

**MANAGEMENT ACCOUNTING PRACTICES OF PUBLIC
SECTOR FINANCIAL ORGANIZATION IN NEPAL**

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RECOMMENDATION

This is to certify that the thesis

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has been prepared as approved by this Department in the prescribed format of Faculty
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format. We recommend the thesis to be accepted as partial fulfillment for

Master's Degree in Business Studies (M.B.S.)

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DECLARATION

I hereby, declare that the work reported in this thesis entitled “**Management Accounting Practices of Public Sectors Financial Organization in Nepal**” submitted to Balkumari College, Bharatpur, Chitwan is my original piece of work done in the form of partial fulfillment of the requirement for the Master’s Degree in Business studies under the supervision and guidance of Bhim Narayan Sir, Lecturer, Balkumari College.

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ABBREVIATIONS

ABC	Activity Based Costing
AD	Anno Domini
ADB	Agricultural Development Bank
ARR	Accounting Rate of Return
CAAN	Civil Aviation Authority of Nepal
Co.	Company
CVP	Cost Volume Profit
FY	Fiscal Year
Govt.	Government
HLM	High-Low Method
IRR	Internal Rate of Return
MA	Management Accounting
MBL	Machhapuchhare Bank Limited
NEPSE	Nepal Stock Exchange
NIDC	Nepal Industrial Development Corporation
NOC	Nepal Oil Corporation
NPV	Net Present Value
NRB	Nepal Rastra Bank
P/L	Profit and Loss
PBP	Payback Period
PEs	Public Enterprises
PFS	Public Financial Sector
PI	Profitability Index
ROI	Return on Investment
SBPPNL	Shree Bhrikuti Pulp and Paper Nepal Limited
SPSS	Statistical Package for Social Science
USA	United States of America
WTO	World Trade Organization

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Nepal officially the Federal Democratic Republic of Nepal, is a landlocked country in South Asia and the world's youngest republic. It is a small Himalayan country situated in south Asia with the number one height (8848m) of the world. Geographically it is a landlocked country lies on the 26°22'-30°27' north latitudes and 80°4'-88°12' east longitudes. Nepal occupies 0.03% land of the total area of the world. It stretches about 885 km east to west and north to south varies in width 105-241 km and Nepal gives the total area of 147181 sq km carrying about 26494504 populations. Nepal's boarder line touches to China in north and east, west and south with India. It is bordered to the north by the People's Republic of China, and to the south, east, and west by the Republic of India. With an area of 147,181 square kilometers (56,827 sq mi) and a population of approximately 30 million, Nepal is the world's 93rd largest country by land mass and the 41st most populous country.

Those two large countries(China and India) have huge and rapid growth in business, industrial and economic sectors but Nepal has been creeping and trying to develop its economy slowly. Now, Nepal declaration federal republic of democracy and peace process is running upon the completion of second constitution assembly election. The economic structure of Nepal is mixed. i.e. socialist and capitalist. However, Nepal is an agricultural country where more than 70% of the total population is dependent on agricultural sectors. Agriculture is backbone of our country as it is the main source of our employment. Nepal is a developing country with per capita income of about US \$310. An estimated 25% of population lives below the poverty lines. Income distribution is highly skewed. The economy is agro-oriented with widespread subsistence pockets. Nepal becomes member of WTO since 2004. So, it has been coming challenges a kind of opportunities for economic growth.

The country becomes economic prosperity when the available resources are full utilized by corporate firm. Corporate firm are public and private. Public firm/enterprises are established to provide different kinds of services to the people. They are established as semi-autonomous or autonomous bodies. They produce and supply large verities of goods and services for the public at reasonable price. They are established for good governance as well as development of the country. Nepalese public enterprises can be taken as one form of organization of the

Nepalese industrialization. They are operating to growing economic activities as well as distributing its goods and services to the people to all regions of the country.

Each and every organization has certain objectives which are achieved through management process. Management process is managerial adjustment of various activities which consist planning, controlling and decision making process.

1.2 Public Enterprises

1.2.1 Historical Background

All business activities were left to the private sectors till the 19th century. But they were exploiting workers and consumers in order to maximize profit. They didn't pay attention to public needs, the welfare of the society, the establishment of basic and/or heavy industries, balanced development of the country etc. Some of them restored to malpractices in business such as hoarding, black marketing, profiteering. All these activities made the government began interfering in trade and commerce to check such malpractices and ensure the welfare of the society (Sharma, Fago and Dahal, 2002, p. 132)

“Public enterprises have been considered as a key operational instrument to achieve the twin ideas of economic planning and development. Planned economy is the method evolved by the socialist for achieving repaid economic development. An important part of the socialist doctrine is the ownership of means of production and distribution by the state. Thus ownership of poverty has remained the main plank of socialist thought.” (Mathur, 1999:1) considerable controversy and distribution while social scientist and political thinkers have been debating for centuries whether there should be a ‘socialist or capitalist’ path for economic development. Very little attention has been given to the organizationally, institutional and managerial arrangements if the state were to take over the direct running of institutional enterprises. It was only gradually that the idea of an autonomous institution for managing state enterprises emerged” (Mathur, 1999, p.16)

Today the evolution of public enterprises (PE),in the world has taken place in such a way that one can hardly fine any government remaining aloof from the industrial enterprises, though the degree of involvement may vary. In fact the very characteristic of the present country has been the acceptance of the role of the state involvement in the economy, in matter how the whole world cry for the total role played by the private sector. Even PE's do exist in a

country like USA, where the stronghold of private enterprises exists. The USA makes the leapt use of the PE's; the US has disbanded most of the PE's that expanded considerably mainly to meet the financial and procurement purpose. For the purpose of dealing with emergency requirement of the two world wars and the Great Depression of the 1930s, it has founded Tennessee Valley Authority (TVA) in 1933, a unique PE setting an example to be imitated by many countries to undertaken integrated development of great-river valleys. Irrigations, flood control, navigation, soil conservation and the generation of hydro-electronic powers are the examples of PES. The former British Minister for overseas Development once remarked "We now need to extent the concept of intervention and planning from the national to the international levels, from the nation to the world, from the country to the planet. We must now determine that we shall solve our share and common problems only by a firm rejection of any illusion that there is a free world market economy". The need of PE was far greater felt especially during the post world war period and the great depression of the thirties, though the need of it went to emphasizing with the adaption of development planning since 1950s.

Each private sector as well as public has its own merits and demerits depending upon the ideology, resources available, regulation, consciousness, control, monitoring and supervision mechanism etc. Former prime-minister of India Mrs. Indira Gandhi once remarked "people steeped in poverty are naturally inpatient for an ending if dipartite and for opportunity of better life. Many projects have to be taken in hand. Development can't be left to the merely of market forces. For it is feasible for the private individual or group to finance the vast investment involved. State intervention is therefore necessary. And we must fulfill our pledge to give social and economic justice to our people". Whereas the former president of Korea, Park Chung He insisted "Private ownership of production should be necessary to control to stimulate national development and protest the interest of people".

It is believed that Japan was the first to use PE's systematically for promotional purpose. Soviet Union also used it properly for buildings up its socialist economy in those days. India is no expectation to it. Public sectors did exist in pre-independence era too. But its real development process could take shape only after 1947with the industrial policy 1998 ,resolution which called for 'the state to play a progressively active role in the development of the industries'. In facts it was the socialist orientation of the government , which lead to the development of PE's in India. In Bangladesh, its history dates back to early 1950's. The

creation of PE's in Sri-lanka owes to the 2nd world war during which period, it was hard hit by supply position of essential commodities that the government to forcefully set up the PE's. The history of PE's in Thailand is associated with the up surge of Tai nationalism in 1930s. Mechanized spinning and weaving mills established in 1934 which was the first enterprises in Thailand. To conclude, one thing is sure it is that most developing countries need to make fairly extensive use of PE's as a catalytic agent in the process of moving towards development oriented economy at the certain stage in the development process public utility and social sector (Shrestha, 1990, p.5)

In Nepal public enterprise were established in order to prepare infrastructure service, to produce the required goods in the country and to export, to create opportunities for employment, to increase government revenues and to contribute significantly in the national development as well as to assists in the country's economic advancement. When Nepal was opening up to the world, the private sector had neither the capital nor the technical and managerial skills to established new industries, especially in areas where they were designed for import substitution. The cement, dairy, sugar, cotton and cigarette industries point help a lot in import substitution.

The history of public enterprises in Nepal is marked first by expansion and then by contraction. Till the early eighteens, public enterprises sectors expanded in the country. This had to do with easy availability of foreign aid, lack of private sectors development and finally , the prevailing economic dogma of state interventions. However, widespread poor performance of the public enterprise sector lead the government to rethink the need to established and run public enterprise.

PE's have nearly a half-century long history in Nepal. The first one emerged in 1938 with the partial nationalization of Nepal Bank Ltd. The first commercial bank in the name of Nepal Bank Ltd. Was established in the private sector on 1985 under the commercial Bank Act 1974 and companies Act 1965. There has been a rapid growth in the number of PE's after 1956. The number of crossed the 60 mark in 1989/90, including 15 non financial and nine financial companies. Most of the country's PE's were built as turnkey projects under bilateral agreements and with the help of international donors.

In Nepal, the public enterprises were established in public service, industry, trade, finance and other sectors to create the infrastructure for basic services, and also because the private

sectors was seen as inefficient in important areas, the capital investment capability was low and because technical knowhow development was till in very primary stage. After Nepal bank was established in 1938 as a public enterprise, other such enterprise like NIDC, Royal Nepal Airlines Corporations also came into being. In the industrial sectors also industries like the Janakpur cigarette Factory, Birgunj Sugar Mill and Basbari leather Shoes Factory Were established in 1961. Subsequently banks, business sectors, telecommunications, electricity and water supply in the service sector and cement, bricks, medicine and textiles in the industrial sectors came in existence. In this way, now some of the industry has been closed and some of them are privatization. Although the development of public enterprises has achieved the above mentioned aims by creating employment opportunities, increasing production in the country and providing the important basic services, the enterprise have not been functioning in an efficient manner. Despite the long-term protection given to these public enterprises they have not been able to achieve financial capability and work efficiency and are still depend upon government grants. So in order to enhance their efficiency it has become necessary to think seriously about them.

Public sector financial organizations were suffered by poor planning and poor management. Due to the inefficiency of management the organization were suffered by huge amount of losses in public sector financial institution. Absence of clear goals, diverse ownership and lack of appropriate incentive structure and political consideration led to managerial confusion in public sector financial organization. The public enterprises are facing several problems. The present study tried to find out the role of management accounting systems upon the performance of the organization. The main problems of the public sector financial organization are lack of proper planning and managerial decisions.

Public enterprise have become important instrument in nation-building to carry out entrepreneurial functions associated with economic and social development. To some extent, PE's have assumed a part role of the state in accelerating economic development and maintaining political stability where sole dependence upon ministerial department to implement government programmed has proved to the ineffective.

1.2.2 Meaning and Definition of Public Enterprises

Public enterprises are called by a variety of names, such as public undertakings, state enterprises, nationalized industries, governmental undertakings etc. They are commercial or public utility undertakings that are funded by government. A public enterprises may be defined as business enterprises that are in complete control and management by the government or those undertakings whose more than half of the shares are owned by the government. Public enterprises include any enterprises working under public ownership functioning under a corporate form. It includes all the industrial and commercial activities of the government. The base aim of public enterprise is to provide goods and services to the public at a reasonable rate through profit earning are not excluded but their primary objective is social service (Shrestha, 2006, pp. 141-142).

Public enterprise is an important form of business organization which is financed, controlled and operated by government. In such enterprises either the government is the sole control is absolute. It is a business organization which is run, manage and controlled by the government on behalf of the public at large. The government's investments in such enterprises are at least 51 percent. PE's is established to provide different kinds of service to the people. Public enterprises are also known as state enterprises, nationalize industries, public sectors undertakings etc. They are established as semi-autonomous or autonomous bodies. They produce and supply large variety of goods and services for the public at reasonable prices (Sharma. Fago & Dahal, 2002, p. 132)

According to A.H. Henson, "public enterprises means state ownership and operation of industrial, agriculture, financial and commercial undertakings." Similarly in the words of M.N Malya, "Public enterprises are autonomous or semi-autonomous corporations and companies established owned and controlled by the state and engaged in industrial and commercial activity" (Shrestha, 2006, p. 141)

State owned enterprises are finally autonomous and legally distinct entities wholly or partially owned by central or sub-national government" (World Bank Report-1998). "Public enterprises are autonomous bodies which are owned and managed by the government and which provides goods and services for a price. The ownership with the government should be 51 % or more to makes an entity pubic enterprises". (Narayan, 1998:42)

1.2.3 Importance of Public Enterprises

The principles of “Welfare State” emphasized the establishment of public enterprises. It create a strong foundation for modern industrial economy and helps the country in achieving self-sufficiency in industrial and technical know-how. The importance for establishing public interiorize are as follows (Shrestha, 2006, pp. 142-144)

- i) **Planned development:** public enterprises aim at the economic development of the country in planned way in accordance with the policies of the government. Appropriate progress can't be made by the private sector industries only. The private sector neglects the industries with long gestation period and low rate of returns. Generally, they want maximum profits very soon. Thus, public enterprises provide planned development by setting up industries that are economically unattractive but nationally essential for the public.
- ii) **Balanced Development:** The economic development has take place in a planned way as well as in a balance way. Balance development requires decentralization of industries.
- iii) **Accelerating the Rate of Economic Growth:** In developing countries accelerating the rate of economic growth gets the first priority. Hence, these enterprises try to remove the basic deficiencies of the economy and provide all infrastructures for economic growth.
- iv) **Provision for Public Utilities:** The nature of the public utility concern requires huge fixed capital investment and profit margin is low. So, private company can't afford to make such huge investment.
- v) **Supply of Essential products or Services :** PE's is essential for supplying essential goods and services sufficiently at reasonable price to the people.
- vi) **Generate Employment Opportunities :** The government is responsible for providing employment opportunities to its citizens.
- vii) **Reducing Economic Inequalities :** PE's are meant to remove economic inequalities. Due to private entrepreneur wealth and economic concentrated in few industrialist. By establishing PE's there is possibility for the govt. to reduce inequalities of wealth and income among the people.

- viii) Establishment of Welfare-Oriented Society :** PE's helps to established welfare oriented society. Private company work for increasing profit but PE's does not for making profit. Hence, adulteration, artificial scarcity, black marketing etc. are not done by PE's.

1.2.4 Features of Public Enterprises

It can be concluded that public enterprises are those business undertakings that are owned, managed and controlled by the government. These enterprises are set up with basic purpose of promote social welfare as well as providing goods and services and public utility. The public enterprise consists some features which is listed as follows :

- i) Government ownership
- ii) Government control and management
- iii) Public accountability
- iv) Service motive
- v) Financing by the government
- vi) Autonomous function
- vii) Monopoly enterprises
- viii) Separate legal entity
- ix) Essential goods and service provide

1.2.5 Objectives of Public Enterprises

Public enterprises are established to fulfill different requirements. Their basic goals is to serve people as well as to help the nation to develop. It become very important to declare the declaration of the objectives; it becomes easier to formulate the strategy and working policies of the enterprises. One of the of the failure of the enterprises, if failed, is required as the absence of the objectives. The objectives of public enterprises are therefore most important factor to be taken in the consideration. The objectives of the public enterprises are classified into the following groups:

Economic Objectives

- I. Accelerate the rate of economic growth
- II. Attaining the goals of planned economic development
- III. Regional and balanced development
- IV. Mobilization of funds for future plans.

