementation aspects of the tools.
-) This research is mainly based on primary data.
-) The data were collected through questionnaire. The information's are based as perceived by the account head of respective banks. In this context the actual practices and the perceived practices might be different.

1.6 Organization of the Study

This has been divided into five chapters. They are:

Chapter – I Introduction

Chapter – II Review of Literature

Chapter – III Research Methodology

Chapter – IV Data Presentation and Analysis

Chapter – V Summary, Conclusions and Recommendations

The introduction chapter covers role of management accounting, statement of the problem, research objectives, significance of the study and limitations of the study.

The second chapter focuses on review of literature. It contains the conceptual frame works and past related literature on management accounting practices.

The third chapter deals with the research methodology to be adopted for the study consisting research design, sources of the data, data gathering procedure, population and sample, research variables and data processing procedure.

The fourth chapter deals with presentation, analysis and interpretation of data. It consists of analysis of questionnaires, analysis of open end opinions and major findings of research.

The last chapter covers summary, conclusions and recommendations.

CHAPTER – II

LITERATURE REVIEW

Several research works has been done in various aspects of commercial banks, especially financial performance, investment policy, resource mobilization, lending policy, compliance of NRB directives by banks etc. There are some books, journals, articles, other studies done related with management accounting practices of banks. Some of the relevant studies, literatures on management accounting practices are reviewed below.

2.1 Evolution of Management Accounting

The last three decades have witnessed an almost surprising change in the development of accounting from a simple device of recording and compiling of income and expenditure relating to past business of economic activity, starting with systematic recording of transaction and costs. Subsequently supplemented by combination of financial and cost records the basic structure of traditional accounting has been enlaced by financial and cost control, improved by budgetary control, embellished by production planning and control and engrafted by a system of reporting on performance.

Managerial accounting has its roots in the industrial revolution of the 19th century. During this early period, most firms were tightly controlled by a few owner-managers who borrowed based on personal relationships and their personal assets. Since there were no external shareholders and little unsecured debt, there was little need for elaborate financial reports. In contrast, managerial accounting was relatively sophisticated and provided the essential information needed to manage the early large scale production of textile, steel, and other products. After the turn of the century, financial accounting requirements burgeoned because of new

pressures placed on companies by capital markets, creditors, regulatory bodies, and federal taxation of income. Johnson and Kaplan (1987) state that "many firms needed to raise funds from increasingly widespread and detached suppliers of capital". To tap these vast reservoirs of outside capital, firms' managers had to supply audited financial reports. And because outside suppliers of capital relied on audited financial statements, independent accountants had a keen interest in establishing well defined procedures for corporate financial reporting. The inventory costing procedure adopted by public accountants after the turn of the century had a profound effect on management accounting. As a consequence, for many decades, management accountants increasingly focused their efforts on ensuring that financial accounting requirements were met and financial reports were released on time. The practice of management accounting stagnated. In the early part of the century, as product line expanded operations became more complex, forward looking companies saw a renewed need for management-oriented reports that was separate from financial reports. But in most companies, management accounting practices up through the mid-1980s were largely indistinguishable from practices that were common prior to World War I. In recent years, however, new economic forces have led to many important innovations in management accounting.

In short, it has led to the emergence of what in technical language is known as management accounting. The term management accounting is of recent origin even in USA where though a lot was about controllership function, financial control, operational control, management services, system work, methods and procedures production planning and other methods connected with management till recently very few people looked upon "management accounting" as a subject distinct from accounting. This subject was discussed under the title "Budgetary Control" and corresponding modernization of accounts at the international accounting congress held at Amsterdam. So far as evidence goes, the term

management accounting was first coined and used by the British team of accountants that visited the United States in 1950 under the auspices of Anglo-American productivity council. Since then the term has become quite familiar in USA as well as in other countries (Goyal & Mohan, 1997).

2.2 History of Management Accounting in Nepal

The first king of Nepal in Lichhavi period circulated the first coin called “Manaka” during the period 464-491 A.D. Then King Mahendra Malla had circulated the coin named “Mahendra Mally” in Malla period. From that time, it can be said that transaction begins in proper way. It is also said that small number of transactions used to be performed in lichhavi and Malla periods. Some written records of accounting have been traced to the 18th century. After the unification of Nepal by the king Prithvi Narayan Shah the great in 1825 B.S., the chief of the district level soldiers used to keep the accounts of the government offices. In 1814 a book called “Laldhadda” was created for recording matters about land management and another book called “Mothdhadda” was also used for keeping accounts. These two records were important steps in the history of accounting in Nepal. “Kitab khana” was established for recording the salaries paid to government personnel. In the process of development of accounting in 1879 (1936) B S, Kharidar Gunawanta a senior official that time propounded "Syaha Shresta Pranali" which was an advanced form of an accounting and used up to 1965-66 fiscal year. A "Faram Shresta Pranali" was introduced in 1911 (1968 B S) especially to use in Terai Region. After the overthrow of Rana Regime, the first budget was started in Nepal in 1951 A.D. The auditor general's office was established in 1959. In 2017 B.S. “Bhuktani shreshta Pranali” was adopted which was little bit based on the double entry book keeping system. After detailed study of 288 days committee made a report to introduce a new accounting system.

2.3 Functions of Management Accounting

Management accounting is an activity that is interwoven in the management processes of all organizations. Management Accounting refers to that part of the management process which is focused on adding value to organizations by attaining the effective use of resources by people, in dynamic and competitive contexts. The functions of management accounting may be said to include all activities connected with collecting, processing, interpreting and presenting information to management. The management accounting satisfies the various needs of management for arriving of appropriate business decisions.

Management Accounting provides information aimed at assisting management in formulation of policies, directing, organizing, planning and controlling of activities. In addition to these, they participate in management to ensure there are effective formulations of plan to reach objectives, Formulation of short term operating plans, recording of actual transactions, corrective actions / financial control, obtaining and controlling finance /treasury and reviewing and reporting on system of operations. It has also evolved to reduce cost through evaluation of managers on the basis of cost control and reduction.

The management of the management accounting function will likely involve establishing objectives and strategies for the function, structuring the work of the function, building the capability of the function, resourcing the function appropriately, responding creatively to, or proactively addressing new challenges bearing on the work of the function and assessing the ongoing efficiency and effectiveness of the function (IFAC,1998).

2.4 Objectives of Management Accounting

The principal objectives of management accounting are to assist the management for achieving the goals of an organization, i.e. maximization of profit.

Management accounting supplies accounting information to the management for planning, formulating policies, controlling business operations, and making decisions. The major objectives/ purposes of management accounting can be planning and policy formulation, help in controlling performances, help in organizing, helpful in interpreting financial information, motivating employees, reporting to management and helps in decision making.

2.5 Advantages of Management Accounting

Management Accounting analyzes and interprets systematically the information collected from within and outside the business and communicates the result to the management. This will help in implementing managerial policy decision effectively. With the help of management accounting, the business activities are regulated systematically by means of efficient planning and organization thereby avoiding over working in busy periods and slackness in slump periods. It helps in comparing actual performance with the budgeted standard and reporting management any deviation for corrections. Management accounting techniques help in the business control its activities efficiently. It helps in utilizing its capital in an optimal way. It facilitates coordination between different departments and helps in attaining objectives of the business as a whole. Management accounting often compares the actual performance with the standard and analyzes the reason for any deviation there has and offers suggestions to take corrective measures. (Bromwich & Bhimani 1989)

2.6 Limitations of Management Accounting

Comparatively, management accounting is a new discipline and is still very much in a state of evolution. Therefore, it comes across the same impediments as a relatively new discipline has to face sharpening of analytical tools and improvements of techniques creating uncertainty about their application. There is always a temptation to make an easy course of arriving at decisions by intuition

rather than taking the difficulty of scientific decision making. Some of the limitations of management accounting are only based on accounting information, lack of knowledge, intensive decision, management accounting is only a tool, evolutionary stage, personal prejudices and bias and psychological resistance. The factors that restrict effectiveness of management accounting are mentioned below. (Dangol & Dangol, 2007)

-) Management accounting is prepared on the basis of financial account ant cost account. So its effectiveness is limited to the reliability of those sources.
-) A management accountant should have the knowledge of accounting statistics, economics, principle of management, engineering etc. and only then, the application of management accounting will be useful. The imperfect knowledge of stated discipline may lead to unpredictable decisions.
-) Management accounting provides only information for helping the management in collecting, analyzing and presenting the data. So management accounting should not be considered as alternative or a substitute for management.
-) The personal feeling and thinking of an interpreter may affect the decision making, which may lead to same wrong decision.
-) Management accounting may not be beneficial for small organization, because it is a very costly affair to install this system.
-) Management accounting is still in evolutionary stage and it has not been able to reach the final stage.
-) The establishment of management accounting demands re-arrangement of personal and their activities and hence there is a possibility of opposition from some quarters or the others within the organization.
-) Conclusions and decisions derived by management accounting are insignificant unless they are properly executed at all levels of business operations.

2.7 Management Accounting Process

Nowadays, managerial accountants' serves as internal business consultants working side by side in cross functional teams with managers from all area of the organization. In many organizations, managerial accountants take on leadership roles in their teams and are required for valuable information they provide. They are treated as advisors. They are more than that just accountant; they are in fact very important business partners. In managing the recourses, activities and people of the organization, the management process involves the following activities (Bajracharya, Ojha, Goet & Sharma, 2005).

1. Planning

Planning is the process of thinking in advance about future activities. It is a forward thinking process that reflects to manage the uncertainties and risk. It is the fact of controlling an organization form deviations from its goal. Planning should be such that it reflects the true picture and reality of the organization. Planning is developing a detailed financial and operational description of anticipated operations.

2. Decision Making

Decision making is the process of selecting the best perceived alternatives from the available different options. It is to be done in all levels of management. Decision making is all about choosing from among the variable alternatives. The management team often comes across situations where decisions need to be taken considering the best interests of the organization.

3. Controlling

Controlling is the process which assures the management that the organization is not deviating from its basic philosophy. It is applied basically in the operational level because the actualization of the plans and strategies done in this level.

2.8 Stewardship, Treasureship and Controllership Functions of Management Accounting

1. Stewardship Function

Stewardship function is traditional approach of accounting that places an obligation on stewards or agents, such as directors, to provide relevant and reliable financial information relating to resources over which they have control but which are owned by others, such as shareholders. Not only are stewards responsible for providing information, but they must also submit to an audit. Stewardship functions follow proper accounting procedures which satisfy legal and commercial needs the more sophisticated techniques. (Bajracharya, Ojha, Goet & Sharma, 2005)

2. Treasure Ship Function

Treasure ship is a financial manager in a staff position that is responsible for managing organizations relationships with investors and creditors and maintaining protection of the organizations cash, investment and other assets. Management of capital and investment in a distinct are of treasureship functions. It consists of major activities like financial planning, dealing with capital and money markets, investment decision, cash management, credit management and so on (Bajracharya, Ojha, Goet & Sharma, 2005).

3. Controllership Function

Controller is to accountant in an organization. Controllership activities are primary related to the accounting process. It consists of major activities including financial record keeping and reporting, internal auditing, tax planning, cost accounting, managerial accounting, profit planning, accounting information system and so on. Maintaining financial discipline and profit maximization are the primary objectives of controllership functions. It mainly focuses on the management of revenues and expenditures (Bajracharya, Ojha, Goet & Sharma, 2005).

2.9 Management Accounting Tools

There are various MA tools and techniques use to planning, controlling and decision making process for management goals. That tools and techniques are listed under.

- i. Cost classification and cost estimation
- ii. Cost allocation
- iii. Profit measurement and recognition
- iv. Expenditure analysis
- v. Budgeting for profit planning and control
- vi. Pricing decision
- vii. Long term investment decision
- viii. Statement of cash flow
- ix. Analysis of financial statement

2.10 A Review of Management Accounting Tools

2.10.1 Cost Behavior and Classification

An understanding of cost behavior is fundamental to managerial and cost accounting, and Management Accounting information and the way it is used can support or hinder action and change of action in organizations (Bescos and Mendoza, 2000).

The relationship between costs and activity is known as cost behavior, while the cost structure of a company refers to the compilation or the nature of its production costs –whether fixed, variable or mixed (semi variable). Variable costs can be divided into true variable cost and step variable cost, whereas fixed costs can be divided into committed and discretionary fixed cost (Horngren, Datar, and Foster, 2003). Companies with a high fixed cost component and low variable cost component are more sensitive to changes in activity than companies with a low

fixed cost component and a high variable cost component (Correia, Flynn, Uliana, and Wormald, 2003).

Cost classification is the process of grouping cost on the basis of their common features. Costs are to be classified suitably to identify with cost centers or cost units. Classification of cost is either by on the basis of relationship or cost objectives. Some of the types of cost are as follows: variable, fixed, mixed, prime, relevant, direct, indirect, avoidable, unavoidable, opportunity, controllable or uncontrollable etc.

-) Variable costs vary in total with volume, but are constant per unit within the relevant range. Total variable costs for a given situation are equal to the number of units multiplied by the variable cost per unit. Variable costs include things like labor and materials.
-) A mixed cost contains both fixed and variable elements. There are a variety of procedures that can be employed to separate the fixed and variable components. The easiest is to use two points on the total cost line to derive the slope and intercept.
-) Fixed costs are business expenses that are not dependent on the activities of the business. Fixed costs are constant in total over the relevant range. Fixed cost per unit basis decreases as the level of activity increases and vice-versa. Fixed costs include things like rent, insurance premiums, salaries, depreciation and property taxes.
-) Step fixed cost remain fixed over a wide range of activity but jump to a different amount for activity levels outside that range.

