

A STUDY ON ACCOUNTING PRACTICES IN NEPALESE COMMERCIAL
BANK

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We have conducted the viva-voce examination of the thesis

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And found the thesis to be the original work of the student written in accordance with the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for Master Degree of Business Studies (M.B.S.)

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COMMERCIAL BANK**

*has been prepared as approved by the this department in the prescribed format
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DECLARATION

I Hereby declare that the work reported in this thesis entitled "**A STUDY ON ACCOUNTING PRACTICES IN NEPALESE COMMERCIAL BANK**" has submitted to Nepal Commerce Campus, Faculty of Management, Tribhuwan University, is my original work done in the form of practical fulfillment of the requirement for the Master of Business Studies (MBS) under the guidance and supervision of supervisor Mr. Rewan Kumar Dahal of Nepal Commerce Campus, Tribhuwan University.

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ABBREVIATIONS

ABBS: Anywhere Branch Banking System

A/C: Account

AGM : Annual General Meeting

AICOA: American Institute of Certified Public Accountants

ATM: Automatic Teller Machine

BG: Bank Guarantee

B.S.: Bikram Sambat

CB: Commercial Bank

CRR: Cash Reserve Ratio

e.d : Edition

e.g.: For Example

FDR: Fixed Deposit Receipt

FY: Fiscal Year

GLLP: General Loss Provision

IAS: International Accounting Standards

IASC: International Accounting Standards Committee

IFAC: International Federation of Accountants

INGO: International Non Government Organization

IOSCO: International Organization of Security Commission

L/C: Letter of Credit

LTD: Limited

MBS: Master of Business Studies

NRB: Nepal Rastra Bank

RBB: Rastriya Banijya Bank

RS: Rupees

SAARC: South Asian Association of Regional Co-operation

SLR: Statutory Liquidity Ratio

SWIFT: Society for World Wide Inter Bank Financial Tele-Communication

TT: Telegraph Transfer

VAT: Value Added Tax

WADR: weighted average Deposit Rate

WALR: weighted Average Lending Rate

WTO: World Trade Organization

CHAPTER I

INTRODUCTION

Nepal is a small land locked country with a population of about 250 million and with very little infrastructure development. For the proper development of economy sound banking system plays the vital role. Every bank has to take decision in the uncertain environment and the every bank supply the information to regulatory body. Accounting practice is the key to reduce uncertainty and avoid the unwanted action of authorities.

Accounting is the process of recording, classifying, summarizing and interpreting financial information of business for taking financial decisions. It records, classifies and summaries the financial transactions of a business with a view to ascertaining its profit or loss for time period and financial position at the end of the period. In other word accounting system is a means of collecting, summarizing, analyzing, classifying and reporting in monetary terms about the information of the business. Besides, it interprets and communicates information about the financial position of the business. Economic development has become one of the most popular slogans in almost all the developing countries all over the world and Nepal is not the exception in this respect but the appropriate determination of the way towards the path of the income growth is necessary to fulfill different task. The income growth is necessary to fulfill different needs of the people. It is necessarily a primary goal of development programs and increase the investment in the productive activities to increase the income of country is obvious. The gap between the rural and urban areas appears to have increase. The most useful instrument to eliminate the gap between rural and urban area is an entrepreneur through banking sector. Mobilization of capital is most important factor.

Industrial sector of Nepal is small and under developed country. This is mainly due to poor resource base, small and island domestic market, inadequate infrastructure development, lack of skill and semiskilled manpower, landlocked position of the country, long and open border with India, lack of entrepreneurial ability, lack of technical knowledge etc.

The successful operation of commercial bank requires good management. For good management it is required fact information, which is available from systematic

records. The thought of taking on the responsibility of keeping accounting records fills many people with horror. “What does it all means?” What do I do with all these figures? Where do I start? Are common reactions of the entrepreneurs? But proper financial control of commercial banks is not adequate. This study will help to know the accounting practices of Nepalese commercial banks and their problems with basic accounting rules and procedures. Accounting records provides necessary information for managing all resources as economically.

Accounting is the systematic development and analysis of information about economic affairs of an organization. This information may be used in a number of ways by the organization’s operation; by owners, and legislature or regulatory bodies to help them appraise organization’s performance and make decision and to its future by owners, lenders, suppliers, employees and other to help them to decide how much time or money to devote to the organization by government bodies to determine how much tax to the organization much pay; and occasionally by customers to determine the price to be paid when contracts calls for cost based payments (Encyclopedia Britannica, 2012).

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

Bank account is the art of systematic recording, presenting and interpreting financial transactions (American Institute of Banking and American Bankers Association, 1973). The accounting system of banks has certain distinctive features. Bank plays a major role in maintaining confidence in the monetary system through their close relationship with regulatory authorities and governments hence there is considerable and wide spread interest in the well being of banks and in particulars their solvency and relative degree of risk that attaches to the different types of their business. The operations and the accounting and reporting requirement of bank area different from those of commercial enterprises (International Accounting Standards, 1993). The business activities results in certain unique accounting matters which have read to development of a body of accounting practice that may differ from regulatory reporting system (Carmichael, 1991). There is often highly regulated system of review and approval and a strong emphasis and exception transaction monitoring and reporting.

Daily transactions of banks are numerous, interlocked and interdependent some mistake is bound to creep in it, if a mistake is committed anywhere it affects other accounts too, therefore to devise such a specialized system of book keeping that it could ensure immediate entry of numerous transactions and keep internal check on the basis of accounts. In view of the volume and velocity of transactions that may be proceed there is often high utilization of computerized information processing by banks. This reliance on data processing is generally for greater in financial institution than other companies of a comparable size (Carmichael, 1991).

The qualitative characteristics such as understandability, relevance, reliability and comparability can be determined the usefulness of information presented in financial statement through better accounting practice. Commercial banks should be responsible to change the economic and financial activities of the fiscal policy of government. Therefore transparency, the accounting system of bank should entire significant accounting policies, guidelines and disclosure with respect to statutory requirement understanding the financial statements more clearly on presentation.

Every banks must maintains accounting records to supply data for regulatory reports, such as the call reports to the NRB income and dividend reports as well as for tax returns. In addition accounting records must supply information for reports to management, depositors, stakeholders and the public at large. The regulators tend to focuses on specifying information, which is useful for taxations of to protect the economy, and do not consider the potential usefulness of the information to the people. Accurate and adequate accounting records are essential to a well managed bank (American Institute of Banking and the American Bankers Association, 1972).

With today's increasing liberalization and expansion of commercial banking business, it has become increasingly important, for the general people to be aware of accounting practice of commercial banks, for the commercial banks to know about how they are doing and to strengthen the accounting practice to achieve the sound accounting information for them and for all. A sound profitable and constructive bank system must be based on proper procedures, practices and operations. Safe and sound banking accounting systems are must be effectively controlled (American Institute of Banking and the American Bankers Association, 1972).

In one of the conclusions, the recent study has noted that the level of financial sector development in the country is at par with SAARC region but still behind that of Thailand and Malaysia.

Against this fact, strengthening the regulatory capacity of the NRB should be the option rather than the restriction on the entry of new banks. This study adding that in liberalized economy it is the market that determines the number of financial institutions not the central bank.

1.2 Commercial Banks in Nepal

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

Commercial banks are the corporations, which accepts demand deposits subject to check and make short-term loans to business enterprises, regardless of the scope of its other services (American institute of Banking Principle of Operation USA; 1972).

A commercial banker is dealer in money and substitute for money such as cheque of bill of exchange. He also provides a variety of financial services. Principally commercial banks accept deposit and provide loans, primary to business firms, there by facilitating the transfer of funds in the economy.

The history of banking is closely related to the history of money but banking transactions probably predate the invention of money. Deposits initially consisted of grain and later other goods including cattle, agricultural implements, and eventually precious metals such as gold, in the form of easy-to-carry compressed plates. Temples and palaces were the safest places to store gold as they were constantly attended and well built. As sacred places, temples presented an extra deterrent to would-be thieves.

The first banks were the merchants of the ancient world that made loans to farmers and traders that carried goods between cities. The first records of such activity dates back to around 2000 BC in Assyria and Babylonia. Later, in ancient Greece and during the Roman Empire, lenders who were based in temples made loans but also added two important innovations: accepting deposits and changing money. During this period, there is similar evidence of the independent development of lending of money in ancient China and separately in India. Banking, in the modern sense of the word, can be traced to medieval and early Renaissance Italy, to the rich cities in the north

such as Florence, Venice and Genoa. The Bardi and Peruzzi families dominated banking in 14th century Florence, establishing branches in many other parts of Europe.¹ Perhaps the most famous Italian bank was the Medici bank, established by Giovanni Medici in 1397. The development of banking spread through Europe and a number of important innovations took place in Amsterdam during the Dutch Republic in the 16th century and in London in the 17th century. (wikipedia).

Nepal Bank Limited, the first commercial bank of the country, was established in 1937 with an objective of attracting people to formal banking system from the costly services of pre-dominant moneylenders. Similarly, another commercial bank, Rastriya Banijya Bank (RBB) was established on 23 January 1966 with full government ownership. In the early 1970s, NRB encouraged both NBL and RBB to expand their branches to various parts of the country. For this purpose, NRB itself had conducted feasibility study and adopted the policy to subsidize the banks on their losses on any new branches for three years of their operations. In 1975, NRB achieved its target of having at least one branch of commercial bank in each district head quarter. As at mid July 2010, the number of commercial banks in Nepal was twenty-seven. The public sector banks, which are three in numbers and have large branch networks throughout the country, have still got substantial share in the total assets of the industry. Adopting the economic liberalization in the country in early 1990s, there has been tremendous growth in the number of private sector banks. The share of these banks on total deposits, loans, and total assets has been increasing gradually. The banks are becoming efficient in terms of capital, technologies, products and services and overall management. The competition in the market is getting tougher as the number of these institutions is increasing rapidly and the market size being the same. Therefore, it is felt necessary to strengthen their capacity in terms of product innovation, service delivery and public accountability. The banks should work together for raising public confidence and becoming competitive enough to retain the customers and mobilize the resources from non-banking sector to banking sector. Adequate public disclosure has become the worldwide issue and banks should properly manage varied banking risks with an assurance of safety and soundness in their operations and thereto on public deposit. Nepalese banks cannot be exception.

Table 1.1**List of Licensed Commercial Banks Mid-July 2011**

S. N	Commercial Bank	Operation Date	Head Office
1.	Nepal Bank Ltd.	1994/07/30	Dharmapath
2.	Rastriya Banijaya Bank	2022/10/10	Kathmandu
3.	NABIL Bank Ltd.	2041/03/29	Kamaladi
4.	Nepal Investment Bank Ltd.	2042/11/16	Durbarmarg
5.	Standard Chartered Bank Ltd.	2043/10/16	New Baneshwor
6.	Himalayan Bank Ltd.	2049/10/05	Thamel
7.	Nepal SBI Bank Ltd.	2050/03/23	Hattisar
8.	Nepal Bangladesh Bank Ltd.	2050/02/23	New Baneshwor
9.	Everest Bank Ltd.	2051/07/01	Lazimpat
10.	Bank of Kathmandu Ltd.	2051/11/28	Kamaladi
11.	Nepal Credit & Commercial Bank Ltd.	2053/06/28	Siddhartha Nagar
12.	Agriculture Development Ltd.	1968/10/19	Kathmandu
13.	Lumbini Bank Ltd.	2055/04/01	Narayangarh
14.	Nepal Industrial & Commercial Bank Ltd.	2055/04/05	Biratnagar
15.	Machhapuchhere Bank Ltd.	2057/06/17	Prithibichowk
16.	Kumari Bank Ltd.	2057/12/21	Putalisadak
17.	Laxmi Bank Ltd.	2058/12/21	Birjung
18.	Siddhartha Bank Ltd.	2059/09/09	Kamaladi
19.	Global Bank Ltd.	2007/01/02	Birjung
20.	Citizen Bank Ltd.	2007/06/21	Kathmandu
21.	Bank of Asia Ltd.	2007/10/12	Kathmandu
22.	Prime Bank Ltd.	2007/09/24	Kathmandu
23.	Sunrise Bank Ltd.	2007/10/12	Kathmandu
25.	KIST Bank Ltd.	2009/05/07	Kathmandu
26.	N M Bank Ltd.	2053/09/11	Babarmahal
27.	Janata Bank Nepal Limited (JBNL)	2010/04/05	Kathmandu
28.	Mega Bank Nepal Ltd.	2010/07/23	Kantipath
29.	Commerz & Trust Bank Nepal Ltd	2010/09/20	Kamaladi, Kathmandu
30.	Civil Bank Ltd.	2010/11/26	Kamaladi, Kathmandu

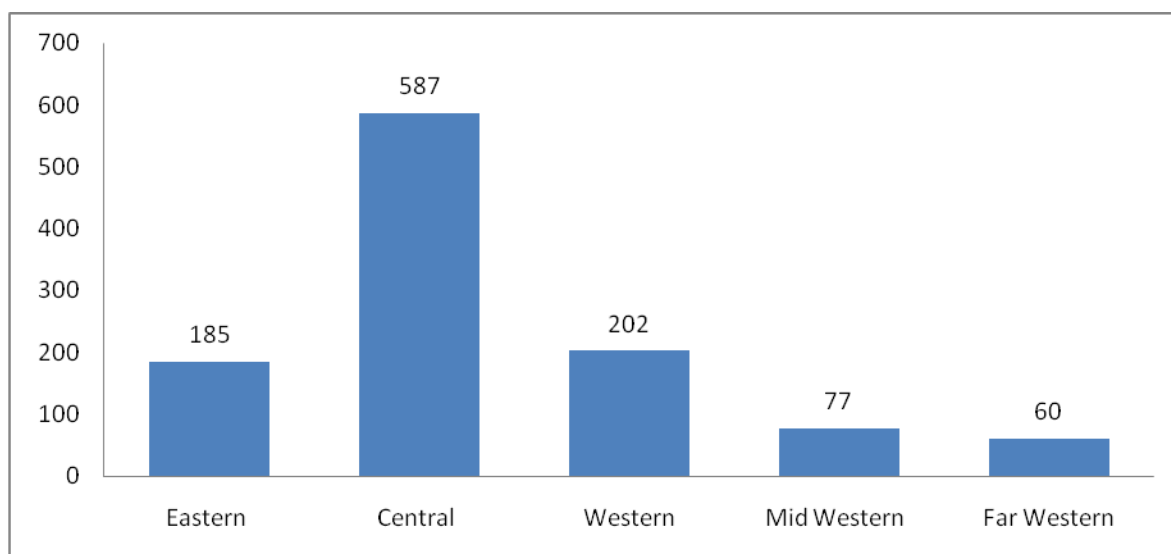
31	Century Commercial Bank Ltd.	2011/03/10	Putalisadak, Kathmandu
32	Sanima Bank Ltd.	2012/2/15	Naxal, Kathmandu

Source: Nepal Rastra Bank, Banking Operation Department

After the comprehensive peace agreement Nepalese bank industry grow faster than expected but in economic crisis throughout the world Nepalese banking industry face same problem of financial crisis. Financial liberalization is as a part of economic liberalization in Nepal, the number of banks and financial institutions has increased substantially. As of mid July 2011, the number of commercial banks reached 32, which were 26 in the same date last year

Figure 1.1

Commercial Bank Branches by Development Region (Mid. July 2011)



(Source: Bank and Financial Institutions Regulation Department, Nepal Rastra Bank)

Nepal Rastra Bank is the apex body to regulate and supervise banks and financial institutions in Nepal. The prime responsibility of Nepal Rastra Bank is to strengthen and ensure the stability and soundness of the banking system in the country. Nepal Rastra Bank conducts Onsite inspection and Offsite supervision both on a regular need basis to supervise the activities of banks and testing their compliance status with the existing laws and regulations.

Nepal is gradually tending towards deregulated banking system. Therefore, the banks and financial institutions are provided with adequate level of freedom in their regular managerial and operational issues. However, it does not mean that they are

allowed to exercise completely regulations free banking system. Of course, observing the market situations and the trends in the international supervisory practices, Nepal Rasta Bank makes necessary adjustment in the banking regulations. They are required to abide by the directives and circulars issued from time to time by Nepal Rastra Bank covering different aspects. The underlying philosophy is that banks should have discretion to offer the banking products and services in a competitive manner but they should comply with the minimum rules and regulations to protect the interest of the stakeholders. Pursuant to this, the objectives of bank supervision in Nepal are to promote and maintain the safety, soundness, and integrity of the Nepalese banking and financial system and boosting up public confidence towards this system through the implementation of appropriate policies of international standards. To achieve such objectives Nepal Rastra Bank has issued a number of regulations and prudential norms that have to be complied with by banking institutions. Such regulations are designed for bank and financial institutions to limit excessive risk taking to manageable levels.