V. Making available essential goods and services cheaply and adequately.

VI. Acting as model entrepreneur.

VII. Saving foreign exchange.

VIII. Maintaining economic stability.

Social objectives

I. Prevent monopolistic practices

II. Generate employment opportunities

III. Reduction in disparity of income

IV. Attaining social justice and social welfare

V. Avoiding concentration of wealth and means of production in fewer hands

VI. Making healthy and efficient enterprises

Political Objectives

I. National defenses policy

II. Political Ideology

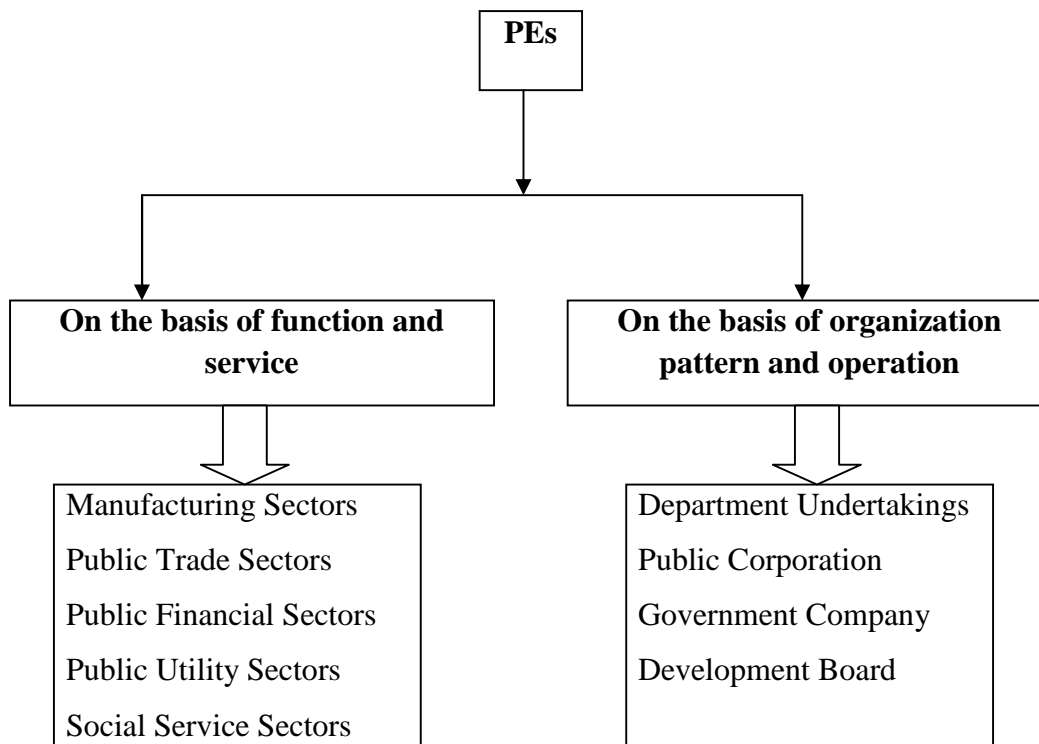
III. National interest and welfare

IV. Political interest and purpose (Joshi; 1993, p. 9)

1.2.6 Types of PEs in Nepal

Government is the promoter of public enterprises. An analysis of the public enterprises in various countries shows that, there are two basis from classification of PE's i.e., (i) On the basis of organization pattern and operation.

Figure No. 1.1: Types of Public Enterprises in Nepal



1.2.6.1 On the Basis of Function and Services

Public enterprises are five types on the basis of function and service. They are described as follows.

- 1) **Manufacturing Sectors** : Those companies who produce goods for daily consumption purpose as well capital purpose are called manufacturing sectors. For examples in Nepal, Lumbini Sugar Factory Ltd. Dairy Development Corporation, Hetauda Cement Industry Ltd etc are manufacturing sectors.
- 2) **Public Trade Sectors** : Those companies who doesn't produce goods and only buy goods then sales are called trade companies. For example in Nepal Nepal Food Corporation, Salt Trading Corporations, Agriculture Inputs Company, National Seeds Company are public trade company.
- 3) **Public Financial Sectors**: Those institutions that are concerned to operate financial activities are called financial sectors. For example in Nepal, Nepal Bank Ltd. Rastriya Banijay Bank Ltd. Rastriya Beema Sansthan etc are public financial sectors.

4) Public Utility Sectors: Those sectors whose are operating is directly related to people's utility is called utility sectors. In Nepal, Nepal Tele Communication Corporations, Nepal Electricity Authority and Nepal Water Supply Corporation are public utility sectors.

5) Social Service Sectors: Those sectors whose operating is directly related to social service is called social service sector. In Nepal, Gorkhapatra Corporation, Nepal Airlines Corporation, Radio Nepal, Nepal Television are also social service sectors.

1.2.6.2 On the Basis of Organization Pattern & Operation

Public enterprises are four types on the basis of organization pattern and operation. They are described as follows:

1) Departmental Undertakings:

It is the oldest method of operating and managing the affairs of public enterprises. Under it, the undertaking is to be managed by a department of the government along with its other responsibilities. In other words, all business activities of the undertakings are conducted under the overall control of a minister concerned who is answerable regarding the affairs of the undertakings. It is under the overall and ultimate control of a minister who is responsible to the parliament. The departments of postal service, The Department Of Mine, The Cultural Undertakings, The Department Of Defense Industries etc are some examples of departmental undertakings in Nepal. The departmental undertakings have the following features. (Sharma, Fago & Dahal 2002, pp. 134-135)

-) Financing
-) Management and control
-) Rules and regulations
-) Recruitment of employees are civil services
-) No separate legal entity
-) Public accountability

2) Public Corporation:

A public corporation is one of the most suitable forms of organization for managing public corporation. A public corporation is a corporate body created by a special act of the parliament. Its power, duties, objectives privileges and management are all defined by act. It is

also known as statutory corporation. The main purpose of a public corporation is the maximum of Social welfare rather than profit. The Nepal Telecommunication Corporation, Nepal Oil Corporation, Electricity Authority etc. are some example of public corporation in Nepal.

Public corporation is incorporate with a single purpose with multi purpose. Public corporation have the followings features.

-) Incorporate under special Act.
-) Board of Directors
-) Government Ownership
-) Separate legal entity
-) Autonomy in Operation
-) Recruitment of Employees are not Civil Service
-) Public Accountability

3) Government Company

A public enterprises, which is established under the existing company act of the country is known as Government Company. In such a company the government's stake is least 51% of the total share capital. No special act is required to form government companies. There liability is limited but their management is completely in the hands of government. The National Trading Co. Ltd., The Nepal Rosin And Turpentine Co. Ltd, The Salt Trading Co. Ltd etc are the some example of government companies in Nepal. A government company have some features are as follows.

-) Incorporate Under The Company Act.
-) Created By Executive Decision
-) Board Of Directors
-) Independents Financial Decisions
-) Recruitment Of Employees Are Not Civil Services
-) Public Accountability

4) Development Board

PEs is also established in the form of Development Board. Sometimes, it will be necessary to contract different ministry, department and other offices of govt for development work in public welfare sectors. Hence, it can function quickly as it involves representatives from various concerned ministries, departments and other offices. Such Development Boards are established under Development Board Act, 2013. The examples of Development Boards are Radio Nepal Development Board, Trade Promotion Centre, Nepal Tourism Board etc. (Shrestha, 2006, p.152)

1.3 Statement of the Problems

Public sectors financial organization were suffered by poor planning and poor management. Due to the inefficiency of management the organization were suffered by huge amount of losses in public sector financial organization. Absence of clear goals, diverse ownership and lack of appropriate incentive structure and political considerations led to managerial confusion in public sector financial organization. The public enterprise are facing the several problems. The present study tried to find out the role of management accounting system upon the performance of the organization.

The financial sectors have been operating well from very establishment. There are experience in international banking prompt and computerize service, professional attitude are factors for their repaid progress. These banks have able to capture a remarkable market of Nepalese banking sectors or financial service industry in a short period of time.

Success is not a matter of chance. Profit doesn't just happen, it is to be planned and managed. Management accounting provides techniques to aid management function. Poor performance is the outcomes of poor planning, controlling and decision making. Lack of well educated human resource and experience management team are the main of the every public financial organization. So the study has tried to find out the problem faced by Nepalese Public Sector's Financial Organization in terms of Managerial Functions..

1.4 Objectives of the Study

The main objectives of the study are to examine and study the state of practice of management accounting tools in financial sectors Nepal. The specifics objectives are as follows:

- i. To find out the Management Accounting tools and techniques use in public sector financial organizations in Nepal.
- ii. To evaluate the process of planning, controlling and decision making of public sectors financial organization in Nepal.
- iii. To identify the major difficulties for practicing the management accounting tools in public sectors financial organizations of Nepal.
- iv. To shows the relationship between performance and application of management accounting tools in public sector financial organizations.

1.5 Research Questions

The research questions of the study is following.

- i. What types of management accounting tool are used by financial sectors?
- ii. Which management accounting tool is mostly practiced and which are not practice till now?
- iii. What are the major difficulties in the application and implementation of management accounting tool?
- iv. In which areas of financial sectors can management accounting tool be applied to the competitiveness?

1.6 Significance of the Study

The research work is concerned with the study of the practice of management accounting toll in public financial sector in Nepal. This study will be significant in the following ways.

- i. It analyze the use of management accounting tool in financial sectors.
- ii. It will be useful to potential investors, leaders, managers, policy maker and stakeholders of the financial sectors.
- iii. It provides information on the application of the tools under different situation and encourages the use of management accounting tools in decision making.

- iv. It helps to know the management accountants responsibility to provide reliable information for decision making.
- v. Last but not the least, it provides literature to the researcher.

1.7 Limitation of the Study

The limitation of the study is as follows:

- i. The study has focused only practice of management accounting tools/techniques in public sectors financial Institutions.
- ii. The study covered public financial companies in Nepal so, the findings wouldn't represent to other financial enterprise.
- iii. The data of the information were collected from the survey conducted by the researcher.
- iv. The accuracy and reliability of the data depend upon the information's provided by the respondents.

1.8 Organization of the Study

The thesis has been categorized into five chapters. Which are as follows:

Chapter I: Introduction

The introduction chapter consists of the background of the study, relevance of the study, objectives of the study, statement of the problems, limitation of the study and organization of the study.

Chapter II: Review of the literature

This chapter deals with literature review which comprises conceptual/theoretical review as well as review of previous studies and research gap.

Chapter III: Research methodology

This chapter contains research design, population and samples, source of data, data collection techniques and tools.

Chapter IV: Data presentation and analysis

This chapter deals with the data presentation and analysis with the help of the various tools, graph and diagrams. Major findings of the study are also presented in this section.

Chapter V: Summary, conclusion and recommendation

The last chapter of the research report contains summary, conclusion and recommendation of the study.

At the end of the chapters bibliography and appendices have been incorporated.

CHAPTER-II

REVIEW OF LITERATURE

2.1 The Management Process and the Role of Management Accounting

Nowadays, managerial accountants serve as internal business consultants working side by side in cross-functional teams with managers from all area of the organizations. In many organizations, managerial accountants take on leadership role in their teams and are sought out for the variable information they provide. They are in fact very important business partners. (Bajracharya, Ojha, Goet & Sharma, 2005, p. 4)

In managing the resources, activities, and other people of the organizations, the management process involves the followings activities (Bajracharya, Ojha, Goet & Sharma, 2005, p. 4-7)

1. Planning

Planning is the process of thinking in advance about future activities. It is a forward thinking process that contemplates to manage the uncertainties an risk. It is the fact of controlling an organizations from deviating from its goal. A well set plan is the key to success for an organization. Planning should be such that it reflects the true picture and reality of the organizations. Planning is done at both strategic and operational level. Strategy itself is a plan to lead the organization with a long term vision. Planning is developing a detailed financial and operational description of anticipated operations.

2. Decision Making

Decision making is the process of selecting the best perceived alternatives from the available different options. It is to be done in all levels of management. Decision is all about choosing from among the available alternatives. The management team often comes across situation where decision need to be taken considering the best interest of the organizations.

3. Controlling

Controlling is the process which assumes the management that the organizations is not deviation from its basic philosophy. It is applied basically in the operational level because the actualization of the plans & strategies done in this level.

2.2 Stewardship, Treasurership and Controllership Functions of Management Accounting

1. Stewardship Function

Stewardship function is a traditional approach of accounting that place an obligation on steward or agents. Such as directors to provide relevant and reliable financial information relating to resources over which they have control but which are owned by others such as shareholders. Not only are steward responsible for providing information but they must also submit to an audit. Stewardship function follow proper accounting procedures which satisfy legal and commercial needs but are less vigorous and detailed than the professional practice of management or financial accountings. It is usually applied to small business that don't need the more sophisticated techniques owing to the popularity and practice of company business or corporations. The stewardship function now is almost out of continuations (Bajracharya, Ojha, Goet & Sharma, 2005, p. 11).

2. Treasurership Functions

Treasurership is a financial manager in a staff position that is responsible for managing organizations relationship with investors and creditors and maintaining custody of the organizations cash investments and other assets. Management of capital and investment is a distinct area of treasurership functions. It consist of major activities like financial planning, dealing with capital and money markets, investment decision. Cash management, credit management and so on. Value maximization of the organizations is the prime objectives (Bajracharya, Ojha, Goet & Sharma, 2005, p.11).

3. Controllership Function

Controller is top accountant in an organization. Controllership activities are primary related to the accounting process. It consists of major activities including financial record keeping and reporting, internal auditing, tax planning, cost accounting, profit planning, accounting information system and so on. Maintaining financial discipline and profit maximization are the prime objectives of controllership functions. Controllership functions basically focus on the management of revenues and expenditures (Bajracharya, Ojha, Goet & Sharma, 2005, p. 11)

2.3 Major Management Accounting Tools

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

1. Capital Budgeting
2. Cost Segregation In To Fixed And Variable
3. Standard Costing
4. BEP Analysis And CVP Analysis
5. Ratio Analysis Or Financial Analysis
6. Master Budgeting
7. Flexible Budgeting
8. Responsibility Accounting
9. Activity Based Costing
10. Cash Flow Statement
11. Zero Based Budgeting
12. Lease or Buy

2.4 Limitations of Management Accountings

Management accountings suffers from some limitations which are mentioned below.
(Dangol, 2007, p. 13)

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

2.5 A Review of Management Accounting Tools

Management accounting is that branch of the accounting information system of business firm, which uses accounting information for planning, controlling and decision making to achieve organizational goal and objectives. Management must use various tools and techniques of MA for organizational success. Those tools and techniques are as follows

2.5.1 Cost Estimation

How does management go about actually estimating the fixed cost and variable cost is known as cost estimation? Management must have some way of estimating fixed and variety of cost behavior pattern. Cost exhibits a variety of cost behavior pattern. Cost estimation is the process of determining how a particular cost behaves. It is a process of determining the cost for certain levels of outputs. Several methods or models are commonly used to estimate the relationship between cost and activity and thereby have total mixed cost for given level of activity (Mnaukarmi, 2002, p. 25)

2.5.2 Methods of Mixed Cost Segregations

Mixed cost should be separated into variable and fixed components before entering in to financial planning, Decision making and Controlling. Mixed cost separation method are such as Graphic method, High-low point method, Analytical method and least square method which are described as follows:

1. Graphical Methods (Scatter Diagram)

The graphical method of dividing mixed cost into their fixed and various components makes use of all relevant past data pertaining to cost-volume relationship. The data are plotted in a scatter graph. Each point in a chart represents cost for a particular months/days in relation to number of units produced or level of activity (Khan, 2005, p. 11).

2. High-low Point Method

As the name suggest, that method makes of two observations rather than all the observation for drawing the cost line. The two points chosen are: (i) the high cost point and (ii) the low cost points corresponding to same specific volume (may be number of units produced or any other measures of volume such as labour hours, machine hours, telephones calls, power consumed and so on). The algebraic method will yield identical results which formula as follows : (Khan, 2000:5.12)

$$Y = a + bx$$

$$\text{Variable value (b)} = \frac{\text{Difference in cost (CH ZCL)}}{\text{Difference in level of activity (PH ZPL)}}$$

In statistical terms, total cost (Y) is a function of (i) Fixed element, a and (ii) variable element, b, multiplied by number of units produced or level of activity, X.

3. Least Square Method

Least square method is a statistical method. It follows regression equation to segregate mixed cost into variable. It is an accurate and trusted method of segregation fixed and variable cost from mixed cost. In this method, first of all, variable cost per unit is calculated then fixed cost is calculated. (Dangol, 2007 :27)

$$b = \frac{N \sum xy - \sum x \sum y}{N \sum x^2 - (\sum x)^2}$$

$$a = \frac{\sum y - b \sum x}{N}$$

Where,

a= Fixed cost per unit

b= Variable Cost Per Unit

N= No Of Observation

X= Activity Measures

Y= Total Mixed Cost

4. Analytical Method

This method also known as “Degree of variability” techniques because the genesis of this method lies in measuring the extent of variability of costs on a careful analysis of each item to determine how for the cost varies with volume, variable overheads under this method computed as follows: (Brown & Howard, 1964:149)

Variable overhead = Budgeted mixed overhead × Degree of variability

5. Average Method

Under this method, total cost is divided by total units to find out cost per unit. Total cost may be cost of product and other indirect examples. So it is the simplest method for calculation.

2.5.3 Product Costing Method

Profits are the excess of revenue over expenses. For the purpose of profit determination in business, finished and semi-finished goods in a firm need a true and fair valuation. So an income statement is prepared for the evaluation of the performance of the organization. An income statement is prepared under two product costing methods for showing the detailed behavior and classification of overheads as follows:

1. Variable Costing

This method is also known as direct costing or marginal costing method. This is a method of separating cost between variable and fixed cost for product. Under this method only variable manufacturing costs are charged on the product. The components of variable manufacturing cost are direct materials, direct labor, and manufacturing overhead. Fixed manufacturing costs are not included on the cost of product. (Gyawali, Fago & Subedi, 2006:3.3)

2. Absorption costing

This is a system of operation cost between manufacturing and non-manufacturing. The valuation of inventories included the cost of manufacturing (variable manufacturing and fixed manufacturing) like direct material, direct labor, variable manufacturing overhead, fixed manufacturing overhead etc. This system includes fixed manufacturing overhead on cost and considers over-absorbed or under-absorbed of fixed manufacturing overhead on the basis of production volume. (Gyawali, Fago & Subedi, 2006:3.3)

3. Use of Variable and Absorption Costing

Absorption costing is more widely used than variable costing. However, the growing use of the contribution approach in performance measurement and cost analysis has led to increasing use of direct costing for internal reporting purposes. Over half of the major firms in

the United States use direct costing for some internal reporting, and nearly a quarter uses it as the primary internal format, in contrast neither the public accounting profession nor the internal revenues services approves of direct costing for external reporting or tax purpose. Thus all firms use absorption costing for their report shareholder's and tax authorities (Horngern, 1991, pp. 538-539).