2.10.2 Cost Estimation

Management must have some way of estimating the fixed and variety of cost behavior pattern. Cost exhibits a variety of cost behavior pattern. Cost estimation is the process of determining how a particular cost behaves. It is a process of

determining the cost for certain levels of outputs. Several methods or models are commonly used to estimate the relationship between cost and activity and thereby have total mixed cost for given level of activity (Munakarmi, 2002).

2.10.3 Cost Allocation

Cost allocation is tracing and reassigning costs to one or more cost objectives such as activities, departments, customers or product. The major problem in cost allocation is whether and how indirect cost / overhead are allocated to products or services. The term cost allocation cost assignment, cost apportionment and cost distribution all describe the process of taking a given common cost and dividing it between various cost objects. Cost allocation requires the following steps

-) Defining the cost objects
-) Accumulating the common costs to be assigned to the cost objects
-) Choosing a method for distributing the accumulated common costs to the cost objects.

The allocation process should be rational and systematic so that allocations are useful in product or services costing and to managers for planning, controlling and decision making.

There are three popular methods of allocating the cost of service department. They are as follows: (Goyal & Mohan, 1997).

1. Direct Allocation Method

The direct allocation method (Direct Method) is the most widely used method of allocating support department costs. The benefit of the direct method is its simplicity. There is no need to predict the usage of support department services by other departments.

2. Step-down Allocation Method

Some organizations use the step-down allocation method, which allows for partial recognition of the services rendered by support departments to other support departments. This method requires the support departments to be ranked in the order then the step-down allocation is preceded. Different sequences result in different allocation of support department that renders the highest percentage of its total services to other support departments.

3. Reciprocal Allocation Method

The reciprocal allocation method allocates costs by explicitly including the mutual services provided among all support departments.

2.10.4 Methods of Mixed Cost Segregations

Mixed cost should be separated into variable and fixed components before entering into financial planning, decision making and controlling. Mixed cost separation method are such as Graphic method, high low method, Analytical method, average method and least square method which are describe as follows:

2.10.4.1 Graphical Methods

The graphical method of dividing mixed cost into their fixed and various components makes use of all relevant use of all relevant past data pertaining to cost volume relationship. The data are plotted in a scatter graph. Each point in a chart represents cost for a particular months/ days in relation to number of units produced or level of activity (Khan & Jain, 2000).

2.10.4.2 High Low Method

High-Low Method (HLM) is an algebraic procedure that estimates the Constant (fixed cost element) and Slope (variable rate per unit of X) of an Equation by using only the highest and lowest pairs of the sample data. As Mixed Cost

necessarily includes elements of both fixed and variable cost, the HLM analysis takes the mathematical form of the linear equation $Y = a + bX$, (Similar to Least Square Method, also called as Cost Formula).

The difference in cost between highest and lowest level of activities are divided by the difference in activity or output. The result of division is variable cost per unit. This method assumes that fixed cost trends remain constant and if there is any changes are only in variable cost (Dangol, 2001).

2.10.4.3 Analytical Method

This method also known as "Degree of variability" techniques because the genesis of this method lies in measuring the extent of variability of costs on a careful analysis of each item to determine how far the cost varies with volume, variable overheads under this method computed as follows:

Variable Overhead = Budgeted Mixed Overhead \times Degree of Variability

2.10.4.4 Least Square Method

Least Square is a procedure, requiring just some calculus and linear algebra, to determine what the "best fit" line is to the data. It follows regression equation to segregate mixed cost into variable. It is an accurate and trusted method of segregation fixed and variable cost from mixed cost. In this method, first of all, variable cost per unit is calculated. Then fixed cost is calculated (Dangol, 2001).

2.10.5 Product/Service Costing Method

Two popular methods for product costing are variable costing (direct/marginal costing) and absorption costing, they are not the system of costing like process, operation, batch or job costing rather they are the tools or techniques of product costing (Khan & Jain, 2000) .

) Variable or Direct Costing

Variable costing is a costing system under which those costs of production that vary with output are treated as product costs. This would usually include direct materials, direct labor and variable portion of manufacturing overhead. Fixed manufacturing cost is not treated as a product costs under variable costing. Rather, fixed manufacturing cost is treated as a period cost and, like selling and administrative expenses, it is charged off in its entirety against revenue each period. Consequently the cost of a unit of product in inventory or cost of goods sold under this method does not contain any fixed overhead cost. Variable costing is some time referred to as direct costing or marginal costing (Horngren, 2001).

) Absorption Costing

Absorption costing is a costing system which treats all costs of production as product costs, regardless weather they are variable or fixed. The cost of a unit of product under absorption costing method consists of direct materials, direct labor and both variable and fixed overhead. Absorption costing allocates a portion of fixed manufacturing overhead cost to each unit of product, along with the variable manufacturing cost. Because absorption costing includes all costs of production as product costs, it is frequently referred to as full costing method (Horngren, 2001).

2.10.6 Cost-Volume-Profit Analysis (CVP Analysis)

Cost-volume-profit analysis (CVP), or break-even analysis, is used to compute the volume level at which total revenues are equal to total costs. When total costs and total revenues are equal, the business organization is said to be "breaking even." The analysis is based on a set of linear equations for a straight line and the separation of variable and fixed costs. The financial information required for CVP analysis is for internal use and is usually available only to managers inside the firm; information about variable and fixed costs is not available to the general public. CVP analysis is good as a general guide for one product within the relevant

range. If the company has more than one product, then the contribution margins from all products must be averaged together.

2.10.7 Standard Costing

The standard cost is a predetermined cost which determines in advance what each product or service should cost under given circumstances. In the words of Fregmen (1976) “Standard cost is the amount the firm thinks a product or the operation of the process for a period of time should cost, based upon certain assumed conditions of efficiency, economic conditions and other factors.”

The CIMA, London has defined standard cost as “a predetermined cost which is calculated from management’s standards of efficient operations and the relevant necessary expenditure.” They are the predetermined costs on technical estimate of material labor and overhead for a selected period of time and for a prescribed set of working conditions. In other words, a standard cost is a planned cost for a unit of product or service rendered.

Standard costing is a system of cost ascertainment and control in which predetermined standard costs and income for products and operations are set and periodically compared with actual costs incurred and income generated in order to establish any variances. Standard costing is a management control technique for every activity. It is not only useful for cost control purposes but is also helpful in production planning and policy formulation. It allows management by exception. Standard costing is preparation of standard costs and applying them to measure the variations from standard costs and analyzing the causes of variations with a view to maintain maximum efficiency in production. This technique is complementary to the actual costing can be historical costing system. The system of standard costing can be used in all types of industries but it is more commonly used in

industries producing standardized products, which are repetitive nature (Jain & Narang, 2000).

Standard costing systems are very expensive to develop and maintain; they were also designed for traditional manufacturing systems in which direct labor and direct materials are the most important costs. Recent years have seen a decline in the use of such systems as companies become less labor intensive.

2.10.8 Budgeting for Planning and Controlling

A budget is a detailed plan expressed in quantitative terms that specifies how resources will be acquired and used during a specific period of time. The producers used to develop budget constitute a budgeting system (Hilton, 2003).

Planning is a primary function of the management process. Planning is the process of setting goals and objectives and translating them into activities and recourses required for the accomplishment within a specified time horizon. A budget is a quantitative expansion of a plan of action and an aid to co-ordination and control. Budgets may be formulated for the organization as whole or for a subunit. Budgets, basically, are furcated financial statements formal expression of managerial plans. They are targets that encompass all phases of operations including sales, production, purchasing and manpower and financing. The annual budgets may be broken down into months, weeks, and days of operation (Bajracharya, Ojha, Goet & Sharma, 2005).

Budget is a comprehensive and coordinated plan for operations and resources of enterprises expressed in the financial terms for achieving organizational objectives. It is a mechanism to plan future activities to realize the expectation of the firm. It is one of the comprehensive approaches that have been developed to facilitate effective performance of the overall management process. It is a

systematic and formalized approach for performing significant phases of management planning and control function (Fago, Subedi, and Gyawali, 2004).

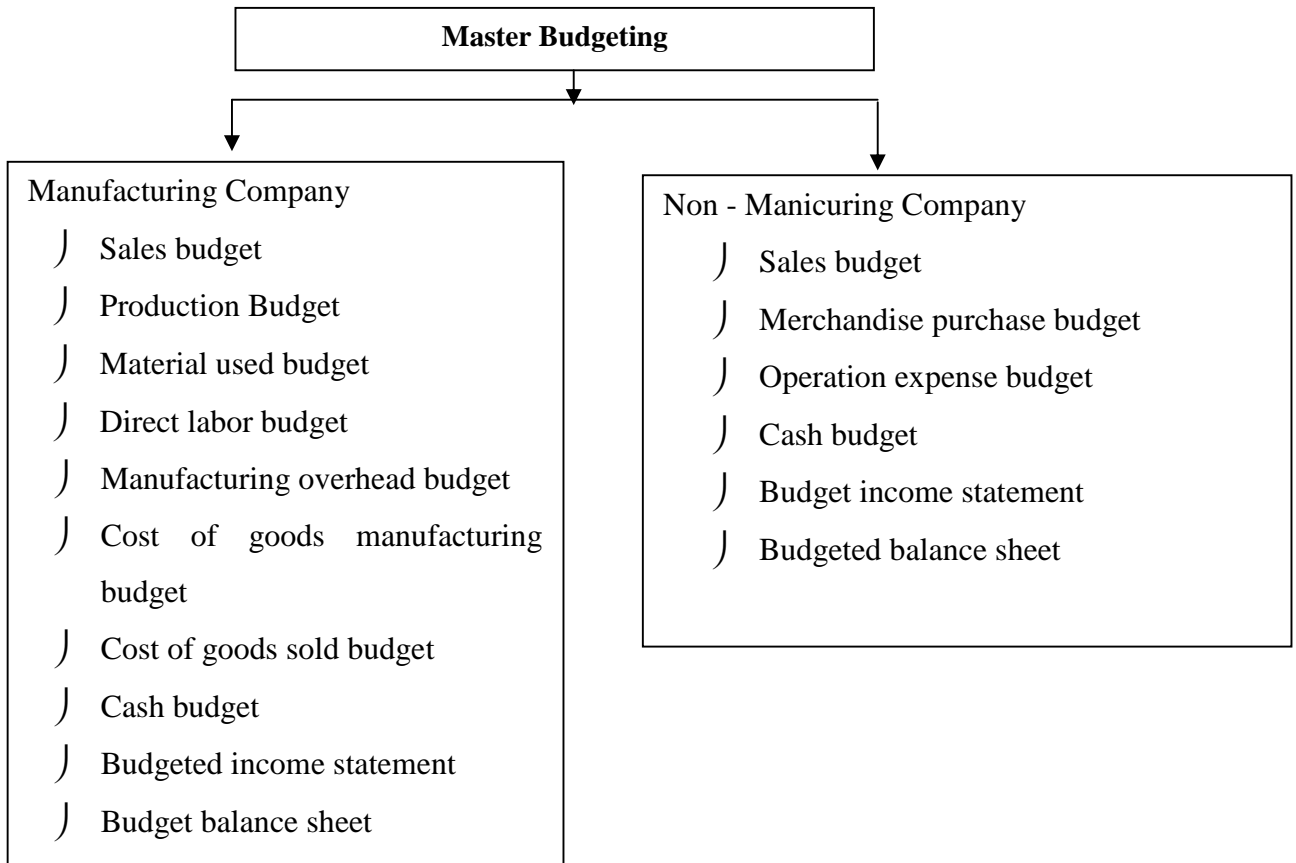
Budgets have two primary functions: planning and control. Companies must decide which function is most important and then resolve a number of formulation issues. Most companies use budgets to evaluate, to some extent, division managers' performances and tie bonuses to the attainment of targeted goals. But while large companies concerned about operational efficiency may want to focus on the coordination and control aspects of budgeting, small and innovative companies may be more concerned with planning aspects. How well a budget succeeds depends on the management systems in place and on the way senior executives view the budgeting process.

2.10.8.1 Master Budget

The master budget is a summary of company's plans that sets specific targets for sales, production, distribution and financing activities. It generally culminates in a cash budget, a budgeted income statement, and a budgeted balance sheet. In short, this budget represents a comprehensive expression of management's plans for future and how these plans are to be accomplished.

It usually consists of a number of separate but interdependent budgets. One budget may be necessary before the other can be initiated. More one budget estimate affects other budget estimates because the figure of one budget is usually used in the preparation of other budget.

The usual master budget for a manufacturing and non- manufacturing company has the following components.



However a master budget can be divided into two groups. That is operational budget and financial budget.

2.10.8.1.1 Operational Budget

An operating budget reflects management’s operating plans and consists of detailed listings of projected selling and general and administrative expenses for a company (Needles & Powers, 1998). Operational budget are concerned with the process of preparing the budget of each physical activities / operation of a firm such a production, sales, purchasing, debtor collection and creditors payment schedule etc. In specific term and operating budget has the following term.

2.10.8.1.2 Sales Budget

A sales budget is a detailed schedule showing the expected sales for the budget period; typically, it is expressed in both Rs. and units. An accurate sales budget is the key to the entire budgeting in some way. If the sales budget is sloppily done then the rest of the budgeting process is largely a waste of time.

