

ACCOUNTING SYSTEM USED IN SMALL INDUSTRIES IN MAKAWANPUR DISTRICT

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RECOMMENDATION

This is to certify that the thesis

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has been prepared and approved by this department in the prescribed format of faculty of management. This thesis is forwarded for evaluation.

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VIVA-VOCE SHEET

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ABBREVIATIONS

&	:	And
A/c	:	Account
C & SI	:	Cottage and Small Industries
Cr.	:	Credit
CSIDB	:	Cottage and Small Industries Development Board
CTEVT	:	Council for Technical Education and Vocational Training
DCSI	:	Department of Cottage and Small Industries
Dr.	:	Debit
etc.	:	Etcetera
GDP	:	Gross Domestic Product
HAN	:	Handicrafts Association of Nepal
i.e.	:	that is
IAS	:	International Accounting Standards
IEDI	:	Industrial Enterprise Development Institute
L.F.	:	Ledger Folio
Ltd.	:	Limited
No.	:	Number
Regd.	:	Registration
S.N.	:	Serial Number
SBPP	:	Small Business Promotion Project
T.U.	:	Tribhuvan University
UNCTAD	:	United Nations Conference on Trade and Development
Vol.	:	Volume
WEAN	:	Women Entrepreneurs Association of Nepal

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Nepal is a land locked country between China in the north and India in the south. It is also called sandwich of two nations. The access to sea is more than 1000 Km. away from Calcutta in India. Nepal has a huge amount of natural resources, it is sufficient for the development of industry and commerce but these resources are not utilized properly.

It needs proper study, better evaluation and healthy environment to utilize scarce resources. As the industrial and agriculture growth rate is still slow the pace of economic development of Nepal is sluggish.

Nepal is a least development country with per-capita income of about US \$ 260. It is estimated that 42% of population lives below the absolute poverty line. Industrial sector is still in infant stage. Its contribution to GDP is still below. The industrialization in Nepal has not been able to take momentum. It provides employment to only 2% of the labour force. The industrial sector of Nepal has been subjected to planned development for 46 years. Total contribution of agriculture sectors is 39% during year 2059/060 to the total GDP even scientists developed different technologies for developed and improved agricultural sectors. Farmers of Nepal are being deprived and a loss from these opportunities. Nepal is a mountain and development country engaging in agriculture. Lack of educated population, educated people are not being engaged in agriculture, Lack of means of transportations and communications are other causes less cultivated of land. Only 20% of total land of Nepal is cultivated. 81% of people are in work economic conditions and 81% of people's living standard are not strong.

Industries are the backbone of economic development of country. In the context of Nepal, industrial sectors haven't developed on a satisfactory way. Big industries

have not established in large number. Only few numbers of small and cottage industries are increased.

Nepal is changing its dependency from agriculture sector to industrial sector through industrialization. Industrialization is the most powerful instrument for attaining the higher level of economic development. It is a key factor in the process of economic development and its importance as a means of achieving economic literature. Industrialization is a universally accepted as a strategy of economic development as well the fundamental goal of most developing countries. Some countries attained industrialization through large industries than other medium and small scale industries because of there socio-economic and geographic structure. In this effort, attained rapid economic growth and development. Nepal has taken revitalization as on important tool for economic liberalization policy since 2049/2050 and revitalized 32 various public enterprises until 2059/2060.

Economic development has become one of the most popular slogans in almost all the developing countries all over the world and Nepal is not an exception in these aspects. Industries sector of Nepal is small and under developed. This is mainly due to poor resources base, small domestic market inadequate infrastructural development lack of skilled semi-skilled man power, land locked position of the country, long and open border with India, lack of entrepreneurial ability, lack of technical know how etc.

It is sure that most developing nation needs to made extensive use of cottage industries as a catalytic agent in the process of moving towards development oriented economy at a certain stage in the development process.

1.1.1 Overview of Accounting System Use in Small-scale Industries

A tiny land locked country in South Asia, Nepal remains as one of the 48 least developed countries in the world. The country's per capita income is just \$260, one of the lowest in the world. The country's per capita income has been growing a little over 2% per annual at a situation.