Product cost and period cost are calculated by the variable as well absorption costing based. They are:

Under Absorption Costing

Product cost = Direct materials+ Direct Labour + variable manufacturing Cost+ Fixed manufacturing cost

Period cost= General and administration costs+ selling and distribution costs.

Under Variable Costing

Product cost= Direct materials+ Direct Labour + variable manufacturing Cost

Period cost= General and administration costs+ selling and distribution costs+ Fixed Manufacturing Cost. (Bajracharya, Ojha, Goet & Sharma, 2005, p. 144)

2.5.4 Managerial Application Of Cost-Volume Profit Analysis

Management must be doing CVP analysis for find out business standings positions. CVP analysis helps the management to make strategies for success. However, CVP analysis used by some method/approach which are described as follows:

1. Contribution Margin Analysis

Contribution margin is the excess of sales price of a unit of output over its variable cost i.e. (S-v). It is the difference between the profit of rupees that is left after variable expenses are deducted. It had to be remembered that "V" is the sum of unit manufacturing costs and the unit marketing and administrative costs. (Gyawali, Fago & Subedi, 2006 :4.2-4.3)

Symbolically,

$$\begin{aligned}\text{Contribution Margin} &= \text{Selling price} - \text{variable cost} \\ &= \text{Fixed cost} + \text{Profit}\end{aligned}$$

$$\text{Profit \& loss} = \text{Contribution margin} - \text{Fixed cost/ expenses}$$

2. Break-Even Analysis

At break even sale, the company just break even i.e. recovers all of its costs. In others words, break even sales volume is that level of sales volume in which a company neither makes a profit nor suffers losses. It will just be able to recover its cost. To put break-even point in others words, that is a point at which company breaks the loss zone and enters into profit zone.

Break-even analysis helps the management to know which sales volume will only recovers its cost and after which it starts giving profit. Therefore, it can provide management some insight into profit planning. There are four approaches of calculating break even point (Akshys, Goet & Bhattari 2005:12.2).

a. Algebraic Equation Method

$$\text{BEP Sales in Rs- Variable Cost- Fixed Cost}=0$$

b. Formula Method

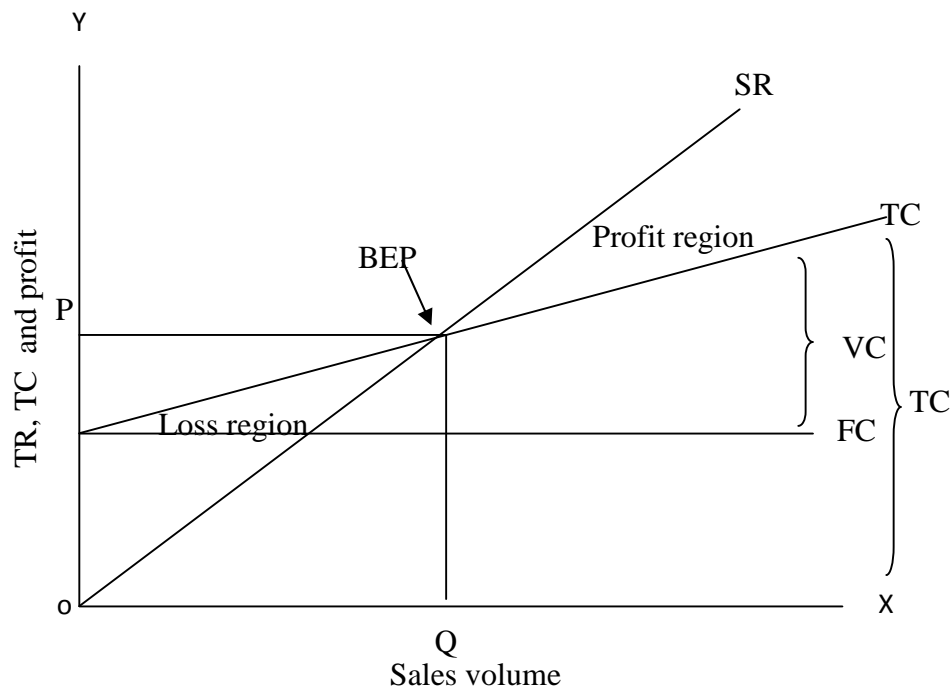
$$\text{BE Sales (Units)} = \frac{FC}{CMPU}$$

$$\text{BE Sales (RS)} = \frac{FC}{CM \text{ ratio}}$$

c. Income Statement Method

Sales Revenue (BE Sales in Rs)	xx
Less: Variable Cost	xx
Contribution Margin	<u>xx</u>
Less Fixed Cost	xx
	<u>Nil</u>

d. Graphical



3. Margin of Safety

Margin of safety (MOS) is a cushion available to a business firm to protect itself against the future business happenings. The large is the margin of safety, the greater is the chances for the firm to earn profit or vice versa. Margin of safety is also defined as excess of actual or budgeted sales over and above the break even sales. In others words, it is the difference between actual or budgeted sales and break even sales. [Akshay, Goet & Bhattarai, 2005: 12.4]

Symbolically,

$$\text{Margin of safety (MOS)} = \text{Actual Sales Volume} - \text{BE Sales Volume}$$

$$\text{Margin of Safety Ratio} = \frac{\text{Margin of Safety}}{\text{Actual Sales}}$$

2.5.5 Pricing of the Product

Price is the value of goods and services. Setting price for goods or service is an important function of the manager of an organization. It is the most crucial and difficult decision of a manager. Pricing is always determined for making profit. There is some technique for pricing of product which is described as follows:

1. Variable Cost Pricing

Some firms use variable cost pricing system for determination of selling price of the products. Under this system, mark up is added either on total variable manufacturing cost or total variable costs. This method is also known as marginal cost pricing system or contribution margin pricing system. Using variable cost pricing system, the firm sets its price to maximize contribution to cover fixed cost and profit margin. [Fago, Subedi & Gyawali, 2006: 9.5-9.6] Calculated price under this system is,

Selling Price = Total variable Cost Per Unit + (Mark Up% x Total Variable Cost Per Unit)

Mark Up %

$$= \frac{\text{Total Profit} \Gamma \text{ Fixed Manufacturing Cost} \Gamma \text{ Fixed Selling and Administrative Cost}}{\text{Total Variable Cost}} \mid 100\% \text{ Target Profit} =$$

Capital Employed x Return on Investment (ROI)

2. Activity Based Cost Pricing

It is a technique of allocating manufacturing overheads to products using multiple application rates and variety of costs drivers in multi product firm. It maintains the relationship between overhead costs and the activities that causes them. The manufacturing costs are based up on certain costs drivers and the increasing and decreasing ratio of costs depends upon the quantity of cost drivers. The following steps are taken for making pricing decision under ABC pricing system.

-) Identifying the major activities in the organization
-) Determine the cost driver for each major activity
-) Determine the cost driver rate
-) Calculate total cost based on cost driver
-) Add mark up total cost and determine selling price [Gyawali, Fago & Subedi, 2006:

2.5.6 Budgeting for Profit Planning & Control

2.5.6.1 Concept of Budgeting

Planning is the key to good management. This is true for individuals, small family owned companies, new high technology companies, large corporations, government agencies, and non profit organization, for example most successful students who earn good grades, finance their education, and finish their degrees in a reasonable amount of time do so because they plan their time, their work, and their recreation. These students and budgeting their scarce resources to make the best use of their time money, and energy. Owners of successful companies who survive and grow even in different economic times carefully plan or budget their inventory purchase and their expansion of facilities so that they do not overextend themselves financially but are still able to meet customer's needs. A budget-a formal, quantitative expression of plans (whether for an individual, business, or other organization) provides a benchmark against which to measure actual performance. A budget can be much more than a limit on expenditure. Although government agencies too often use a budget merely as a limit on their spending, business and other organization generally use budget to focus on operating or financial problems. Thus a budget is a tool that helps managers both plan and control operations.[Horngren, Sundrem & Stration, 2002:253-254]

A budget is a detailed plan expressed in quantitative terms that specifies how resources will be acquired and used during the specifies period of time. The procedures used to develop a budget constitute a budgeting system. [Hilton, 2000:74]

Planning is a primary function of the management process. Planning is the process of setting goals and objectives and translating them into activities and resources required for the accomplishment within a specified time horizon. A budget is a quantitative expansion of a plan of action and an aid to co-ordination and control. Budgets may be formulated for the organization as a whole or for a subunit. Budgets, basically, are furcated financial statements-formal expression of managerial plans. They are targets that encompass all phases of operations including sates, production, purchasing, and manpower & financing. The annual budgets may be broken down into months, weeks and days of operation. [Bajracharya, Ojha, Goet & Sharma,2005: 403]

2.5.6.2 Essential of Budgeting

A successful budget depends on many factors. The essentially for successful budgeting are as follows.

-) Support of top management
-) Clear and realistic goals and objectives
-) Assignment of authority and responsibility
-) Creation of responsibility center
-) Adaptation of accounting system
-) Full participation
-) Effectives communication
-) Budget education
-) Flexibility [Gyawali, Fago & Subedi, 2006: 5.2]

2.5.6.3 Objectives of Budgeting

The objectives purpose PF budgeting are as follows. [Fago, Subedi & Gyawali 2006:5.2]

-) To determine future expectations and goals in clear and formal forms for avoiding confusion and facilitating their attainability.
-) To communicate expectations to all concerned so that they are under stood, supported and implemented.
-) To provide detail plan of action for reducing uncertainty and for the proper direction of individual and group efforts to achieve goals.
-) To coordinate the activities and efforts in then way those resources are used efficiently and effectively.
-) To provide a means of measuring and controlling performance of individual or unit and to supply in formation on the but is of which, necessary action can be taken.

2.5.6.4 Budgeting Over Time

Budgeting over time is an important consideration in planning. Budget range over a time spectrum that runs from the current day to a period some time as for as twenty-five year in the future, so, various plan are consideration for budgeting as described under.

1. Strategic Long-Range Plans

A strategic long range plan is prepared for more than a year (for 5,7 or 10 year) when plans are prepared on a five to ten years basis, they are called long-term or strategic planning. Strategic long-range planning is not concerned with day- to- day operations, although the strategic plan will be the foundation on which short-term planning based [Bajracharya, Ojha, Goet & Sharma, 2005:347]

2. Tactical Short-Range Plan or Budget

Tactical short-range plan or budget is usually prepared for one year; divided into months and quarters. Certainly, the most common form of budget is the annual operating budget. Budget of this kind can be prepared more accurately than can long range forecasts, because they deal with more nearly as certain able facts and probable conditions. [Bajracharya, Ojha, Goet & Sharma, 2005:347]

3. Medium Term Plans

A medium term planning is prepared for more than one year but not more man 3 years. So, it takes 3 years plans only. Medium term plans are prepared for medium target or objectives. In Nepal government interim budget is prepared fro 2007 to 2010 year for peace process period and 24% poverty alleviation target is the objective of interim budget.

2.5.6.5 The Budgeting Process

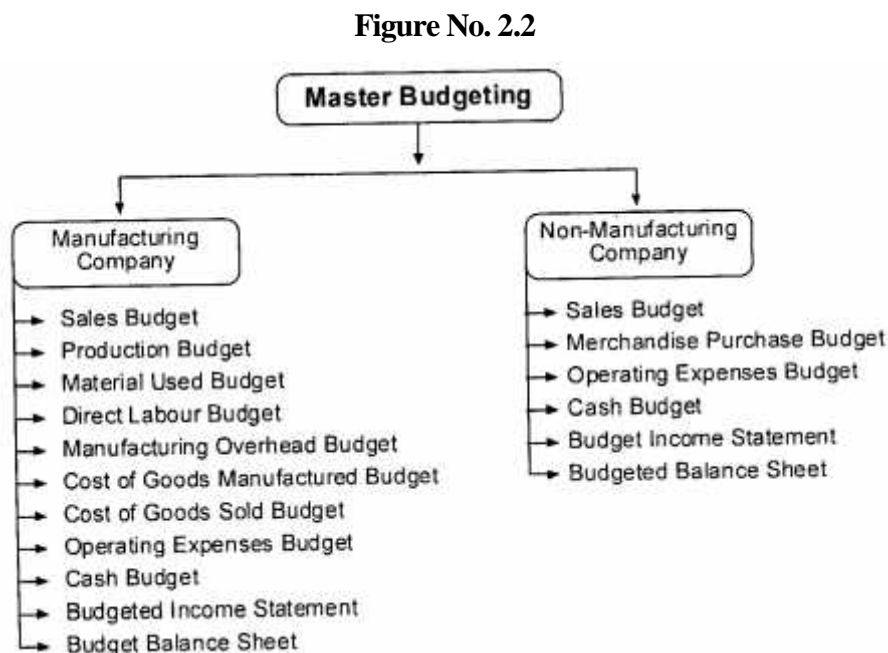
The main objective of a business firm is to make and excess of revenue over expenses so as to maximize profits. But it is not a matter of dream or chance. There are no magic formulas of boosting the figure of profit overnight. Budgeting, if followed properly, can increase the chances of making profits within the given environment. A systematic budgeting should encompass the following procedures. [Bajracharya, Ojha, Goet & Sharma, 2005: 349-350]

-) Evaluating the business environment
-) Setting objectives

-) Setting specific goals
-) Identify potential strategies
-) Communicating the planning guidelines
-) Developing the long-term and short term plans
-) Implementation of budgets
-) Periodic performance reporting and follow-up

2.5.6.6 Master Budget

The terms used to describe assorted budget schedules vary from organization to organization, however, most master budget have common elements. The usual master budget for a Manufacturing & Non-manufacturing company has the following components.



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

2.5.6.6.1 Operational Budget

Operating budgets are concern with the process of preparing the budgets of each operations/activity like production, sales, purchase etc. of the organization. It includes.

1. Sales Budget

Sales budget is the starting point in the preparation of the comprehensive master budget. All the other plans and budgets are dependent upon the sales budget. The budget is usually presented both in units and dollars of the sales revenue or sales volumes. The preparation of a sales budget is based upon the sales forecast. A variety of methods are used to forecast the sales for the planning period. [Bajracharya, Ojha, Goet & Sharma, 2005: 363]

2. Production Budget

Production planning is the second step of budgeting. Production budget is concern with determining the quantity of the product to be produced and unit of time production budget is prepared to coordinate the sales budget and inventory policy of organization. Production on budget can be expressed in following formula.

Production Unit = Planned Sales + Closing Stock - Opening Stock

3. Material Usage Budget

Under this budget, the quantities of raw material and parts needed for production goods as per production budget are determined. It is the raw material quantity budget developed to know the material for production. Material usage/consumption budget can be computed by following equation. Material usage budget = Production budget X Standard Raw Material usage rate per unit

4. Cost of Material Usage Budget

This budget reports the estimated cost of the materials planned for in the materials budget. Observe that the material budget cannot be costed until the planned cost of purchase. Materials budget is prepared by classifying the types of raw materials, by user responsibility, by interim period, and by types of finished goods.

Cost of Material Used = Planned Production Units x Standard Material Usage per Unit x Price per Unit of Raw Material

5. Material Purchase Budget

Purchase budget is the process of determining the quantity of raw materials and to be purchase to meet materials consumption and inventory. In other words, purchase budget determines the quantity and price of materials that should be purchased to meet the raw materials for production and inventory level for seasonal variation. It can be expressed in equation of follows. [Gyawali, Fago& Subedi, 20065:5.5]

Material Purchase Budget = Material Usages + Closing Store of Raw Materials - Opening Stock of Raw Materials

6. Merchandise Purchase Budget

In trading company, instead of making budgets like direct materials, direct labours, manufacturing overhead, cost of production and cost of good sold budget, it prepares the merchandise purchase budget.

Purchase Budget = Cost of Good Sold + Closing Stock - Opening Stock

Where,

Cost of Good Sold = Sales - Gross Margin

The purchase quantity should be depended upon the inventory level & policy.

Management policy with respect to purchase and inventory should be specified. The two basic timing factor for purchase policy are (a) How much to purchase at a time (b) whom to purchase. (Welsch, Hilton & Gorden, 2000: 244-245)

EOQ Technique

EOQ is a purchase volume of goods in an order and also be considered the minimize cost which is computed as formula way under.

$$EOQ = \sqrt{\frac{2AO}{C}}$$

Where,

EOQ= Economic order quantity

A= Annual quantity to be purchased

O= Average cost of placing an order

C= Annual carrying cost of carrying one unit in inventory

The level where a purchase is made is called the reorder point.