The sales budget will help determine how many units will have to be produced. Thus, the production budget is prepared after the sales budget. The production budget in turn is used to determine the budgets for manufacturing costs including the direct materials budget, the direct labor budget, and the manufacturing overhead budget. These budgets are then combined with data from the sales budget and the selling and administrative expenses budget to determine the cash budget. In essence, the sales budget triggers a chain reaction that leads to the development of the other budgets. The selling and administrative expenses budget is both dependent on and a determinant of the sales budget. This reciprocal relationship arises because sales will in part be determined by the funds committed for advertising and sales promotion. (Bromwich & Bhimani, 1989)

The sales budget is the starting point in preparing the master budget. All other items in the master budget including production, purchase, inventories, and expenses, depend on it in some way. The sales budget is constructed by multiplying the budgeted sales in units by the selling price.

2.10.8.1.3 Production Budget

The production budget is prepared after the sales budget. The production budget lists the number of units that must be produced during each budget period to meet sales needs and to provide for the desired ending inventory. Production needs can be determined as follows.

Production Units = Planned Sales + Closing Stock – Opening Stock

Production requirements for a period are influenced by the desired level of ending inventory. Inventories should be carefully planned. Excessive inventories tie up funds and create storage problems. Insufficient inventories can lead to lost sales or crash production efforts in the following period.

2.10.8.1.4 Purchase Budget

Manufacturing firms prepare production budget but merchandising firms prepare merchandising purchase budget instead. Merchandising purchase budget shows the amount of goods to be purchased from its suppliers during the period. The merchandising purchase budget has the same basic format as the production budget, as shown below:

Purchase Budget = Budgeted Cost of Goods Sold + Closing Stock – Opening Stock

2.10.8.1.5 Direct Material Budget

After production budget direct material budget should be prepared to show the materials that will be required in the production process. Sufficient raw materials will have to be available to meet production needs and to provide for the budget period part of this raw materials requirement will already exist in the form of a beginning raw material inventory. The remainder will have to be purchased from supplier.

2.10.8.1.6 Direct Labor Budget

The direct labor budget is developed from the production budget. Direct labor requirements must be computed so that the company will know whether sufficient labor time is available to meet the budgeted production needs. By knowing in advance how much labor will be needed throughout the budget year, the company can develop plans to adjust the labor force as situation requires. Companies that neglect to budget run the risk of facing labor shortages or having to hire and lay

off workers at awkward times. Erratic labor policies lead to insecurity, low morale, and inefficiency.

2.10.8.1.7 The Manufacturing Overhead Budget

The manufacturing overhead budget provides a schedule for all costs of production other than direct materials and direct labor. The manufacturing overhead budget provides a schedule of all costs of production other than direct material and direct labor. These costs should be broken by cost behavior as variable and fixed for budgeting purpose and a predetermined overhead rate should be developed. This rate will be used to apply manufacturing overheads to the product throughout the period.

2.10.8.1.8 Selling and Administrative Expenses Budget

Selling and administrative expense budget lists the budgeted expenses for areas other than manufacturing. In large organizations this budget would be a compilation of many smaller, individual budgets submitted by department heads and other persons responsible for selling and administrative expenses. For example, the marketing manager in a large organization would submit a budget detailing the advertising expenses for each budget period.

2.10.8.2 Financial Budget

Financial budgets are concerned with expected cash receipts/disbursement. Financial position and results of operations the components of financial budgets are:

2.10.8.2.1 Cash Budget

The cash budget is an accounting device that is used to effectively monitor and manage the immediate cash flow of a home or business budget. Many people choose to employ a cash budget approach as a quick and easy way to monitor the

financial condition of the household or a small business on a daily, weekly, or monthly basis. Generally, cash budgets are used to manage short-term cash flow by creating an organized means of keeping up with cash receipts and balancing them against cash disbursements during the accounting period.

2.10.8.2.2 The Budgeted Income Statement

The budgeted income statement is one of the key schedules in the budget process. Preparing the budgeted income statement involves combining the relevant amounts from the sales, cost of goods sold and selling & administrative expense budgets and then subtracting interest, bad debts and income taxes to obtain budgeted net income. These amounts are provided by the finance department. In a comprehensive practice problem, the applicable amount for interest expense may need to be calculated from information associated with the cash budget.

2.10.8.2.3 Budgeted Balance Sheet

The budgeted or pro forma balance sheet projects the financial position of the company as of the end of the year. It is prepared by adjusting the beginning balances of long-term asset, liability, and stockholders' equity accounts for expected activity during the budgeted period, and identifying balances in current asset and liability accounts at the end of the period. The balance sheet is the financial positional final document in the master budget and even in financial account titles. So, it can be said that a loss of the remainder balances of all assets, liabilities and equities, has been portrayed in the balance sheet.

2.10.9 Zero Base Budgeting

Zero Based Budgeting is a method of budgeting in which all expenses must be justified for each new period. A zero-based budgeting start from a “zero base” and every function within an organization is analyzed for its needs and costs. Budgets are then built around what is needed for the upcoming period, regardless of

whether the budget is higher or lower than the previous one. ZBB allows top-level strategic goals to be implemented into the budgeting process by tying them to specific functional areas of the organization, where costs can be first grouped, then measured against previous results and current expectations

2.10.10 Activity Based Budgeting

Activity based Budgeting is a method of budgeting in which the activities that incur costs in every functional area of an organization are recorded and their relationships are defined and analyzed. Activities are then tied to strategic goals, after which the costs of the activities needed are used to create the budget. Activity based budgeting stands in contrast to traditional, cost-based budgeting practices in which a prior period's budget is simply adjusted to account for inflation or revenue growth. As such, ABB provides opportunities to align activities with objectives streamline costs and improve business practices.

2.10.11 Flexible Budget

A flexible budget is an alternative that has some compelling advantages. It relates anticipated expenses to observed revenue. To illustrate, if a business greatly exceeded the sales goal, it is reasonable to expect costs to also exceed planned levels. After all, some items like cost of sales, sales commissions, and shipping costs are directly related to volume. How ridiculous would it be to fault the manager of the business for having cost overruns? Conversely, failing to meet sales goals should be accompanied by a reduction in variable costs. Certainly it would make no sense to congratulate a manager for holding costs down in this case. A flexible budget is one that reflects expected costs as a function of business volume; when sales rise so do certain budgeted costs, and vice versa.

The flexible budget responds to changes in activity, and may provide a better tool for performance evaluation. It is driven by the expected cost behavior. Fixed

factory overhead is the same no matter the activity level, and variable costs are a direct function of observed activity. When performance evaluation is based on a static budget, there is little incentive to drive sales and production above anticipated levels because increases in volume tend to produce more costs and unfavorable variances. The flexible budget-based performance evaluation provides a remedy for this phenomenon.

2.10.12 Capital Budgeting

Capital budgeting is a required managerial tool. One duty of a financial manager is to choose investments with satisfactory cash flows and rates of return. Therefore, a financial manager must be able to decide whether an investment is worth undertaking and be able to choose intelligently between two or more alternatives. To do this, a sound procedure to evaluate, compare, and select projects is needed. This procedure is called capital budgeting. Capital budgeting is investment decision-making as to whether a project is worth undertaking. Capital budgeting is basically concerned with the justification of capital expenditures.

Capital budgeting is the process of planning and controlling the strategic (long term) and tactical (short term) expenditure for expansion and contraction of investments in operation (fixed) assets. It is the use of funds to obtain operational assets that will (a) help to earn future revenues or (b) reduce future cost (Welsch, Hilton and Gordon, 1992).

The methods of appraising capital expenditure proposal can be classified into two broad categories:

1. Traditional methods
 -) Payable period method (PBP)
 -) Average rate of return (ARR)

2. Time adjusted methods

-) Net present value (NPV)
-) Internal rate of return (IRR)
-) Profitability index (PI)

2.10.13 Financial Statement Analysis

Financial statement analysis is defined as the process of identifying financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account. There are various methods or techniques that are used in analyzing financial statements, such as comparative statements, schedule of changes in working capital, common size percentages, funds analysis, trend analysis, and ratios analysis.

Financial statements are prepared to meet external reporting obligations and also for decision making purposes. They play a dominant role in setting the framework of managerial decisions. But the information provided in the financial statements is not an end in itself as no meaningful conclusions can be drawn from these statements alone. However, the information provided in the financial statements is of immense use in making decisions through analysis and interpretation of financial statements.

2.10.14 Ratio Analysis

Ratio Analysis is a tool used by individuals to conduct a quantitative analysis of information in a company's financial statements. Ratios are calculated from current year numbers and are then compared to previous years, other companies, the industry, or even the economy to judge the performance of the company. Ratio analysis is predominately used by proponents of fundamental analysis. There are many ratios that can be calculated from the financial statements pertaining to a company's performance, activity, financing and liquidity. Some common ratios

include the price-earnings ratio, debt-equity ratio, earnings per share, asset turnover and working capital.

The financial ratios can be categorized into the following ways:

-) Liquidity Ratios
-) Leverage Ratios
-) Activity Ratios
-) Profitability Ratios

2.10.15 Breakeven Analysis

Breakeven is that point where the company just recovers all of its costs or there is no profit or no loss. In other words, where the total cost equals the total revenue is called the breakeven revenue. It will just be able to recover its cost. To put breakeven point in other words, that is point at which a company breaks the loss (minus) zone and enters into profit zone. Break even analysis is the managerial tools that shows the relationship between cost and profit with sales volume i.e. revenue in banks. Breakeven analysis helps the management to know which revenue level will only recovers its cost and after which it starts giving profit. Therefore, it can provide management some insight into decision making (Goet, Gautam & Bhattarai, 2006)

2.10.16 Cash Flow Analysis

All business activities are carried with cash and all profitable activities must result in net inflows of cash. It is therefore useful to establish activities must result in a net inflow of cash. The quantum of the flows of cash into business is as a result of operations and other transactions. It should be remembered that cash inflow and profit are often different. It is possible that in a business suffering a loss, there may be still an increase in cash because of trading operation (Goyal & Mohan, 1997).

Cash flow is determined by looking at three components by which cash enters and leaves a company: core operations, investing and financing. Cash flow analysis is done through preparing cash budget. Cash as important current asset should be managed carefully. Though it is zero earning assets, it is held by the firm with different purposes such as: transaction motive precautionary motive, speculative motive.

2.10.17 Decision-Making

Decision making is an important tool of management accounting. It is the process of choosing the best alternative among available alternatives. Manager's have to take decisions like where to invest, what to do about an employee, who is not performing well, where should the firm's new warehouse be built, what subject should receive top priority at the departmental meeting, which product should be accepted or not, make or buy the component, what to produce, what to sell, what types of advertisement is launched, where, when and how about production and distribution etc. It is one of the ways through which managers influence the efficient and effective accomplishment for goals. Various sorts of decision situation, which managers have to make, are:

-) Special Order Decision
-) Sell Now or Further Process Decision
-) Make or Buy Decision
-) Equipment Replacement
-) Lease or Purchase

2.10.18 Management Control Systems and Responsibility Accounting

Management Control Systems (MCS) theory is a useful integrative tool for organizing, explaining, and understanding the jargon and concepts of performance measurement. Management consists of the basic functions of planning decision-making and control. Control is the function of the management that ensures the

proper implementation of plans and policies to achieve the organizational objectives. Management control systems focuses on motivating managers for the sake of enhancing total profitability of the organization. A management control system is logical integration of techniques to gather and use information to make planning and control decisions, to motivate employee behavior and to evaluate performance.

Responsibility accounting is an underlying concept of accounting performance measurement systems. The basic idea is that large diversified organizations are difficult, if not impossible to manage as a single segment, thus they must be decentralized or separated into manageable parts. These parts or segments are referred to as responsibility centers that include: 1) revenue centers, 2) cost centers, 3) profit centers and 4) investment centers. This approach allows responsibility to be assigned to the segment managers that have the greatest amount of influence over the key elements to be managed. These elements include revenue for a revenue center (a segment that mainly generates revenue with relatively little costs), costs for a cost center (a segment that generates costs, but no revenue), a measure of profitability for a profit center (a segment that generates both revenue and costs) and return on investment (ROI) for an investment center (a segment such as a division of a company where the manager controls the acquisition and utilization of assets, as well as revenue and costs). (Munakarmi, 2002)

2.11 A Brief Review of the Previous Research Work

Researches on the area of management accounting practices in Nepalese context are not made in remarkable number. Many researches were in the area of profit planning and control in Nepalese context. As profit planning and control covers some of the aspects of management accounting, researches made on these areas are taken into consideration for the sake of review to examine the position of profit

planning and control practice in Nepalese company. An attempt is made here to review some of the researches, which have been submitted in profit planning and control in the context of Nepal.

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

The prime objectives of the study were:

-) To find out how far the Nepalese companies practice the management accounting tools and techniques.
-) The management accounting tools not in use and the difficulties on application.
-) To recommend the areas and measures for the application of management accounting tools and techniques.

In his study, he pointed out various findings and recommendations.

Major findings of the research works were:

-) Different types of management accounting tools, which are taught in the colleges, were not found applied by the listed companies.
-) Nepalese listed companies were infant stage in practicing the management accounting tools such as Zero Base Budgeting, Activity based costing, target costing, capital budgeting, ratio analysis etc.
-) While preparing budgets most of the companies based on actual expenses, 26% of companies used past estimates to prepare budgets. There is no

practice of Zero Base Budgeting due lack of information and cognizance about the format and the way of developing it.