The NRB while issuing the regulations for banking sector from time to time takes strong references of the following documents or sources:

- Nepal Rastra Bank Act, 2002 (2058)
- Bank and Financial Institutions Act, 2006 (2063)
- Company Act, 2006 (2063)
- Supervision Bylaws, 2002(2059)
- Unified Directives to licensed institutions
- New Capital Adequacy Framework, 2007 (Updated 2008)
- Monetary Policy
- International best practices in banking

1.3 Statement of the Problem

The Nepalese financial sector is composed of banking sector and non banking sector. Banking sector comprises Nepal Rasta Bank (NRB) and commercial banks. The non banking sector includes development banks, micro credit development banks, finance companies, co-operatives, financial institutions, Non Government Organizations (NGO's) performing limited banking activities.

A sound banking system is an important because the key roles it plays in the economy. The banker is frequently required to make decisions. It is impossible to make the decision without appropriate information. The main source of internal information is accounting system. But in many Nepalese bank's manages were faced to make decision on the basis of incorrect data. So they are losing their profits. Thus it is necessary to examine their accounting system. To identify what accounting problems are faced by Nepalese commercial bank and how far the accounting system is appropriate accounting to Nepal. Accounting standard is the gist of this research. Bank provides important positive externalities as gathers of saving, allocations of resources and provides liquidity and payment services. In transition and developing economies with less well developed financial market, banks typically are the only institutions producing the information necessary for intermediation providing the portfolio diversification, required for maturity transformation and risk reduction and helping monitor corporate governance.

There is considerable and wide spread interest in the well being of banks and in particular their solvency and the relative degree of risk that attaches to the different types of their business. The operation and thus the accounting and reporting requirement of banks are different from those of commercial enterprises (International Accounting Standards, 1993).

Accounting practice of commercial banks of Nepal are manly governed by the directives issued by the NRB, commercial bank act 1974, Rasta Bank Act, 1955, foreign exchange regulation act, Nepal accounting standard and company with limited liabilities on the recommendation of the Nepal Rastra Bank. This commercial bank act has provides various power to NRB such as power of inspection and to issue necessary directives to the commercial banks. Therefore in the context of Nepal various operations and practices depend up on the legislation and supervision of NRB.

A sound effective profitable and constructive banking system must be based on the effective accounting practice it may be differ from regulatory reporting, the banking transactions includes various risk, so bank need well developed accounting control system and there are numerous interlocked and interdependent transaction.

The evidence of two largest commercial banks NBL and RBB shows that there is need of improving existing accounting and auditing. They're as a need of financial

discipline through adequate transparency and completion. It is said that balance sheet shows the situation of commercial banks, but what situation cannot be seen from it.

Until now there is no such study, which tells the accounting system, policy and procedures, adopted by Nepalese commercial banks. So that the validity and reliability of the accounting or financial information can be tested. So there is need to discover the following issues.

- Have commercial banks used the appropriate accounting system?
- How they record their cash credit and other transactions?
- Whether the existing accounting system sufficiently presents their transactions and how far it is applicable for decisions?
- How they disclose their financial information?
- Whether the accounting control system is efficient or not?
- Is current practice sufficient to disclose the actual condition of the bank?
- Are there any possibilities for further improvements in the accounting practice so as to strengthen the current position?
- How they assess their profit or loss?
- Are commercial banks properly followed Nepal Accounting Standard or not?

1.4 Objective of The Study

The main objective of the study is to identify the accounting practice adopted and problem faced by Nepalese commercial bank and to give an appropriate accounting model for them: more specifically following are the objectives of this study.

- To analyze study the reporting practice of commercial banks.
- To analyze study recording practices of commercial banks.
- To study the reporting practice of commercial banks.
- To identify, how they assess their profit or loss?
- To examine the NRB directives regarding accounting policy and financial disclosure.
- To discover the possibilities of further improvement in order to strengthen the accounting practice of commercial banks.

1.5 Significance of the Study

The study is concerned with the accounting practices in the Nepalese commercial banks. This study essentially evaluates accounting system and practice adopted by different commercial banks.

The role of banking sector in the financial intermediation and financial market development has become quite significant over the years. Benefiting from the evolving conducive environment, there have been improvements in variety, quality and attractiveness of services being offered by the financial system mainly associated with the increased private sector involvement in this sector. To provide the better, modern technology based, quick and qualitative services, joint venture bank play significant role. The accounting practices determine the reliability of information that the financial institution provides mainly the following are the significance of the study.

- This study will give some direction to NRB in order to make the transparent accounting practice and important financial information.
- This study is significance to manager of commercial banks too. It will help them to improve the better accounting practice.
- These studies will be important to management, shareholder, general public, (depositors, prospective customers and investors) policy maker and academician.
- This study will explore for possibility of better accounting practice and will represent their current status.

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

1.6 Limitations of the Study

This study is case study of banks that it may or may not represent all the financial institutions. Due to limitation of the time and resources this study has been combined by different factors. But it definitely will represent all the commercial banks in some extent. Due to the limited time and resources to conduct the study it may have some drawbacks. The following are the major limitation of the study.

- The study focuses only on the accounting practices of selected commercial banks only.

- The study is dependent on the secondary sources of data. In some extent primary data can also be used. The accuracy and reliability of the data depend upon the information provided by concerned authority.
- This study has excluded development bank, financial institutions and co-operative banks.
- Due to time constraints it is not possible to assess overall accounting system of Banking organization.

1.7 Organization of the Study

The study will be organized in five different chapters. Each devoted to some aspects of the study on accounting practices of commercial banks in Nepal.

The Chapters one to five will consist of:

1. **Introduction:** It includes general introduction of commercial bank. Accounting is the systematic development and analysis of information about the economic affairs of an organization. This chapter consists general introduction of commercial bank, statement of the problem, objective of the study, significance of study, limitation of the study and organization of the study.
2. **Review of Literature:** Review of literature includes about previous research study, articles concerned with the study. For this various books, journal and articles were reviewed. This research has focused different books for literal study due to sufficient materials related concepts, rules, principles and practice of commercial banks.
3. **Research Methodology:** It refers to the various sequential steps calling with relations of each such steps to be adopted by researcher in studying a problem with research projects are not meaningful, unless they are in sequential order. This chapter deals with sampling technique, data collection methods, data analysis tools, research instruments etc.
4. **Presentation and Analysis of Data:** The basic objective of the study was to examine the accounting practice of commercial banks in Nepal and to identify recording and reporting practice under regulatory framework. This chapter presents and analyzes the information derived through study.

5. **Summary, Conclusion and Recommendation:** The study mainly aims to access record keeping and reporting aspect of accounting system. It's specific objective are, to study the recording practice of commercial bank, to study the reporting practices of commercial bank and to examining the regulatory framework guiding accounting and financial activity of commercial bank.

CHAPTER II

REVIEW OF LITERATURE

In all activities & in all organizations which require money & other economic resources, accounting is required to account for these resources. In other words, where money is involved, accounting is required to account for it. Accounting is often called the language of business. The basic function of any language is to serve as a means of communication. Accounting also serves this function.

2.1 Conceptual / Theoretical Review

Accounting is the process to ascertain profit or loss during a specified period and to show financial condition of the business on a particular date. Accounting records have to be maintained to measure the income of the business and reflect the financial position. Accounting process will be guided by the existing rule & regulations of the country & the guidance of the concerned industry where recording system play a vital role. Fundamental concepts of accounting affect the accounting system in the financial sector & their profitability is guided by that Brief reviews of the conceptual frame work are presented as follows.

2.1.1 Meaning & Process of Accounting

Accounting, as an information system is the process of identifying, measuring & communicating the economic information of an organization to its users who need the information for decision making. Thus accounting covers the following activities: (Tulsian II Edition: 1.1)

- a. **Identifying the Transactions & Events:** - Accounting identifies transactions & events of a specific entity. A transaction is an exchange in which each participant receives or scarifies value. An event is happening of consequence to an entity. An entity means and economic unit that performs economic activities.
- b. **Measuring the Identified Transactions & Events:** - Accounting measures the transactions and events in terms of a common measurement unit that is the ruling currency of a country.

- c. **Recording:** - Recording is concerned with the recording of identified & measured financial transactions in an orderly manner, soon after their occurrence in the proper books of accounts.
- d. **Classifying:** - It is concerned with the classification of the recorded transaction so as to group the transactions of similar type at one place. This function is performed by maintaining the ledge in which different accounts are opened to which related transactions are brought to one place by posting.
- e. **Summarizing:**-It is concerned with the summarization of the classified transactions in a manner useful to the users. This function involves the preparation of financial statements such as income statement, Balance Sheet, Statement of changes in financial position, Statement of Cash Flow, Statement of Value added.
- f. **Analyzing:** - It is concerned with the establishment of relationship between the various items or group of items taken from income statement, Balance Sheet or both. Its purposes are to identify the financial strengths & weakness of the enterprises. It provides the basis for interpretation.
- g. **Interpreting:**- It is concerned with explaining the meaning & significance of the relationship so established by the analysis. Nowadays, the first six functions are performed by electronic data processing device & the accountants have to concentrate mainly on the interpretation aspects of accounting. The accountants should interpret the statements in a manner useful to the users so as to enable the users to make respond decisions out of alternative courses of actions. The accountant should explain not only what has happened but also (a) why is happened & (b) what is likely to happen under specified conditions.
- h. **Communicating:**- It is concerned with transmission of summarized, analyzed and interpreted information to the users to enable them to make reasoned decisions.

Communication is processed by an accounting cycle through which the identified & measured transactions & events pass. Accounting performs a basic function of a language that is to serve as a means of communication. It is an information system which communicates the accounting information to the users to enable them to make reasoned decisions.

2.1.2 Primary Objectives of Accounting

The main objectives of accounting are as follows:-

- a. **To Maintain Accounting Records:-** Written records are always better than oral records, since written records can be used by different persons for decision making purposes and serve as evidence of transactions. Now a day, the volume of transactions is so large; a human memory cannot absorb each & every transactions. Accounting is done to keep a systematic record of
- Financial transactions
 - Assets
 - Liabilities
- b. **To ascertain the results of Operations: -** To measure the financial performance of an enterprise, the results of operations are ascertained by preparing an income statement which shows the matching of current costs with current revenue during a particular accounting period. A systematic record of incomes & expenses facilitates the preparation of the income statement.
- c. **To depict the financial position: -** To evaluate the financial strength & weakness of an enterprise, the financial position is ascertained by preparing a position statement which shows resources owned by the enterprise and the sources of financing those resources. A businessman want to know what business owns and what happened to his capital whether the capital has increased, decreased or remained constant. A systematic record of various assets and liabilities facilitates the preparation of a position statement which answers all these questions.
- d. **To Communicate the information to the Users: -** Accounting communicates information to internal users & external users. The internal users include all the organizational participants at all levels of management. Top level management requires information for planning, middle level management requires information for controlling the operations. For internal use, the information is usually provided in the form of reports, for instance Cash Budget reports, idle time reports, feedback reports. Whether to retain or replace an equipment decision report, project appraisal report etc. Since the external users do not have direct access to all records of an enterprise, they have to rely on financial statements as the source of information. External users are basically interested in the solvency and profitability of an enterprise. (Tulsian II Edition: 1.7)

2.1.3 Advantages of Accounting

The Advantages of accounting are as follows:-

- a. Facilitates to Replace Memory:-**Accounting facilitates to replace human memory by maintaining complete record of financial transactions. Human memory is limited by its very nature. Accounting helps to overcome this limitation.
- b. Facilitates to Comply with Legal Requirements:** - Accounting facilitates to comply with legal requirements which require an enterprise to maintain books of account.
- c. Facilitates to Ascertain Net Result of Operations:-**Accounting facilitates to ascertain net results of operation by preparing Income statement.
- d. Facilitates to Ascertain Financial Position:-**Accounting facilitates to ascertain financial position by preparing position statement.
- e. Facilitates the users to take Decisions:-** Accounting facilitates the users (i.e. short-term creditors, Long-term creditors, present investors, Potential Investors, Employee groups, Management, General Public, Tax authorities) to take decisions by communicating accounting information to them.
- f. Facilitates a comparative study:-** Accounting facilitates a comparative study in the following four ways:-
 - Comparison of actual figures with standard or budgeted figures for the same period and the same firm;
 - Comparison of actual figures of one period with those of another period for the same firm(Intra-firm Comparison);
 - Comparison of actual figures of one firm with those of another standard firm belonging to the same industry (i.e. Inter-firm comparison); and
 - Comparison of actual figures of one firm with those of industry to which the firm belong (i.e. Pattern Comparison)
- g. Assists the Management:** - Accounting assists the management in planning and controlling business activities and in taking decisions. For example Projected Cash Flow Statement facilitates the management to know future receipts and payments and to take decision regarding anticipated surplus or shortage of funds.
- h. Facilitates Control over Assets:-** Accounting facilitates control over assets by providing information regarding cash balance, Bank Balance, Debtors, Fixed Assets, Stock, etc.

- i. Facilitates the Settlement of Tax Liability:** - Accounting facilitates the settlement of tax liability with the authorities by maintaining proper books of accounts in systematic manner.
- j. Facilitates the Ascertainment of value of Business:-** Accounting facilitates the ascertainment of value of business in case of transfer of business to another entity.
- k. Facilitates Raising Loans:** - Accounting facilitates raising loans from lenders by providing them historical & projected financial statements.
- l. Acts as Legal Evidence:** - Proper books of accounts maintained in systematic manner act as legal evidence in case of disputes.

2.1.4 Types of Accounting Information:-

Accounting information may be classified in number of ways on the basis of purpose of accounting information, on the basis of measurement criteria and so on. The various types of accounting information are given below:-

a. Accounting information relating to financial transactions & events

- i. Financial Position:** - Information about financial position is primarily provided in a balance sheet.

The financial position of an enterprise is affected by the economic resources it controls, its financial structure, its liquidity and solvency, and its capacity to adapt to changes in the environment in which it operates.

- Information about the economic resources controlled by the enterprise and its capacity in the past to alter these resources is useful in predicting the ability of the enterprise to generate cash and cash equivalents in the future.
- Information about financial structure is useful in predicting future borrowing needs and how future profits and cash flows will be distributed among those with an interest in the enterprises; it is also useful in predicting how successful the enterprises is likely to be in raising further finance.
- Information about liquidity and solvency is useful in predicting the ability of the enterprise to meet its financial commitments as they fall due. Liquidity refers to availability of cash in the near future to meet financial commitments over this period. Solvency refers to the availability of cash over the longer term to meet financial commitments as they fall due. (Tulsian II Edition: 1.7)

- ii. **Financial Performance:** - Information about financial performance is primarily provided in the statement of profit & loss (also known as Income Statement).

Information about the performance of the enterprises in particular its profitability is required in order to assess potential changes in the economic resources that it is likely to control in the future. Information about variability of performances is important in this respect. Information about performance is useful in predicting the capacity of the enterprise to generate cash flows from its existing resource base. It is also useful in forming judgments about the effectiveness with which the enterprise might employ additional resources.

- iii. **Cash Flows:** - Information about cash flows is provided in the financial statements by means of a cash flow statement.

Information concerning cash flows of an enterprise is useful in order to evaluate its investing, financial and operating activities during the reporting period. This information is useful in providing the users with a basis to assess the ability of the enterprises to generate cash and cash equivalents and the needs of the enterprises to utilize those cash flows.

Such information may further be classified as follows:

- On the basis of Historical cost
- On the basis of a current costs
- On the basis of Realizable value
- On the basis of present value

- a. **Accounting information relating to cost of a product, operation or function.**
b. **Accounting information relating to planning & controlling the activities of enterprise for internal reporting**

Such information may further be classified as follows:-

- Information relating to Finance Area
 - Information relating to Production Area
 - Information relating to Marketing Area
 - Information relating to Personal Area
 - Information relating to other Areas (Such as Research & Development).
- c. **Accounting information relating to social effects of business decisions.**
d. **Accounting information relating to environment & ecology.**

e. Accounting information relating to Human Resources.

2.1.5 Qualitative Characteristics of Accounting Information

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. The four principal qualitative characteristics are:-

a. **Reliability:**-To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by user to represent faithfully that which it either purports or could reasonably be expected to represent. Information may be relevant but so unreliable in nature so it becomes useless. Reliability of the financial statements is dependent on the following :

- **Faithful Representation:** - To be reliable, information must represent faithfully the transactions and other events which either purports to represent or could reasonably be expected to represent. Most financial information is subject to some risks of being less than faithful representation of that which it purports to portray. This is not due to bias or other event to be measured in devising or applying measurements and, presentation techniques that can convey messages that correspond with lose transactions and events.
- **Substance over Form:** - If information is to represent faithfully the transaction and other event that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance and economics reality and not merely by their legal forms. The substance of transaction or other event is not always consisted with that which is apart from their legal or contrived form.
- **Neutrality:** - To be reliable, the information contained in financial statement must be neutral. Financial statements are not neutral if by selective presentation of information they influence the making of the decision or judgment in order to achieve a predetermined result or outcome.
- **Prudence:**-To prepare of financial statement have to contend with uncertainties that inevitable surround many events and circumstances. Such uncertainties are to be recognized by the disclosure of their nature

and extent and by exercise of prudence in the financial statements. Prudence is the inclusion of the degree of caution. In the exercises of judgment needed in making the estimate required under conditions of uncertainties so that assets or income are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow the creation of hidden reserves excessive provisions, the deliberate understatement of assets or income or deliberate overstatement of liabilities or expenses.