Reorder point= Average usage X Average lead time + Safety Inventory

Just In Time (JIT) Purchasing

A recent development in materials and parts inventory is called just in •time (JIT). Purchasing and manufacturing. In this approach, materials and parts are not purchased until they are needed for production, thereby minimizing the inventory holding cost. In such an approach, it is important to anticipate exactly when the materials and parts will be needed for production so that the acquisition can be reflected in the materials and parts budget for purpose of profit planning and control. [Bajracharya, Ojha, Goet & Sharma, 2005: 372]

Materials Inventory Budget

This budget reports the planned level of raw material inventory in terms of quantity and material inventory in terms of quantity and costs. The difference in units between material requirements as specified in materials budget and the purchase budget is reflected as an increase or decrease in the inventory budget. [Singh, Ojha & Acharya, 2004:20.12)

This budget specifies the planned level of raw material in terms of quantities and cost for each product and in total. [Goet, Bhattarai & Gautam, 2005: 4.3]

8. Direct Labour Budget

Direct labour cost occupies a significant portion of total production. Therefore, it requires systematic planning an control. The labour budget refers the area of personal needs, recruitment, training, job description and evaluation, performance evaluation, union negotiations and wages and salary administration. The basic objective of direct labour budget is to provide information about direct labour requirement, numbers of direct labour, employees needed, labour cost of each product and investment. [Gyawali, Fago & Subedi,2006:5.5] Direct labour cost = production X standards usage rate X wage rate

9. Manufacturing Overhead Budget

Manufacturing overhead budget includes all the expenses incurred other than direct labour and direct material. Therefore, manufacturing overhead may be variable or fixed overhead. Both costs should be considered as a part of manufacturing cost.

10. Cost of Good Sold Budget

The costs of good sold budget clearly distinguish the total costs of goods manufactured and cost of goods sold from the value of inventory. Indeed, it tells us how much of the costs of goods manufactured should be expressed this year and how much cost should be carried to the next year with the inventory. The cost of goods sold budget facilitates the making of the income statement and the balance sheet. The cost of goods sold is the making cost of the sold units. In case of manufacturing business the cost of good sold include the direct material, direct labour and the variable manufacturing costs. [Bajracharya, Ojha, Goet & Sharma, 2005: 379]

11. Operating Expenses Budget

Operating expenses budget represents the all those expenses that are incurred to sell goods and services. It includes selling and distribution expenses, administrative expenses, advertisement, promotion and other expenses. The budget of all these expenses can be prepared jointly or severally. [Gyawali, Fago& Subedi, 2006:5.6]

2.5.6.6.2 Financial Budgets

Financial budget are the budgets that are concerned with the financial implication of operating concern i.e., cash inflows, cash out flows, financial position and operating results. Manufacturing & Non-manufacturing Company has common financial budgets i.e. cash budget, budgeted income statement and budgeted balance sheet.

1. Cash Budget

Cash budgeting focuses on cash inflows, cash outflows and related financing. Cash budgeting is an attractive way to plan and control the cash flows, assess cash needs and effectively uses of excess cash. Therefore, it is very important in all type enterprises. The cash budget is a forecast of expected cash receipts and payments for a future period. A cash budget shows

the planned cash inflow, outflow and ending position by interim periods for a specific period. So, a cash budget contains four sections that is the receipts section, the disbursement section, the cash excess or deficiency section and the financing section.

The receipts section consists of beginning balance of cash added to whatever is expected in the way of cash receipts during the budget period. The major sources of receipts and the sales. The disbursement section consists of cash payment that is planned for the budget period; these payments will include raw materials purchase, direct labour payments, manufacturing overhead cost, and so on. Other cash disbursements are income tax, capital equipment purchase, dividend payment, etc. The cash excess or deficiency section totals and the cash disbursement section totals. If deficiency exists; the company will need to arrange for borrowed funds from its bank. If an excess exists, funds borrowed in previous periods can be repaid or the idle funds can be placed in short-term investment. The financing section provides a detailed account of the borrowing and repayments projected to take place during the budget period. It also includes a detail of interest payment that will be due on money borrowed. [Bajracharya, Ojha, Goet & Sharma, 2005: 381]

2. Budgeted Income Statement

Planned income statement is concerned with determining the total income of the planned period. It is to be prepaid under accrual basis rather than cash basis of other preceding budgets. [Gyawali, Fago & Subedi, 2006:5.8]

3. Budgeted Balance Sheet

The balance sheet is the final document in the master budget and even in financial record keeping. It is concerned with forecasting total assets & properties, capital and liabilities of the company by time period. It shows the final or ending balances of all the account titles.

2.5.7 Zero-Base Budgeting

Under zero base budgeting, the budget for virtually every activity in the organization is initially set to zero. To receive funding during the budgeting process, each activity must be justified in terms of its continued usefulness. The zero base budgeting approach forces management to rethink each phase of an organization's operations before allocating. [Hilton, 1997:427]

Zero-base budgeting has received great attention recently as a new approach to the budget process. It is a method of budgeting in which manager are required to start from zero level every year and to justify all costs as if the programs involved were being initiated for the first time. By this, it means that no costs are viewed as being ongoing in nature: The manger must start at the ground level each year and present justification for all costs in the proposed budget, regardless of the type of cost involve. This is done in a series of "decision packages" in which manager rank all the activities in the department according to relative importance, going form essential to least importance. Presumably, this allows top management to evaluate each decision package independently and to pare back in those areas that appear less critical or that do not appear to be justified in terms of the cost involved. So, it is also known as priority based budget. [Goet, Bhattarai & Gautam, 2005:14:1]

2.5.8 Activity Based Budgeting

To manage costs more effectively organizations that have implemented Activity-based Costing (ABC) have also adopted Activity Based Budgeting (ABB). The aim of ABB is to authorize the supply of only those resources that are need to perform activities required to meet the budgeted production and sales volume. Where as ABC assigns resource expenses to activities and then uses activity costs drivers to assign activity costs to cost objects such as products, service or customers), ABB is the reverse of this process. Cost objects are the starting point. Their budgeted output determines the necessary activities which are then used to estimate the resources that are required for the budget period ABB involves the following stages:

-) Estimate the production and sales volume by individual products and customers.
-) Estimate the demand for organizational activities
-) Determine the resources that are required to perform organization activities.
-) Estimate for each resources the quantity that must be supplied to meet the demand.
-) Take action to adjust the capacity of resources to match the projected supply. [Drury, 2000;568]

2.5.9 Flexible Budget

In contrast to the performance report based only on comparing the master budget to actual results, a more helpful benchmark for analysis is the flexible budget. A flexible budget (Sometimes called variable budget) is a budget that adjusts for changes in sales volume and other cost driver activities. The flexible budget is identical to the master budget in format, but managers may prepare it for many level of activity. For performance evaluation, the flexible budget would be prepared at the actual levels of activity achieved. In contrast, the master budget is kept fixed or static to serve as the primary benchmark for evaluating performance. It shows revenues and costs at only the originally planned levels of activity. [Horngren, Sudern & Stratton, 1998:295]

A budget prepared at different level of activities is a flexible budget. Flexible budget will furnish the budgeted figures for any level of activity, which a company may actually attain. It reflects costs revenue and profit at the various level of budgeted activity. A flexible budget, as also called a variable, step budget, sliding-scale budget, expenses-formula budget, dynamic budget and expenses control budget. It is a budget which permits revision of estimates of operating cost and profit with charges in sales or production volume. This budget is prepared on the basis of time, demand of product, cost of product, availability of demand of product, cost of product, season and availability of factor of production. In static budget, it is prepared at a single level of activity, with prospect of modification in the light of the changed circumstance is fixed/static budget. Fixed budgets have lacks of flexibility; some degree of flexibility is required to adjust the activity with changed business environment which is not possible under the static budget. Uncertainty in the factor of level of activity, impossibility of comparing actual with budget and complicated task of revising the original budget etc are defects found in fixed budgeting and these make imperative to avoid the rigidity regarding the level of activity and to introduce flexibility in the system of budgeting. [Gyawali, Fago& Subedi, 2006:7.3]

The following methods are used for preparing a flexible budget:

1. Tabular Method

The budget prepared at different level of activities within the range of output.

the factor to be taken into consideration for preparing the flexible budget

under this method are summarized following

- i. Determination of level of activity
- ii. Estimation of cost and its behaviour for each level of activity
- iii. Determination of units at the level of activities
- iv. Preparation of flexible budget

2. Formula Format

This format provides a formula for such expenses account in each responsibility centre. The formula gives the fixed amount and the variable rate. This is more compact and generally more useful because the components of each expense are given. The formula format uses straight line relationships. It is a widely used for expressing expenses budget in actual practice. In this the total cost is computed by using equation of $y=a+bx$; where y is total cost; 'a' is fixed cost and X is given level of activity.

2.5.10 Capital Budgeting

Capital Budgeting pertains to fixed/long term assets which by definition refer to assets which are in operation, and yield a return, over a period of time, usually , exceeding one year. It, therefore, involves a current outlay or rises of outlays of cash resources in return for a anticipated flow of future benefits. In other words, the system of capital budgeting is employed to plan expenditure which involve current outlays but are likely to produce benefits over a period of time longer than one year. These benefits may be either in the form of increased revenues or reduced costs. Capital expenditure planning, therefore, includes addition, disposition, modification, and replacement of fixed assets. From the proceeding discussion may be deduced the following basic features of capital budgeting (i) Potentially large anticipated benefits; (ii) A relatively high degree of risk; and (iii) A relatively long time period between the initial outlay and the anticipated returns. The term capital budgeting is used interchangeably which with capital expenditure decision, capital expenditure management, long-term investment decision, management of fixed assets; and so on[khan & Jain 2000:17.1]

The term capital budgeting is used to describe those actions relating to the planning and financing of capital outlays. Capital budgeting decisions are a key factor in the long-run profitability of a firm. There are at least two reasons why this is true. First, funds available

for investment are usually limited but investment opportunities may be almost limitless. Therefore, the manager must somehow spread his limited investment funds among many computing opportunities, and do so in a way that will provide the greatest possible return to his firm. And second, most investment opportunities are long-term in nature. Once a firm has made a decision to invest in a particular project, it may become locked into that decision for many years into the future even if it later turns out to be less profitable than another would have been. Because of these factors, capital budgeting decisions are made only after a thorough evaluation of the relative merits of every known alternative. [Garrison, 1976:456]

2.5.10.1 Estimating the Project's Cash Flows

Cash flow generally indicates a cash outflow and a cash inflow. The key point in investment analysis is to focus exclusively on the difference in expected future cash flows that result from implementing a project. All cash flows are treated as the same whether they arise from operations, purchase or sale of equipment or investment in or recovery of working capital. The opportunity cost and the flowing in or out of the organization and not to the source of the cash. Estimation of the cash flows in an investment projects should cover following process.

1. Calculation of Net Cash Outlay (NCO)
2. Calculation of Annual Depreciation
3. Calculation of Annual Cash Flow After Tax (CFA1)
4. Calculation of Cash Flow in Final Year.

2.5.10.2 Techniques of Capital Budgeting

After estimation of cash flow, the project must be evaluated by various techniques which is classified into two' groups /methods i.e. Traditional or Non-discounted methods and discounted cash flow or time Adjusted methods.

1. Traditional or Non-Discounted Methods

This is the traditional methods and conceptually less satisfactory because they ignore two basic financial principles i.e. the time value of money and total benefits. The following two techniques are applied under this method.

a) Payback Periods (PBP)

The number of years required for the proposal cumulative cash flows to be equal to its cash outflow is known as payback period. It can also be define that the year required to cover its cost by it income. The project which provides its return in the smallest period of time is considered as the highest ranking project. Calculation of payback period is different in following two conditions.

i) Even Cash Flow:

$$\text{Payback Period (PBP)} = \frac{\text{Net Cash Outway}}{\text{Annual CFAT}}$$

ii) Uneven Cash Flow:

Pay Back Period (PBP)

$$= \text{Minimum Required Period} + \frac{\text{Amount Required to Recover Investment}}{\text{Next Year's CFAT}}$$

Decision:

Accept if $\text{PBP} < \text{Maximum acceptable PBP}$ Reject if $\text{PBP} > \text{Maximum acceptable PBP}$

Independent projects: lower payback period than standard payback period should be accepted.

Mutually exclusive projects: lower payback period should be accepted.

b) Accounting Rate of Return

The accounting rate of return is also called the average rate of return. Accounting rate of return indicating to the profitability of the projects instead of net cash flows considers profitability rather than liquidity. According to this methods, the projects with higher rate of return is considered better projects than the lower rate of return. It is computed by average the income after tax over the life of a project and then dividing the average annual cash flow by the initial investment outlay.

$$\text{Average rate of return} = \frac{\text{Average Net Income After Tax}}{\text{Average Investment}}$$

Decision:

Accept if $\text{ARR} > \text{Minimum acceptable rate of return}$

Reject if $\text{ARR} < \text{Minimum acceptable rate of return}$

Independent projects. Higher average rate of return than standard average rate of return should be accepted.

Mutually exclusive projects: Higher average rate of return should be accept.

2. Discounted Cash Flow or Time Adjusted Methods

The discounted cash flow methods are theoretically superior to the traditional methods. Their superiority to the traditional methods. Their superiority is the use of time value of money. Before evaluation any project under this method the future cash flow must be converted into present value. Under this method, following techniques are used to evaluate the projects.

a) Net Present Value (NPV)

The Net present value (NPV) method is a DCF approach to capital budgeting that discounts all expected future cash flows to the present using a minimum desired rate of return. To apply the NPV method to a proposed investment project, a manager first determines some minimum desire rate of return. The rate depends on the risk of a proposed project. The higher the risk the higher the minimum desired rate of return. The minimum rate is based on the cost of capital what the firm pays to acquire rat of return, hurdle rate, or discount rate. Managers then determine the present values of all expected cash flows from the project, using this minimum desired rate. If the sum of the present values of the cash flows is positive, the project is desirable. If the sum is negative, it is undesirable. Why? A positive NPV means that accepting the projects will increase the value project's cash inflow exceeds the present value of its cash outflows (if by some chance, the NPV is exactly zero, a decision

maker would be indifferent between accepting and rejecting the project). When choosing among several investments, the one with the greatest net present value is the most desirable. [Horngren, Sundern & Stratton. 1998:415]

NPV = Total present value of annual cash flow - NCO

Decision

Accept if NPV > 0

Reject If NPV < 0

Independent projects: Positive NPV should be accept and negative NPV should be rejected.

Mutually exclusive projects : Higher positive NPV should be chosen.

b) Internal Rate of Return (IRR)

The internal rate of return (IRR) is an alternative technique for use in making capital investment decisions that also takes into account the time value of money. The internal rate of return represents the true interest rate earned on and investment over the course of its economic life. This measure is sometimes renewed to as the discounted rate of return. The internal rate return is the interest rate K that when used to discount all cash flows resulting from an investment, will equate the present value of the cash outlays, In other words, it is the discount rate that will cause the net present value of an investment to be zero. Alternatively, the internal rate of return can be described as the maximum cost of capital that can be applied to finance a project without causing harm to the shareholders. [Drury, 2000: 462-463]

The IRR is computing two method i.e. trial and error method of interpolation which formula is following under.

For Trial and Error Method

PV inflows = PV investment cost

$$\text{Or, } \frac{CF^1}{(1+k)^1} + \frac{CF^2}{(1+k)^2} + \dots + \frac{CF^n}{(1+k)^n} - ZI_o = X0$$

Method of Interpolation

$$IRR = L_r + \frac{NPV_{LR}}{NPV_{LR} - NPV_{HR}} (R - L_r)$$

Where,

LR = Lower rate

HR= Higher rate

NPV_{LR}= Net Present value of lower rate

NPV_{HR}= Net Present value of Higher rate

Decision:

Accept if IRR > required rate of return

Reject if IRR < Required rate of return

Independent projects: If the IRR is greater than cost of cost of capital, the value of the firm increase and project should be accepted. If it is equal to cost of capital, the firm breaks even and if IRR is less than cost of capital, the project should be rejected.

Mutually exclusive projects: the projects one with the higher IRR should be accepted.

c) Profitability Index (PI)

Profitability index is similar to net present value approach. It measures present value of return per rupee invested while the NPV shows the present value of return in lump sum. A ratio of total present value of cash flow and initial outlay is called profitability index. The profitability index is calculated as under.

$$\text{Profitability Index} = \frac{\text{Total Present value (TPV)}}{\text{Net Cash Outlay (NCO)}}$$

Decision: Accept If PI > 1 Reject if PI < 1

Independent projects: PI greater than 1 should be accepted. Mutually exclusive projects: PI greater than 1 should be accepted.