) On budget preparation, there is no practice of taking consultancy services.

Some remarkable recommendations of the study were:

) A separate management accounting dept should be established and furnished with the experts.

) Companies can be improved by allowing greater autonomy and more accountability.

) It should hire the professional experts for the budget preparation and other planning activities.

) Enterprises should be motivated for the application of new advance and modern management accounting tools.

Karki (2006) has conducted a research entitled "*Management Accounting Practice in Joint Venture Banks of Nepal*". He has focused his study to examine and study the practice of management accounting tools in joint venture banks of Nepal. Karki's research is based on primary data. In his study he has pointed out various findings and recommendation. Of them some remarkable findings are:

) Capital budgeting, cash flow statement, ratio analysis and annual budget are widely practiced in Nepalese joint venture banks.

) Profitability Index and Net Present Value are mostly practiced while purchasing fixed assets, and making long-term investment decision.

) The main difficulties of not practicing MA in Nepalese joint venture banks are lack of information, lack of cognizance about the tools and lack of expertise.

) To overcome those difficulties, he has recommended that, the managers of different banks and knowledgeable academicians should jointly bring the tools and techniques into light through different media.

Acharya (2006) has conducted a research entitled "*Management Accounting Practice in Nepalese Public Enterprise*". He has focused his study to study and examine the contemporary practice of management accounting in Nepalese Public Enterprises. Acharya's research is based on primary data collected on the basis of stratified sampling technique. In his study 38 Nepalese public enterprise, Industries, and financial Institutions including RBB and NBL, are included. He has pointed out various findings and recommendation in his study. Of them, some remarkable findings are:

-) Traditional approaches of concerned, authorities are becoming a prime barrier for proper application of management accounting tools in Nepalese public enterprises.
-) Role of government on pricing decision is significant.
-) Practicing process of management accounting tools in manufacturing and service enterprises are slightly different and major MA related decision are not depending upon the MA tools and techniques.

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

The main objectives of the study were

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

The Major findings of the research works were

-) Most of the enterprises practiced "capital budgeting", "cash flow", "ratio analysis", "annual budgeted" for the planning and controlling and decision making.
-) While preparing budget, almost all the enterprises practiced "Overall master budget" rather than "cash budget and operational budget"
-) "Actual past expenses" was the base for preparation of budget. The advanced tools like "Zero Base Budgeting" and "Activity Based Costing" were not practiced in the public enterprises. Similarly in most of the enterprises "Committee" prepared the budget, there was no practice of taking consultant service.
-) For the measurement of overall performance in the public enterprises, most of the enterprises practiced "Profit and Loss" criteria. The practice of "Standard costing" and "Ratio Analysis" was almost nil to measure their overall performance.
-) Regarding cost segregation into fixed and variable, it was found that 61% of the enterprises practiced "High Low" method and 50% of the enterprises practiced "Average method" and 17% of the enterprises practiced "Analytical Method".

-) While examining different enterprises, it was found that management accounting tools were in practiced in one way or other but enterprises were practicing almost of the privileged tools.

Some of the remarkable recommendations were as follows:

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

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

The main objective of the study were

-) To study and analysis the practices of management accounting tools being used in joint venture banks.
-) To identify the areas where management accounting tools can be applied.

-) To study the method used in evaluation of investment proposals and the types of securities accepted in providing loan.
-) To make recommendations to overcome from the difficulties in applying management accounting tools.

The major findings of the research work were

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

Some remarkable recommendations of the research work were

-) Techniques like high- low point method, average method and analysis method should be used to segregate costs.
-) Joint venture needs to use responsibility accounting for the cost control and performance evaluation.
-) Use of outside expert should be used by JVBs for the budget preparation.
-) JVBs were not found practicing cash budget. So, they should practice cash budget which gives all details about sources and uses of cash.

Baral (2007) has conducted a research entitled "*Management Accounting Practice in Nepalese Insurance Companies*". He has focused his study to study and examine the contemporary practice of management accounting in Nepalese Insurance Companies. Baral's research is based on primary data. In his study, 17 Nepalese Insurance Companies are included.

He has pointed out various findings and recommendation in his study. Of them, some remarkable findings are:

-) New management accounting techniques like Zero-based budgeting and Activity Based Costing are recommended to use instead of traditional techniques
-) It is recommended that banks should create an atmosphere of interaction between the academicians and the banks. The banks can be benefited from academicians' knowledge about new tools and techniques of management accounting.
-) Management Accounting Information System (MAIS) should be maintained properly for the better application of management accounting tools.

Dallakoti (2008) had conducted a research study on "*A Study on Management Accounting Practices in Civil Aviation Authority of Nepal*". He had focused his study to examine the practices of MA tools in CAAN. Some of the remarkable objectives were as follow:

-) To study and examine the management accounting tools practiced in CAAN.
-) To identify the management accounting tools not in use.
-) To identify the difficulties in applying management accounting tools in CAAN.
-) To recommend the areas where management accounting tools can be applied to strengthen the organization.

- J To make recommendation to overcome the difficulties in applying management accounting tools in CAAN.

Some of the major findings were as follows:

- J CAAN was practiced annual budgeting and variance analysis only.
- J Some of very important and useful management tools such as Cost Segregation, Long Term Budgeting, Pricing of Product, Standard Costing and Ratio Analysis were not in practice in CAAN for its managerial decision.
- J CAAN was not practicing the Segregation of cost into fixed and variable.
- J CAAN practiced only the Operational Budget.
- J While preparing budget, there was no practice of taking consultancy services. The practice of hiring outside expert was nil.
- J CAAN mostly used the tools like Net Present Value, Payback Period and Internal Rate of Return while purchasing the fixed assets and making long term investments.
- J For the measurement of overall performance, the authority used Profit and Loss Account and Cash Flow Analysis.
- J For the cost and revenue estimation, the authority practiced only Past Trend Analysis. The practice of Market Survey and Zero Base Budgeting were found nil to forecast the future cost and revenue.
- J Management Information System on the authority found satisfactory.
- J The accounting procedure of CAAN found satisfactory as the authority itself developed accounting manuals for this purpose.

Shrestha (2008) had conducted a research study on “*Management Accounting Practices in Public Trade Companies of Nepal*”. He had focused his study to examine the practices of MA tools in public trade companies of Nepal. This

research was based on only primary data collection. Some of the remarkable objectives were as follow:

-) To find out the MA tools and techniques use in PTCs in Nepal.
-) To identifying the process of planning, controlling and decision making process of PTCs in Nepal.
-) To identify the management policy towards the MA tools and techniques.
-) To identify the major difficulties in using MA tools and techniques in PTCs in Nepal.
-) To make suggestions to overcome the difficulties in practicing MA tools and techniques in PTCs in Nepal.

Some of the major findings were as follows:

-) Annual budget cash flow and responsibility accounting were mostly practiced in PTC's of Nepal for planning, controlling and decision making process.
-) The MA tools were not practicing due to lack of expertise, high cost, no information about tools and others.
-) The average method and analysis methods were practiced for cost segregation into fixed and variable where as there is no practiced of High Low point method and regression method in PTC's of Nepal.
-) Zero based budgeting was not practiced because of government policy as well discretion of the management.
-) The committee, planning department and chief of finance division of PTC's of Nepal used to prepare budget. But outside experts was not taking for budget preparation.
-) Only short term budget was in practiced no medium and long term budget were prepared.
-) The full cost pricing and transfer cost pricing were practiced mostly.
-) The traditional inventory valuation technique FIFO was widely practiced.

-) For the cost and revenue estimation past trend analysis was used.
-) The capital budgeting or long term investment was used b PTC's of Nepal.
-) Because of the government policy and provision made in law for considerable financial investment tender process was followed by all PTC's of Nepal.
-) Most of the PTC's were practiced controllership functions.
-) The size and nature of business was taken as major difficult for the application of managerial accounting tools and techniques in PTC's of Nepal.

Shrestha (2009) has conducted a research on the topic “*Management Accounting Practices in the Public Financial Sector in Nepal.*” The main objective of this study was the practice of MA tools in financial sectors in Nepal. His Finding from the study was that almost all the Nepalese public financial sectors practices operational budget where as some prepared master budget and most of the PFS practice cash and program budget.

2.12 Research Gap

Most of the prior research works conducted on accounting was on Profit Planning and Control. Very few research works were done in the sector of management accounting practices. Most of the researches are conducted on public financial sector and manufacturing company. The study focused on the management accounting practices in commercial banks of Nepal. The main objective of the study was to find out how far the Nepalese commercial bank practices the management accounting tools and techniques to their business for better performance and results. The findings of these studies were based on primary as well as secondary data.

CHAPTER - III

RESEARCH METHODOLOGY

Research methodology is concerned with various methods and techniques, which are used in the process of research studies. It includes wide range of methods including quantitative technique for data analysis and presentation. It facilitates the research work and provides reliability and validity to it. The main objective of this study is to analyze, examine and interpret present scenario of management accounting practiced in listed companies. The research methodology is followed to achieve the basic objectives and goals of research work. The major components of research methodology followed in this research study are discussed below.

3.1 Research Design

This research design will follow a descriptive design that attempts to measure the management accounting practices in commercial banks. However it also follows the casual research designs that measure the relationship of management accounting practices with the performance.

Descriptive design is a fact finding operation searching for adequate information. It is a type of study, which is generally conducted to assess the opinions, behaviors or characteristics of a given population and to describe the situation and events occurring at present. Descriptive research is a process of accumulating facts. It does not necessarily seek to explain relationship, test hypothesis, make predictions or get at meanings and implications of the study.

3.2 Sources of Data

The data were collected from the primary sources as well as secondary sources. Primary data were collected through questionnaire survey where as secondary data were collected through annual reports of banks.

3.3 Population and Samples

All the Commercial banks which were registered under the NRB act were considered as the total population. Out of which, the companies which were in existence and head office located in Kathmandu valley were considered as the target population for the study. There were 26 commercial banks in Nepal. Out of which 20 banks head office located in Kathmandu valley. To make the research more reliable, target population has been considered for sample population. The list of the selected sample has presented in appendix 1.

3.4 Data Collection Procedure

This study is mainly based on primary sources of data, information collected by developing a structured question. The main target respondents were the financial Directors and Management Accountants of the banks. However, where there is no management accounting department, the principal respondent is the head of finance and account section. Altogether 15 questions were included in the questionnaire but only 13 questions were analyzed for study.

3.5 Data Processing Procedure

Data collected information from questionnaires was in raw form. The data are tabulated into various tables according to the subject's requirement. Processing of data has. Simple arithmetic percentage tool is used for analysis. The data has been processed using the sophisticated SPSS programme; version 17. Major findings are based on the analysis and the interpretation of data

3.6 Research Variable

Simple percentages analyses were used to interpret data. Similarly the practices of management accounting tools like budgeting, standard costing, Zero base budgeting, capital budgeting, cost volume profit analysis, ratio analysis, cash flow analysis, decision making Procedure, Preparation of financial documents, short term and long term planning were the major research variables.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The main objective of this study is to examine the present practice of management accounting tools and techniques in Nepalese Commercial Banks. The other objectives are to identify the areas where management accounting tools can be applied to strengthen the companies and to scrutinize the major difficulties in the application of management accounting tools in Nepalese Commercial Banks. To achieve the specific objectives of the research study this chapter included the data presentation, analysis.

4.2 Tabulation and Graphical Presentation of Practices of Management Accounting Tools

In this part it has been attempted to analyze the data collected through questionnaire. The data are presented in table and pie chart/ bar diagram and for the help of data analysis the SPSS programming has been used.

4.2.1 Practice of Management Accounting

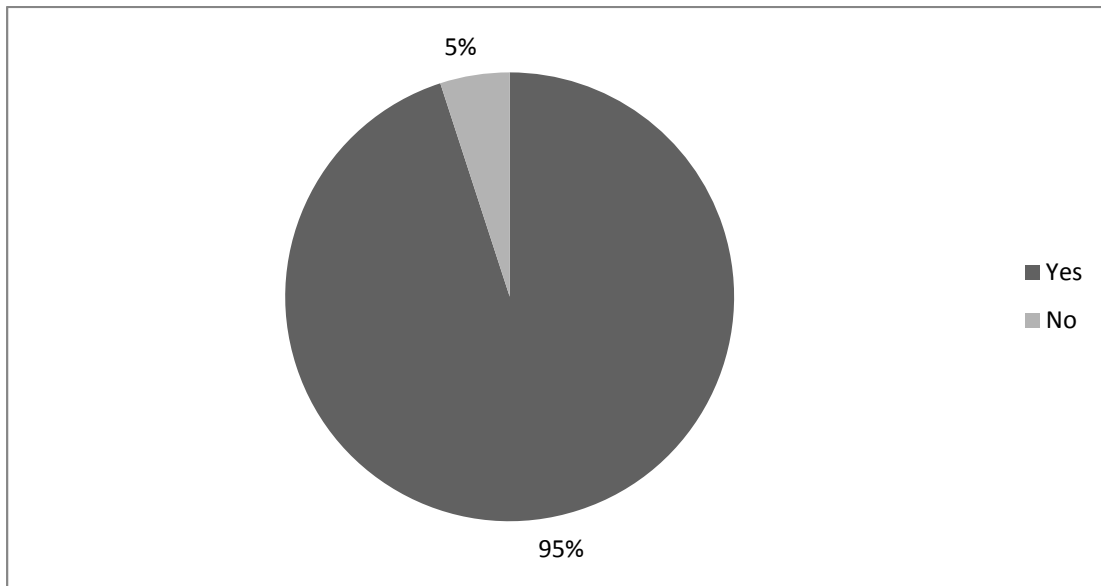
Management accounting practices play an important role in questioning, visualizing, analyzing, and measuring implemented strategies. It also helps to manager in overall managerial activities by providing information and helping in planning, controlling, and decision making. The following table and chart shows the current status of management accounting practices of Nepalese commercial banks.