- **Completeness:** - To be reliable the information in the financial statements must be complete within the bounds of materiality and cost. An omission can cause information to be false or misleading and thus, unreliable and deficient in terms of its relevance.
- b. Relevance:** - To be useful, information must be relevant to the decision making needs of users. Information has the quality of relevance when it influences the economic decisions of the users helping them to evaluate past, present or future events or confirming or correcting their past evaluation. The productive & confirmatory roles of information are interrelated.
- c. Understandability:-** An essential quality of the information provided in financial statements is that it is readily understandable by users. For this purpose, users are assumed to have a reasonable knowledge of business & economic activities & accounting & a willingness to study the information with reasonable diligence.
- d. Comparability:** - User must be able to compare the financial statements of an enterprise through time to identify trends in its financial position & performance. Users must also be able to compare the financial statements of different enterprises in order to evaluate their relative financial position, performance & changes in financial position.

2.1.6 Accrual basis of Accounting & Cash basis of Accounting

For the purposes of recording transactions there are two basis of accounting. They are:-

- a. Accrual Basis of Accounting:** - Accrual basis of accounting is a method of recording transactions by which revenue; cash, assets & liabilities are reflected in the accounts for the period in which they accrue. This basis includes

consideration relating to deferrals, allocations, depreciation & amortization. This basis is also referred to as mercantile basis of accounting.

- b. Cash Basis of Accounting:** - Cash Basis of Accounting is a method of recording transaction by which revenues, costs, assets and liabilities are reflected in the accounts for the period in which actual receipts or actual payments are made.

2.1.7 Role of Accountant in the society

An Accountant with his education, training, analytical mind & experience is best qualified to provide multiple need based service to the ever growing society. The accountants of today can do full justice not only to matters relating to taxation, costing, management accounting, financial layout, company legislation & procedures but they can act in the fields relating to financial policies, budgetary policies and even economic principles. The services rendered by accountants to the society include the following:-

- a. To maintain the books of accounts in a systematic manner.
- b. To acts as a statutory auditor.
- c. To acts as an internal auditor.
- d. To acts as social auditor.
- e. To act as taxation adviser.
- f. To act as management accountant.
- g. To act as financial advisor.
- h. To provide management consultancy services.
- i. To act as company law advisor.
- j. To act as liquidator.
- k. To act as arbitrator.
- l. To act as receiver.
- m. To act as management information system consultant.

2.1.8 Basic Assumptions of Accounting

The basic assumptions of accounting are like foundation pillars on which the structure of accounting is based. The four basic assumptions are accounting Entity

Assumption, Money Measurement Assumption, Going Concern Assumption & Accounting Period Assumption.

2.1.9 Basis Principles of Accounting

Basic principles of accounting are Duality Principle, Objectively Principle, Historical Cost Principle, Revenue Recognition Principle, and Matching Principle & Full Disclosure Principle. (Tulsian II Edition: 2.3)

2.1.10 Accounting Policies

Accounting policies refer to the specific accounting principles & methods of applying those principles adopted by enterprise in the preparation & presentation of financial statements. There is no single list of accounting policies which are applicable to all enterprises in all circumstances. The management of each enterprise has to select appropriate accounting policies having regard to the nature & circumstances of the enterprise.

The major considerations governing the selection and application of accounting policies are prudence, substance over form, materiality, etc.

2.2 Review of Related Statutory Provisions

There are various statutory provisions which are mandatory compliance to the concerned institutions. Bank & financial institutions are guided by the various acts, rule & regulations. These institutions must have to fulfill the compliances and provisions made by them. Therefore some related acts are reviewed as follows:-

2.2.1 Nepal Rastra Bank Act 2058

According to section 79 Nepal Rastra Bank can ask for reporting about ;

- Account within the balance sheet.
- Off Balance Sheet transactions & promise.
- Statement of income & expenditure.
- Ratio of the headings of the income & expenditure account & the balance sheet.
- Special types of conditions & promise on loan and advance which are not in the boundary specified by Nepal Rastra Bank.
- Time wise Adjustment of Assets & Liabilities.

- Position of foreign currency.
- Spot & Advance exchange rate.

National organization a description of the international guidance that currently exists as follows

2.2.2 National Accounting Standards:

Nepal Rastra Bank (NRB) is the central bank of Nepal and the banker to Nepal government. It was established in 1955 by the NRB act, 1995 (Which was repealed in 2002 by the new NRB act, 2002), as an autonomous corporate body with perpetual succession. It is fully owned by Nepal Government and managed by Nepal Government. The NRB act authorized NRB to issue mandatory directives to commercial banks and financial institutions on banking operations currency and credit. So for NRB has issued ten directives dealing respectively with maintenance of minimum capital fund by commercial banks, loan classification and loan loss provision, limit an credit exposure and facilities to a single borrower group or sector, accounting policies and format of financial statements minimization commercial bank risk, good corporate governance, time frame for implementation of regulatory directives, investment in share in share and securities, statistics and information to be furnished to NRB and transfer of sales of share of the promoters. (NRB Banking and Financial Institutions Supervision Department, 2011)

2.2.3 The NRB directives published by NRB:

The latest directives require commercial banks to prepare their accounts in accordance with international accounting standards (IAS), there is no similar requirement for development banks of finance companies. A new unified net to govern. Commercial banks, development banks and finance companies are in the process of drafting.

Commercial banks are required to publish their annual financial statements in newspaper, and to charter audit committees and carryout internal audits. Banking and financial institution supervision department (2059 BS) have prescribed principle of accounting policies, consistency in accounting head, notes on accounts and contingent

liabilities. Commercial banks are required to publish their annual financial statements in public newspapers and to credited audit committees and carryout internal audits.

Objectives of the Mandatory Reporting

Bank & financial institutions have to submit the report as per the above list within a specified time period. Objectives of the reporting can be point out as follows:-

- a. To see the efforts of higher level management ... other managerial sectors, mainly human resource management, fund management, internal auditing, information technology, credit management, deposit management & financial management etc in the internal control, risk minimization & maintaining corporate governance.
- b. To us the micro level data in macro level.
- c. To overview whether the directive issued by NRB and other concerned institutions are following by the bank & financial institutions or not.
- d. To see whether the bank & financial institutions the rule regulations & conducts of the organizations or not.
- e. To see the availability of related software to generate the required reporting system or not.
- f. To see the required competent human resources to operate & report to the concerned body or not.
- g. To see the operation process of the concerned bank & financial institutions that whether they are competent in the changed globalize situation or not.
- h. Other objectives of the regular reporting can be pointed out as follows:-
 - Deposit mobilization
 - Loan Management
 - To overview spread rate.
 - To overview the qty of NPA.
 - To overview the risk management.
 - To overview the internal control system.
 - To overview the disaster management.
 - To overview the level of information technology.
 - To overview the level of profit & loss.
 - To overview the cash/Vault management.
 - To overview the treasury management.

- To overview the overall financial management.

Mandatory formats for reporting can be classified as below.

a. Formats for daily reporting

As per NRB directive, inter bank borrowing have to be reported to NRB after one day of the borrowing transaction made. Objective of the reporting is to be aware about the liquidity position of the bank & financial institution & to be aware about the rate of interest in the market.

b. Formats for weekly reporting

As per NRB directive no 13; A class financial institutions have to maintain 5% compulsory CRR. of total deposit at NRB. Similarly B & C class financial institutions have to maintain 2% compulsory CRR of total deposit & borrowing at NRB.

Bank & financial institution have to send report to the concerned supervision department within 7 days. Calculation of CRR will be done as per weekly basis (Sunday to Saturday). If the bank & financial institution fail to maintain the required CRR, the institutions have to pay interest as per general interest rate.

c. Formats for monthly reporting

Bank & financial institutions have to submit following reports at bank & financial institution regulation department & concerned supervision department within in 15 days. Statement should be prepared consolidation all of the financial institution's branches as a single unit.

- Profit & Loss A/C as per NRB format 9.2.
- Balance Sheet as per NRB format 9.1.
- Sector wise statement of loan & advances as per NRB format 9.3.
- Collateral wise statement of loan & advances to the public enterprises as per NRB format 9.7.
- Deposit collection detail as per NRB format 9.8.
- Loan & advances to the public enterprises as per NRB format 9.7.
- Statement of foreign assets as per NRB format 9.10.

- Investment on government bond & NRB bond as per NRB format 8.1.
- Investment on share capital of the company as per NRB format 8.2.
- Investment on debenture of corporate institution as per NRB format 8.3.

d. Formats for quarterly reporting

Bank & financial institutions have to submit following reports at bank & financial institution regulation department & concerned supervision department within 1month. Statement should be prepared consolidation all of the financial institution's branches as a single unit.

- Loan & advances to priority & deprive sector as per BRB format 9.5
Loan & advances to Director/ CEO/Promoters/Shareholders as per NRB format 9.6
- Interest rate & amount wise Statement of fixed deposit as per NRB format 9.11.
- Amount due to the big Loan as per NRB format 9.12.
- Statement of overdue loan and advances as per NRB format 9.13
- Capital Fund Table as per NRB format 1.1 with certification of internal auditor.
- Risk weighted assets as per NRB format 1.2 with certification of internal auditor.
- Classification of loan & advances & its provision as per NRB format 2.1
- Classification of loan & advances & its provision as per NRB format 2.2
- Provision for Non Banking assets as per NRB format 2.3.
- Liquidity profile table for minimizing liquidity risk as per NRB format 5.1.
- Interest rate revaluation table for minimizing interest rate related risk as per NRB format 5.2.
- Foreign exchange rate reevaluation table for minimizing foreign exchange related risk as per NRB format 5.3.

e. Formats for half yearly reporting

- Statement of Single obligor limits & inter related customer.

f. Formats for yearly reporting

Commercial banks have to prepare their financial statement as per directive no 4. According to this directive the licensed institution have to prepare statement for one fiscal year starting from 1st Shrawan & ended on the end of Ashadh. But for the year of establishment, date of establishment to end of Ashadh will be the fiscal year. The licensed institutions have to make auditing within the specified period and prepare the following statements: -

- Balance Sheet
- Profit & Loss A/C
- Cash Flow Statement
- Profit & Loss Appropriation A/C
- Schedules 4.1 To 4.31

The licensed institutions cannot change the formats prescribed by NRB & have to publish annual report by submitting the above statements & schedules. The institutions have to update their websites by submitting the annual book. For the information to the general public the licensed institutions have to publish Balance Sheet, Profit & Loss A/C, and Cash Flow Statement & Schedule No. 4.1, 4.2, 4.17 & 4.30 in the national level newspaper for national level institutions & in regional level & district level newspaper for regional & district level institution respectively. Formats for financial institutions for preparing & reporting annual financial statements are attached in the appendix of this study.

g. Other Reporting

- Statement of Loan sanction amounting Rs 2.5 Million or above as per credit information bureau format no 1& 2
- The institutions have to publish interest rate on deposit & loan in the national level newspaper for national level institutions & in regional level & district level newspaper for regional & district level institutions respectively.
- Change on interest rate should have to publish within 7 days.
-

Implication of the Mandatory Reporting System

In most of the countries in the world, the business of banking is conducted by private firms owned and operated for profit making motive. Banking is a special industry and banks are those financial institutions that offer the widest range of financial service especially credit, saving and payment service. It is often asked why banks should be subject to official supervision in a way that other business enterprises are not. For example, other industries are also critical in modern economy, the telecommunication industry; indeed, a modern banking system could not operate without reliable telecommunication services. Yet telecommunications firms are not supervised for the purpose of maintaining their financial soundness.

Why, Then, is it that the telecommunications industry can be relied on the function reliably without official interventions designed to promote financial soundness, while the banking industry cannot?

One reason that banks receive special treatment is that banks failures have stronger adverse effects on the economy than do other business failure. Bank failures can disrupt the flow of credit to local communities, interfere with the operation of the payments system and reduce the money supply. These effects can be long-lasting. In addition, they serve as financial intermediaries to allocate fund and risks among individual and firms by extending loans or buying securities with funds that they receive as deposits.

Similarly, banks provide the means of settlement for the bulk of the transactions, which take place within the economy and across continue. Apart from barter transaction and transactions settled in currency, most transactions are settled by way of a cheque drawn on an account at a bank. Even purchase, which, in the first instance, are charged to credit, including credit card, amounts, and are ultimately settled in this way. The major function of banks is to act as financial intermediaries. This is, they act as a repository for the savings of those who spend less than their income and as a source of borrow funds for those whose spending exceeds their income. In playing this role, Banks facilitate real resources transfers among different group of people, in accordance with their different needs and preference. These deeds and preferences depend, for example, on life cycle factors, such as the need to borrow to but a house, and the need to save for retirement. Also banks play an

important role is making saving available to those with productive investment opportunities.

Thirdly, banks are an important source of liquidity for an economy. This is inherent in the payments services provided by the banking system, insofar as deposits held for transaction' purpose must be available for transfer on demand. Annual Report 2011, 10 proportion of bank deposits are accordingly held in on demand or readily accessible account. Borrowers, on the other hand, generally have a need for longer term funding. Banks, to some extent, can reconcile these competing needs by operating on the basis of an assumption that not all customers holding demand deposits will wish to withdraw or spend them at the same time. Also, in the normal course of business on any bank's customers are likely to loge their accounts more or less as much as they withdraw.

Similarly, a feature of banks is that typically they have a low ratio of own (Shareholders') funds to borrow funds (Deposits). This ratio is typically in the 5-10 percent range, compared with a ratio of at least 40%, and other higher, for non financial business firms. But the inherent imbalance between 'own' funds and 'borrowed' funds in a bank's overall funding mix persons some potential problems. Because banks' shareholders have only a small amount of their own funds at stake, there is an underlying incentive for banks to tend toward risk taking activities. In fact, shareholders' losses are limited to the amount of their (relatively small) investment and banks depositors bear any remaining loss. In short, banks shareholders, in the absence of supervisory requirements and constraints, would potentially have access to large profit opportunities, but with limited downside risk to themselves.

To make quantitative accounting information & to maintain the financial soundness of the bank & financial institutions these institutions are supervised.

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- **Sale or transfer of promoters Share (Directive No 10)**

Recording system of the bank & financial institutions will not directly be affected by the sale or transfer of promoters share but recording will be indirectly affected by this directive no 10 issued by NRB. This directive is

related to sale or transfer against the statutory requirements, sale or pledge of promoter shares, during the period & where the promoter of the bank is an entity, unauthorized transfer of ownership of such entity.

- **Consortium Financing (Directive No. 11)**

This directive is related to the formation & dissolution of consortium, fulfillment of the specified duties of lead bank/member bank/financial institutions & related matters. Recording will be affected by the provision made by meeting & discussion between the consortium parties.

- **Credit Information & Blacklisting (Directive No. 12)**

All bank & financial institutions have to take information from the credit information centre as prescribed by this directive. These institutions have to submit periodic submission of information to CIC. For this purpose concerned institutions have to take information from the borrower as the time of sanction/renewal/restructuring/rescheduling of facilities. Request for blacklisting will be based on the recorded information of the concerned bank & financial institutions & recording process will also be affected by this directive issued By NRB.

- **Cash Reserve Requirements (Directive No. 13)**

All the licensed bank & financial institutions have to maintain cash reserve as prescribed by this directive. Therefore the concerned bank/financial institution's recording process will be based as per this directive.

- **Branch/Office Operation (Directive No. 14)**

According to this directive; branch, extension counter & remittance counter should be operated by taking permission from the NRB. Unauthorized operation of the branch/extension counter & remittance counter will be subject to punishment according & Nepal Rastra Bank Act 2058. Similarly inter branch transaction should be done according to the GAAP

- **Interest Rate(Directive No. 15)**

According to directive bank & financial institutions have to fix their interest rate and publish in the national level newspaper for national level institutions &

regional level newspaper for regional level newspaper at the time of implementation of interest rate.

Licensed institutions cannot change their interest rate more than 0.5% without publishing the interest rate.

Recording should be done according to directive no xv issued by NRB.

- **Mobilization of Financial Resources (Directive No. 16)**

This directive is related about the deposit concentration, resource mobilization beyond the limit & issuance of debenture & other instruments. According to this directive licensed institution can collect 20% deposit from a single firm, company & institutions.

- **Deprived Sector Lending (Directive No. 17)**

The licensed institutions have to issued their loan to the people of deprive sector as per this directive.

2.2.4 Compliance with Internal Rule, Regulations & Guidelines

Recording system of the financial institutions will be affected by the internal rule & regulations issued by the management of the concerned bank/financial institutions. This will directly affect the recording process of the concerned institutions. Therefore internal rule/regulation & guidelines should be considered at the time of recording.

2.2.5 Others

Guarantee & other continent liabilities should be recorded properly. Similarly, compliance of pre requisite conditions for purchase of fixed assets and other aspect also will affect the recording process.