2.5.10.3 Analysis of Risk and Uncertainty Under Capital Budgeting

Risk is only condition a decision maker may face uncertainty and risk describe the condition most financial manager face. Probability and statistics proved useful methods for describing such situations can be described as certainty. If more than one outcome is possible but the probabilities of these states of nature are unknown, decisions are made under conditions of uncertainty. Different decision rules are followed in each decision situation. Decision making under risk is different from decision making that considers the degree of risk or uncertainty. Capital budgeting analysis that incorporates consideration of risk may do so either traditional techniques or statistical techniques. They are described of follows.

1. Traditional Techniques

Under these techniques, risk adjusted discount rate, certainty equivalent coefficient and sensitivity analysis are doing for analysis of risk.

a) Risk Adjusted Discount Rate

The Risk Adjusted Discount rate (RAD) approach is one of the simplest and most widely used methods for incorporating risk into the capital budgeting decision. Generally, under this method the risky ness of the project depends upon the discount rate. If the discount rate is high, that project is considered as a highly risky project and if the discount rate is low that project is considered as a lower risky project.

A risk premium rate may be added to risk free discount rate to find out the present value of future return from risky investment proposal.

Decision Rule:

- i. NPV should be positive by using the risk adjusted rates for acceptance of proposal
- ii. IRR should be greater than the risk adjusted rate of return for acceptance of proposal.

b) Certainty Equivalent Co-Efficient (CEC)

The certainty equivalent approach is an alternative to the risk adjusted rate method to incorporate risk in evaluating investment projects. Under the risk adjusted discount rate

method; the risk of the project is taken into consideration by adjusting expected cash flows and not the discount rate. These methods eliminate the problem arising out of the inclusion of risk premium in the discounting process..[Khan and Jain 1993]

$$CEC \times \frac{\text{Riskless Cash Flow}}{\text{Risky Cash Flow}}$$

Decision Rule

Higher the certainty equivalent co-efficient denotes lower the certainty equivalent co-efficient denotes higher risk. The NPV of risk less cash flows should be positive and IRR of risk less cash flows should be greater than risk free rate of return.

c) Sensitivity Analysis

Sensitivity analysis provides information as to how responsive the estimated project cash flows the discount rate and the project life are to estimation errors. An analysis on these lines is important as the future is always uncertain and there will always be estimation errors. Sensitivity analysis takes care of estimation errors by using a numbers of possible outcomes in evaluating a project. The method adopted under sensitivity analysis is to evaluate a project using a number of estimated cash flows to provide to the decision maker an insight into variability of the outcomes.

The sensitivity analysis provides different cash flow estimates under these assumptions.

-) The best (i.e. the most optimistic)
-) The normal (i.e. the most likely/moderate)
-) The worst (i.e. the most pessimistic)

The large in the difference between the pessimistic and optimistic cash flow is considered as riskier is projects depend upon the attitude of decision maker towards the risk.

2. Statistical Techniques

Under this technique, assignments of probabilities, standard deviation, coefficient of variation and decision tree are doing for analysis of Risk.

a) Assignment of Probabilities

The concept of probability for incorporating risk in evaluating capital budgeting proposal. The Probability distribution of each flows overtime provides information about the expected value of return and the dispersion or the probability distribution of possible returns. On the basis of the information on accept-reject decision can be taken.

The application of this theory is analyzing risk in capital budgeting depends upon the behavior of the cash flows, from the point of view of behavioral cash being (a) Independent of (b) dependent. The assumption that cash flows are independent over time signifies that future cash flows are not affected by the cash flows in the proceeding or following year.

Decision Rule:

- i. NPV must be positive to accept the project.
- ii. IRR must be greater than cost of capital to accept projects.

b) Standard Deviation

Standard deviation that measures of the tightness, or variability of a set of outcomes. Standard deviation is defined as square roots of the mean of the square deviation where is the difference between an outcomes and the expected value of all outcomes.

Greater the standard deviation is said the higher degree of risk and lower the standard deviation is said the lower degree of risk. The project, which has higher degree of standard deviation, is not generally accepted and vice-versa.[Gyawali, Fago& Subedi, 2006:12.35-12.36]

c) Co- Efficient Variance

Co- efficient of variance (C.V.) standardized measure of the risk per unit of return, Calculated as the standard deviation divided by the expected return.

$$C.V. = \frac{\text{Standard Deviation}}{\text{Expected Cash Flow}}$$

Higher the co-efficient of variation is considered as the higher degree of risk and lower the co-efficient of variation is considered as the lowest degree of risk.[Weston, 1996:190]

d) Decision Tree

The decision tree (DT) approach is another useful alternative for evaluating risky investment proposals. The outstanding feature of this method is that it takes into account the impact of all probabilistic estimates of Potential outcomes. In other words, every possible outcomes is weighted in probabilistic terms and then evaluated. The DT approach is especially useful for situations in which decisions at one point of time also affect the decisions of the firm at some later date. Another useful application of the DT approach is for projects which require decisions to be made in sequential parts [Gyawali, Fago & Subedi, 2006: 12.84]

A decision tree is a pictorial representation in tree form which indicates the magnitude, probability and inter relationship of an possible outcomes. The format of the exercise of the investment decision has an appearance of a tree with branches and, therefore, this method is referred to is the decision-tree method. A decision tree shows the sequential cash flows and the NPV of the proposed project under different circumstances [Bajracharya, Ojha, Goet & Sharma, 2005:828].

2.5.11 Standard Costing

Standard costing is a system before starting the production and then comparing this with the actual cost of the job after completing the production. The difference between the predetermined or standard costs and the actual costs is termed 'the variance.' Standard costing is the process of the preparation and use of standard cost, their comparison with actual costs and the analysis of variance to their causes and points of incidence. A standard cost is measure of acceptable performance, established by management as a guide to certain economic decisions.[Bajracharya, Ojha, Goet & Sharma,2005:545]

Standard cost is a predetermined cost, which is calculated from management's standards of efficient operations and the relevant necessary expenditure. It may be used as a basis of price fixing and for cost control through variable analysis. Standard is a predetermine set of objectives based on usual, normal ideal of technical parameters. A standard is always futuristic. Standard costing is the process of the preparation and the use of standard costs, their comparison with actual costs and the analysis of variance to their causes and points of incidence. (CIMA)

2.5.12 Management Accounting Control System

Management consists of the basic functions of planning, decision making and control. Control is the function of management that ensures the proper implementation of plans and policies to achieve the organizational objective. Management functions are just means to maximize profit in terms of current value. Management control system focus on motivating managers for the sake of enhancing total profitability of the organization. One of the different control mechanisms practiced is management accounting control system. A well - designed management control system aids and coordinates the process of making decision and motivated individual throughout the organization to act in accordance with the decision. It a also facilities forecasting revenue and cost-driver levels, budgeting and measuring evaluating performance. [Horngren, Sundern and Stratton, 2002]

Components of Management Control System are:

- i. Planning Process
- ii. The responsibility Accounting System

2.5.13 Responsibility Accounting

Responsibility - accounting system are designed to faster goal congruence among the managers in decentralized organizations. Each submits in a organization. Each submit in a organization is designate as a cost center, revenue center, profit center, or investment center. The Managerial accountant prepares a performance report for each responsibility center. These reports show the performance of the responsibility center and its manager for a specified time period. To use Responsibility Accounting effectively, the emphasis must be on information rather than blame. The intent should be to provide managers with information rather than blame. The intent should be to provide managers with information to help them better manage their subunits. Responsibility accounting system can bring about desired behaviour, such as reducing the number of rush order in a manufacturing company. Segmented income statements often are included in a responsibilities accounting system, to show the performance of the organization and its various segments. To be most effective, such reports should distinguish between the performance of segments & segment mangers. Customer profitability analysis is an increasingly used tool, which helps managers to better understand which customers are providing the greatest profit. [Hilton, 1997:601]

Responsibility accounting represents a method of measuring the performance of various divisions of an organization. It focuses on the value of decentralization, which is more essential in case of a large-scale organizations responsibility accounting system becomes more urgent. Major contribution of responsibility accounting in an organization are for decentralization, performance Evaluation motivation, transfer pricing, and drop or continue decision [Bajracharya, Ojha, Goet & Sharma, 2005: 480].

2.5.13.1 Process of Responsibility Accounting

Responsibility accounting encompasses the following steps: [Bajracharya, Ojha, Goet & Sharma, 2005, 461-463]

- i. Identifying the responsibility center
- ii. Delegation of authority and responsibility or decentralization
- iii. Controllability of the object
- iv. Establishing performance evaluation criteria.

2.5.14 Decision Making

Decision making is concerned with the future. It involves a choice between alternatives; it is one of the important but difficult tasks of management. It is the process of evaluating two or more alternatives leading to a final choice. Decision making is closely involved with planning for the future and is directed towards a specific objective or goal. In business, when evaluation alternative course of action, managers should select the alternative that provides the highest incremental benefit to the company. In some instance, all alternatives result in incremental losses, and the managers must choose the one that causes the smallest incremental loss. While making decisions in business, managers should be economically rational. Long-term profit maximization is the core of business decisions. Therefore, financial feasibility is the prime determinant in selecting the best alternative. The course of action, which maximizes profits by increasing revenues or minimizing costs, is considered as the most economic one. Opportunity costs, which are the benefit foregone in the next best alternative, must be counted in the alternative, must be counted in the alternative to be undertaken. And also other non-quantitative factors must be taken into account before the management takes the final action or decision.

2.5.14.1 Process of Decision Making

1. The following are the steps involved in the process of rational decision making.
2. Recognize and define the problems
3. Identify appropriate possible solutions to the problems
4. Evaluate selective alternatives
5. Select the best alternatives
6. Implement the selected alternative
7. Evaluation and follow up

2.5.14.2 Types of Decisions

1. Drop or Continue Decision

When a firm or company is divided into many departments, divisions, sections, branches and product lines to produce and sell various types of product, it is not necessary for earning profit by each product line, division, department, and branch. In case of loss or low profit from one or more, management should take decision whether to drop or continue product line in the future. While taking drop or continue product line decision, it is very important to consider various points i.e. alternative utilization of idle capacity like machine, labour, land etc.: continuity of constant cost/fixed cost, department or traceable fixed cost, opportunity cost, government rules and regulation regarding dropping product, union activity, Effect on other product lines, Responses of material suppliers and regular customer etc.

2. Special Order Decision

A special order is one that has been offered for a bulk volume at a reduced price. Opportunity consider an order for a quantity of its regular product at a special price, usually less than that charged to regular customer, frequently arises for a management. When there is idle capacity, such an offer may be attractive. The basis of decision Making should be the difference that it will make in the overall profit of the company, Essentially, if there is idle capacity, the special order is advantageous if the profit amounts exceed out of pocket costs and the opportunity costs. The purposes of a short-run price reduction may be increasing market share, loss leaders and disposing of inventories.

3. Cash or Purchase Decision

A Business firm needs various types of assets and properties like plant and machinery, land and buildings, departmental stores, etc. for many years. The firms can obtain these assets and properties either by purchasing on cash or paying lease rent over years without buying them. Leasing is the arrangement used to obtain assets without buying from outright. Therefore, lease is the agreement or document which transfer right of the owner (i.e. lessor) to the tenant (called lessee) in the exchange of the rent to be paid over the years to the lessor. The document includes the rights and duties a of lessor and lessee relating to the use of the property. It transfers the procession of property. It transfers the procession of property to the tenant for specific property. When the lease period is over, lease period can be renewed, or procession of the property can be return back to the lessor. But a firm can purchase assets and properties on cash borrowing from outsource, issuing shares, debentures, or using equity of shareholders. In case of outright purchase, the purchaser obtains both ownership and possession from the seller in return from a certain sum paid. [Gyawali, Fago& Subedi, 2006:8.79]

4. Quotation Process

A business firm needs various types of small assets for daily operations. The small assets are stationery items such as paper, pen, stamps, punjing machine, file, clip, whiteboard, plastics, pin, boxes etc. The firms can obtain these assets by quotation process. So, quotation process is also say for small financial activities.

5. Tender Process

A business firm needs various types of assets, properties like plant machinery, land, building, department stores etc. for many years and construction work can be doing. That time the firm can be doing that activity by tender process. So, Tender process is also say for great financial activities which is fixed by law.

2.5.15 Managerial Use of Financial Statement Analysis

Before discussing about financial analysis it is necessary to know about the financial statement and report which is issued by company annually, periodically to its

stakeholders. This gives a complete account of financial health of the company. The financial statement and report generally consists following terms.

-) The Income Statement
-) The Statement of Retained Earnings
-) The Balance Sheet
-) The Statement of Cash Flows

The income statement contains two broad categories of items: Revenue and expenses. The "revenues" may be through of as the level of accomplishment attained by the company, while the "expenses" represent the effort expended to attain the level of accomplishment. More specifically, revenues represent the actual or expected inflow of assets, the settlement of liabilities, or both, from a company's primary business activity, while expenses represent the utilization or consumption of assets or incurring of liabilities or both, to produce the revenue inflow.

The statement of retained earning shows how the net incomes of the period were appropriated or distributed. The statement shows the change in retained earnings between the beginning and the end of a period. Retained earning is that portion of the firm's earning that has been saved rather than paid out as dividend.

The objective of a balance sheet or statement of financial position is to provide, as of a specific point in time, information concerning the assets owned by the company and the equity interest (of both the creditors and owners) in those assets. The proper recognition, valuation, and classification of company assets and equities are intended to aid the users of financial statement in assessing the solvency, liquidity, and financial flexibility of the company. The fundamental relationship reported in a balance sheet is expressed by the classic accounting equation [Bajracharya, Ojha, Goet & Sharma, 2005: 1012]

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

2.5.15.1 Cash Flow Statement

Cash is the life blood of any business organization. Without cash no business activities can be taken place. In recent years, the statement of cash flow has come to be viewed as a part of fall set of financial statement. Cash flow statement provides relevant information about the cash

receipts and cash payment of an enterprise during a period. Information about enterprises cash flows is useful in assessing its liquidity, financial flexibility, profitability and risk. Cash flow information is widely used by investors, analysis, creditors, managers and others. It shows how the accrual accounting information is converted into cash-based information and arranges the information so that investors, analysis, creditors, managers and other can better understand the cash efforts of companies operating, investing and financing activities. The primary purposes of a statement of cash flow is to provide information about the cash receipts and cash payments of the company and how they related to the company's operating, investing and financing activities. The cash flow statement helps to assets the solvency of a business and to evaluate its ability to generate positive cash flows in future periods, pay dividends and finance growth. In Nepal, Nepal Company Act 2053 also made mandatory to present cash flows statement along with balance sheet and income statement. So, each and every company should prepare it as integral parts of its financial statement for each period for which financial statement are presented.

2.5.15.1.1 Objectives of Cash Flow Statement

Cash flow statement is an important tool which provides information to its users about the ability of the company to generate cash and its utilization. The main objectives of cash flow statement are listed at below.

1. To help the financial manager to explain the situation of cash
2. To make easy to prepare cash budget for the specific period for future reference.
3. To help know the causes of changes in the cash position on two dates.
4. To help to evaluate the financial position of an organization.
5. To help to know the cash position so that it can make plans and policies regarding decision making activities for short term and long term financing.

2.5.15.1.2 Preparation of Cash Flow Statement

A specific procedure should be followed while preparation of cash flow statement should report cash flows during the period classified by operating, investing and financing activities. So the first process is preparing the statement of cash flows is to calculate the cash flow from operating activities using either the direct or indirect method. The second process is to analyses the information for changes resulting from investing and financing activities.

The third process is to arrange the information gathered in process first and second into proper format for the statement of cash flow. Now, the detail process of cash flow statement is described as follows:

1. Determination of Cash Flows from Operating Activities (Direct Method)

The Direct method of cash flow converts its income statement from accrual basis to the cash basis. Operating activities involve producing and delivering goods and providing services. Cash flow from operating activities includes receipt from customers for sales of goods and services (collection from debtors). Cash outflows from operating activities include payments to purchase of materials and for services, payment to employees for services and payment and to government for taxes and duties.

Indirect Method: Indirect Method is that type of method which calculates the cash flow from operating activities by considering the non-cash items. The non-cash expenses are added on net profit and non-cash income is deducted on net profit and changes in working capital are also considered.

2. Determination of Cash Flows from Investing Activities

Investing activities involve making and collecting loans and acquiring and disposing of fixed assets. Cash inflows from investing activities are receipts from sale of shares, debenture or outflow under investing activities are purchase of share and debenture of other enterprises, purchase of fixed assets etc.

3. Determination of Cash Flows from Financing Activities

Financing activities involve obtaining resources from owner and providing them with a return of their investment, borrowing money and repaying amounts borrowed. It also includes incoming of cash by issue of share and debenture, issue of long term loan, payment of dividend, repayment of principal with interest etc.

2.5.15.2 Techniques of Financial Statements Analysis

Stakeholders of a business firm perform several types of analyses on a company's financial statement. All of these analyses rely on comparisons or relationships of data that enhance the utility or practical value of accounting information.