Table 4.1
Practices of Management Accounting

Response	Frequency	Percent
Yes	19	95.0
No	1	5.0
Total	20	100.0

Source: Field Survey

Figure 4.1
Practice of Management Accounting



The above table and figure exhibit the practice of management accounting in commercial banks in Nepal. Regarding the response of Nepalese organization there is significant practice of management accounting. Only 5% of the commercial banks did not apply management accounting.

4.2.2 Management Accounting Tools Practices in Nepalese Commercial Banks

Management accounting for banking has to contribute to focusing the process of strategic planning and provide information to facilitate decision making and financial control of the different business units involved. Different management

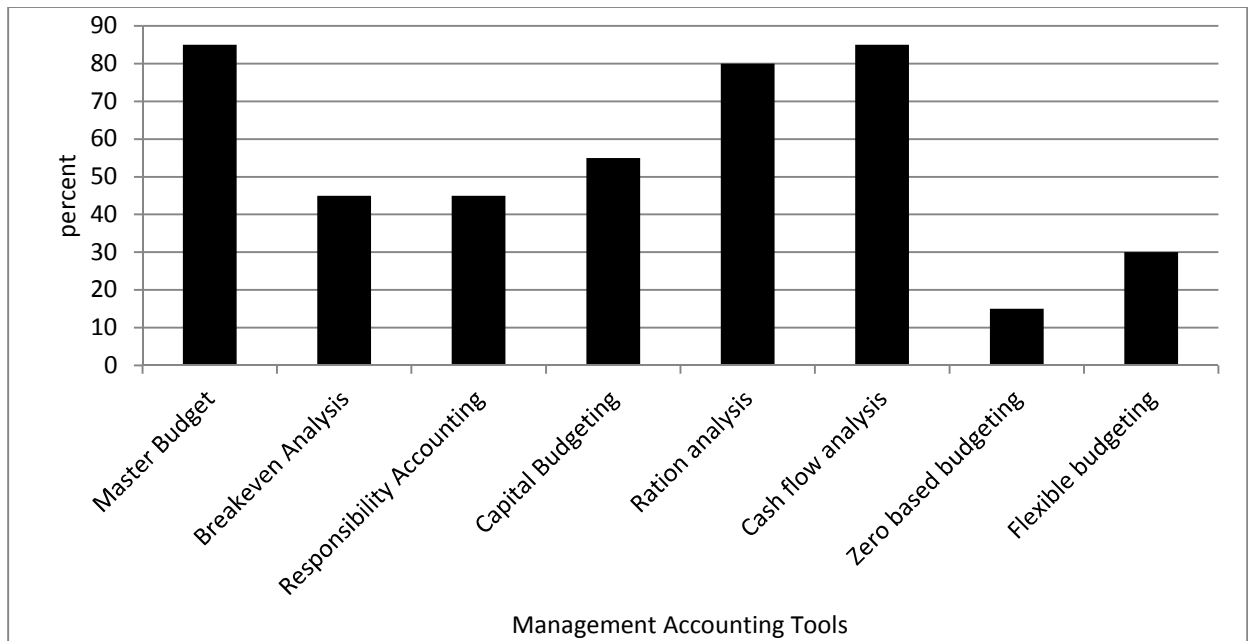
accounting tools are needed to be carried out for planning, controlling and decision making process. Management accounting tools are applied discipline used in various industries. The following table present the response acquired by the Nepalese commercial banks regarding the management accounting tools practiced.

Table 4.2
Practices of Management Accounting Tools

Tools	No of Respondent	No. of Practicing Banks	Percent
Master Budget	20	17	85.0
Breakeven Analysis	20	9	45.0
Responsibility Accounting	20	9	45.0
Capital Budgeting	20	11	55.0
Ration analysis	20	16	80.0
Cash flow analysis	20	17	85.0
Zero based budgeting	20	3	15.0
Flexible budgeting	20	6	30.0

Source: Field Survey

Figure 4.2
Practices of Management Accounting Tools



The above table and figure exhibit the scenarios of the practice of management accounting tools in commercial banks in Nepal. Most of the commercial banks adept the tools like master budget (85%), ratio analysis (80%) and cash flow analysis (85%). Capital Budgeting technique was experienced 55% of them and the tools like breakeven analysis and responsibility accounting were found practiced by 45% of the commercial banks. The commercial banks practicing flexible budgeting represented 30% and only 15% of commercial banks used zero base budgeting.

Thus the practice of master budget, ratio analysis and cash flow were common where as the tools like capital budgeting, breakeven analysis and responsibility accounting were practiced by some banks. The tools not in well practice were flexible budgeting and zero base budgeting.

4.2.3 Role of Management Accounting in Nepalese Commercial Bank

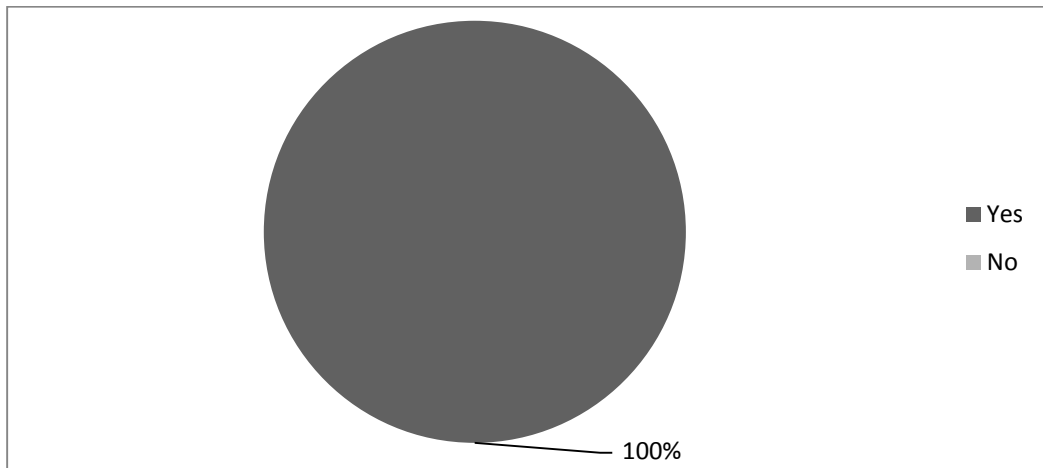
The role of management accounting has developed as tool for obtaining the information necessary for the analysis of business decisions (strategic and tactical) and the measurement of their results. Management accounting has played a significant role in measuring performance in banks. The table below provides the idea about the response of commercial banks concerning the role of management accounting.

Table 4.3
Role of Management Accounting

Response	Frequency	Percent
Yes	20	100
No	0	0
Total	20	100

Source: Field Survey

Figure 4.3
Role of Management Accounting Tools



The above table and figure show the role of the management accounting in Nepalese commercial banks. All of the commercial banks believe management accounting plays significant role in the banks.

4.2.4 Preference to Management Accounting

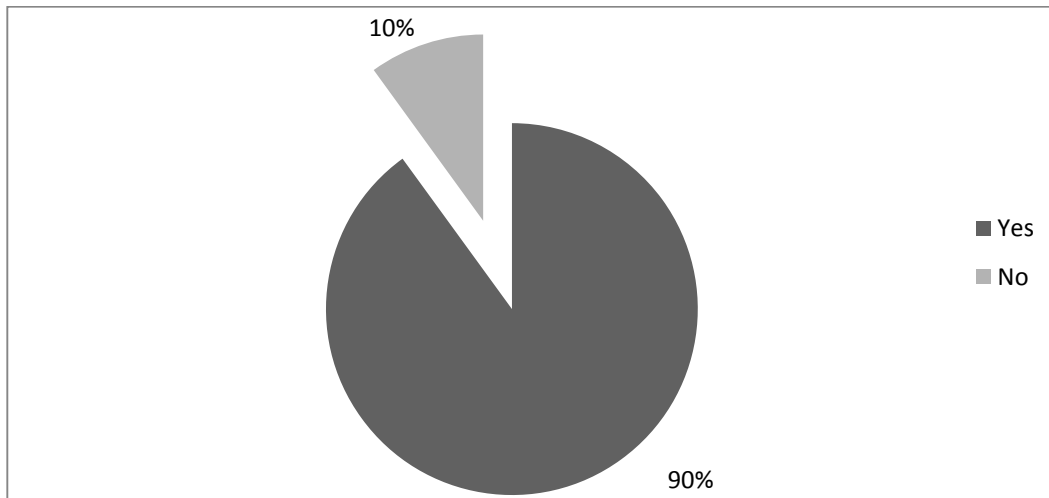
Management accounting can provide helpful information to management in planning, decision-making and control. The scope of management accounting is very wide and broad based it includes a variety of aspects of business operations. By giving preference to the management accounting organization can enhances its performance. So, the below table tried to find out the preference given by commercial to the management accounting.

Table 4.4
Preference to Management Accounting

Response	Frequency	Percent
Yes	18	90.0
No	2	10.0
Total	20	100.0

Source: Field Survey

Figure 4.4
Preference to Management Accounting



The above table and figure reveal the preference to management accounting in commercial banks in Nepal. Although Nepalese financial sector knows the importance of management accounting and practice is also being adopted. Almost all the banks are conscious about this subject. But compare to the practice and their preference to management accounting, special preference is quit lower. Only 90% of the institutes give special preference to MA.

4.2.5 Management Accounting as base for Carrying Out Company Activities

The main aim of management accounting is to assist the management to carrying out carrying out various functions. For an organization to survive in the competitive, ever-changing world, it must put in place sound management accounting practice. Managers need information for decision making. The following table present the responses acquired by the Nepalese commercial banks regarding the management accounting as base for carrying out its company activities.

Table 4.5

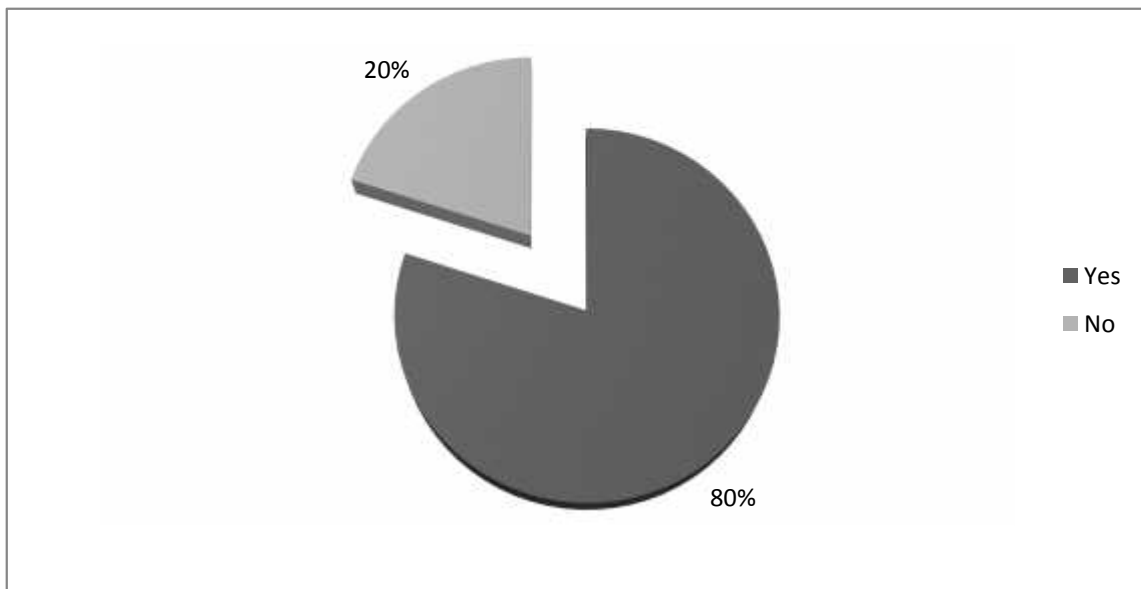
Management Accounting as base for Carrying Out Company Activities

Response	Frequency	Percent
Yes	16	80.0
No	4	20.0
Total	20	100.0

Source: Field Survey

Figure 4.5

MA as base for Carrying Out Company Activities



The area of management accounting was highly important issue for 80% of the companies as they carrying out their companies' activities as a base of management accounting, whereas 20% of the respondents found that the management accounting had no significance for them.