Official supervisors have a role of in this regards mostly because banks' depositors are generally not well placed to monitor the portfolio behavior or banks not to enforce compliance with the terms of the national covenant depositors have with their bank.

This balance, though, can be upset if a bank's customers use confidence in it. In this event little will be deposited and substantial amounts will be withdrawn, ultimately resulting in the failure of the bank. Clearly, therefore, the

role banks play in providing the link between the medium to long term needs of borrowers and the need the economy has for liquid transaction balances, is, as with the payments system, importantly dependent on the public having confidence in banks.

Hence, banking supervisions is basically concerned with constraining the risks which banks can take in using other people's money which they have borrowed on the basis of a representation that it will be repaid in full together with interest at the rate contracted. To understand why it is necessary to place restrictions on banking firms; it is useful to consider the financial structure of the bank. These all reasons call for an independent supervisory body to conduct a direct assessment of the overall condition of the banking institutions with regular review of the banks' financial positions, system and controls, risk management practices and the compliance with the relevant regulatory requirements. Nepal Rastra Bank is the supervisory body of for all the licensed institutions that carry banking transaction.

Traditionally, bank supervisions have contained risk with supervisory review and capital requirements. Supervisors review includes on-site examination and off-site surveillance. Although on-site examination is the most effective tool for spotting safety and soundness problems, it is costly and burdensome. On-site examination is costly to supervisors because of the examiner resources required and it's burdensome to bankers because of the intrusion into daily operations. Off-site surveillance reduces the need of unscheduled exams. Off-site surveillance also helps supervisors plan exams by highlighting risk exposures at specific institutions. For example, if pre exam surveillance reports indicate that a bank has significant exposure to foreign exchange transaction, then supervisors could add market risk related supervisor (Specialist) to the on-site examination team. The cornerstone of supervisory review is through, regularly scheduled, on-site examination. These examinations focus six components of bank safety and soundness, known together is CAMELS: C for capital protection, A for assets quality, M for management component, E for earnings strength, L for liquidity risk exposure and S for sensitivity of market risk. The banks are awarded a grade of 1 (Best) through 5 (Worst) on each component. Examiners use these six sources to award a composite CAMELS rating, also expressed on al 1 through 5 scales.

The scores are kept confidential to facilitate the flow of information between examiners and bankers. The component of bank's management cannot be assessed only in terms of the returns submitted by the bank. Thus, the off-site supervision cannot make use of the CAMELS rating. So, a separate rating has been devised for the off-site supervision which uses the components of CAMELS except for the "M" representing management and the rating is, thus labeled CAMELS (www.nrb.org.np).

Onsite Supervision/Enforcement:

This division is responsible to conduct the on-site examination of the banks in accordance with the annual plan of the department. Almost more than thirds of the department's staff is dedicated to these activities. The objectives of on-site inspection conducted by bank supervision department can be summarized as:

- To determine the commercial banks' financial positions and the quality of its portfolios and operations so as to ensure that it is not operating against the interests of the depositors.
- To assess and appraise the competence and capability of the commercial banks' management and staff, as the quality of the institution's management will determine the soundness of its operation.
- To ascertain whether the bank is complying with applicable laws, regulations and monetary measures issued by the RNB.
- To evaluate the adequacy of the bank's records, systems and internal controls.
- To test the accuracy and validity of the data submitted to the NRB by the banks.

To test the accuracy and validity of the data submitted to the NRB by the banks. The on-site aspect of the department's function includes independent on-site assessment of banks' corporate governance, internal control system, reliability of information provided etc. The department also conducts spot-checks for quick conformation/verification to facilitate the detection of frauds, embezzlement, malpractices, abuses of power and undesirable events and practice.

The On-Site Examination Carried out by the Department is Grouped into:

- A. Maiden or initial examination, which is usually conducted within six months of commencement of operation by a new bank;
- B. Routine and corporate level of full fledged inspection, which is the regular examination.
- C. Targeted inspection, which addresses specific areas of operation of a bank e. g. credit, foreign trade etc.
- D. Special inspection, which is carried out as the need may arise.

The on-site examination unit conducts periodic examination and special visits in supervised institutions. This unit complements the off-site in the verification of information provided on the returns submitted to the off-site. On-site examinations are carried out at the banks' premises and involve examination of their business books and assessment of their technical, professional and organizational resource. Risk management function is gaining in importance in the banking sector. In addition to credit risk, banks are exposed to other risk such as market risk, liquidity risk, operational risks and other risk. Their monitoring and supervision, and successful management require advanced specialized knowledge. The on-site team within its assessment of the banks' management of operational risk performs on-site examination of IT systems in banks, internal control systems, compliance with regulations, in particular supervision of the implementation of the measures of monetary and foreign exchange policy and compliance with laws and other regulations, internal procedures and payment system procedures.

Off-site Supervision:

This division carries out the off-site surveillance of all the commercial banks, operating in Nepal. The core objectives of this function are to conduct periodic financial review of the banks in order to identify the potential problems and to gauge the compliance to prevailing laws and stature as well as to support the on-site function of the department. In order to pursue its objectives through systematic development, the department has decided an off-site supervision manual, which has been put in to effect. The supervision manual provides guidelines on the objectives, procedures and prescribed documents of the off-site

supervision. The inspection and supervision by law, 2059 identifies the following key objectives of an off-site supervision of the bank supervision department.

- To obtain regular information in respect of financial condition and health of the commercial banks
- To identify potential problems of commercial banks in the absences of on-site inspection
- To help and strengthen the quality of on –site inspection
- To ascertain the compliance status to the applicable laws, regulations and directives on the basis of financial statements and other documents obtained from the commercial banks.

The off-site aspect reviews and analysis the financial condition of banks using prudential reports, statutory returns and other relevant information. It also monitors trends and developments for the banking sector as a whole. Industry reports are generated on quarterly basis. The off-site supervisions unit is responsible for supervising banks' operation on the basis of data and reports submitted by banks. On the basis of prudential analysis of different financial indicators by banks, group of per banks an the banking system as a whole, the banks are rated in term of the level of risk of involved in their business operations in accordance with the adopted methodology for analysis. The off-site surveillance unit monitors, reviews and analyzes financial institutions' returns and prepare reports based on said returns and serve as an early warning device to detect emerging problems before they lead to an opened crisis. The returns are used by the supervisors/examiners for the purpose of determining banks' exposure to risk, the effect on banks' profits etc. Some basic ratio (the financial solution indicates) are computed form these returns and are used to analyze such important areas as capital, Adequacy, Assets Quality,Earnings,Liquidity and sensivity to market risk.

2.2.6 Present Practices in Banking Sectors

Banks are following certain practices to make the operation of the banking transactions easy and for the purpose of the internal control. Some practices are pointed out as follows:-

Accounting Software:-

Because of the increased number of expectations from the side of the customer & globalization in the world of information technology most of all institutions are using banking software. The institutions that were using manual accounting are also diverting to computerized accounting system. All the samples of this study are using software of recording transactions.

Computerized accounting system is being helpful for according transaction easily & processing the recorded information according to the requirement. At the present time regulation body of the bank & financial institution are seeking on time up to date information. For this purpose accounting software are being useful. Nepalese bank & financial institutions are using different types of software. Some are using differentiated software which is expensive in price & requires highly skilled manpower to operate & handle, where as some are using local software. Product & facilities of the bank & financial institutions are also related with the facilities available in the accounting software.

a. Departmentation of Human Resources

For the purpose of recording transaction in banking business human resources in different department are involve to record the transaction in banking business. Departments involved in banking business can be categorizing as follows:

Departments involved in Banking Business:-

- i. Customer service Department
- ii. Cash/Operation Department
- iii. Finance (Accounts) Department
- iv. Credit Department
- v. Administration / Human Resource Department

vi Treasury Department

vii. IT Department.

According to level, human resources are categorizing as per following:-

i. Executive Level Human Resource

ii. Officer Level Human Resource

iii. Assistant Level Human Resource.

iv. Helper Level Human Resources

2.2.7 Review of Related Study

A study done by **Acharya** (2010) entitled "*A Study of NRB Directives with special reference to Capital Adequacy & Loan Loss Provision*" concludes that role of NRB is effective in regulation bank & financial institutions. Both off-site & On-site inspections are best for regulation bank & financial institutions. NRB directives are implemented for sales & sound banking system & developing the better commercial banks. Commercial banks are implementing the directives although there is some weakness in NRB directives.

He concludes that capital adequacy norms are set by the NRB in order to protect the depositors. Depositors are the prime beneficiary of the capital adequacy norms. He views that little bit liberal capital adequacy norms should be set where bank may feel free to exercise. He adds that only increment in aid-up capital does not work as barrier for new entry of the commercial bank Loan & loan loss provision requirements of directive are satisfactory although directives related to bank listing of loan defaulter are not adequate

He recommends that internal audit department should be made stronger which should regularly check & monitor to make sure that directives issued are properly implemented. Proper feedback should be provided to the different

departments to reach their objectives which may be for the compliance of the directive issued.

NRB should consult with the various commercial banks officials before setting standards on different aspects of commercial banks. Complaints & criticism of bank officials should be considered accordingly.

Issuance of new directives or revising of norms should not be made just to meet the international banking norms or standards. They should be issued only after properly analyzing its importance, suitability & impact on commercial banks.

NRB should improve its corporate culture & good governance in order to ensure proper regulating & supervising of the commercial banks. It should change the attitude of the supervisory staffs & proper training & skill development program should be conducted. He adds that the supervisory & monetary body of the NRB should be made powerful so that they can penalize the commercial banks on non compliance of the directives. Frequent supervision should be made so that the commercial banks are ready to show that they are updated and are on the track shown by NRB.

Mrs. Shrestha (2010) in her studies *"Impact & Implementation of NRB's Guidelines on commercial banks a study of Nabil Bank Ltd & Nepal SBI Bank Ltd"* has tried to find out the impact of NRB directives on commercial banks. She has also made effort to find out whether the directives are actually implemented and are being monitored by NRB directives.

Mr. Pant (2009) in his thesis entitled *"A study of Commercial Bank Deposit & its Utilization"* has made an attempt to highlight the discrepancy between resource collection & utilization. He conducts that commercial banks failure in resource utilization is due to their lending confined to short term only. He recommended the commercial banks to give emphasis also on large & medium term lending for better utilization of the deposit.

Bhusal (2008) carried out a research study on *"Financial Performance analysis of commercial banks in Nepal in the framework CAMEL"*. The study

had focused on assessing and comparing the financial condition and performance of Kumari Bank Ltd & Machhapuchhere Bank Ltd. in the framework of CAMEL by using descriptive and analytical research design.

She had tried to find out the capital adequacy ratio, qualities of assets, earning performance & liquidity position of the selected sample. She concludes that core capital adequacy ratios of the selected sample are in decreasing trend. Supplementary capital adequacy ratio is within the NRB norms. She recommends to stable and adequate capital adequacy ratio in the future.

2.2.8 Research Gap

Almost all the researchers from the academic sectors are focusing in the results of recorded data which are reported for the concerned authority with in specified format. These results are generated by recording the data, processing them according to the requirement. Reliability of reported data will be based on the reliability of the recorded information. While reviewing the literature; I didn't found any researches done about the accounting system especially in recording system. Some researchers are focusing about the mandatory provisions of regulating body and required skill for the same. Researches especially about the accounting system in commercial banks about the about the recording system and formats specified by the regulating body are lacking. Regulating bodies and tax authorities had done some researches about the concerned subject which are presented in the format of directives and rules.

This research study tries to overview the accounting system of bank especially recording and reporting system and the concerned aspects of the same.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology refers to the various sequential steps (along with rationale of each steps) to be adopted by researcher in studying a problem with research projects are not meaningful, unless they are in sequential order, which will be determined by the particular problem at hand. This chapter deals with sampling techniques, data collection methods, data analysis tools, research instruments etc. To achieve the stated objectives the following methodology has been used.

3.2 Research Design

The research designing implies evaluate the objectives of the study and problems way for research visibility. This is conclusive research design. It is based on descriptive survey study. A conclusion is designed to get by this researcher.

3.3 Nature & Source of Data

The study is mainly based on secondary sources of data, which are collection from their respective annual report especially from profit and loss account, balance sheet, and other publication made by Nepal Rastra Bank. The researcher has use two types of data i.e primary data, secondary data. The primary data are those, which are collected as a fresh and for the first time and thus happen to be original in character. The primary data have been collected through personal interview, with direct observation technique, Telephone inquiry and questionnaire survey. The questionnaire and interviews (telephone & personal) have been taken with executives and non executives each belonging to six – sample banks. The survey of commercial bank is based on a structured questionnaire as well as unstructured dialogue

The secondary data on the other hand are those, which have already been collected by someone else and passed already through statistical process. The secondary data have been collected from the following sources.

- I. Annual report of Commercial Banks.
- II. Nepal Rastra Bank directives (published and unpublished)

- III. Publication of Nepal Rastra Bank.
- IV. Various acts (Commercial Bank act, Rastra Bank act.)
- V. Other Government and Non – Government Publications.
- VI. Various Accountancy Books of Different Authors And Publications.
- VII. Previous Studies and Reports.
- VIII. Journal, Websites and Newspapers.
- IX. Central Library T.U. Kritipur.

3.4 Populations and Sample:

At present, there are 32 commercial banks operating in Nepal. The population for this study comprised all the commercial banks operating in Nepal. The list of commercial banks are:

- Nepal Bank Limited
- Rastriya Banijaya Bank
- NABIL Bank Limited (NABIL)
- Nepal Investment Bank Limited (NIBL)
- Standard Chartered Bank Nepal Limited (SCBN)
- Himalayan Bank Limited (HBL)
- Agriculture Development
- Nepal SBI Bank Limited
- Nepal Bangladesh Bank Limited
- Everest Bank Limited
- Bank of Kathmandu
- Nepal credit & Commercial Bank Limited
- Lumbini Bank Limited
- Nepal Industrial & Commercial Bank Limited
- Machhapuchhre Bank Limited
- Kumari Bank Limited
- Laxmi Bank Limited
- Siddhartha Bank Limited
- Global Bank Limited
- Citizen Bank Limited

- Prime Bank Limited
- Bank of Asia
- Sunrise Bank
- KIST Bank
- N M Bank Limited
- Janata Bank Limited
- Mega Bank Nepal Limited
- Commerz & Trust Bank Nepal Limited
- Civil Bank Limited
- Century Commercial Bank Limited
- Sanima Bank Limited

3.5 Data Analysis

The main purpose of analyzing the data is to change it from an unprocessed form to an understandable presentation. So the analysis of data consists of organizing, tabulating, performing statistical analysis and drawing inferences. Hence data have been processed, organized, tabulated and presented in a suitable form. Various financial/accounting and statistical tools have been applied such as ratios, percentage, average, weighted average, median, quartiles and test of hypothesis.

Simple arithmetic's average is the sum of the value of all the elements in the sample and divide by the number of elements in the sample. Weighted mean is an average that takes into account how important each value is to be the overall total. In this study, weighted average mean is calculated to rank wise number of response to field survey.

The median is a single value that measures the central item in the data, half the items above the median, half below it. If the data set contains an odd number of items, the middle item of the array is the median. In this study, median values of the respondents of each statement of observations on accounting practice.

Test of Hypothesis:

A hypothesis is defined as a tentative theory or supposition provisionally adopted to explain certain facts and to guide in the investigation of others. However, in statistics,

hypothesis means a statistical statement about the values of one or more parameter of the population.

3.6 Research Question /Hypothesis

a. Research Questions:-

This Study will try to find out the answer of the following questions:

Does the present recording system of the financial institutions meet the requirements required for reporting?

Does the present available accounting software are fulfilling the requirements for reporting?

Does the available human resources are competent for recording & reporting?

What have to do for further improvement?

Dos the present mandatory compliances are relevant in the present market scenario?

b. Research Hypothesis:

This study will be based on the following Hypothesis:-

- For Research objective
 - i. Null Hypothesis (H0):- Present recording system is sufficient for financial institutions.
 - ii. Alternate Hypothesis (H1):- Present recording system is not sufficient for financial institutions.

The Test Static is $X^2 = \sum (O_1 - E_1)^2 / E_1$

Where O_1 = Observed Frequency

$$E_1 = \text{Expected Frequency}$$

$$\frac{\text{Row total} \times \text{column Total}}{\text{-----}}$$

$$\text{Grand Total}$$

$$\text{Degree of freedom} = (R-1)(C-1) = (3-1)(2-1) = 2 \times 1 = 2$$

- Tabulated Value of χ^2 at 5% level of significance ($\alpha = 5\%$) at 2 degree of freedom is 5.99 which is to be tested.

- **For II Research Objective**

- Null Hypothesis (H_0):- Present mandatory Compliances are relevant in present marked scenario.
- Alternate Hypothesis (H_1):- Present mandatory Compliances are not relevant in present market scenario.