1. Common-Size Statements

The analysis of common size statements is also called vertical analysis. Common size statements express all items in the statement as a percentage of a selected item (the base) in the statement. Analyses also use vertical analysis of a single financial statement, such as an income statement. Vertical analysis consists of the study of a single financial statement in which each item is expressed as a percentage of significant totals. Vertical analysis is especially helpful in analyzing income statement data such as the percentage of the cost of goods sold to sales. Financial statements that show only percentages and no absolute amounts are common-size statements. All percentage figures in a common-size balance sheet are percentages of total assets while all the items in a common-size income statement are percentage of net sales. The use of common-size statements facilitates the vertical analysis of a company's financial statements. [Bajracharya, Ojha, Goet & Sharma, 2005: 1014-1015].

2. Horizontal Trend Percent Analysis

Horizontal analysis is the analysis of financial statement over a series of years. Comparative financial statements present the same company's financial statement for one or two successive periods in side-by-side columns. The calculation of changes in absolute amount or percentage change in the statement amount or percentage change in the statement items or total is horizontal analysis. This analysis detects changes in a company's performance and highlights the trends. Trend percentages are similar to horizontal analysis except in that comparisons are made to a selected base year or period. Trend percentages are useful for comparing financial statements over several years because they disclose changes and trends occurring through time. [Bajracharya, Ojha, Goet & Sharma, 2005: 1016]

3. Ratio Analysis 2.5.16.3 Ratio Analysis

An analysis of financial statement with the help of ratio may be termed as ratio quantitative form. When this definition of ratio is explained with reference to the items shown in financial statement, then it is called accounting ratio. So, the ratio is the measurement of quantitative relationship between two or more items of financial statements connected with each other. The quantitative relationship may be expressed in terms of proportion, in rate, in time, in percentage or coefficient. There are different types of ratios analysis which is listed under.

1. Liquidity Analysis

Liquidity ratios are used to judge a firm's ability to meet short-term obligation. It is the comparison between the short-term obligations and short-term resources available to meet these obligations. It measures the adequacy of a firm's cash resources to meet its near term cash obligations. Short-term lenders such as suppliers and creditors use liquidity analysis to assess the risk level and ability of a firm to meet its current obligations. Satisfying these obligations requires the use of the cash resources available as of the balance sheet date and the cash to be generated through the operating cycle of the firm. Under liquidity analysis, therefore calculate the current ratio and quick ratio.

2. Long Term Debt and Solvency Analysis

It examines the firm's capital structure in terms of the mix its financing sources and the ability of the firm to satisfy its long-term debt and investment obligations. This analysis contains the debt equity ratio and debt to total capital ratio.

3. Activity Analysis

To carryout one's operations, a firm needs to invest in both short-term (inventory and accounts receivable) and long-term (property, plant and equipment) assets. Activity analysis concerned with the measurement of efficiency in assets management. This analysis is employed to evaluate the efficiency with the bank manages and utilizes funds. The following ratios are calculated under the activity ratio.

2.5.15.3 Preparation of Cash Flow Statement

A specific procedure should be followed while preparation of cash flow statement should report cash flows during the period classified by operating, investing and financing activities. So the first process is preparing the statement of cash flows is to calculate the cash flow from operating activities using either the direct or indirect method. The second process is to analyses the information for changes resulting from investing and financing activities. The third process is to arrange the information gathered in process first and second into proper format for the statement of cash flow. Now, the detail process of cash flow statement is described as follows:

1. Determination of Cash Flows from Operating Activities (Direct Method)

The Direct method of cash flow converts its income statement from accrual

basis to the cash basis. Operating activities involve producing and delivering goods and providing services. Cash flow from operating activities includes receipt from customers for sales of goods and services (collection from debtors). Cash outflows from operating activities include payments to purchase of materials and for services, payment to employees for services and payment and to government for taxes and duties.

Indirect Method: Indirect Method is that type of method which calculates the cash flow from operating activities by considering the non-cash items. The non-cash expenses are added on net profit and non-cash income is deducted on net profit and changes in working capital are also considered.

2. Determination of Cash Flows from Investing Activities

Investing activities involve making and collecting loans and acquiring and disposing of fixed assets. Cash inflows from investing activities are receipts from sale of shares, debenture or outflow under investing activities are purchase of share and debenture of other enterprises, purchase of fixed assets etc.

Firm's level of operations (usually defined as sales) and the assets needed to sustain the activity. This analysis contains the investor turnover, daily sales outstanding, fixed assets turnover, total assets turnover and capital employed turnover ratios.

4. Profitability Analysis

Profitability is an indicator of efficiency of the business organization. Profitability ratio measures the management overall efficiency as show by the return generated from sales and investment. Higher the profitability ratio shows the efficiency of the management. Profitability in relation to sales as well as investment. So, profitability analysis consists some ratio i.e., Net Profit Margin, Gross Profit Margin, Operating Cash Flow Margin, Return on Assets (ROI) and Return on Common Stockholders Equity.

2.6 Review of Previous Dissertations

Profit planning and control is important part of management accounting. Without profit planning and control Management Accounting is not sufficient. So, profit planning and control is backbone of management accounting. Researcher in the area of management

accounting practice haven't made many Nepalese context. An attempt is made here to review some of the researches, which have been submitted in profit planning and control as well as management accounting practice in the context of Nepal are following one by one respectively.

Bhattarai (2009) had conducted a research on the topic "Budgeting in Public Enterprises: A Case Study of Nepal Telecom". The main objectives of her study is to examine the application of profit planning in NTC. The necessary data and other information were collected from secondary as well as primary source of data. The time period covered of the research was five years from FY 2060/61 to FY 2067/2068. In her research she had pointed out various objectives and findings. Some remarkable objectives were as follows:

-) To examine the practice and effectiveness of profit planning in NTC.
-) To observe the NTC's profit planning system on the basis of budgeting system.
-) To provide suggestion for improvement of efficient planning or budgeting of NTC's in near future based on findings.

Some major findings are as follows:

-) Budgets are prepared just to fulfill the formalities which are not used effectively for profit planning process.
-) Long terms and short-term budgets are prepared but long-term budget is confined only able to the top level.
-) The corporation is not able to maintain to proper co-ordination between various directories in regard in the goal and objectives of the corporation.
-) The corporation fails to analyze its strength and weakness in depth because of the absences of the competitors.
-) Lacked of skill planners and experts.
-) Gaps between actual production and sales.

Tripathi (2010) had conducted a research on the topic "Profit Planning in Manufacturing Enterprises of Nepal: A Case Study of Harrishiddhi Brick and Tiles Factory". He had focused his study in the application of profit planning in manufacturing enterprises. The time period covered by the study was 12 years from FY 2054/55 to FY 2066/67. In his research, he had pointed out various objectives and findings. Some remarkable objectives are as follows:

-) To analyze the absolute profit and losses of HBTF.

- J To examine and analyze the various functional budgets those are prepared by HBTF.
- J To evaluate the variance between target and actual sales of HBTF.
- J To assess financial performance of HBTF in terms of various financial ratios and cost structure.
- J To examine relationship between the financial performance of the factory and the market price of the share of the factor.

Some major findings were as follows:

- J HBTF ltd. Prepared functional budgets like sales budget, production budget, expenses budget on annual basis. But the short-term product wise production and sales budget on monthly basis. But they are find to be far from real life situation.
- J Marketing manager is responsible for sales forecasting in HBTF. Forecasting is said to be done keeping in view different situations and past records but it is not supported by necessary marketing strategy for promotion.
- J The sales target set with forecasting is ambitions. Actual sales are less than that of targeted sales. There is significance difference between targeted sales and actual sales. This shows lack of promotional activities to increase sales.
- J Although, straight line trend shows the positive sales figure for the future, it is for below the volume of sales to operate at BEP level.
- J The poor financial performance of the factory has also lead to decline in its market price of share.

K.C (2011) had conducted research on the topic “Management Accounting Practice In The public Enterprises”. He had focused his study to examine the practice of management accounting tools in public enterprises. Mr. K.C.'s research was based on only primary source of data. In his research, he had pointed out objectives and findings. Some of remarkable objectives are as follows:

- J To study and examine the present practice of management accounting tools in public enterprises in Nepal.
- J To identify the areas where management accounting tools can be applied to strength the public enterprises.
- J To identify difficulties in applying management accounting tools in Nepalese public enterprises.

- J To make recommendation to overcome the difficulties in applying management accounting tools in Nepalese public enterprises.

Some major findings were as follows:

- J Different types of management accounting tools, which are tough in the colleges, are not found applied by public enterprises.
- J Management accounting is help to managers to formulate organizational strategies as .
- J well as policy. PE's as practicing management accounting tools such as Capital Budgeting, Annual Budgeting, Cash flow and Ratio Analysis. And not practicing management accounting tools such as Zero Based Budgeting, Activity Based Budgeting, Activity Based Costing, Target Costing and Value Engineering.
- J In PE's hiring outside experts for carrying out different activities are almost nil because of high cost.
- J PE's are with concept that management accounting is similar to financial accountings.
- J Lack of information and cognizance about management accounting tools are the main factors causing problems in the application of such tools.

Karki (2011) had conducted a research study in “management accounting Practice in joint venture banks of Nepal”. He had focused his study to examine the practice of management accounting tools in joint venture banks of Nepal. Mr. Karki's research study was based on only primary source of data collection. In his research, he had pointed out various objectives and findings. Some remarkable objectives were as follows :

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

Some major findings were as follows:

- J Different types of management accounting tools, which are though in the colleagues are not found applied by the joint venture banks of Nepal. So it is shows gaps between the theory and practice.

- J Management accounting helps to managers to formulate organizational strategies as well policy for decision making.
- J In NJB's practice of hiring outside expert almost nil. Thus it can be concluded that NJB's are in infant stage in practicing of management accounting tools. Now, here in the banks can't find management accounting experts.
- J In NJB'S practicing the management accounting tools such as capital budgeting, Annual Budget, Ratio Analysis, and Cashflow. And not practicing management accounting tools such as zero Based Budgeting, ABC, Target Costing and Value Engineering.
- J They are with concept that TIA is similar to financial accounting.
- J Lack of information and cognizance about management accounting tools are the main factors causing problems in the application of such tools.

Acharaya (2011) has conducted research study on topic "Management Accounting Practice in Nepalese Public Enterprises." He had focused his study to examine the practice of management tools in NPE's. Mr. Acharaya's research study was based on only primary source of data collection. In his study, he had pointed out various objectives and findings. Some of the remarkable objectives are as follows:

- J To study and examine the extent of practice of management accounting tools and techniques made in Nepalese PE's.
- J To identify the major difficulties for applying the management accounting tools in Nepalese companies.
- J To identify the business sectors, where management accounting tools can be applied to strengthen the PE's.
- J To make recommendations to overcome the difficulties in applying management accounting tools and techniques in Nepalese PE's and other business companies.

Some major findings were as follows:

- J Different types of management accounting tools, while are though in the colleges aren't found applied by the NPE's so, it shows the gap between the theory and practice. Managerial accounting is new discipline and still in developing stage in the context of modern business organization.

-) In NPE's not practicing management accounting tools such as Standard Costing, Cost Segregation and Allocation, ABC. The use of overall master budget was very low. ABB and ZBB were not proper practicing to prepare the budget.
-) The price strategy was completely based on cost of production and government decisions.
-) The traditional inventory valuation technique FIFO was widely practiced.
-) NPE's overall performance are fully measured by profit and loss account.
-) In NPE's past trend was most used technique to forecast the future cost and revenues.
-) Government policy was affecting to more than half of NPE's for making the account related decisions.
-) Role of management accounting tools and techniques were found negligible for making management accounting related decisions.

Shrestha (2012) has conducted a research on the topic "Management Accounting Practice In The Public Trade Companies". He had focused his study to examine the practice of management accounting tools in the public trade companies in Nepal. Mr. Shrestha's research was only based on only primary source of data. In this thesis he had pointed out various objectives and findings. Some remarkable objectives were as follows;

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

Some major findings were as follows:

-) Management accounting is help to managers to formulate organizational strategies as well as policy. PE's as practicing MA tools such as Capital Budgeting, Annual Budgeting, Cash-flow and Ratio Analysis.

- J Management Accounting is help to managers to formulate organizational strategies as well as policy for decision making.
- J Lack of information and cognizance about MA tools are the main factors causing problem in the application of such tools.
- J Nepalese public trade companies were prepared budget by committee, planning department and chief of finance division mostly. It also recommended to take outside expert service for budget prepared.
- J Nepalese public trade companies should use not only profit and loss account but also use/practice standard costing, budgetary control, ratio analysis, cash flow analysis and activity based costing for evaluation of overall performance of companies at the end of the accounting year.

Dallakoti (2013) had conducted a research on topic “A study on Management Accounting Practice In civil Aviation Authority Of Nepal”. He had focused his study to examine the management accounting tools practiced in CAAN. Mr. Dallakoti’s research was based on primary and secondary data collection. In his research, he had pointed out various objectives and findings. Some remarkable objectives were as follows:

- J To study and examine the management accounting tools not in use.
- J To identify the difficulties in applying management accounting tools in CAAN.
- J To recommended the areas where management accounting tools can be applied to strengthen the organization.
- J To make recommendation to over come difficulties in applying MA tools in CAAN.

Some major findings were as follows:

- J CAAN was facing challenge in collecting of the overdue/outstanding revenues from airlines and other clients. A substantial proportion of due was with Nepal Airlines Corporation, NECON airs and Cosmic air etc.
- J It is the ground reality that the transportation service throughout the nation is quite difficult due to its geographical structure. So that in most part of the country the only access of transportation is possible through air services. The construction of aerodromes and its regular operation is very much expensive than others. Even in huge loss, CAAN was operating large number of airports for its public responsibilities as a service provider but due to that government was not providing any subsidies to CAAN.

) In some cases, the aerodromes were constructed on the interest of political leaders and parties even the future perspective is very poor. Such airports were made on grants or loan from different sectors and transferred all the responsibilities to CAAN.

) Civil aviation academy was functioning as sole institution to train manpower required for CAAN in various discipline like air traffic services, rescue and fire fighting services, radio maintenance, aviation safety, computer etc. There was no such faculty on the academy to provides trainings concentrating managerial and accounting discipline. For these trainings, huge amount was paying to outside training controls.

) A study on management accounting practice in civil aviation authority of Nepal Thebe (2013) had conducted a research on the topic “The Balanced Scored: measuring total business unit performance (A comparative Study of Commercial Banks).” The main objectives of her study is comparison of Nepal Investment Bank Limited and Kumari Bank Limited by using balance scored card a tool of strategic management accounting. The necessary data and other information were collected from secondary as well as primary source of data. In her research she had pointed out various objectives and findings. Some remarkable objectives were as follows:

-) To assess the total business performance of each company from financial, customer, internal business process and learning and growth perspectives.
-) To compare the two companies on the basis of above four perspectives and identify the one company stronger than other on various factors.
-) To determine the relationship between financial indicators with non-financial indicators.

Some major findings were as follows:

-) With the help of rank correlation, it has found that the weight given by both banks on financial customer internal business process and learning and growth perspectives are highly associated.
-) After the test of cause effect model out of nine objectives, five objectives developed by KBL have zero correlation while only one objects with NIBL has zero correlation.

Among four perspectives three perspectives favor NIBL. It shows the better performance of NIBL through BSC approach.

Research Gap

Previous research conducted on accounting on profit planning and control were only on the budgeting practices in manufacturing companies. Specially in public enterprises and their

findings were based mostly on secondary data. Previous researches conducted on management accounting practices were not sufficient and they were concerned specially on public enterprises. Public enterprises consists various sectors like manufacturing, trade, financial, public utility and social service sector. This study focused on public financial sectors. This study concerned with the present practice of management accounting tools in public financial companies in Nepal and disclosed the reason about the management accounting tools which were not practiced for planning, controlling and decision making process.

CHAPTER-III

RESEARCH METHODOLOGY

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

3.1 Research Design

This research design will follow a descriptive design that attempts to measure the management accounting practices in Nepalese public financial sectors. However it also follows the casual research designs that measure the relationship of management accounting practices with the performance. Descriptive design is a fact finding operation searching for adequate information. It is a type of study, which is generally conducted to assess the opinions, behaviors or characteristics of a given population and to describe the situation and events occurring at present. Descriptive research is a process of accumulating facts. It does not necessarily seek to explain relationship, test hypothesis, make predictions or get at meanings and implications of the study.

3.2 Source of Data

The data were mainly concerned with primary sources of data. Primary data were collected through the structured questionnaire.

3.3 Population and Samples

Nepalese public financial companies were considered as the total population. There are eight public companies. All eight company data were collected in my study.

3.4 Data Processing Procedure

The data collected were categorized in suitable comparative tabular form. The data were processed with simple arithmetic mean and percentage basis. This section considered presentation, interpretation of available data and test of hypothesis. The raw data collected through questionnaire were converted in to table form according to questionnaire objectives.