4.2.6 Main Focus of Management Accounting

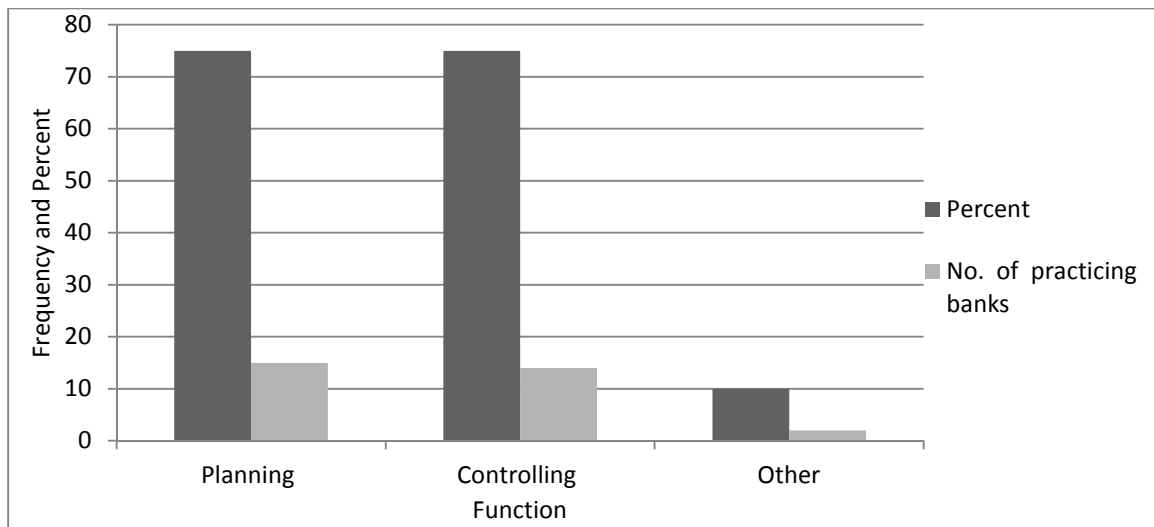
Management accounting is concerned with assisting the management to carry out its activities. It relies on cost and financial accounting for the information. The information that has been prepared for the aid of the manager is used for the managerial functions are planning, control and implementation.

Table 4.6
Focus of Management Accounting

Main focus	No of Respondent	No. of Practicing Banks	Percent
Planning	20	15	75
Controlling	20	14	75
Other	20	2	10

Source: Field Survey

Figure 4.6
Focus of Management Accounting



According to the above table and figure it can be concluded that Nepalese commercial banks gives the main focus on planning (75%) as well as controlling (75%) and some of the banks gives focus to other function also.

4.2.7 Basis of Budget Preparation

Budgeting summarized the estimated result of future transactions for the entire company in much the same manner as the accounting process records and summarizes the result of completed transactions. For assisting the management in the functions of planning and control budgeting techniques is applied. Budget can be used as benchmark that allows manager to compare actual performance with

estimated or desired performance. The following gives the commercial banks response regarding the basis of budget preparation.

Table 4.7

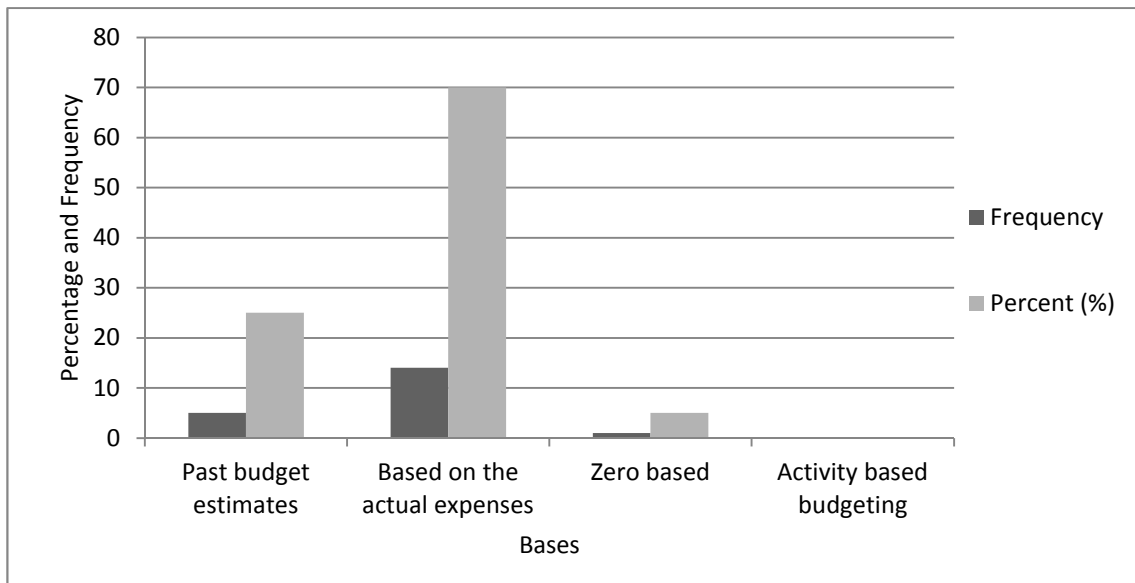
Basis of Budget Preparation

Bases of Preparing Budget	Frequency	Percent (%)
Past budget estimates	5	25.0
Based on the actual expenses	14	70.0
Zero based	1	5.0
Activity based budgeting	0	0
Total	20	100.0

Source: Field Survey

Figure 4.7

Basis of Budget Preparation



The above table and figure reflect the budget estimation technique practiced by Nepalese commercial banks. It is seen in the table and Fig. that 70 percent of Nepalese commercial banks prepared their budget on the basis of past actual expenses. Similarly, 25 percent, and 5 percent of them prepare budget on the basis of the past budget estimate and zero base budgeting respectively. None of the commercial banks practiced modern useful tool activity based budgeting.

4.2.8 Budget Preparation in Nepalese Commercial Bank

A budget is a tool that helps manager in planning and control functions. Budget help with their control function not only by looking forward but also looking backward. Budget, of course, deal with what manager’s plan for future. However they can also be used to evaluate what happened in the past. Budgets are prepared after lots of group work done by different department. Budget can be prepared by different department. The budget preparation system of Nepalese commercial banks can be presentation as follows.

Table 4.8

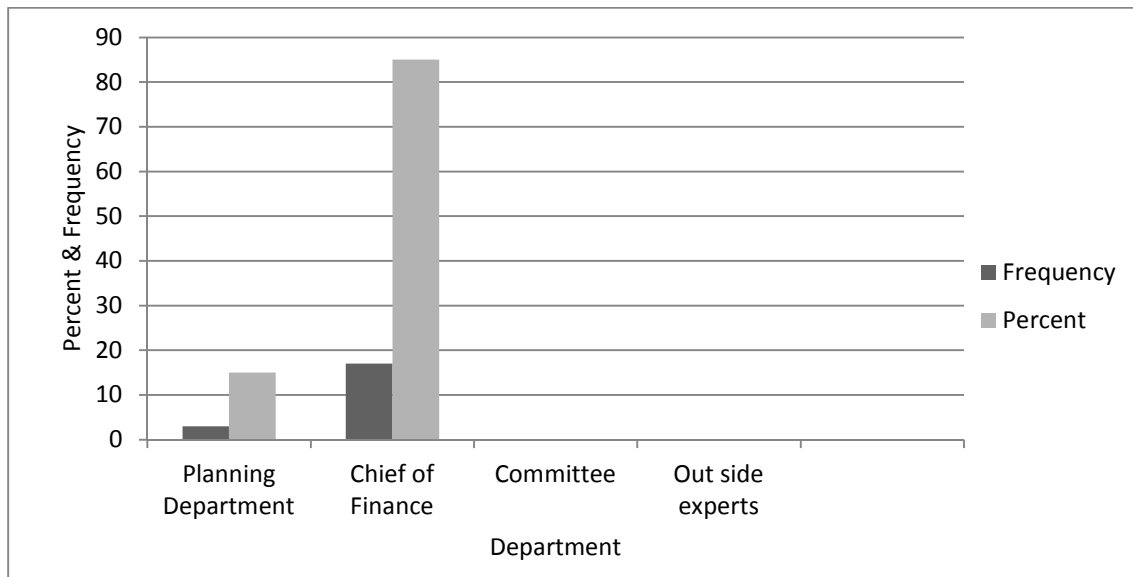
Budget Preparation in Nepalese Commercial Bank

Department	Frequency	Percent
Planning Department	3	15.0
Chief of Finance	17	85
Committee	0	0
Outside experts	0	0
Total	20	100

Source: Field Survey

Figure 4.8

Budget Preparation in Nepalese Commercial Bank



The above table and figure shows that the scenario of budget preparation system in Nepalese commercial banks. From the above table and figure it is cleared that in most of the banks the budget was prepared by the chief of finance. 85% of the banks prepare the budget by chief of finance where as only 15% of the bank followed the planning department for the budget preparation. There is no practiced of preparation of budget by committee and outside experts

4.2.9 Types of Budget Based on Period Practiced in Nepalese Commercial Bank

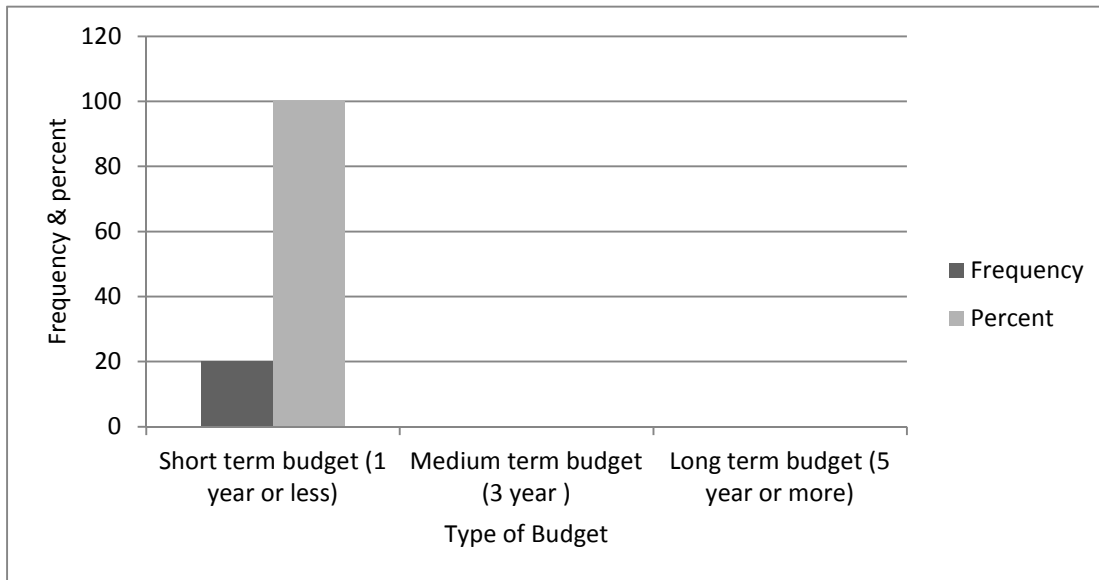
The use of budgets as a fundamental tool for planning and control must take into account the objectives of the organization, the mission and the available resources, which means that budgets are closely linked to the process of strategic planning. The budget can cover different time period. The table below present the time period of the budget covering by Nepalese commercial banks.

Table 4.9
Types of Budget Based on Period Practiced

Type of budget	Frequency	Percent
Short term budget (1 year or less)	20	100.0
Medium term budget (3 year)	0	0
Long term budget (5 year or more)	0	0
Total	20	100

Source: Field Survey

Figure 4.9
Types of Budget Based on Period Practiced



The above table and fig. illustrate that, 100 percent of Nepalese commercial banks prepared short-term budget covering time period of one year or less. It is also seen that no commercial banks made the budget covering the time period more than 1 year.

4.2.10 Tools Practiced for the Overall Performance Evaluation

Under the management accounting, the actual performance is compared with the targets, plans, standards and deviations are analyzed. Thus, management accounting helps in controlling the performance and take suitable actions in order to correct the adverse deviations by revising the budget if needed. Management accountant presents the accounting information in an intelligent and simple manner. This will help the management in interpreting the financial data, evaluating financial performance and guiding it in taking decisions to have the most desired financial results.