The Test Statistic is $\chi^2 = \sum \frac{(O_1 - E_1)^2}{E_1}$

Where $O_1 = \text{Observed Frequency}$
 $E_1 = \text{Expected Frequency}$
 $\frac{\text{Row Total} \times \text{Column Total}}{\text{-----}}$
 Grand Total

$$\text{Degree of Freedom} = (R-1)(C-1) = (3-1)(2-1) = 2 \times 1 = 2$$

Tabulated Value of χ^2 at 5% level of significance ($\alpha = 5\%$) at 2 degree of freedom is 5.99 which is to be tested.

For III Research objective

i Null Hypothesis (Ho):- Related software & skilled man power are sufficient for financial institutions.

ii Alternate Hypothesis (H1):- Related software & skilled man power are not sufficient for financial institutions.

The Test Static is $X^2 = \sum (O_1 - E_1)^2 / E_1$

Where, O1 = Observed Frequency

E1= Expected Frequency

Row Total x Column Total

Grand Total

Degree of freedom (R-1) (C-1) =(3-1)(2-1)=2x1=2

Tabulated Value of X2 at 5% level of significance (a=5%) at 2 degree of freedom is 5.99 which is to be tested.

3.6 Methods & Tools for Analysis of Data

Data & information collected through primary & secondary sources are initially presented in separate table according to the objective & nature of responded of the respondent. Collected data are manipulated according to the requirement & objectives. Data presently presented in the table from are followed by analysis where data related to objective of the study & hypothesis are tested & justified as per requirements. Analysis tools used for analysis are percentage, simple average & other tools. The main tools for testing the hypothesis is chi square test.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Presentation and Analysis of Data

Accounting is a means of providing information to the managements to the managers, which they succeed in achieving these goals. It is assumed that business Managers try to optimize short run or long run profits for the enterprise. Accounting is helpful to justify their existence by pointing out to management, which should have been after enterprise has failed to optimize past profits. Also accounting is useful in so far it assists in improving future performance of Commercial Banks.

Profit deals with the excess of revenue over expenses. Obviously, then the long term profitability of the firm depends on how well the managers able to increase revenue and decrease expenses. Here, it will well to defined revenue and decrease expenses. Revenue is one the source of bank's net assets or and increase in net assets resulting from normal operations. Business organizations, wish to increase their ability to acquire and hold goods and services and in general they seek to maintain as high level of economic power as possible. Business firms are able to do this as long as they are able to use financial resources profitability. Thus the primary motivating factor of the business enterprises behind our economy is called the profit motive.

The basic objective of the study was to examine the accounting practice of Commercial Banks in Nepal and to identify recording and reporting practice under regulatory framework. This chapter presents and analysis the information derived through study. First section briefly describes the present accounting environment under which Commercial Bank have to go through specially the legal environment. Attempts have been made to discover the legislation and regulation guiding accounting practice of Commercial Bank in first section. Second section is the analysis and interpretation of data. To meet the objectives, all the licensed Commercial Banks in operation were taken as population. Through the random sampling method six banks were selected.

The descriptive way has been followed where it is necessities and raw data have been properly processed, tabulated and analyzed.

4.2 Record Keeping Aspect of Commercial Bank

A sound banking system is important because the key role it plays in the economy. The accounting practice of Nepalese commercial bank is differing than other companies. Bank accounting found to be such a specialized system of book keeping that it could ensure immediate entry of numerous transactions and the weight. According to their importance to the devices of sound record keeping system, the table 4.3 shows response regarding the importance of system of accounting tools to the banking companies.

Table 4.1

Important Tools to Banking Companies

Accounting System	1	2	3	Total Respondents	Median Weight
Pay in slip system	0	0	20	20
Control accounts	3	2	15	20	
Preparation of summary sheet	2	3	15	20	
Continuous check	4	3	13	20	
Direct posting to personal ledger	3	5	12	20	
Daily preparation of trial balance	4	6	10	20	

When a customer's cheque is presented for payment, the amount is entered in paying cashier's counter book and then in general cashbook and finally in general ledger. This is the credit entry. The cheque is then handed over to the current account ledger clerk who debits the customer's current account with the amount. In this way, the double entry is completed separate ledgers are maintained by banks for different types of accounts for example there are separate ledgers for current account, saving account, fixed deposit account, cash certificates, loans and overdraft etc. These ledgers are posted directly from the vouchers and all the summarized into summary sheets and balance are checked at the end of the day. Person other than those who made the entries subsequently checks all entries in the personal ledgers and summary sheet.

The account in the general ledger arranged in a systematic manner that contains the control accounts of all personal ledger the profit and loss account and different assets and liabilities so that it enables the balance sheet readily. The respondents were

to assign weights from low importance to high. That indicates all the given tools are of high importance to the Nepalese commercial banks. The inquiry in to the system through the discussion flows. When a customer gives a pay in slip along with cheques, notes and coins for credit to this account, the amount is first entered from the pay in slip in cash received counter book. The amount is then entered in received book, general cash book and finally in the general ledger and customer's account. The double entry is thus completed.

4.3 Computerized Recording Practice

Commercial banks have always committed to providing a quality service to its valued customers, with personal touch. All customers are treated with at most courtesy as valued clients. The bank whenever possible, offers tailor made facilities to its clients, based on the unique needs and requirements of different clients. To further extend the reliable and efficient services to its valued customers. Joint venture banks adopted the least banking technology. Some joint venture banks already offers unique services such SMS banking and interest banking to customers and will be introducing more services like these in the near future.

The transaction of commercial banking may be recorded processed and executed with minimum manual intervention. Furthermore, with increased emphasis on maintenance of electronic records; paper trials of transactions may be minimal. The table 4.2 shows the use of computerized and manual and both system of accounting in the commercial bank.

Table 4.2

Response Regarding to Dependency of Computerized Recording

Base	No of Respondents	Percent (%)
Manual accounting	0	0
Computerized accounting	14	0.7
Both(Computerized and Manual)	6	0.3
Total	20	100

Above table shows the computerized accounting practice among the sampled bank. Out of 20 respondents from the different bank 14 respondents from the different bank mentioned that day they are adopting the computerized record practice only 6

respondents mentioned that their bank followed computer as well as manual record keeping. But it was obvious that no respondents on manual accounting.

In addition to this another question was asked to respondents that whether they are satisfied with current computerized system. It was found that majority of respondent are hardware of software components of existing computerization.

Table 4.3

Response of Performance of Computerized System

Response	No of respondents	Percent (%)
Satisfied	9	45
Need updating	7	35
Need replacement	4	20
Total	20	100

The overall conclusion can be given that majority of bank need technological adoption, advancement and improvement, Commercial bank's direction is guided towards obtaining new challenges and opportunities. Backed by state of the art technology and experienced professionals adopt in modern banking management, they strive to make banking simple, fast and customer friendly. Banks have started to incorporate more advanced banking technology as amount of many towards the new banking plate form ad surround system. After purposed system up gradation and centralization of accounting information, the bank will not only be able to provide efficient service but also will able to have up to date internal recording and external reporting sound management information system. The impact of this technological advance in the banking operation system is that bank can expand 365 days banking and anytime banking services to the customer.

4.3.1 Identification of Major Problem of Accounting Practice

Where an organization financial statement are materially miss-sated, it is usually because the records which underline those statements contain material error or material irregularities, or both made by management staff or in making judgement valuation. Respondents were asked to rank the irregularities involved or resulted in recording transactions.

Table 4.4

**Response of Commercial Bank with Respect to Error and Irregularities in
Accounting Practice**

Respondent code	Suppress a Book entry	Making improper book entry	Manipulating support document	Making improper calculation	Making improper posting to the ledger
P1	6	2	1	1	6
P2	2	6	4	4	1
P3	3	2	5	6	3
P4	2	1	3	5	6
P5	3	5	2	2	3
P6	6	3	2	5	4
P7	6	3	3	1	5
P8	5	4	6	3	2
P9	4	2	3	5	1
P10	3	6	2	3	5
Weighted value	40	34	31	35	36
Mean weight	4	3.4	3.1	3.5	3.6
Overall rank	V	II	I	III	IV

In book keeping errors can be classified as filing to make a book entry, suppressing a book entry, making an incorrect book entry, making incorrect calculation losing supporting document manipulating suppressing support document and making a posting to incorrect book entry, making an incorrect calculation losing supporting document ledger. These five factors were to be ranked in order of their occurrence i.e. from 1 to 5. If a respondent wanted to assign top priority to any one factor, this factor was given rank 1 and as such the least significance irregularities/errors were given.

The response obtain on this list is shown in above table 4.6. In their overall rank the respondents gave the first most significant problem to manipulating, supporting documents, ledger, and rank to making improper calculation and 5th to suppressing book entry.

4.4 Availability of Related software & Related Manpower

Because of the increased number of expectations from the side of the customer and globalization in the world of information technology most of tall institutions are using banking software. The institutions that were using manual accounting are also diverting to computerized accounting system. All the sample institutions of this study are using software for recording transactions.

Computerized accounting system is being helpful for recording transaction easily and processing the recorded information according to the requirement. At the present time regulating body of the bank and financial institution are seeking on time up to date information. For this purpose accounting software are being useful. Nepalese bank and financial institutions are using different types of software. Some are using differentiated software which is expensive in price and highly skilled manpower are required to operate and handle, where as some are using local software. Product and facilities of the bank and financial institutions are also related with the facilities available in the accounting software.

Software is becoming the heart if the modern banking system. Nepalese banking business are using various types if accounting software. While conducting this research, software used by Nepalese bankers is as follows:-

- Pumori ++
- finacle
- Micro Banking System
- Bankmil
- Finact.
- Globus Temenos
- I-Flex

Name of the used software according to the categories of commercial banks and their percentage is presented as follows:-

Table No: 4.5

Present Status of Use of Accounting Software

S. N.	Particular	Bank	Remarks
	No. Of Commercial Bank	32	
1	User of Pumori Software	14	
2	Users of Finacle Software	9	
3	Users of Bankmil Software		
4	Users of Micro Banking System Software		
5	Users of Finact Software		
6	Users of Globus Temenos Software	3	
7	Users of Other Software	6	
	Total Sample Collected	32	

Source: -Telephone Queries

This study further asked about the fulfillment of financial institutions about the technical aspect of the accounting software. Responses of the respondents are presented as follows:

Table No: - 4.6

Fulfillment of Requirements by Accounting Software

Respondents & Responses	Yes (fulfill)		No (Do Not Fulfill)		Total	
	No.	%	No.	%	No.	%
Officers of Bank	19	53	17	47	36	100
Officers from Regulating Body	10	56	8	44	18	100
CA & Experts	5	28	13	72	18	100
Total	34	47	38	53	72	100

Source: - Opinion Survey

Response of the respondents in above table shows that presently available software & technical aspects does not fulfill the requirements of the financial institutions. 53% respondents view that presently available software & other technical

part does not fulfill the requirements. Remaining 47% view that presently available technical part is sufficient for the financial institutions. Out of 36 respondents, 19 respondents from bank & financial institutions view that presently available software is sufficient. Similarly 10 respondents from regulating body are satisfied with the views of the respondents from bank & financial institutions. Out of 18 respondents, 13 respondents from the group of CA & experts view that presently available software & technical part is not sufficient for financial institutions.

The respondents who are not being satisfied from the presently available software were asked to trace out the causes. Ranking of the causes pointed out by them are presented in the following table

Table No. 4.7

Causes of Not fulfillment of requirements by Present Software

Causes of not fulfilling requirements by presents software	No of respondents ranking				Total
	1	2	3	4	
Officers of Bank	17	17	17	17	
Appropriate software is not available in the market	3	1	5	8	17
Lack of Efficient manpower	3	3	6	5	17
Lack of Appropriate supporting companies	3	8	3	3	17
Others	8	5	3	1	17
Officers from Regulating Body	8	8	8	8	
Appropriate software is not available in the market	1	1	1	5	8
Lack of Efficient manpower	2	1	4	1	8
Lack of Appropriate supporting companies	0	4	2	2	8
Others	5	2	1	0	8
CA & Experts	13	13	13	13	
Appropriate software is not available in the market	1	3	4	5	13

Lack of Efficient manpower	5	4	2	2	13
Lack of Appropriate supporting companies	3	3	4	3	13
Others	4	3	3	3	13

Source: - Opinion Survey

In above table, we can see that most of all respondents view that appropriate software is not available in the market. Eight respondents from bank 7 financial institutions & five respondents from both regulating body & experts group are satisfied about the logic that about the lack of appropriate software. Second priority was given to lack of efficient manpower by officers from banks and from regulation body. But the experts view that lack of appropriate supporting company is the second important reason. This table can be further presented as follows:

Table No: 4.8

Problems in Present Software

Causes of not fulfilling requirements by present recording system	No of Respondents Ranking				Total					Total
	1	2	3	4		1	2	3	4	
Appropriate software is not available in the market	5	5	10	18	38	13	13	26	47	100
Lack of Efficient manpower	10	8	12	8	38	26	21	32	21	100
Lack of Appropriate supporting companies	6	15	9	8	38	16	39	24	21	100
Others	17	10	7	4	38	45	26	18	11	100
Total	38	38	38	38		100	100	100	100	

Source: -Opinion Survey

In the above table, we can see that 47% respondents view about the lack of appropriate software by giving the first priority whereas 21 % responded giving first priority of lack of efficient manpower. Another 21% gives first priority for lack of appropriate software. Only 11% gives first priority for other factors such as other market scenario, internal control etc.

Latest priority is given for other factor. We further asked about the efficiency of acquired manpower in the bank & financial institutions. Responses of the respondents presented as follows:

Table No: 4.9

Sufficiency of Manpower in Commercial Banks

Respondents & Responses	Yes		No		Total	
	No	%	NO	%	No	%
Officers of Bank	21	58	15	42	36	100
Officers from Regulating Body	9	50	9	50	18	100
CA & Experts	8	44	10	56	18	100
Total	38	53	34	47	72	100

Source: Opinion Survey

The above table shows that 21 respondents out of 36 from bank and financial institutions view that acquired manpower in bank & financial institution are efficient ; which is 58% of total respondents. Nine out of 18 respondents from regulating body & 8 out of 18 from CA & experts group agree with the view of 21 respondents from bank and financial institutions. In total 53% respondents from manpower presently available are efficient for bank and financial institutions.

In total 34 respondents out of 72 disagree and view that present manpower is not efficient for bank & financial institutions. They argue that because of the lack of proper organization adaption & lack of Proper training & development in the organization, presently available manpower are not being competent. Some respondent's view that; there are not efficient & competent manpower in the market. No of respondents and their ranking about the causes of the inefficiency are tabulated in the table below: -

Table No: 4.10

Causes of Inefficiency in HR of Commercial Banks

Causes of Inefficiency in HR	No. of responding ranking				Total
	1	2	3	4	
Officers of Bank	15	15	15	15	
Lack of proper organizational Adaption	4	2	4	6	15
Lack of proper training & Development	3	5	3	4	15
Efficient manpower are not available	3	5	3	4	15
Others	3	3	6	3	15
Officers from Regulating Body	9	9	9	9	
Lack of proper organizational Adaption	2	3	2	2	9
Lack of proper training & Development	1	4	2	2	9
Efficient manpower are not available	4	1	2	2	9
Others	2	1	3	3	9
CA & Experts	10	10	10	10	
Lack of proper organizational Adaption	1	3	3	3	10
Lack of proper training & Development	3	1	3	3	10
Efficient manpower are not available	3	3	3	2	10
Others	4	3	0	3	10

Source: Opinion Survey

Officers from bank & financial institutions give first priority for proper organizational adaptation. According to them, manpower presented available are not efficient because of the lack of proper organizational adaptation. Maximum respondents

from CA & experts group also view that the lack of proper organizational adaption is the main cause for inefficiency in bank & financial institutions.

Table presented above can be presented as below to elaborate & to clarify the views of the respondents.

Table No: 4.11
Problems in Present Manpower

Causes of Inefficiency in HR	No of Respondents Ranking				Total	%				Total
	1	2	3	4		1	2	3	4	
Lack of proper organizational Adaption	7	8	9	10	34	21	24	26	29	100
Lack of proper training & Development	7	10	9	8	34	21	29	26	24	100
Efficient manpower are not available	11	9	7	7	34	32	26	21	21	100
Others	9	7	9	9	34	26	21	26	26	100
Total	34	34	34	34		100	100	100	100	

Source: Opinion Survey

In the above table we can see that 29% respondents view the lack of proper organizational adaption as a main cause for inefficiency of the manpower in bank & financial institutions. Similarly, 26% respondents' view that, inefficiency of manpower other than factors mentioned in the questionnaire. 24% respondents' view that lack of proper training & development is the main causes of inefficiency. Remaining 21% gives first priority for lack of efficient manpower in the market. 32% respondents give less priority for lack of efficient manpower in the market. 26% respondents' give less priority for other factors as specified in the questionnaire. Whatever the causes may be, accountings in commercial banks are interrupting by the efficiency of the manpower. The banks have to manage the factor which is interrupting in accounting of the concerned bank.