3.5 Tools Used

A) Accounting Tools

I Ratio

II Percentage

III Graphical Presentation

B) Statistical Tools

I Test of hypothesis by using chi square technique Statistical tools like Chi-square was used for the test of hypothesis.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

The basic objectives of the study is to examine the present practice of management accounting tools in the Nepalese public financial sectors and to evaluate the process of planning, controlling and decision making process of public financial sectors and to identify the major difficulties for practicing the management accounting tools in public financial sectors.

To meet the objectives , all the public financial company with head office in Kathmandu is taken to target population. There are eight public financial companies in Nepal. The structured questionnaire were distributed to all the eight public financial companies listed below:

1. Agriculture Development Bank (ADB)
2. Rastiya Bima Sanstahan (RBB)
3. Rastiya Banijaya Bank (RBB)
4. Nepal Stock Exchange (NEPSE)
5. Nepal Bank Limited (NBL)
6. Nagarik Lagani Kosh (NLK)
7. Karmachari Sanchyan Kosh (KSK)
8. Nepal Industrial Development Corporation (NIDC)

The responses made by those public financial companies were properly processed, tabulated and chi-square statistical tools. The major findings of the research were based on the analysis and interpretation of data, which were included at the end of this chapter.

4.2 Analysis of observed data

4.2.1 Practice of Management Accounting Tools in the PESs in Nepal

Table-1

S.N	Tools	No. of Population	No. of Practitioner	Percentage (%)
1.	Cost Segregation Into Fixed and Variable	8	-	-
2.	C-V-P Analysis	8	2	25
3.	Standard Costing	8	3	37.5
4.	Annual Budgeting	8	7	87.5
5.	Responsibility Accounting	8	-	-
6.	Financial Statement Analysis	8	5	62.5
7.	Cash Flow Statement Analysis	8	4	50
8.	Activity Based Costing	8	1	12.5
9.	Flexible Budgeting	8	2	25
10.	Long-term Budget	8	2	25

Source: Opinion survey, 2070.

The above table-1 shows the practice of Management Accounting tools in public financial sectors in Nepal. The percentage representation of the tools like Annual Budgeting, Financial Statement Analysis, Cash Flow Statement Analysis and standard Costing were 87.5 %, 50%, and 37.5% respectively. Cost Volume Profit Analysis, Flexible Budgeting and Long-term Budget were practice by 25% of the Public Financial Company and Activity Based Costing by 12.5%. None of the public financial company practiced the tools like cost segregation in fixed and variable and responsibility accounting.

Therefore it is found that annual budget, financial statement analysis and cash flow statement were almost common in every public financial company where as practice of responsibility accounting almost nil which indicates the controlling system in Nepalese public financial sectors are still in infancy stage.

4.2.2 Reason for Not Practiced Management Accounting Tools in PFSs of Nepal

Table -2

S.N	Reasons	No. of Population	No. of Practitioner	Percentage (%)
1.	High cost\quite expensive	8	2	25
2.	No information about tools	8	-	-
3.	Lack of expertise	8	-	-
4.	Government policy	8	2	25

Source: Opinion survey, 2070.

The above table-2 shows reason for not practicing Management Accounting tools in PFs of Nepal. The rating made for lack of expertise and governmental policy were 25% and 25%. High cos/quite expensive and no information about the tools were not in response.

4.2.3 Type of the Budget Practice in the Public Financial Sectors in Nepal

Table-3

S.N	Type of Budget	No. of population	No. of practitioner	Percentage (%)
1.	Operation Budget	8	6	75
2.	Cash Budget Only	8	1	12.5
3.	Master Budget	8	2	25
4.	Programmed Budget	8	1	12.5

Source: Opinion survey, 2070.

The table-3 shows the practice of budget in the public financial sectors of Nepal. A total of 6 companies out of 8 companies with 75% of financial sectors practiced operational budget and two companies practiced master budget. While one company in percentage 12.5% of companies were found practicing cash budget and programme budget. Therefore from the table, it was found that operational budget was mostly practiced in the public financial sectors.

4.2.4 Basis for Budget Preparation in the Public Financial Sectors

Table-4

S.N	Basis	No. of Population	No. of practitioner	Percentage (%)
1.	Past actual Expenses	8	4	50
2.	Past budget estimation	8	8	100
3.	Zero based budgeting	8	-	-
4.	Activity based costing	8	1	12.5

Source: Opinion survey, 2070.

Above table -4 shows the basis of budget preparation in the PFS's of Nepal. It is obvious that 100 % of the PFS's practiced past budget estimate as basis to prepare budget while 50% of the PFS's practiced past actual expenses and only 12.5% public financial company followed activity base budgeting as basis of budget preparation.

The practiced of past budget estimate as the basis for budget preparation was high among the public financial sectors. Reasonable basis other environmental factor need to be taken into consideration so that budget should be effectively implemented.

4.2.5 Budget Preparation System in Public Financial Sectors

Table-5

S.N	Budget prepared by	No. of population	No. of practitioners	Percentage(%)
1.	Committee	8	5	62.5
2.	Planning Department	8	-	-
3.	Financial depart	8	3	37.5
4.	Outside expert	8	-	-

Source: Opinion survey, 2070.

The above table-5 shows the budget preparation system practice in the public financial sectors of Nepal. From the table it is clear that in 62.5% of the public financial companies used to prepare through financial department. None of the company practiced through planning department and outside experts. Whereas 37.5% of the public financial companies prepared budget by financial department.

Practice for hiring outside experts for preparing budget was almost nil in public financial sectors. Regarding the preparation of budget necessary information were from different departments and finally submitted to the concern authorities. Thus from the survey it was found that preparation of the budget by the committee was practiced by the majority of the public financial sectors.

4.2.6 Types of Budget Practiced In The Public Financial Sectors

Table-6

S.N.	Types of budget	No. of population	No. of practitioners	Percentage(%)
1.	Annual	8	7	87.5
2.	More than and less than 5 yrs	8	-	-
3.	More than 5 years	8	-	-
4.	5 years	8	1	12.5
5.	Quarterly	8	1	12.5

Source: Opinion survey, 2070.

The above table-6 shows the types of budget practiced in the public financial sectors of Nepal. It is clear that 87.5% of the public financial sectors practiced annual budget while 12.5% each prepared 5 yrs budget and quarterly.

The public financial companies didn't prepare long-term budget. The long term budget consuming is a time budget and need lots of exercise.

4.2.7 Use of Capital Budgeting Tools in Purchasing of Fixed Assets

Table-7

S.N	Tools	No. of population	No. of practitioners	Percentage (%)
1.	Payback period (PBP)	8	2	25
2.	Discounted payback period (DPBP)	8	2	25
3.	Average rate of return (ARR)	8	-	-
4.	Net present value (NPV)	8	5	62.5
5.	Internal rate of return (IRR)	8	2	25
6.	Profitability index (PI)	8	-	-
7.	Modified internal rate of return (MIRR)	8	-	-

Source: Opinion survey, 2070.

The above table-7 shows the present practice of capital budgeting tools in the public financial sectors of Nepal. It is clear that 62.5% of the public financial company practiced Net Present Value (NPV) of capital budgeting 25% practiced payback period (PBP) 25% practiced discounted payback period (DPBP) and 25% practiced internal rate of return (IRR). No company practiced modified internal rate of return (MIRR), Profitability index (PI) and average rate of return (ARR). From the table it is obvious that NPV and PBP were the most practiced tools in public financial sectors of capital budgeting for long-term capital investment decisions.

4.2.8 Pricing Product/Service in the Public Financial Sectors

Table-8

S.N.	Pricing techniques	No. of populations	No. of practitioners	Percentage (%)
1.	Full cost based pricing	8	3	37.5
2.	Variable cost based pricing	8	1	12.5
3.	Going rate pricing	8	-	-
4.	Target return on investment pricing	8	4	50
5.	Activity based cost pricing	8	-	-

Source: Opinion survey, 2070.

The table-8 shows that most of the public financial company practiced target return on investment pricing. The target return on investment pricing was used by 50% where as 37.5% of the public financial sectors practiced full cost based pricing and 12.5% of the public financial company practiced variable cost based pricing. The going rate pricing and activity based cost pricing were not practiced by the public financial sectors.

4.2.9 Practice of Transfer Pricing in the Public Financial Sectors

Table-9

S.N	Transfer pricing techniques	No of population	No. of practitioners	Percentage (%)
1.	Market-price based	8	3	37.5
2.	Cost price based	8	2	25
3.	Target return based	8	2	25
4.	Negotiated price based	8	-	-

Source: Opinion survey, 2070.

From the table-9 it is clear that 37.5% of the public financial companies practiced transfer pricing is marked price based, while 25% companies practiced cost price based transfer pricing and target returns based. The negotiated price based was not practiced in the public financial companies.

4.2.10 Joint Cost Allocation into Different Product Lines or Departments in the PFS

Table-10

S.N	Tools	No. of population	No. of practitioners	Percentage (%)
1.	Units of production method	8	2	25
2.	Sales value method	8	1	12.5
3.	Negotiation	8	4	50

Source: Opinion survey, 2070.

The above table-10 shows that 50% public financial sectors practices to joint cost allocation in to different product lines or departments by negotiation, while 25% of the companies practiced with unit of production method and 12% company practiced sales value method.

4.2.11 Method of Segregation Mixed Cost into Fixed and Variable in PFS

Table-11

S.N	Method	No.of population	No.of practitioners	Percentage (%)
1.	High-low point method	8	-	-
2.	Regression method	8	1	12.5
3.	Average method	8	4	50
4.	Analytical method	8	3	37.5

Source: Opinion survey, 2070.

The above table-11 shows the practice of segregation mixed cost into fixed and variable in the public financial sectors. From the above table most of the financial company or 50% companies practiced average method to segregate mixed cost and 37.5% companies practiced with analytical method and 12.5% uses to segregate mixed cost into fixed and variable cost regression method.

4.2.12 Types of Decision Making Practice in the PFS

Table-12

S.N	Types of decision making	No. of population	No. of practitioners	Percentage (%)
1.	Make or buy components	8	2	25
2.	Lease or purchase of fixed assets	8	-	-
3.	Drop or continues the product/service line	8	2	25
4.	Sell now or further process	8	1	12.5
5.	Special offer decision	8	1	12.5

Source: Opinion survey, 2070.

The above table-12 shows the types of decision making practiced by the PFS. From the table it is clear that 25% of the company practiced “make or buy the components and drop or continues the product/service line”. While 12.5% of the financial company practiced sell now or further process and special offers decisions.

4.2.13 Tools Practice in the PFS of Nepal for Measuring and Controlling the Overall Performance

Table-13

S.N	Tools practiced	No. of population	No. of practitioners	Percentage (%)
1.	Profit and loss make by the company	8	8	100
2.	Budgetary measure and control	8	3	37.5
3.	Standard costing techniques	8	-	-
4.	Flexible budgeting	8	-	-
5.	Ratio analysis	8	3	37.5

Source: Opinion survey, 2070.

The above table-13 shows the tools practiced by the PFS of Nepal for measuring and controlling the overall performance . From the table it is clear that 100% of financial company practiced profit and loss make by the company for measuring and controlling the performance, while 37.5% of financial company practiced “budgetary measure and control and ratio analysis”. No one of the financial company practiced standard costing techniques and flexible budgeting for measuring and controlling overall performance.

4.2.14 Cost and Revenue Estimation Practice in the PFS of Nepal

Table-14

S.N	Cost and revenue estimation technique	No. of population	No of practitioners	Percentage (%)
1.	Past trend analysis	8	6	75
2.	Zero based analysis	8	-	-
3.	Market survey	8	3	37.5
4.	Engineering analysis	8	-	-
5.	Judgmental analysis	8	4	50

Source: Opinion survey, 2070.

The above table-14 shows the practice of cost and revenue estimation in the public financial sectors. From the table it is clear that 75% of public financial company practiced past trend analysis to estimate cost and revenues while 37.5% of public financial company practiced

market survey and 50% company practiced judgmental analysis. No one of the financial company practiced zero based analysis and engineering analysis.

4.2.15 Major Difficulties for Application of Managerial Accounting Tools and Techniques

Table-15

\S.N	Difficulties	No. of population	No. of practitioners	Percentage (%)
1.	Lack of information and cognizance	8	1	12.5
2.	Size and nature of business	8	6	75
3.	High cost /quite expensive	8	1	12.5
4.	Long procedure	8	1	12.5
5.	Traditional approach of concerned authorities	8	4	50

Source: Opinion survey, 2070.

The above table-15 shows that the major difficulties for the application of the managerial accounting tools and techniques practiced by the PFS. It is clear that 75% of companies didn't practice managerial accounting tool and techniques because of size and nature of business. While 50% of company didn't practice because of traditional attitude of the concerned authorities. 12.5% of the company didn't practiced managerial accounting tools and techniques because of lack of information and cognizance, high cost/quite expensive and long procedure.

4.3 Testing of hypothesis

Hypothesis 1

Null hypothesis Ho : There is no significant relationship between the use of cost segregation into fixed and variable and profit and loss account. (use of cost segregation in to fixed and variable and profit and loss account are independent)

Alternative hypothesis H1 : There is significant relationship between the use of cost segregation in to fixed and variable and profit and loss account.(use of cost segregation in to fixed and variable and profit and loss account are dependent)

Solution:

Practicing MA Tools

MA Tools	Yes	No	Row total
Cost segregation in to fixed and variable	0 a	8 b	8(a+b)r1
Profit and loss account	8 c	0 d	8(c+d)r2
Column total	8(a+c)c1	8(b+d)c2	16 N

Since the cell frequency is less than 5 therefore by applying Yates correlation for calculating chi-square. Add 0.5 to the cell frequency which is less than 5 and adjust the remaining frequency by fixing row total and column total. Thus, adjusted chi-square contingency table is presented in the following table.

Practicing MA Tools

MA Tools	Yes	No	Row total
Cost segregation in to fixed and variable	0.5 a	7.5 b	8(a+b)r1
Profit and loss account	8.5 c	-0.5 d	8(c+d)r2
Column total	9(a+c) c1	7(b+d)c2	16 N

Calculation of χ^2

O	$E = \frac{RT \times CT}{N}$	O-E	(O-E) ²	$\frac{(O-E)^2}{E}$
0.5	4.5	-4	16	3.56
7.5	3.5	4	16	4.57
8.5	4.5	4	16	3.56
-0.5	3.5	-4	16	4.57
				$\sum \left(\frac{(O-E)^2}{E} \right) = 16.26$

Test Statistics Under H_0 is,

$$\chi^2 = \sum \left(\frac{(O-E)^2}{E} \right)$$

= **16.26**

Where,

χ^2 = Chi square test

O= observed frequency

E= Expected frequency

The calculated value of $\chi^2 = 16.26$

D.f=(r-1) (c-1)

= (2-1) (2-1) = 1

level of significance (α)= 5%

Where d.f = Dgree of freedom

Tabulated value of χ^2 at 5% level of significance for 1 d.f is 3.84

Result,

Since the calculated value of χ^2 is 16.26 is greater than the tabulated value of χ^2 at 5% level of significance for 1 d.f . The null hypothesis H_0 is rejected. Hence the alternatives hypothesis is accepted. It means that use of cost segregation into fixed and variable and profit and loss account are dependent.

Hypothesis-2

Null hypothesis H_0 : There is no significant relationship between the use of payback period and net present value. (use of payback period and net present value are independent)

Alternatives hypothesis H_1 : There is significant relationship between the use of payback period and net present value. (use of payback period and net present value are dependent).

Solution:

Practicing Capital Budgeting Tool

Capital Budgeting Tools	Yes	No	Row total
Payback period	2 a	6 b	8(a+b) r1
Net present value	5 c	3 d	8(c+d) r2
Column total	7(a+c) c1	9(b+d) c2	16 N

Since the cell frequency is less than 5, therefore by applying Yate correlation for calculating
 2. Add 0.5 to cell frequency which is less than 5 and adjust the remaining frequency by fixing row total and column total. Thus adjusted 2×2 contingency table is presented in the following table.

Practicing Capital Budgeting Tools

Capital budgeting tools	Yes	No	Row total
Payback period	2.5 a	5.5 b	8(a+b) r1
Net present value	4.5 c	3.5 d	8(c+d)r2
Column total	7(a+c)c1	9(b+d)c2	16 N

Calculation of ²

O	$E = \frac{RI \times CI}{N}$	O-E	(O-E) ²	$\frac{(O-E)^2}{E}$
2.5	3.5	-1	1	0.286
5.5	4.5	1	1	0.222
4.5	3.5	1	1	0.286
3.5	4.5	-1	1	0.222
				$\sum \frac{(O-E)^2}{E} = 1.016$

Test statistics under H0 is,

$$\chi^2 = \sum \frac{(O-E)^2}{E} = 1.016$$

Where,

χ^2 = Chi-square Test

O= Observed frequency

E= Expected frequency

The calculated value of $\chi^2 = 1.016$

Level of significance (α) = 5%

Degree of freedom (d.f) = (r-1) (c-1) = (2-1) (2-1) = 1

Tabulated value for χ^2 at 5% level of significance for 1 d.f is 3.84.