Table 4.10

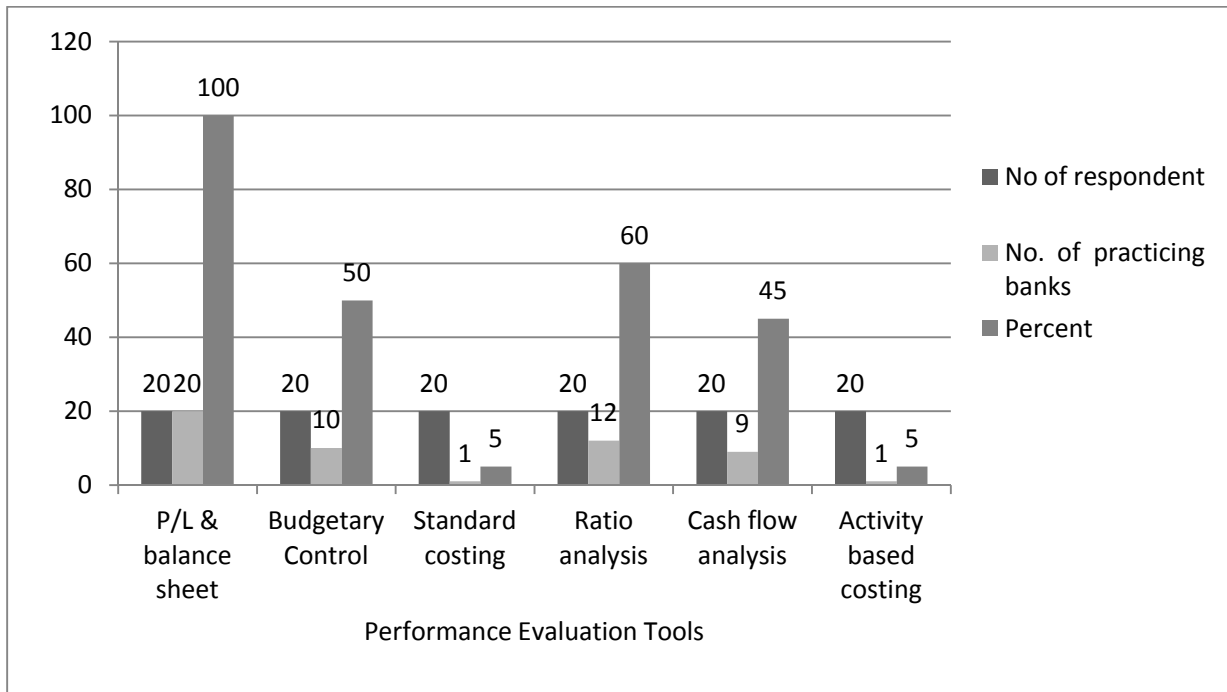
Tools Practiced for the Overall Performance Evaluation

Main focus	No of Respondent	No. of Practicing Banks	Percent
P/L & Balance Sheet	20	20	100
Budgetary Control	20	10	50
Standard Costing	20	1	5
Ratio Analysis	20	12	60
Cash Flow Analysis	20	9	45
Activity Based Costing	20	1	5

Source: Field Survey

Figure 4.10

Tools Practiced for the Overall Performance Evaluation



The above table and figure verify the tools practiced for the Overall Performance Evaluation in Nepalese commercial banks. From the table it is clear that the use of Profit and Loss Account and balance sheet for the Overall Performance Evaluation was 100% that means the main base of evaluation was P/L and balance sheet. Similarly 60% of the banks practiced the ratio analysis for performance evaluation

where as only 50 % and 45% of the NCB used budgetary control and cash flow analysis for evaluation respectively. It is also seen in the table that only 5% of the Nepalese commercial bank use standard costing and ABC to measure and control the overall performance of the bank.

4.2.11 Function of Management Accounting in Nepalese Commercial Bank

Table 4.11

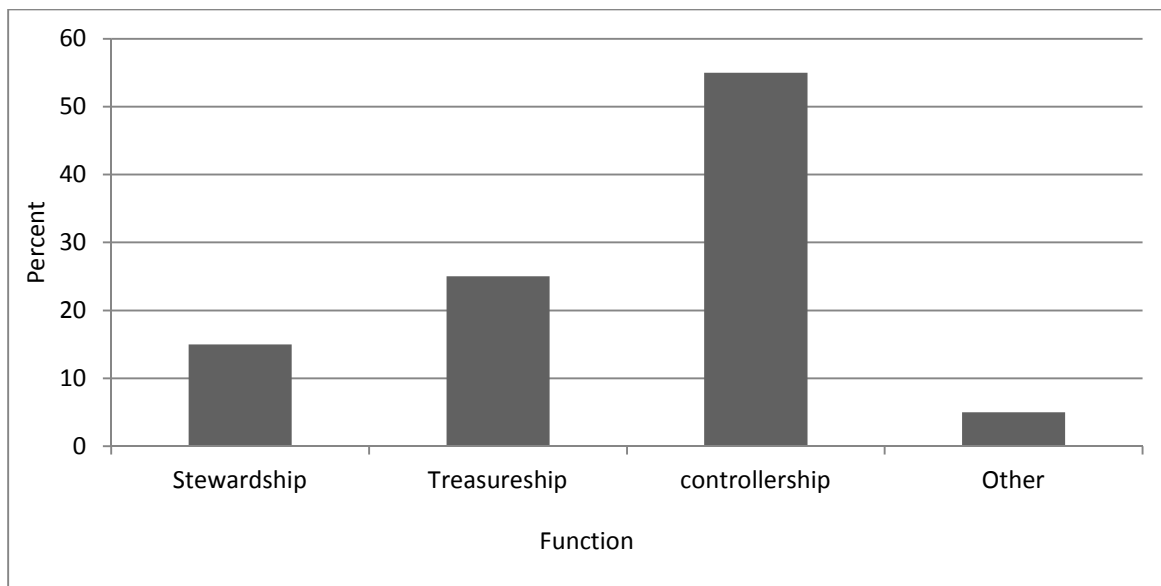
Function of MA in Nepalese Commercial Bank

Function	Frequency	Percent
Stewardship	3	15.0
Treasureship	5	25.0
Controllership	11	55.0
Other	1	5.0
Total	20	100.0

Source: Field Survey

Figure 4.11

Function of MA in Nepalese Commercial Bank



The above table and figure give an idea about the practice of management accounting functions in Nepalese commercial banks. It is seen in the table and

figure that 55 % of the bank practiced controllership function. Similarly, 25%, 15% and 5 of them practiced stewardship, treasureship and other (cost management) functions respectively. Therefore, controllership function was widely practiced then other.

4.2.12 Factors Effecting Decision Making Process in Nepalese Commercial Bank

The management of a firm is involved in making a number of decisions to run a business properly and smoothly. To make the decision, the management needs data and information. Management accounting can provide helpful information to management in planning, decision-making and control. The following table presents the factors affecting decision making process in Nepalese commercial bank.

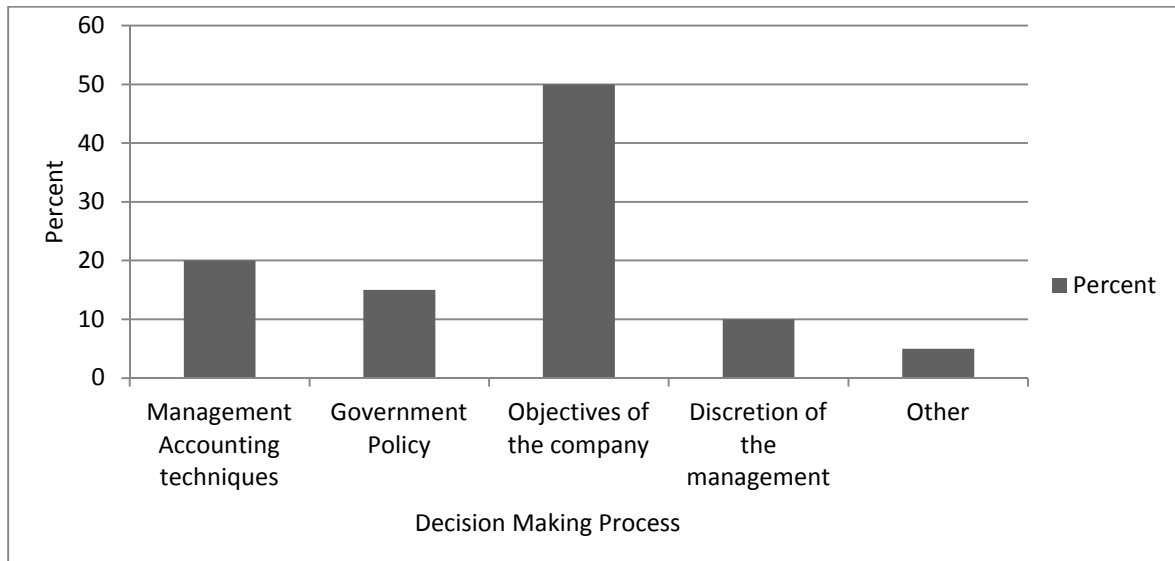
Table 4.12
Factors Effecting Decision Making Process in Nepalese Commercial Bank

Decision Making Process	Frequency	Percent
Management Accounting techniques	4	20.0
Government Policy	3	15.0
Objectives of the company	10	50.0
Discretion of the management	2	10.0
Other	1	5.0
Total	20	100.0

Source: Field Survey

Figure 4.12

Factors Effecting Decision Making Process in Nepalese Commercial bank



The above table and Figure demonstrate the factors affecting the decision making procedure of the commercial banks of Nepal. It is revealed that, 50 % of the Nepalese commercial banks take their decision on the basis of the objectives of the company. Likewise, 20% of the companies take their business decision on the basis of Management Accounting techniques. And the rest 15%, 10% and 5% of the commercial banks decision making process is affected by government policy, discretion of the management and other (policy of NRB). Thus the objectives of the company were the main factor which mostly affected in decision making process.

4.2.13 Major Difficulties for the Application of Management Accounting Tools in Nepalese Commercial Bank

Management accounting in banking organizations has experienced a limited development in comparison to companies in other sectors. The table below presents the difficulties faced by the Nepalese commercial banks while applying the management accounting tools.

Table 4.13

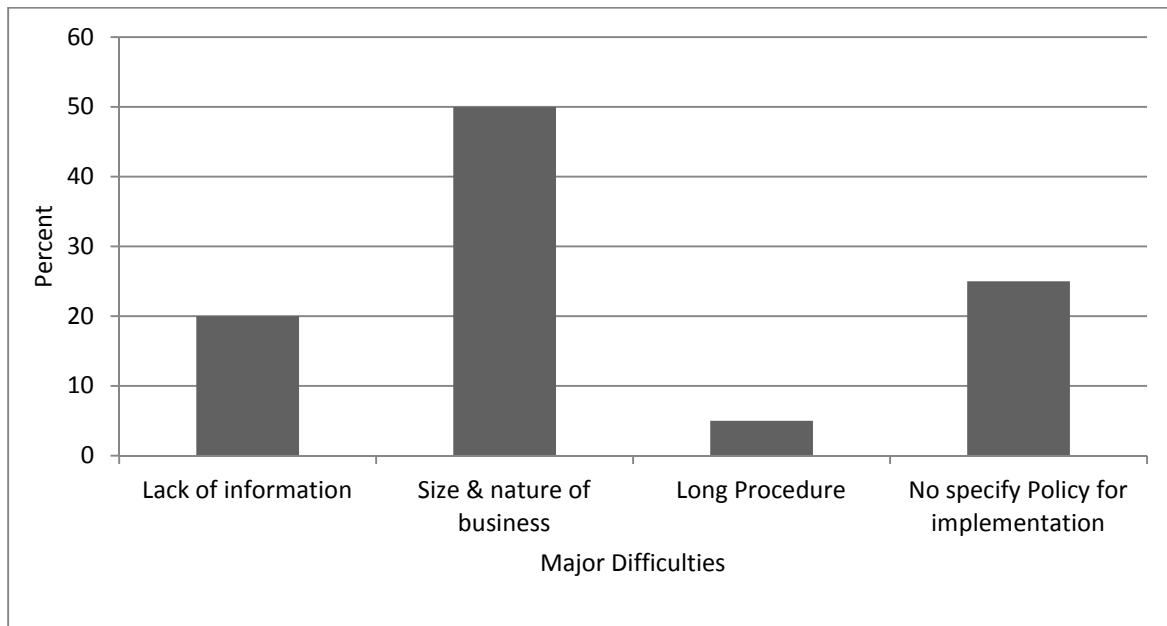
Major Difficulties for the Application of MA Tools in NCB

Major Difficulties	Frequency	Percent
Lack of Information	4	20.0
Size & Nature of Business	10	50.0
Long Procedure	1	5.0
No specify Policy for Implementation	5	25.0
Total	20	100.0

Source: Field Survey

Figure 4.13

Major Difficulties for the Application of MA Tools in NCB



The above table and figure be evidence for the major difficulties for the application of management accounting tools in commercial banks of Nepal. It is seen in the table and figure that 50% of banks assumed that size and nature of the business was the major difficulties applying for management accounting tools. Likewise, 25% of the banks faced by no specific policy for implementation. Similarly, 20% and 5% of the banks faced by lack of information and long procedure respectively.

4.3 Correlation Analysis

Coefficient of correlation analysis is the mathematical method of measuring the degree of association between the two variables i.e. one dependent and one independent. This analysis interprets and identifies the relationship between two or more variables. In the case of highly correlated variables, the effect of one variable may have an effect on other correlated variables. Under this topic, this study tries to find out the relationship between the following variables:

-) Correlation between management accounting tools practices and age of the bank.
-) Correlation between management accounting practices and size. (The size of the banks was measured through paid up capital.)

The result of the coefficient is always between -1 to $+1$, when $r = +1$, it means there is a significant relationship between two variables and when -1 , it means there is no significant relationship between two variables.

a. Correlation between Management Accounting Tools Practices and Age of the Bank

Coefficient of correlation between management accounting tools practices and age of the bank (where age of the bank equals year of establishment minus current year 2009) measures the degree of relationship between these two variables. The main objective of computing correlations between these two variables is to find out whether management accounting tools practices and age of bank is significantly correlated or not. The following table presents the correlation between management accounting tools practices and age of bank.

Table 4.14

Correlation between Management Accounting Practices and Age of Bank

		Age of Banks	Sum of the MA tools Practices
Age of Banks	Pearson Correlation	1	.340
	Sig. (2-tailed)		.142
	N	20	20
Sum of the MA tools Practices	Pearson Correlation	.340	1
	Sig. (2-tailed)	.142	
	N	20	20

The above table shows correlation coefficient between management accounting tools practices and age of the bank is 0.340 i.e. positive correlations but it is not significantly correlated. So we can't say that the older bank practices management accounting effectively.

b. Correlation between Management Accounting Practices and Paid up Capital

Coefficient of correlation between management accounting tools practices and paid up capital of the banks measures the degree of relationship between these two variables. The main objective of computing correlations between these two variables is to find out whether there is any different in management accounting tools practices and size of bank (paid up capital). The above table shows the correlation between the management accounting tools practices and paid up capital.