Following section will overview the interconnection between manpower, the software, it's available & sufficiency in the bank. We further have asked about the

sufficiency of related software & manpower. It was tried that weather the presently available manpower & software are sufficient or there should have to do something. Responses of the respondents are presented as follows:

Table No: 4.12
Sufficiency of Software & Manpower

Respondents & Responses	Is Sufficient		Is not Sufficient		Total	
	No	%	NO	%	No	%
Officers of Bank	10	28	26	72	36	100
Officers from Regulating Body	9	50	9	50	18	100
CA & Experts	12	67	6	33	18	100
Total	31	43	41	57	72	100

Source: Opinion Survey

In the above table we can see that 31 respondents out of 72 view that presently available accounting software & manpower are sufficient for bank & financial institutions. This no is 43% of total respondents. 28% officers from commercial banks views that; presently available software & manpower are sufficient for commercial bank. This percentage is 50 & 67 % from the group of officers from regulating body, CA & experts group respectively.

72% respondents from the group of commercial banks view that, software & manpower, are not sufficient for commercial ban. This percentage is 50 & 33% from the group of officers from regulating body & CA & experts respectively. In no, it is 26 out of 36 respondents from group of commercial bank. Out of 18 respondents from the group of officers from regulating body; 9 respondents view that software & manpower are not sufficient. This no is 6 out of 18 from the group of CA & experts.

The respondents who respondent viewing present software & manpower are not sufficient for commercial banks were asked further to rank he causes of insufficiency. Priority given by 41 respondents, who views present software & level of manpower are not sufficient are tabulated as follows:

Table No: 4.13
Insufficiency of Software & Manpower

Causes of Insufficiency	No. of responding ranking				Total
	1	2	3	4	
Officers of Bank	26	26	26	26	
Technical aspect are not competitive	1	3	8	14	26
Lack of Trained Manpower	16	3	3	4	26
Acquisition process is wrong	3	10	6	7	26
Others	6	10	9	1	26
Officers from Regulating Body	9	9	9	9	
Technical aspect are not competitive	3	0	2	4	9
Lack of Trained Manpower	2	4	0	3	9
Acquisition process is wrong	1	2	4	2	9
Others	3	3	3	0	9
CA & Experts	10	10	10	10	
Technical aspect are not competitive	0	0	2	4	6
Lack of Trained Manpower	3	3	0	0	6
Acquisition process is wrong	0	0	4	2	6
Others	3	3	0	0	6

Source: Opinion Survey

Fourteen respondents from the group of commercial bank view that: presently available technical part is not competitive. They gave first priority for technical aspect. Respondents from regulating body & CA & experts group are also agree to the officers from commercial banks gives first priority for technical aspect. CA & experts group give second priority for acquisition process. This table can be represented as follows:

Table No: 4.14
Problems in Present Software & Manpower

Part if Irrelevant Directive	No of Respondents Ranking	Total	%	Total

	1	2	3	4		1	2	3	4	
Technical aspect are not competitive	4	3	12	22	41	10	7	29	54	100
Lack of Trained Manpower	21	10	3	7	41	51	24	7	17	100
Acquisition process is wrong	4	12	14	11	41	10	29	34	27	100
Others	12	16	12	1	41	29	39	29	2	100
Total	41	41	41	41		100	100	100	100	

Source: Opinion Survey

In the above table; we can see that 22 respondents out of 41 percent respondent's view that present software & present manpower of the commercial bank are insufficient because of the technical aspect of the software & manpower. This no is 54% of total respondents who has argue that the software & manpower presently available in the commercial bank are not sufficient. 4 respondents gave first priority for acquisition process which is 27%. 34% respondents gave second priority for acquisition process.

Now it is being necessary to test the hypothesis that there is no significant difference in opinion of carious responding group regarding the sufficiency of the software & manpower for financial institutions.

This can be systematically stated as

- i. **Null Hypothesis (H0):** - Related software & skilled manpower are sufficient for commercial banks.
- ii. **Alternate Hypothesis (H1):** - Related software & skilled manpower are not sufficient for commercial banks.

Since calculated Value of χ^2 is 6.68 (Annex:-2) which is greater than the tabulated value of $\chi^2 = 5.99$. So Alternative hypothesis is satisfied & it is concluded that related software & manpower are not sufficient for commercial bank.

The commercial banks have to manage the problems related to software & manpower for the proper implementation of their strategy & to achieve the objective of the organization.

Following section of this study overview the mandatory provisions for commercial banks & its implication in the present market scenario & its effects in the accounting for commercial banks.

4.5 Mandatory Provisions for Commercial Banks

Commercial banks have to maintain 5.5% of primary capital & 11% capital fund on the basis of risk weighted assets. Risk weighted assets will be calculated by giving certain risk as per NRB directive to the assets available in the banks. Commercial banks do not have boundary for collecting financial sources where as development bank can collect 20 times of their primary capital. Similarly finance company can collect 15 times of primary capital as resources. For the purpose of institutional deposit bank & financial institutions can collect 20% from single firm, company or corporate institutions.

Bank & financial institutions have to maintain 2% cash in NRB as a cash reserve ratio if the bank & financial institutions do not operate current account. If they operate current account they have to maintain 5% cash as cash reserve ratio.

Bank & financial institutions have to make provision for the amount of loan & advance. If the loan and advance is good 1% provision should be made. Good loan is that is repayment of loan & advance is doing on time or delayed up to 3 months. If the loan & advance amount is in the bucket of 3 to 6 month, loan is called substandard loan & 25% provision should be made. If the loan & advance is in the bucket of 6 months to 1 year the loan & advance is called doubtful loan & 50% provision should be made. If the repayment date exceed for 1 year the loan is called bad (Loss) loan & 100% provision should be made. Similarly if the loan is rescheduled 12.5% provision should be made. If the loan & advance is provided on guarantee, additional 20% provision should be done.

There are other various provisions about investment, single obligor limit & others. 25% of Primary capital for fund based loan & 50% for Non fund based loan can be issued to a single person, company or institution & related parties. 30% of primary capital can be invested in all organized institutions share & debenture. 10% investment can be done for single organized institutions share and debenture.

Nepal Rastra Bank has set certain mandatory provisions for the bank & financial institutions. Mandatory Regulations Set by the Nepal Rastra Bank is found as follows:-

Table No: 4.15

Mandatory Standard for Bank & Financial Institutions

S. N.	Provisions for Main Regulations	Ban k	F/I	RMD B	Co-operatives
1	Minimum Primary Capital (In Risk Weighted Assets %)	5.50	5.50	4.00	5.00
2	Minimum Capital Fund (In Risk Weighted Assets %)	11.00	11.00	9.00	10.00
3	Limit for collecting financial sources (Multiple of Primary Capital)	20#	15	30	10
4	Minimum mandatory cash reserve ratio (% of total deposit)				
	If not operated current account	2.00	2.00	0.50	0.50
	If operated current account	5.00	5.00	-	-
5	Minimum Liquid assets (% of Total Deposit)	-	-	2.5	7.00
6	Classification of Loan & Advances & Provisions (In %)				
	Provision for Good Loan	1.00	1.00	1.00	1.00
	Provision for Rescheduled Loan	12.50	12.50	12.50	12.50
	Provision for Substandard Loan	25.00	25.00	25.00	25.00
	Provision for Doubtful Loan	50.00	50.00	50.00	50.00
	Provision for Bad Loan	100.00	100.00	100.00	100.00
7	Single Obligor Limit (In % in Primary Capital)				
	For fund based loan (In %)	25.00	25.00	-	5.00
	Loan Limit(In %)	-	-	-	20.00
	For non fund based loan (In %)	50.00	50.00	-	-
	For micro credit (In 000)	-	-	-	-
	For person (In 000)	-	-	40.00	-
	For Micro Industry (In 000)	-	-	100.0	-

				0	
8	Investment Limit (In % Primary Capital)				
	In any organized institution's share /debenture	10.00	10.00	10.00	5.00*
	In all organized institution's share /debenture	30.00	30.00	30.00	15.00*
	In organized institution's share /debenture which have financial interest	20.00	20.00	20.00	-

*=In Share Capital #=For Development Bank

Source: www.nrb.com.np.

Nepal Rastra Bank is the regulating body of the bank & financial institutions. Nepal Rastra Bank has issued NRB directive to regulate to the concerned bank & financial institutions. To test the mandatory provisions made by NRB; Questionnaire are developed & opinion survey was done respondents about the relevancy of the directive are presented as follows.

Table No: 4.16
Relevancy of Directive

Respondents & Responses	Yes (Directives are relevant)		No (Directives are not relevant)		Total	
	No	%	NO	%	No	%
Officers of Bank	16	44	20	56	36	100
Officers from Regulating Body	12	67	6	33	18	100
CA & Experts	7	39	11	61	18	100
Total	35	49	37	51	72	100

Source: Opinion Survey

Out of total 72 respondents, 35 respondents responded saying NRB directives are relevant in the present market scenario which is 49% of total respondents. Remaining 37 respondents responded saying present directives & mandatory provisions are not relevant in the market scenario which is 51% of total respondents. Out of 36 respondents from the sector of banking, 16 respondents responded saying

directives are good and relevant. Similarly out of 18 respondents from regulating body, 12 respondents responded saying directives are relevant which, is 67% of total respondents from this group. 39% respondents from CA & experts group responded saying directives are relevant. Remaining 61 % of respondents responded saying directives are not relevant.

The respondents who responded saying directives are not relevant were further asked for the reason for irrelevancy of the directive. Their opinions are presented in the following table

Table No: 4.17
Irrelevant Part of the Directive

Part of Irrelevant Directive	No. of responding ranking				Total
	1	2	3	4	
Officers of Bank	20	20	20	20	
Capital Fund & Related	1	0	8	11	20
Loan & Advance & Provision	16	2	1	1	20
Accounting Policies & Format	2	8	3	7	20
Others	1	10	8	1	20
Officers from Regulating Body	6	6	6	6	
Capital Fund & Related	0	0	2	4	6
Loan & Advance & Provision	3	3	0	0	6
Accounting Policies & Format	0	0	4	2	6
Others	3	3	0	0	6
CA & Experts	11	11	11	11	
Capital Fund & Related	0	1	3	7	11
Loan & Advance & Provision	6	5	0	0	11
Accounting Policies & Format	0	0	7	4	11
Others	5	5	1	0	11

Source: Opinion Survey

As per the respondents from the group of bank and financial institutions, capital fund & risk weighted assets related directives are not relevant for the bank & financial institutions. 11 respondents from this group has given first priority for capital fund & related directives. Other 8 respondents from this group have given second priority. 7 respondents have given priority for accounting policies & accounting formats. Officers from regulation body also has given first priority for capital fund & related directives. Similarly CA & experts have given first priority for same directives. 4 no of respondents have given priority for accounting formats & policies. The above table can be further presented as follows:

Table No: 4.18
Opinion of the respondent about the Present Directives

Part if Irrelevant Directive	No of Respondents Ranking				Total	%				Total
	1	2	3	4		1	2	3	4	
Capital Fund & Related	1	1	13	22	37	3	3	35	59	100
Loan & Advance & Provision	25	10	1	1	37	68	27	3	3	100
Accounting Policies & Format	2	8	14	13	37	5	22	38	35	100
Others	9	18	9	1	37	24	49	24	3	100
Total	37	37	37	37		100	100	100	100	

Source: Opinion Survey

In the above table we see that 59% respondents of total respondents have given priority for capital fund & related directives. In no, 22 out of 37 have responded for capital fund & related directives. According to them capital fund related directives of present should be made relevant. Similarly other 35% respondents views that provisions relating to accounting policies & accounting formats related directive is not relevant to the bank & financial institutions.

Now it is being necessary to test the hypothesis that there is no significant difference in opinion of various responding group regarding the relevancy of the directives for financial institutions.

This can be systematically stated as

- i. **Null Hypothesis (H0):** - Present mandatory compliances are relevant in presents market scenario.
- ii. **Alternative Hypothesis (H1):** - Present mandatory compliances are not relevant in present market scenario.

Since calculated value of χ^2 is 3.00 (Annex:- 3) which is smaller than the tabulated value of $\chi^2 = 5.99$. So null hypothesis is satisfied & it is concluded that present mandatory compliances are relevant is present market scenario.

Following questionnaire & the resources of the responses of the respondents helps to find the consistency of the directives & its impact for accounting in the commercial bank.

In this aspect we further has asked the consistency of the directive. Responses of he respondents are presented as follows: -

Table No: 4.19
Consistency of Directives

Options	No	Percentage
Directives are consistent	44	61
Directives are not consistent	2	3
Its changing with environment	20	28
Others	6	8
Total	72	100

Source: Opinion Survey

According to 44 respondents directives issued by NRB are consistent. Another 20 respondent's view that, it is changing accounting to the change is macro environment. Only 2 respondents view that directives are not consistent.

Directives are the main compliance for commercial banks. Directives & its compliances guide to maintain recording system. Commercial banks have to report to NRB according to the formats prescribed in directives. Therefore directives are directly related to the accounting system of the commercial banks. If the commercial bank fails to follow the directives; they are subject to punishment. Most of the respondents view directives issued by NRB are consistent. Although there are various aspects which are being necessary for modification, directives issued by NRB is good to maintain sound financial position of the commercial bank.

Following question tries to find out most important aspect for accounting in commercial bank: -

We further have asked about the factor which helps to improve and to maintain sound financial position of the commercial bank. Responses of the respondents are presented as follows:

Table No: 4.20
Factor Affecting Accounting System in Commercial Bank

Options	No of Respondents Ranking 5	No of Respondents Ranking 4	No of Respondents Ranking 3	No of Respondents Ranking 2	No of Respondents Ranking 1	Total Respondent
Recording System is Important	24	24	8	6	10	72
Reporting System is Important	4	2	12	30	24	72
Level of Manpower & IT	24	24	16	4	4	72
Rule & Regulation form Regulating Body	4	12	14	8	34	72
Internal Rule & Regulations	16	10	22	24	-	72
Total	72	72	72	72	72	

Source: Opinion Survey

In the above table, we see that, 24 respondent's has given first priority to proper recoding system to maintain the sound financial position. Similarly another 24 respondents has given first priority for level of manpower & It. Another 16respondents has given first priority for internal rule & regulations to maintain sound financial position of the organization. Only 4 respondents have given first priority for proper reporting systems. 34 respondents have given less priority for rule & regulation form

regulating body. Similarly 24 respondents have given less priority for reporting system for maintaining sound financial position.

We have asked to rank the factors which are important for the improvement of the accounting system of commercial banks. Responses are presented as follows:

Table No: 4.21

Factors Which Affect the Improvement of Accounting System

Options	No of Respondents Ranking 4	No of Respondents Ranking 3	No of Respondents Ranking 2	No of Respondents Ranking 1	Total Respondent
Internal Control & Rule & Regulation	32	26	4	10	72
External Rule & Regulation	6	10	42	14	72
Technical Manpower & IT	24	28	16	4	72
Others	10	8	10	44	72
Total	72	72	72	72	

Source: Opinion Survey

For the purpose of improving recording system of the commercial banks ranking questionnaire were distributed. Out of 72 respondents; 72 persons have given priority in internal control & rules & regulations by ranking 4. Similarly 24 respondents have given priority by ranking 4 in technical manpower & It. 6 respondents have given priority to external rule & regulations and 10 persons have given priority in others. Similarly 44 respondents have given less priority for other factors.

From the answer of the above three questions & from the respondents we can conclude that recording system of the commercial banks should have to improve by coordination with other department 7 their manpower & level of information technology & accounting software. Internal control mechanisms have to be developed for the reliability of the recorded data.

Suggestion:-

While collecting the responses of the respondents it was tried to find out the present recording system & its improvement for the upcoming future. After 2014; there are entering foreign investor in the field of service industry. This will invite further competition & risk for the commercial banks.

At the time of collecting opinion survey; it was tried to collect the suggestions. Suggestions given by the respondents are presented in the following table:

Table No: 4.22
Suggestions Given for Improvement of Accounting System

Suggestions	No	Percentage
Regulating Body have to maintain uniformity & consistency	14	19
Skill of concerned employee have to be developed	12	17
Corporate culture have to followed	18	25
Internal rule & regulations be prepare	10	14
Improvement on Software & Other part are vital	12	17
Others	6	8
Total	72	100

Source: Opinion Survey

In the above table we see that adherence corporate culture has given first priority. 18 respondents; which is 25% of total respondent view that the banks have to develop corporate culture to improve the recording & reporting system. When the corporate culture appears in the organization, remaining problems will automatically minimize. Regulation body has to maintain uniform directives for the proper recording system. When the impractical rule & directives comes various problems appear in the recording system. Skill of concerned manpower and level of information technology adopted by the organization & knowledge about the information technology of the concerned staff are given priority as another important factor for recording & proper reporting.