Result,

Since the calculated value of χ^2 is less than tabulated value of χ^2 at 5% level of significance for 1 d.f is 3.48, the null hypothesis H0 is accepted and hence the alternatives hypothesis H1 is rejected. It means that use of payback period and net present value are independent.

Hypothesis 3

Null hypothesis H0 : There is no significant relationship between the use of Annual Budget and Ratio Analysis. (use of Annual Budget and Ratio Analysis is independent)

Alternative hypothesis H1: There is significant relationship between the use of Annual Budget And Ratio Analysis. (Use Of Annual Budget And Ratio Analysis is independent)

Solution

Practicing MA Tools

MA Tools	Yes	No	Row total
Annual Budgeting	7 a	1 b	8(a+b) r1
Ratio Analysis	3 c	5 d	8(c+d) r2
Column Total	10(a+c) c1	6(b+d) c2	16 N

Since the cell frequency is less than 5, therefore by applying Yate correlation for calculating χ^2 . Add 0.5 to cell frequency which is less than 5 and adjust the remaining frequency by fixing row total and column total. Thus adjusted 2x2 contingency table is presented in the following table.

Practicing MA Tools

MA Tools	Yes	No	Row Total
Annual Budgeting	7.5 a	0.5 b	8(a+b) r1
Ratio Analysis	3.5 c	4.5 d	8(c+d) r2
Column Total	11(a+c) c1	5(b+d) c2	16 N

Calculation of χ^2

O	$E = \frac{RI \times CT}{N}$	O-E	$(O - E)^2$	$\frac{(O-E)^2}{E}$
7.5	5	2.5	6.25	1.25
0.5	3	-2.5	6.25	2.08
3.5	5	-1.5	2.25	0.45
4.5	3	1.5	2.25	0.75
				$\frac{(OZE)^2}{E} = 4.53$

Test statistics under Ho is,

$$\chi^2 = \frac{(OZE)^2}{E} = 4.53$$

Where,

O= observed frequency

E= expected frequency

The calculated value of $\chi^2 = 4.53$

Degree of freedom (d.f) = (r-1) (c-1) = (2-1) (2-1) = 1

Level of significance (α) = 5%

Tabulated value of χ^2 at 5% level of significance for 1 d.f is 3.48

Result

Since the calculated value of χ^2 is greater than tabulated value of χ^2 at 5% level of significance for 1 d.f is 3.48 the null hypothesis is rejected hence the alternatives hypothesis H1 is accepted. It means that use of annual budget and ratio analysis are dependent.

4.4 Major Findings

On the basis of comprehensive analysis of the available data, the following findings were drawn.

1. This study on practice of management accounting tools in PFS's of Nepal for planning, controlling and decision making process found that annual budget, financial statement analysis and cash flow statement were mostly practiced by 87.5% PFS's of Nepal where as 62.5% companies practiced cash flow statement a financial statement analysis and 50% companies were practiced cash flow statement. No companies were practiced cost segregation into fixed and variable and responsibility analysis. Cost Volume Profit and variable budgeting were practiced by 25% each. Activity Based Budgeting was practiced by 12.5% companies. Standard costing tool was practiced by 37.5% companies.
2. Reason for not practicing MA tools were lack of expertise, high cost/quite expensive, no information about the tools and governmental policy. The lack of expertise and governmental policy accounted for 25% where as remaining financial company didn't practice because of high cost/ quite expensive and lack of information about the tools.
3. The types of budget practiced in PFS's of Nepal were operational budget, cash budget, master budget and program budget. Almost 75% PFS's of Nepal practiced operational budget while 25% prepared master budget. Cash budget and program budget were practiced 12.5%. Most of the PFS's of Nepal practiced operational budget only for carry out operational activities.

4. The past budget estimates of historical expenses were the basis used for preparation of budget. It recorded 100% of PFS's of Nepal. But only 50% and 12.5% of PFS's of Nepal prepared budget on the basis of past actual expenses and activity based budgeting. Zero based budgeting was not practiced because of government policy and unwilling of the management.
5. The average method and analytical method were practiced by cost segregation into fixed and variable by 50% and 37.5% PFS's of Nepal. Regression method was practiced by 12.5% in PFS's of Nepal for segregate cost into fixed and variable. High-low point method was not used in PFS's in Nepal.
6. The committee and financed department division rating 62.5% and 37.5% of PFS's of Nepal used to prepare budget. But planning department and outside experts were not taken for budget preparation.
7. Regarding types of budget practiced in PFS's of Nepal prepared annual budget it was found that 37.5% of PFS's of Nepal prepared annual budget. It was also found that quarterly and 5yrs budget were practiced by 12.5% respectively. The budget for more than 1 yrs and less than 5 yrs and more than 5yrs budget were not prepared.
8. The net present value of capital budgeting practiced by 62.5% companies. The payback period and discounted payback period and internal rate of return respectively used by 25% each of PFS's of Nepal. Average rate of return and profitability index and modified internal rate of return were not practiced by PFS's of Nepal.
9. Target return on investment pricing was adopted by 50% of PFS's on Nepal. The full cost based pricing was practiced by 25% which was below average. Activity based cost pricing and going rate pricing were not practiced by PFS's of Nepal.
10. The market price based transfer pricing was followed by 37.5% of PFS's of Nepal. But 25% of PFS's practiced cost based target return based respectively. Negotiation was not practiced in PFS's of Nepal.
11. Negotiation was adapted to joint cost allocate into different product line or department by 50% of PFS's of Nepal. Unit of production method and sales value method were practiced by 25% and 12.5% respectively.

12. Average method of segregating mixed cost was used by 50% of PFS's Nepal. But analytical method and regression method were practiced by 37.5% and 12.5% respectively. High low point method was not practiced by PFS's of Nepal.
13. Make or buy the components and drop or continuous the product/service line were followed by 25% of PFS's of Nepal. But 12.5% companies followed and sell now or further process and special offers decision. Lease or purchase of the fixed assets was not practiced by PFS's of Nepal.
14. The overall performance at the end of accounting year was used by 100% of PFS's of Nepal taking the reference of profit and loss. 37.5% companies practiced budgetary measures and control and ratio analysis. The standard costing techniques and flexible budgeting were not practiced by PFS's of Nepal.
15. The cost and revenue estimations was used by 75% of PFS's of Nepal on the basis of past trend analysis. 50% and 37.5% companies made it on the basis of judgment analysis and market survey respectively. Zero base analysis and engineering analysis were not practiced by PFS's of Nepal.
16. The size and nature of business was taken as major difficult for the application of managerial accounting tools and techniques in PFS's of Nepal by 75% companies. 50% companies felt traditional approaches for implementation. 12.5% companies felt lack of implementation and cognizance, high cost/quite expensive and long producers.

The hypothesis test 1, revealed that PFS's of Nepal were dependent in use of cost segregation into fixed and variable and profit and loss account. It means that there is significance relationship between the use of cost segregation into fixed and variable and profit and loss account. The hypothesis test-2 revealed found that PFS's of Nepal were independent in use of payback period and net present value. It means that there is no significant relationship between the practicing of use payback period and net present value tools. The hypothesis test-3 revealed found that PFS's of Nepal were dependent in use of annual budgeting and ratio analysis. It means that there is significance relationship between the use of annual budgeting and ratio analysis.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Management is always concerned with planning organizing directing and controlling for goal achievement by managing limited resource in a dynamic environment. Dynamic environment plays vital role for management goal achievement. Dynamic environment creates uncertainties and risk which have opportunities as well as threats for organizations. Accounting is the process of recording, classifying, analysis and identifying and interpretation of financial transactions. The main purpose of accounting is to ascertain the result and financial position of business activities of particulars period. The accounting system assists management in carrying out its functions is to be termed as management accounting. Management accounting is the process of identifying and communicating information for searching the goals of the company.

Managerial accounting is an integral part of management process and management accountant are important strategic partners in the company's management team. Therefore management accounting helps management to keep minimizing losses and maximizing profit.

In Nepal public enterprises consist various sectors like manufacturing ,trade, public utility, social service and financial sectors owned by the government. State PFS's were established for socio economic development as well as good governance. So, the public enterprises have been assuming a vital role in the socio economic development process of our country since the inception of the planning process. Their proper management is assumed further momentum in the present context of e-commerce, political and cultural change in the country. Most of them were not performing well. In the study only management accounting practices in public financial companies in Nepal were taken.

There are various management accounting tools and techniques which can be applied in every company. Such tools are cost classification and estimation, cost allocation, profit measurement and recognition, cost volume profit planning and control, standard costing, pricing decisions, statement of cash flow, ratio analysis and long term investment decision.

The main objectives of this research study was to find out the present practice of management accounting tools and techniques in public financial companies in Nepal. And other objectives were is to find out the research for none practicing the management accounting tool and techniques and difficulties faced in public financial companies in Nepal.

As per the nature of study survey type research was designed. Surveys of eight public financial companies in Nepal were made through questionnaire, fifteen tick mark question were distributed as well as discussion were made to get valuable information and data. Information was tabulated, analysis, interpretation as per the requirement of the study. Simple percentage tool has been applied to analyze and interpret of findings. The statistical tools chi-square χ^2 was used to test the hypothesis related test.

5.2 Conclusion

As per objectives and analysis of the study following conclusion have been drawn:

1. The research study shows the different types of management accounting tools and techniques applied in the public financial companies. Tools used in public financial companies are CVP analysis, standard costing, annual budgeting, financial statement analysis, cashflow statement analysis, activity based costing, flexible budgeting and long-term budget. But all of them are not fully practiced by the public financial companies in Nepal. Tools like cost segregation into fixed and variable, responsibility accounting, are no one of the public financial companies used.
2. In public financial companies of Nepal for planning process, profit measurement, cost estimation tools are used. For the controlling process tools like budgetary control is used for decision making process tools like capital budgeting, cashflow analysis and financial analysis are used.
3. There are various difficulties for applying management accounting tools in public financial sectors. Currently PFSs are not practicing MA tools and techniques due to government policy, high cost, lack of experts, long-procedure and traditional approach of the concerned authorities.
4. From the hypothesis test, it was cleared that PFS's were independently practices the management accounting tools and techniques. It means that management accounting tools and techniques are independent among them in PFS's in Nepal.

5.3 Recommendation

Management accounting is a new discipline. It is still is a developing state in the context of Nepalese corporate companies. This research study shows that the present practice of management accounting tools and techniques were more traditional approach. If an organization follows properly management accounting tools and techniques for managerial adjustment in the utilization of limited resources that would definitely show better performance. So, the following recommendation were made based on findings of this research study.

1. Nepalese public financial companies were facing with expertise of management accounting tools and techniques. Therefore they should hired management accounting experts. If not possible they can send their existing employees for the job training programmed for the certain period. If possible it should taken service from consultant. For information about the management accounting tools and techniques, management should establish management accounting information system section in management accounting department. Which also help management on different issues.
2. Management should use management accounting tools and techniques for planning, controlling and decision making process. For planning process the tools like cost classification and estimation, cost allocation, profit measurement and recognition and budgeting for planning are recommended. For controlling process like responsibility accounting , standard costing, flexible budgeting and budgetary control are recommended. For decision making process the tools like capital budgeting, environment analysis, cash flow analysis and pricing analysis can be used. To implement these courses of action, management should establish separate management accounting department.
3. Financial statement analysis was widely used by many financial sector enterprises. It is recommended that to use other method such as high-low point method as well as least square method for analysis of their financial statement.
4. Nepalese public financial companies were advised to use zero based budgeting , activity based budgeting for budget preparation.

5. The budget in Nepalese public financial companies were prepared by committee, planning department and financial department mostly. It is also recommended that to take outside expert's opinion for budget preparation which helps to make more effective budget.
6. The budget in Nepalese public companies were using overall master budget but those were not effectively implemented. So, it is recommended to implement effectively all the components of master budget.
7. Nepalese public financial companies should practice not only past trend analysis and market survey but also should practice zero based budgeting, judgmental analysis and engineering analysis for cost and revenue estimation for the further period. Because these will help to achieve their goals.
8. While purchasing fixed assets or making long-term investment decision, Nepalese public financial companies should use Net present value, internal rate of return and discounted pay-back period.
9. Nepalese public financial companies should practice not only full cost pricing and target return on investment pricing but also activity based cost pricing and going rate pricing.
10. Nepalese public financial companies should use not only profit and loss account but also should use standard costing, budgetary control, ratio analysis, cash flow analysis and activity based costing for evaluation of overall performance of companies at the end of each accounting year.

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Appendix -1

RESEARCH QUESTIONNAIRE

The questionnaire are base line to conduct a research work entitled “Management Accounting Practice of Public Sectors Financial Organization In Nepal” in partial fulfillment of the requirement of Master Of Business Studies (MBS). All the alternatives are equally important.

Name of Company :

Department :

Address :

Please provide tick (✓) mark for the alternative or alternatives you have chosen.

Q.1. Would you kindly tell which of the following mentioned management accounting tools for planning controlling and decision making process are used in your financial company

Management Accounting Tools

	Yes	NO
a) Cost Segregation Into Fixed And Variable
b) C-V-P Analysis
c) Standard Costing
d) Annual Budgeting
e) Responsibility Accounting
f) Financial Statement Analysis
g) Cash Flow Statement Analysis
h) Activity Based Costing
i) Flexible Budgeting
j) Long Term Budget

Q.2. If your financial company has not practiced any of the above mentioned management accounting tools what might be the reason ?

- a) High Cost Quite Expensive
- b) No Information About Tools
- c) Lack Of Expertise
- d) Government Policy
- e) If Any Others, Please Specify

Q.3. Which type of budget does your company practiced ?

- a) Operation Budget
- b) Cash Budget Only
- c) Master Budget
- d) Programmed Budget
- e) If Any Other, Please Specify

Q.4. On what basis does your company prepare budget ?

- a) Past Actual Expenses
- b) Past Budget Estimation
- c) Zero Based Budgeting
- d) Activity Based Costing
- e) If Any Others, Please Specify

Q.5. Who prepares the budget in your company ?

- a) Committee
- b) Planning Department
- c) Financial Department
- d) Outside Expert

Q. 6. What is the period covered by the period covered by the budget used in your company?

- a) Annual
- b) More Than And Less Than 5 Years
- c) More Than 5 Years
- d) 5 Years
- e) Quarterly

Q. 7. which types of capital budgeting tools does your company use for purchase fixed asset?

- a) Payback Period (PBP)
- b) Discounted Payback Period (DPBP)
- c) Average Rate Of Return (ARR)
- d) Net Present Value (NPV)
- e) Internal Rate Of Return (IRR)
- f) Profitability Index (PI)
- g) Modified Internal Rate Of Return (MIRR)

Q.8. what techniques does your company practiced for pricing of your service/ product ?

- a) Full Cost Based Pricing
- b) Variable Cost Based Pricing
- c) Going Rate Pricing
- d) Target Return On Investment
- e) Activity Based Cost Pricing

Q.9. What types of transfer pricing does your company used ?

- a) Market Price Based
- b) Cost Price Based
- c) Negotiated Price Based
- d) If Any Others, Please Specify

Q.10 .While allocating of joint cost into different product lines or department into your company which of the following techniques are used ?

- a) Units Of Production Method
- b) Sales Value Method
- c) Negotiation Method
- d) If Any Others, Please Specify

Q.11. Which segregation method of mixed cost does your company practiced ?

- a) High-Low Point Method
- b) Regression Method
- c) Average Method
- d) Analytical Method
- e) If Any Other, Please Specify

Q.12. Which decision making alternatives are practiced in your company ?

- a) Make Or Buy Components
- b) Lease Or Purchase Of Fixed Assets
- c) Drop Or Continues The Product Or Service Line
- d) Sell Or New Further Process
- e) Special Offer Decision
- f) If Any Others, Please Specify

Q.13. How does your company evaluate overall performance at the end of the accounting year ?

- a) Profit And Loss Make By The Company
- b) Budgetary Measure And Control
- c) Standard Costing Techniques
- d) Flexible Budgeting
- e) Ratio Analysis
- f) If Any Others, Please Specify

Q.14. Which techniques does the trading company practice for cost and revenue estimation ?

- a) Past Trend Analysis
- b) Zero Based Budgeting
- c) Market Survey
- d) Engineering Analysis
- e) Judgmental Analysis
- f) If Any Others, Please Specify

Q.15. What might be the major difficulties for the application of managerial accounting tools and techniques in your company?

- a) Lack Of Information And Cognizance
- b) Size And Nature Of Business
- c) High Cost Quite Expensive
- d) Long Procedure
- e) Traditional Approach Of Concerned Authorities
- f) If Any Other, Please Specify

Date :Seal of Company.....

Signature :

Designation of Respondent :

Name (Not Compulsory) :