Table 4.15

Correlation between Management Accounting Practices and Paid up Capital

		Sum of the MA tools Practices	Paid up Capital
Sum of the MA tools Practices	Pearson Correlation	1	.413
	Sig. (2-tailed)		.071
	N	20	20
Paid up Capital	Pearson Correlation	.413	1
	Sig. (2-tailed)	.071	
	N	20	20

The above table shows correlation coefficient between management accounting tools practices and paid up capital of the bank is 0.413 i.e. positive correlations and it is significant correlated at 10% of significance level. So it is clear that there is relationship between the management accounting practices and the size of the bank. Higher the paid up capital of the banks shows the batter management accounting practices than lower one.

4.4 Major Findings

On the basis of above the analysis, examination and information discussion, the following key findings have been drawn.

-) There is significant practice of management accounting.
-) While examining the MA tools practiced in Nepalese commercial banks for planning, controlling and decision making, it was found that Mater budget; cash flow analysis and ratio analysis are widely practiced representing 85%, 85% and 80% respectively. Likewise, capital budgeting, Responsibility Accounting, and break even analysis tools also were practiced 55%, 45%, and 45%, respectively. Whereas other management accounting tools including flexible budgeting and Zero-Base Budgeting were practiced representing only 30% and 15% each.

- J All of the commercial banks believe management accounting plays significant role in the banks.
- J Almost all the banks are conscious about this subject but 90 % of them give preference to MA.
- J 80% of the commercial banks carry out MA as base for company activities.
- J Nepalese commercial gives main focus on planning as well as controlling some of the banks gives focus to other function also.
- J Majority of the Nepalese commercial banks prepared their budget on the basis of past actual expenses. None of the commercial banks practiced modern useful tool activity based budgeting.
- J In most of the banks the budget was prepared by the chief of finance. 85% of the banks prepared the budget by chief of the finance and only 15% of them prepared budget by planning department. But preparation of budget by committee and outside experts was nil.
- J Nepalese commercial banks prepared short-term budget covering time period of one year or less. No commercial banks prepared budget covering time period more than one year.
- J To evaluate overall performance of the company at the end of the year 100% commercial banks taking the references of profit and loss account. Similarly, ratio analysis, budgetary control and cash flow analysis were practiced by 60%, 50% and 45% respectively to measure the overall performance of their companies at the end of the year. None of the commercial banks use standard costing and activities based budgeting to measure and control the overall performance of the company.
- J The controllership function was widely practiced then other in commercial banks. The controllership function was performed by 55% of banks whereas 25%, 15% and 5 % of commercial banks practiced stewardship, treasureship and other (cost management) functions respectively.

-) As regards the factors affecting the decision making procedure of the commercial banks of Nepal, It is found that, about 50% of the Nepalese commercial banks made decision on the basis of the objectives of the company. Likewise, out of total respondent 20% of the companies make their business decision on the basis of Management Accounting techniques. But 15 % of the banks felt that government policy of the company and 10% and 5% of the commercial banks felt that by discretion of the management and other affect the decision making process.
-) The Nepalese commercial banks assumed that size and nature of the business (50%) was the major difficulties applying for management accounting tools. No specific policy for implementation about tools accounted for 25% where as 20% and 5% company did not practiced because of lack of information and long procedure respectively.
-) There is not any significant relationship between the management accounting practices and the age of the bank but at 10% of significance level there is positive correlation between practices of management accounting and paid up capital.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Management accounting is the practical science of value creation within organizations in both the private and public sectors. Management accounting is concerned with providing information to managers-that is, people inside an organization who direct and control its operation and the essential data with which the organizations are actually run.

Management accounting is the practice of identifying measuring, accumulating, analyzing preparing interpreting and communicating data used by management teams. It is used to design, assess and control a company to ensure that its assets are properly used and accounted for. The economic development of every country is always calculated by its economic indicators. So, every country has given emphasis on the development of its economy. Nowadays the financial institutions are viewed as means in the process of the economic growth. The mobilization of domestic resources is one of the key factors in the economic development of a country.

Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector, which deals with the process of channeling the available resources in the needed sector. It is the intermediary between the deficit and surplus of financial resources. Financial institutions like banks are necessity to collect scattered savings and put them into productive channels.

The major management accountings tools are Master Budget, Breakeven Analysis, Responsibility Accounting, Capital Budgeting, Ratio analysis, Cash flow analysis, Zero-based Budgeting, Flexible budgeting. The research was conducted to find out the facts that the Nepalese commercial banks are getting benefits from using those management accounting tools or not?

The study was done with an objective to study and examine the present practice of management accounting tools in the commercial banks in Nepal, and to identify the areas where management accounting tools can be applied to strengthen the commercial banks.

As per the nature and demand of the study, survey type research design was adopted with descriptive and analytical approach. The research is mostly based on primary source of information. Surveys of 20 commercial banks in Nepal were made through questionnaires. All together 15 questionnaires were distributed but only 13 question are analyzed. Secondary source of data was also used. The raw data was applied to analyze and interpret the findings.

5.2 Conclusion

On the basis of major findings of study some conclusion has drawn about the management accounting practice of commercial banks in Nepal. Most of the commercial banks adept the tools like master budget, ratio analysis and cash flow analysis. Similarly the tools like Capital Budgeting, breakeven analysis and responsibility accounting were somewhat practiced by the commercial banks. The tools not in well practice were flexible budgeting and zero base budgeting. It can also be concluded that the major difficulties applying for management accounting tools are size and nature of the business and no specific policy for implementation.

All of the commercial banks believe management accounting plays significant role in the banks and almost all the banks are conscious about this subject matter. The budget was prepared by the chief of finance no budget was prepared by committee and outside experts. Nepalese commercial banks taking the references of profit and loss account to evaluate overall performance of the company at the end of the year.

Management Accounting in Nepalese commercial banks is still evolving and will continue to do so in the future. So far, they are trying to adopt such tools and techniques to cope with the future expected opportunities and challenges to be faced due to the accession of globalization

5.3 Recommendations

Management accounting, as an integral part of the management process, distinctly adds value by continuously probing whether resources are used effectively by people and organizations - in creating value for customers, shareholders or other stakeholders.

Management accounting is a new subject in Nepal. It is still in a developing stage in Nepalese commercial banks. Management accounting can play a significant role for every type of business organization. To meet the anticipated challenges to grab the opportunities, the organization must practice the management accounting tools and techniques.

For an organization to survive in the competitive, ever-changing world, it must put in place sound management accounting practice. Managers need information for decision making. An understanding of cost behavior is fundamental to managerial and cost accounting, and Management Accounting information and the way it is

used can support or hinder action and change of action in organizations. The following recommendations were made on the basis of findings:

- J Most of the commercial banks adept only the tools like master budget, ratio analysis (and cash flow analysis no other modern tools are used. So to strengthen the competitiveness of commercial banks and carry out managerial activities effectively and efficiently, the use of management accounting tools and techniques are recommended to practice.
- J There is no separate management accounting department in any of the respondent banks so a separate Management Accounting Department should be established in the organization for the application of management accounting system, procedure or tools.
- J Nepalese commercial banks are recommended not to use only traditional management accounting tools like past budget, past trend analysis rather, they should move towards the application of new, advance and modern management accounting tools such as activity based costing, zero-base budgeting, etc. for smooth operation of the companies' activities.
- J Nepalese commercial banks were prepared their budget mainly by chief of finance so it is also recommended to take outside experts' services as well as planning department also.
- J None of the respondent banks prepared their budget covering the time period more than 1 year. So they should practicing medium as well as long term budget to attain their long term objectives.
- J The main base of evaluation of performance of banks was P/L and balance sheet. Nepalese commercial bank did not use standard costing and ABC to measure and control the overall performance of the bank. So it is recommended that Nepalese commercial banks should considered other means like standard costing, ABC, budgetary control so that the company can scrutinize the real situation of the company.

-) None of the commercial banks did the research and development program on the management accounting field so they should be allocated some portion of their profit for this program so that new tools and techniques can be developed and adapted in finance companies.
-) The Nepalese commercial banks would be benefited from the use of management accounting and the gap between theory and practice can be somehow shortened. So it is also recommended to take outside experts' and academics that have better knowledge about the management accounting tools and techniques.

Suggested Topics for Further Research

-) A Comparative Analysis of Management Accounting Practices of Commercial Bank and Finance Company.
-) A Comparative Analysis of Management Accounting Practices of Public banks, Joint Venture Banks and Non Joint Venture Banks.
-) A Comparative Analysis of Management Accounting Practices of Manufacturing Company and Services Sectors.
-) Behavioral Implications of Management Accounting Practices in Nepal.
-) Corporate Attitude towards the Management Accounting Practices.

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RESEARCH QUESTIONNAIRE

The questionnaire are base line to conduct a research work entitled “*Present Scenario of Management Accounting Practices in commercial Banks in Nepal*” in partial fulfillment of the requirement for the Master Degree of Business Studies (MBS). All the alternatives are equally important.

Q. 1 Do you think that there is a practice of management accounting in your organization?

- i. Yes
- ii. No

Q. 2 Would you kindly tell which of the following mentioned management accounting tools for planning, controlling and decision making process are used in your company?

- i. Master budget ()
- ii. Break Even Analysis ()
- iii. Responsibility Accounting ()
- iv. Capital Budgeting ()
- v. Ratio Analysis ()
- vi. Cash Flow Analysis ()
- vii. Zero Based Budgeting ()
- viii. Flexible Budgeting ()

Q. 3. Do you think that management accounting plays a significant role in your organization?

- i. Yes
- ii. No

Q. 4. Do you think that the management lays special preference to management accounting?

- i. Yes
- ii. No

Q. 5 Do you think that the management of your company takes the management accounting as base for carrying out its activities?

- i. Yes
- ii. No

Q. 6. What is the main focus of management accounting in your organization?

- i. Planning
- ii. Controlling
- iii. Others

Q. 7. On what basis, does your company prepare budget?

- i. Past budget estimates ()
- ii. Based on the past Actual Expenses / Historical Expenses ()
- iii. Zero Base ()
- iv. Activity Based ()
- v. If Any Other Please Specify
.....

Q. 8. Who prepares the budget in your company?

- i. Committee ()
- ii. Planning Department ()
- iii. Chief of finance division ()
- iv. Outside experts ()
- v. If any other, please specify
.....

Q. 9. What is the period covered by the budget used in your Company?

- i. Short term budget (1 year or less) ()
- ii. Medium term budget (3 year) ()
- iii. Long term budget (5 year or more) ()
- iv. If any other, please specify ()

Q. 10. How does your company evaluate overall performance at the end of the accounting year?

- i. P/L & Balance Sheet ()
- ii. Budgetary control ()
- iii. Standard Costing ()
- iv. Ratio Analysis ()
- v. Cash Flow Analysis ()
- vi. Activity Based Costing ()
- vii. If Any Other, Please Specify

.....

Q. 11. What function of management account do you expect in your company?

- i. Stewardship ()
- ii. Treasureship ()
- iii. Controllership ()
- iv. If Any Other, Please Specify

.....

Q. 12. Which of the main factor, do you feel that will effect the decision making process in your company?

- i. Management Accounting Techniques ()
- ii. Government Policy ()
- iii. Objectives of the Company ()
- iv. Discretion of the Management ()
- v. If Any Other, Please Specify

.....

Q. 13. What might be the major difficulties for the application of managerial accounting tools & techniques in your company?

- i. Lack of Information ()
- ii. Size & Nature of Business ()
- iii. High Cost ()
- iv. Long Procedure ()
- v. No Specific Policy for Implementation ()
- vi. If Any Other, Please Specify

.....

Name of Company:

Name of the Respondent:

Position:

Signature:

Seal of Company

Appendix - 1
List of Sample Banks

S.N	Names	Operation Date(A.D.)	Head Office	Paid up Capital (Rs. In millions)
1.	Nepal Bank Limited	1937/11/15	Kathmandu	380.40
2.	Rastriya Banijya Bank	1966/01/23	Kathmandu	1172.30
3.	ADB Ltd.	1968/01/02	Kathmandu	10777.50
4.	NABIL Bank Limited	1984/07/16	Kathmandu	965.75
5.	NIB Limited	1986/02/27	Kathmandu	2407.10
6.	SCB Nepal Limited.	1987/01/30	Kathmandu	932.00
7.	Himalayan Bank Limited	1993/01/18	Kathmandu	1216.20
8.	Nepal SBI Bank Limited	1993/07/07	Kathmandu	874.50
9.	NB Bank Limited	05/06/1994	Kathmandu	1822.70
10.	Everest Bank Limited	1994/10/18	Kathmandu	838.80
11.	Bank of Kathmandu Limited	1995/03/12	Kathmandu	844.40
12.	Kumari Bank Limited	2001/04/03	Kathmandu	1186.00
13.	Siddhartha Bank Limited	2002/12/24	Kathmandu	952.20
14.	Citizens Bank International Ltd.	2007/6/21	Kathmandu	1000.00
15.	Prime Commercial Bank Ltd	2007/9/24	Kathmandu	700.00
16.	Sunrise Bank Ltd.	2007/10/12	Kathmandu	1337.50
17.	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu	1000.00
18.	Development Credit Bank Ltd.	2001/01/23	Kathmandu	1655.30
19.	NMB Bank Ltd.	1996/11/26	Kathmandu	1424.60
20.	Kist Merchant Banking & Finance Ltd.	2003/02/21	Kathmandu	2000.00