4.6 Major Findings of the Study

Major findings of this research study have been presented as follows:

- With the increase in number of banks, risk related to liquidity, interest rate related risk, foreign exchange related risk and loan & investment related risk for the commercial banks are also increasing.
- 51% respondents from the study view that present recording system so not fulfill the requirement of concerned stakeholders. Lack of appropriate software & efficient manpower are the main causes for not fulfilling the requirements.
- Almost all bank & financial institutions are using software for the purpose of recording, processing & reporting to the concerned body.
- 53% of total sample are not being satisfied from the presently available accounting software.
- 47% of the total sample gives first priority for appropriate software.
- 53% respondents of the study view that presently available manpower in the bank are efficient and competent by lack of proper organizational adaption is the main cause for not fulfilling the requirements by present human resources.
- Officers of the banks and regulating body are not being satisfied form the software and manpower presently available in the commercial bank.
- 54% respondents give first priority in competitive technical skill as the causes of insufficiency.
- As a regulating body, NRB has specified certain mandatory provisions relating to capital fund, classification of loan & advance and their provision, cash reserve ratio, single obligor limit, investment limit & others. Commercial banks thoroughly have to follow the provisions. When these institutions fail to follow they are subject to punishment according to NRB Act. 56% officers of banks view that the directives are not relevant. But the officers form regulation body does not agree with them.
- Most of the respondents view that according policies & formats & capital fund related directives are the irrelevant part of the directives.
- Recording System & level of manpower & IT has been given equal & first priority for the sound financial position of the commercial banking.

- Commercial banks have to improve internal control mechanism & regulating body has to implement updated 7 practical rule and directives for the improvement of the accounting system.
- Directives brought by regulating body should be uniform & consistent. Skill of the concerned employee should be developed by giving training & providing technical knowledge. The organizations have to bring appropriate information technology & internal control mechanism should be there for the sound accounting system. In such situation data reported by the accounts will be reliable, consistent & uniform.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.4 Summary

The study mainly aims to access record keeping and reporting aspect of accounting system. Its specific objectives are to study the recording practice of commercial bank, to study the reporting practices of commercial banks and to examining the regulatory framework guiding accounting and financial activity of commercial bank.

Very few researchers are done about the accounting practice of large scale organizations in Nepal. To meet the objectives of all the licensed commercial bank in operation were taken as population. Through the random sampling method of commercial banks were selected. Necessary questionnaire about the accounting system were taken from the sample banks interaction and discussion were also made to various staffs and officers about the banks.

The secondary source of data have been collected from various authentic sources like reports of concern authority, annual reports, various acts and ordinance, website and directives issued by NRB.

The primary data have been collected from personal interview questionnaire survey, telephone inquiry, and direct visit from staff of banks. The results of the information gathered have been analyzed in a descriptive manner with the help of simple accounting and statistical tools. The analysis made in the previous chapter summarizes following conclusion. The commercial bank are following the generally accepted accounting principle and or companies act, commercial bank act and directives issued by NRB while preparing their financial report. According to a bank and financial institution ordinance 2060, they should disclosed accounting system based on generally accepted double entry principle. Commercial bank should adopt the regulation and a directive issued by NRB. Mainly legislation and regulation regarding to accounting activities of commercial banks are:-Restriction on certain activities, maintenance of minimum capital and reserve, provision of cash reserve ratio interest spread, interest rate, directed credit, loan classification, loan loss provision, risk

weights, single borrowers limit, NRB directives and provision of accounting policy and structure of financial statement. Major problem identified in the record keeping practice were suppressing a book entry, making improper book, entry, manipulating support document, making improper computation and making in effective recording to ledger accounts. Commercial banks that use the computerized banking software they are not also satisfied with existing system. Thus trying to upgrade or update their system. The sample bank that uses the computerized record keeping, they could not fully depend up on computers only, because of complete computerized environment and technological deficiency. Bank accounting found to be such a specialized system of book keeping that it could ensure immediate entry of numerous transactions and keeping on internal check on the book of accounts. The pay slip system, control accounts preparation of summary sheet, continuous check, direct posting to personal ledger and importance of trial balance were rated of high importance of electronic record, paper trial or transaction is decreasing. Some commercial bank has mentioned that they need to have more management information system and some bank need to segregate the duties and responsibility. For the quick and correct record keeping and reporting the bank were found to be using internal control mechanism with integration of the delegation of authority, segregation of duties, authorization and verification of accounting accuracy and management control. From the micro level study of commercial bank it is found that they are not reporting within the time limit to the regulatory bodies. The sample banks were found to tax settlement due to tax authority. The assessment of tax is not satisfactory. There is conflict between the tax authority and banks. The banks have gone up to the filling appeals in revenue tribunal. NRB directives regarding the provision of accounting policies and structure aims at enhancing public accountability confidence between customers and banks and credit worthiness by developing the banking system and regulate them in order to enhance the true and fair financial situation. Majority of respondent agreed that it would increase the qualitative characteristics of information presented in financial statement by implementing the NRB provisions. Income of the banks largely depends upon the interest received. Major sources of interest earning are loan and advances. The other sources of operating income of he banks are commission and discount. Implementation of NRB directives by commercial bank found to be satisfactory.

We see big inflation in Nepalese commercial banks. Actually, because of financial crisis in the world and fall down of real estate market actually dominate the

Nepalese commercial market. Moreover, political instability in the country minimizes the profit in the commercial banks. In addition, Nepalese commercial banks need to satisfy the customer faith and move with international banking system. We are still using orthodox accounting system and banks needs to feasible about their system.

5.5 Conclusion

From the above major findings the conclusion can be derived that there is fundamental difference between accounting and reporting practice of commercial bank from other companies. Accounting system of commercial banks largely governed by statutory directives and Nepal accounting standard. Accounting practice Nepalese commercial banks are not absolutely satisfactory because they need further improvement and adopting advance technology in completion market. Actually from the detail research from the sample bank they are facing different obstacles and each of them have some limitations. Technological deficiencies, lack of proper technical knows, skilled manpower decision making and management control. Planning, regular supervision and monitoring financial and accounting control, compliance with statutory requirement etc.

5.3 Recommendations

Now the Nepal is entering in WTO, therefore top provider better services to customer by adopting the international system and quality, it is necessary to improve quality of services provided by banks. To upgrade and strengthen the existing situation following recommendations are made.

(A) Specific Recommendations:

Nepalese commercial banks are recommended to adopt and modify the computerized accounting. They should make linkage of different branches into single banking software coverage. In addition to this centralization of information processing network and upgrade or update technologies in order to re strength prompt recording, processing and reporting.

- To make transparent in the internal inspection and auditing, it helps to strengthen in manipulation, error, risk and misappropriates could timely corrected.
- They should strictly follow up NRB directives and banking regulation.
- They are recommended to provide their available services and facilities in websites in order to provide quick and remote access to banking services.
- They should recommend timely holding their annual general meeting, delegation the information to the investors and timely report to the regulatory bodies.
- Management information system should be more appropriate, that could show the overall accounting and financial position, liabilities to be settled and statutory norms to maintain.
- Is it recommends that they should analyze SWOT condition of their bank?

(B) General Recommendations:

- Development of technology has greater impact in the banking sector which results increase in production and quality.
- In the rural area of country, the commercial bank should open new branches and provide modern and computerized services.
- Few banks lunch the outdated technology like ATM, so it is recommended for expanding ATM services in every branch.
- It is recommended for the adaptation of tele banking home banking, ATM, Internet banking, mobile banking etc.
- Internet banking will make customer to see their account via computer in his office or home. It is also recommended to government to introduce cyber law.
- It is recommended that concerned authorities should take initiation in order to provide such facilities with respect to fast and quality services and it will have the supporting role of the new environment to reliable, fast and quality of information processing and accounting practice.

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Section A (Optional Area)

1. General Information

1. Name: -
Gender: - Age: - Sex: -
2. Home Address: -
3. Office Address: -
4. Birth Place: -
5. Language Known: -

2. Educational History

1. Indicate the highest academic level you have completed: -
.....
2. Managerial Training: -
3. Technical Training: -

Section B

1. Does the present recording system fulfill the requirements of concerned stakeholders?

- a) Yes (Fulfill) () b) No. (Do not fulfill) ()

If no, Please rank the causes from 1 to 4

- i. Lack of appropriate software
- ii. Lack of efficient manpower
- iii. Lack of appropriate compliances
- iv. Other, please specify if any

2. Do the presently available accounting software & other technical aspect fulfill the requirement of the financial institutions?

- a) Yes (Fulfill) () b) No. (Do not fulfill) ()

If no, Please rank the causes from 1 to 4

- i. Lack of appropriate software is not available in the market
- ii. Competent human resource are not available in the market
- iii. Appropriate supports are not available?
- iv. Other, please specify if any

3. Do you think that the acquired manpower in the banks are efficient?

- a) Yes (They are efficient) () b) No. (They are not efficient) ()

If no, Please rank the causes of efficiency (from 1 to 4)

- i. Lack of proper organizational adaption's
- ii. Lack of proper training & development
- iii. Lack of efficient human renounces in the market
- iv. Hiring of the efficient HR are influenced by other factor

4. Do you think that related software & skilled manpower are sufficient for commercial bank? (Please rank from 5 to 1 ranking 5 for most important & 1 for less important)

- a) Yes they are sufficient () b) No they are not sufficient ()

If no, please rank the causes of insufficiency (From 1 to 4)

- i. Technical developer & supporter are not competitive
- ii. Manpower are not trained appropriately
- iii. Acquisition process is wrong
- iv. Others, specify if any

5. Does the directives issued by the NRB are relevant to concerned bank?

- a) Yes it is relevant. () b) No it is not relevant ()

If no, please rank (From 1 to 4), which directive is not relevant?

- i. Directive No. 1 capital fund & risk weighted assets
- ii. Directive No. 2 provision on loan & advance
- iii. Directive No. 4 accounting policies & formats of accounting statements
- iv. Others, specify if any

6. Does the directives issued by NRB are consistent?

- i. yes it is consistent
- ii. No it is not consistent
- iii. It is changing according to changed environment
- iv. Others

7. Rank the following factor in order of the importance they play in maintaining the sound financial position of he concerned bank (In the increasing order giving 5 for most important & 1 for poor)

- i. Recording system

- ii. Reporting system
- iii. Level of manpower & IT
- iv. Rule & regulations from regulating body
- v. Internal rule & regulations

8. Rank (4 to 1) the following factors for the improvements of the accounting system of the bank (4 for most important & 1 for less important)

- i. Internal rules & regulation & internal control
- ii. External rule & regulations
- iii. Technical manpower & information technology
- iv. Others

9. Do you have any suggestions regarding the present accounting system?

.....
.....

ANNEX-1

Calculation of Sufficiency of Present Recording Systems

Observed frequency table: -

Respondents & Responses	Yes (fulfill)		No (Do Not Fulfill)		Total	
	No.	%	No.	%	No.	%
Officers of Bank	17	47	19	53	36	100
Officers from Regulating Body	13	72	5	28	18	100
CA & Experts	5	28	13	72	18	100
Total	35	49	37	51	72	100

Source: - Opinion Survey

Observed frequency table for sufficiency of recording system

Expected Frequency $EF = RT*CT/GT$

Expected Frequency Table: -

Respondents & Responses	Yes fulfill	Do not fulfill
Officers of Bank	17	19
Officer form Regulating Body	9	9
CA & Experts	9	9
Total	35	37

Source: Opinion Survey

Degree of freedom = $(R-1) (C-1) = (3-1) (2-1) = 2$

Tabulated Value of χ^2 at 5% level of significance ($\alpha = 5\%$) at 2 degree of freedom is 5.99 which is to be tested.

Different table can be presented as follows: -

Table of Difference

O_1	E_1	$O_1 - E_1$	$(O_1 - E_1)^2$	$(O_1 - E_1)^2 / E_1$
17	17	0	0	-
13	9	4	16	1.78
5	9	-4	16	1.78
19	19	0	0	-
5	9	-4	16	1.78
13	9	4	16	1.78
72	72	0	64	7.11

Source: - Opinion Survey & Stat. Tools

Therefore calculated value of $\chi^2 = \sum (O_1 - E_1)^2 / E_1 = 7.11$

ANNEX-2

Calculation of Sufficiency of Related Software & Skilled Manpower

For this following table are presented: -

Observed frequency

Respondents & Responses	Is sufficient		Is not sufficient		Total	
	No.	%	No.	%	No.	%
Officers of Bank	10	28	26	72	36	100
Officers from Regulating Body	9	50	9	50	18	100
CA & Experts	12	67	6	33	18	100
Total	31	43	41	57	72	100

Source: - Opinion Survey

Expected Frequency $EF = RT * CT / GT$

Expected frequency table of first hypothesis can be presented as follows:

Expected Frequency Table: -

Respondents & Responses	Is sufficient	Is not sufficient
Officers of Bank	15	21
Officer form Regulating Body	8	10
CA & Experts	8	10
Total	31	41

Source: Opinion Survey

Degree of freedom = (R-1) (C-1) = (3-1) (2-1) = 2

Tabulated Value of χ^2 at 5% level of significance ($\alpha = 5\%$) at 2 degree of freedom is 5.99 which is to be tested.

Different table can be presented as follows: -

Table of Difference

O_1	E_1	$O_1 - E_1$	$(O_1 - E_1)^2$	$(O_1 - E_1)^2 E_1$
10	15	-5	25	1.67
9	8	1	1	0.13
12	8	4	16	2.00
26	21	5	25	1.19
9	10	-1	1	0.10
6	10	-4	16	1.60
72	72	0	84	6.68

Source: - Opinion Survey

Therefore calculated value of $\chi^2 = \sum (O_1 - E_1)^2 E_1 = 6.68$

ANNEX-3

Calculation of Relevancy Compliances

Observed frequency table

Respondents & Responses	Yes (Directives is relevant)		No (Directive is not relevant)		Total	
	No.	%	No.	%	No.	%
Officers of Bank	16	44	20	56	36	100
Officers from Regulating Body	12	67	6	33	18	100
CA & Experts	7	39	11	61	18	100
Total	35	49	37	51	72	100

Source: - Opinion Survey

Expected Frequency $EF = RT \cdot CT / GT$

Expected frequency table of first hypothesis can be presented as follows:

Expected Frequency Table: -

Respondents & Responses	Yes (Directives is relevant)	No (Directive is not relevant)
Officers of Bank	17	19
Officer form Regulating Body	9	9

CA & Experts	9	9
Total	35	37

Source: Opinion Survey

Degree of freedom = (R-1) (C-1) = (3-1) (2-1) = 2

Tabulated Value of χ^2 at 5% level of significance ($\alpha = 5\%$) at 2 degree of freedom is 5.99 which is to be tested.

Different table can be presented as follows: -

Table of Difference

O_1	E_1	$O_1 - E_1$	$(O_1 - E_1)^2$	$(O_1 - E_1)^2 E_1$
16	17	-1	1	0.06
12	9	3	9	1.00
7	9	-2	4	0.44
20	19	1	1	0.06
6	9	-3	9	1.00
11	9	2	4	0.44
72	72	0	28	3.00

Source: - Opinion Survey

Therefore calculated value of $\chi^2 = \sum (O_1 - E_1)^2 E_1 = 3.00$

ANNEX-4

SCHEDULE 1

SHARE CAPITAL AND OWNERSHIP

(..... Ashad End)

Last Year (Rs)	1.Share Capital 1.1 Authorized Capital a)Ordinary Shares @ Rs...Per Share b)Non Redeemable Preference Share @ Rs.... Per Share c)Redeemable Preference Share @ Rs.... Per Share 1.2 Issued Capital a)Ordinary Shares @ Rs...Per Share b)Non Redeemable Preference Share @ Rs.... Per Share c)Redeemable Preference Share @ Rs.... Per Share	This Year (Rs)
----------------	---	----------------

	<p>1.3 Paid-up capital</p> <p>a)Ordinary Shares @ Rs...Per Share</p> <p>b)Non Redeemable Preference Share @ Rs.... Per Share</p> <p>c)Redeemable Preference Share @ Rs.... Per Share</p>	

SHARE OWNERSHIP

Share Capital	%	Particulars	%	Share Capital
		<p>1. Local Ownership</p> <p>1.1 Nepal Government</p> <p>1.2 Commercial Banks</p> <p>1.3 Financial Institutions</p> <p>1.4 Organized Institutions</p> <p>1.5 General Public</p> <p>1.6 Other (Promoters)</p>		

SCHEDULE 2

RESERVES AND FUNDS

(.....Ashad End)

Last Year (Rs)	Particular	This Year (Rs)
	1. General Reserve	

	<ul style="list-style-type: none"> 2. Capital Reserve Fund 3. Share Premium 4. Other Reserve and Fund <ul style="list-style-type: none"> a) Contingent Reserve b) Banking Development Fund c) Dividend Equalization Fund d) Exchange Fluctuation fund e) Special Reserve Fund f) Assets Reserve Fund g) Other Free Reserve 	
	Retained Profit/ Loss	

SCHEDULE 3

OUTSTANDING LOAN (BORROWING)

Last Year	Particular	This Year
-----------	------------	-----------

(Rs)		(Rs)
	A) Local	
	1. Nepal Government 1.1 Earthquake Victim Region Reconstruction 1.2	
	2. Loan 2.1 Re-finance 2.2	
	3. Inter Bank 3.1 Overdraft 3.2 Loan 3.3	
	4. Other Financial Institutions 4.1	
	4.2.....	
	5. Other	
	A) Total	
	B) Foreign	
	1. Banks 1.1 Overdraft 1.2	
	B) Total	
	Total (A+B)	

SCHEDULE 4

DEPOSIT LIABILITIES

(.....Ashad End)

Last Year (Rs)	Particulars	This Year (Rs)
	1. INTEREST FREE DEPOSIT	
	A) Current Deposit	
	1. Local Currency	
	1.1 Nepal Government 1.2 Commercial Banks 1.3 Financial Sectors 1.4 Other Organized Sector 1.5 Personal 1.6 Others	
	2. Foreign Currency	
	2.1 Nepal Government 2.2 Commercial Banks 2.3 Financial Sectors 2.4 Other Organized Sector 2.5 Personal 2.6 Others	
	B) Margin Deposit	
	1. Employee Guarantee 2. Guarantee Margin 3. L/C Margin	
	C) Others	
	1. LOCAL CURRENCY 1.1 Financial Institutions 1.2 Other Organized Institutions 1.3 Personal	
	2. FOREIGN CURRENCY 2.1 Financial Institutions 2.2 Other Organized Institutions 2.3 Personal	
	Total Interest Free Deposit	

	2. INTEREST BEARING DEPOSIT	
	A) Saving Deposit	
	1. LOCAL CURRENCY	
	1.1 Institutions 1.2 Persons 1.3 Other	
	2. FOREIGN CURRENCY	
	2.1 Institutions 2.2 Persons 2.3 Other	
	B) Fixed Deposit	
	1. LOCAL CURRENCY	
	1.4 Institutions 1.5 Persons 1.6 Other	
	2. FOREIGN CURRENCY	
	2.1 Institutions 2.2 Persons 2.3 Other	
	C) Call Deposit	
	1. LOCAL CURRENCY	
	1.1 Commercial Banks 1.2 Financial Institutions 1.3 Other Organized Institutions 1.4 Personal 1.5 Other	
	2. FOREIGN CURRENCY	
	2.1 Commercial Banks 2.2 Financial Institutions 2.3 Other Organized Institutions 2.4 Personal 2.5 Other	
	D) Certificate of Deposit	
	1. Organized Institution	
	2. Personal	
	3. Other	
	Total Interest Bearing Deposit	
	(1 + 2)Total Deposit	

SCHEDULE 5

BILLS PAYABLES

(... Ashad End)

Last Year (Rs)	Particulars	This Year (Rs)
	1. Local Currency 2. Foreign Currency	
	Total	

SCHEDULE 6

OTHER LIABILITIES

(.....Asadh end)

Last Year (Rs)	Particular	This Year (Rs)
	1. Pension/Gratuity	
	2. Employee Provident Fund	
	3. Employee Welfare Fund	
	4. Employee Bonus Provision	
	5. Unclaimed Dividend	
	6. Income Tax Provision	
	7. Income Payable on Deposit	
	8. Interest Payable on Loan/Borrowing	
	9. Un-earned Commission and Discount	
	10. Proposed Dividend	
	11. Interest Suspense	
	12. Sundry Creditors	
	13. Branch Adjustment Account	
	14. Other Liabilities	

	Total	
--	--------------	--

SCHEDULE 7

CASH BALANCE

(.....Ashad End)

Last Year (Rs)	Particular	This Year (Rs)
	1. Local Currency (Including Coins)	
	2. Foreign Currency	
	Total	

SCHEDULE 8

BANK BALANCE

(..... Ashad End)

Last Year (Rs)	Particular	In Local Currency	In Foreign Currency			Total (Rs)
			Indian Currency	Foreign Currency	Total	
	1. NRB					
	a) Current Account b) Other Account					
	2. Other Local Bank					
	a) Current Account b) Other Account					
	3. Foreign Bank					
	a) Current Account b) Other Account					
	Total					

Note: Total Balance According to Acceptance Letter Concern Bank Rs.....

SCHEDULE 9

MONEY AT CALL AND SHORT NOTICE

(.....Ashad End)

Last Year (Rs)	Particular	This Year (Rs)
	1. Local Currency	
	2. Foreign Currency	
	Total	

SHADULE 10

INVESTMENTS

(.....Ashad End)

Last Year (Rs)	Particular	Purpose		This Year
		Commercial	Other	
	1. Government Security a) Treasury Bills b) Development Bond c) National Saving Certificate			
	2. Foreign Securities a) b)			
	3. Other Investment a) Certificate of Deposit b) Mutual Fund c) Local Banks d) Others			
	Gross Investment			
	Provision			
	Net Investment			

SCHEDULE 10(A)

INVESTMENT IN SHARE, DEBENTURE AND BOND

Last Year (Rs)	Particular	Cost Price (Rs)	Market Price (Rs)
	1. Investment in ShareCo. (Pvt. Ltd/Ltd)... Equity Share@ Rs ... Per Share ...Co (Pvt. Ltd./Ltd.) ... Equity Share@ ...Rs Per Share		

	2. Investment In Debenture and Bond ...Co.(Pvt. Ltd./Ltd.)%Debenture/Bond @ ...Paid up		
	Total Investment		
	3. Provision for Risk Provision up to Last Year Increase/Decrease This Year		
	Total Provision		

SCHEDULE 11

LOAN AND BILLS PURCHASE CLASSIFICATION AND ITS PROVISIONING

(.....Ashad End)

Last Year	Particular	Loan					Bills Purchased and Discounted					This Year (Rs)
		Loan and Domestic		Fore	Tot		Bills Purchased and Discounted		Fore	Tot		
		Priority Sector	Oth	ign	al		Priority Sector	Oth	ign	al		
		Insu	Unins				Insu	Unins				
		red	ured									
	1.Performing Loan Pass Loan											
	2.Non Performing Loan 2.1 Substandard 2.2 Doubtful 2.3 Bad											
	A) Total Loan											
	3.Loan Loss Provision 3.1 Pass 3.2 Substandard 3.3 Doubtful 3.4 Bad											
	B) Total Loan											
	4.Last Year Provision 4.1 Pass 4.2 Substandard											

	4.3 Doubtful 4.4 Bad											
	C) Last Year Total Provision											
	D) Adjustment Of This Year											
	Net Loan = A-B											

SCHEDULE 12

FIXED ASSETES

(....Ashad End)

Last Year (Rs)	Particular	Building	Vehicles	Machinery	Office Equipment	Other	This Year (Rs)
	1.At Cost Price						
	a) Previous Year balance						
	b) Additional This Year						
	c) Reevaluation /Written Back This Year						
	d) This Year Sold						
	e) This Year Written Of						
	Total (a+b+c+d+e)						
	2.Depreciation						
	a) Up to last Year						
	b) For This Year						
	c) Depreciation on Revaluation/Written back						
	3) Book Value (WDV*) (1-2)						
	4. Capital Construction						

	5. Lease Hold Property						
	Total (3+4+5)						

*Written Down Value

SCHEDULE 12 (A)

COLLATERAL ON LOAN ADVANCE AND BILL PURCHASE

(.....Ashad End)

Last Year (Rs)	Particular	Last year (Rs)
	A. Secured 1. Collateral of Movable/Immovable Assets 2. Guarantee of Local Bank Financial Institution 3. Guarantee of Government 4. Guarantee of International Rated Bank 5. Export Document 6. Fixed Deposit Receipts 7. Own FDR 8. Government Bond 9. Counter Guarantee 10. Other Securities	
	B. Unsecured	
	Total	

SCHEDULE 13

OTHER ASSETES

(.... Ashad End)

Last Year (Rs)	Particular	This Year (Rs)
	1. Stationery Stock 2. Income Receivable 3. Accrued Receivable 4. Commission Receivable 5. Sundry Debtors 6. Staff Loan and Advance 7. Prepaid 8. Cash in Transit 9. Other Transit Items (Including Cheque) 10. Draft paid Without Notice 11. Expanses not Written Off 12. Non Banking Assts 13. Branch Adjustment Amount 14. Others	
	Total	

SCHEDULE 13(A)

OTHER ASSETS (ADDITIONAL STATMENT0

(.....Ashad End)

Last Year (Rs)	Particular	This Year (Rs)			
		Up to One Year	From Three to More One Year	More Than Three Year	Total
	Accrued Interest on Loan and Advance				
	Draft Paid Without Notice				
	Branch Adjustment Account				
	Toatl				

SCHEDULE 14

CONTENGENT LIABILITIES

(.....Ashad End)

SCHEDULE 16**OFFICIAL OPERATING EXPANSES****(For The F/Y.../.....)**

Last Year (Rs)	Particulars	This Year (Rs)
	House Rent	
	Electricity and Water	
	Repair and Maintenance	
	Building	
	Vehicles	
	Insurance	
	Postage and Telegram	
	Repair and Malignance	
	Traveling Allowances and Expenses	
	Stationary and Printing	
	Periodical and Books	
	Advertisement	
	Legal Expenses	
	Donation	
	Expenses Relating to Board of Directors	
	Meeting	
	Other	
	Annual General Meeting Expenses	
	Expenses Relating to Audits	
	Audit Fee	
	Others	
	Commission on Remittance	
	Depreciation on Fixed Assets	
	Amortization of Preliminary and Other Expenses	
	Share Issue Expenses	
	Technical Service Fees	
	Entertainment	
	Written Off Expenses	
	Security Expenses	
	Commission and Discount	
	Credit Guarantee Premium	
	Others	

	Total	
--	-------	--

SCHEDULE 17

INTEREST INCOME

(For The F/Y.../...)

Last Year (Rs)	Particulars	This Year (Rs)
	A. On Loan and Other Draft	
	1. Loan and Other Liabilities	
	2. Overdraft	
	B. On Investment	
	1. HMG Securities	
	a) Treasury Bills	
	b) Development	
	c) National Saving Certificate	
	d) Special Bonds	
	2. Foreign Securities	
	a)	
	b).....	
	3. NRB Bonds	
	4. Debenture and Bonds	
	a) Financial Institutions	
	b) Other Institutions	
	c) On Agency Branches	
	i) Local Branches	
	ii) Foreign Branches	
	d)On Money at Call and Short Notice	
	i) Local Agency	
	ii) Foreign Agency	
	E. On Others	
	1. Certificate of Deposit	
	2. Inter Bank Loan	
	3. Others	
	Toatl	

SCHEDULE 18

COMMISSION AND DISCOUNT

(For The F/Y..../....)

Last Year (Rs)	Particulars	This Year (Rs)
	A. Bills Purchased and Discounted	
	1. Local	
	2. Foreign	
	B. Commission	
	1,Letter of Credit	
	2.Guarantee	
	3.Collection Fee	
	4.Remittance	
	5.Credit Cards	
	6.Share Underwriting	
	7.Government Transactions	
	8.Agency Commission	
	9.Exchange Fees	
	C. Other	
	Total	

SCHEDULE 19

CURRENCY EXCHANGE GAIN/LOSS

(For The F/Y..../.....)

Last Year (Rs)	Particulars	This Year (Rs)
	A. Revaluation Gain	
	B. Trading Gain (Expect Exchange Fees)	

	Total Income (Loss)	
--	---------------------	--

SCHEDULE 20

NON-OPERATING INCOME / LOSS

(For The F/Y.../....)

Last Year (Rs)	Particulars	This Year (Rs)
	1. Profit (Loss) on Sale Of Investment	
	2. Profit (Loss) on Sale Of Assets	
	3. Dividend a) Commercial Banks b) Rural Development c) Financial Institution d) Other i) Subsidiary Companies ii) Others	
	4.Subsidies Received Form NRB a) Reimbursement of Losses of Specified Branch b) Interest Subsidy C) Exchange Counter d)	
	5. Others	
	Total Non Operating Income (Loss)	

SCHEDULE 21

OTHER INCOME

(For The F/Y.../...)

Last Year (Rs)	Particulars	This Year (Rs)
	1. Rent on Safe Deposit Locker	

	2. Issue and Renewals of Credit Cards 3. Issue and Renewals of ATM Cards 4. Telex / TT 5. Renewals Fees 6. Service Charge 7. Renewals Fees 8. Loss Provision Written Back 9. Others	
	Total	

SCHEDULE 22

**STATEMENT OF LOAN AND ADVANCE EXTENDED TO DIRECTORS / CHIEF
EXECUTIVES / PROMOTOR / EMPLOYEES AND SHAREHOLDERS HOLDING
MORE THAN ONE PERCENT**

Name of Promoters/Director/Chief Executive	Last Year Balance		This Year Recovery		This Year Addition	Balance at Ashadh End	
	Principle	Interest	Principle	Interest		Principle	Interest
A. Director							
1.							
2.							
3.							
B) Chief Executive							
1.							
2.							
3.							
C) Promoter							
1.							
2.							
3.							
D) Employee							
1.							
2.							

3.							
Total							

SCHEDULE 23

CAPITAL FUND TABLE

Last Year(Rs)	Particulars	This Year (Rs)
	A) Core Capital 1. Paid up Capital 2. Share Premium 3. Non Redeemable Preference Share 4. General Reserve Fund 5. Retain Earning 6. Net Profit For The Year Shown in Balance Sheet	
	B) Supplementary Capital 1. Loan Loss Provision 2. Assets Revaluation Fund 3. Hybrid Capital Instrument 4. Interest Spread Reserve 5. Other Free Reserve	
	C) Total Capital Fund	
	D) Minimum Capital Fund Requirement on the Basis of Risk Weighted Assets 1. Capital Fund (... Percent) 2. Core capital (.....Percent)	

	3. Capital Fund Excess (Short Fall)	
	4.Core Capital Found Excess (Short Fall)	

SATATMENT OF RISK WEIGHTED ASSTS

Particular	Weights	Last Year		This Year	
		Amount	Risk Weighted Assets	Amount	Risk Weighted Assets
A. On The Balance Sheet Assets					
Cash Balance					
Gold (Exchangeable)					
Balance at NRB					
Investment on Govt. Securities					
Investment on NRB Securities					
Fully Secured Loan Against Own FDR					
Fully Secured Loan Against Securities					
Balance at Local Banks & Financial Institution					
Fully Secured Loan Against Other Banks FDR					
Balance at Foreign Bank					
Money at Call					
Loan Against Guarantee of A + Related Intl Bank					
Other Investment at + Related Intl Bank					
Investment on Share / Debenture / Bonds					
Other Investment					
Other Loans, Advances and Bills					

Purchased, Discounted					
Fixed Assets					
Other Assets					
A. Total					
B. Off Balance Sheet Items					
Bills Collection					
Forward Foreign Exchange Contract					
Letter of Credit (With Maturity 6 Months)					
Guarantee Against CG of A + Related Intl Banks					
Bid Bonds					
Performance Bond					
Advance Payment Guarantee					
Financial Guarantee					
Other Guarantee					
Irrecoverable Loan Commitment					
Other Contingent Liabilities					
B. Total					
Total Risk Weighted Assets					

SCHEDULE 24

KEY INDICATORS (At Least of Five Years)

Particulars	Indicators	F/Y	F/Y	F/Y	F/Y	F/Y
1. Net Profit / Gross Income						
2. Earning Per Share						
3. Market Value Per Share						
4. Price Earning Ratio (P R Ratio)						
5. Dividend (Including Bonus) On Share						
6. Cash Dividend on Share						
7. Interest Income Loan and Advances						
8. Staff Expenses / Total Operating Assets						
9. Interest Expanses on Total Deposit						
10. Exchange Fluctuation Gain						
11. Staff Bonus / Total Staff Expenses						
12. Net Profit / Loan & Advances						

13. Net profit / Total Assets						
14. Total Credit / Deposit						
15. Total Operation expenses / Total Assets						
16. Adequacy of Capital Fund on risk Weighted Assets a. Core Capital b. Supplementary capital c. Total Capital Fund						
17. Liquidity (CRR)						
18. Non Performing Credit / Total Credit						
19. Weighted Average Interest Rate Spread						
20. Book Net Worth						
21. Total Shares						
22. Total Employee						
23. Other						

SCHEDULE 25

CASH FLOW STATEMENT

(Form.....to.....)

Last Year (Rs)	Particulars	This Year (Rs)
	A. Cash Flow Form Operating Activities	
	1. Cash Receipts	
	1.1 Interest Income	
	1.2 Commission and Discount Income	
	1.3 Currency Exchange Gain	
	1.4 Non Operating Income	
	2. Cash Payment	
	2.1 Interest Expenses	

	2.2 Staff Expenses 2.3 Office Overhead Expenses 2.4 Other Expenses	
	B. Cash Flow Form Investing Activities	
	1. Change In Balance With Bank 2. Change In Money At Call or Short Notice 3. Change In Loans, Advances And Bills Purchased 4. Change In Fixed Assets 5. Change In Other Assets	
	C. Cash Flow Form Financing Activities	
	1. Change In Borrowing 2. Change In Deposit 3. Change In Bills Payable 4. Change In Other Liabilities	
	D. Net Cash Flow For The Year (A + B + C)	
	E. Opening Balance Of Cash	
	F. Closing Balance Of Cash	