The growth and development of the industries in Nepal can be traced to some thirteen or fourteen hundred years ago. When Nepal was ruled by Lichchivi Kings, at that period, especially cottage and small industries were established and operated. Nepal is rich in the skill of making handicraft goods, wooden goods, statues and art from very beginning. After the beginning of the 19th century some varieties of goods were imported into Nepal and these kinds of impacts are generally cost the effect of ancient craft and small industries.

The area of Makawanpur district is 2426 sq.k.m. one Nagarpalika and 43 village in these district. Big industries in these city and cottage and small industries 1359 total upto 2064. 8174 employer engaged in the small industries. Accounting was found started in Nepal during Lichhavi period government revenues were collected from Trust (Guthi), Property tax (zinsikar) etc.

Business enterprises, like individuals, wish to increase their ability to acquire and hold goods and services and in general, they seek to maintain as higher a level of economic power as possible. Business firms are able to do this as long as they are able to use their financial resources profitably. Thus, the primary motivating factor of the business enterprises behind our economy has called the profit motive. The desire for making sustained profits of each individual entrepreneur will bring this nation technological and economic progress.

It is assumed that business managers (i.e. Entrepreneurs) try to optimize short run as well as long run profits for the enterprises. Accounting is a means of providing information to the managers to achieve these goals.

Accounting is helpful to justify their existence by pointing out to management what should have been done after enterprises have failed to optimize past profits. In addition, accounting is useful in so far it assists in improving future performance. Accounting reports are like the white income on a highway. Once the firm is on the road to long run profit optimization, the accounting report can show the managers how well they are staying on that road. Accounting reports can indicate the need for corrective action and help managers reach decisions about

when and how much to turn the wheel, step on the gas or apply the brakes. Accounting reports ensure that the firm is on the right road to profit optimization. That is the function of management not of accounting.

Profit is the excess of revenue over expenses. Obviously, then, the long run profitability of the firm depends on how well the managers are able to increase revenue and decrease expenses. Revenue is one to the sources of a firm's net assets or increases in a firm's net assets resulting from the normal operation. Expenses are the sacrifice or consumption of net assets in the process of earning revenues. An increase in revenue usually involves an increase in expenses. Management must try to increase revenue proportionally more than expenses are increased. Profitability may increase even when revenue decreases, as long as expenses decrease proportionally more. Many Nepalese small business managers stress on increasing revenues while ignoring the corresponding decrease in revenues. This tactic may result in a short run false economy. If the farmer, for example were to use a less costly and less potent chicken feed, he might reduce expenses for a few months without impairing revenues. Eventually, however, the chickens would start laying fewer and poorer quality eggs, and his long run earning picture would grow dimmer. Failure of the apartment house firm to incur maintenance expenses might mean that long run profitability unwisely sacrifices for short run profitability. The relationship between revenues and expenses is the tightrope upon which all managers must perform. Properly timed accountings reports help maintain the necessary balance.

1.2 Statement of Problem

Lack of awareness concerning the accounting tools and techniques, lack of proper and updated accounting training, financial limitations are some major problems faced by small-scale services industries in Nepal. The study is concentrated on the problems faced by small-scale industries in the respective area. The main problems, which have been identified, are as follows:-

- 1) Existing accounting system applied by small-scale industry are not as per modern accounting principles and systems.
- 2) There is no uniformity and homogeneity in application of accounting system in small-scale industries.
- 3) There is no regulatory provision regarding accounting practices in small-scale industries.
- 4) The knowledge of account keeper is also the decisional factor for application of well-recognized accounting system in the organization.
- 5) There are no any hard and fast rules regarding the application of accounting system in small-scale industries.

1.3 Objectives of the Study

The basis objective of the study is to identify the accounting problems faced by small-scale industries and to give appropriate accounting model for them. Besides this, the main objectives of the study are:

- To examine the existing accounting system used by small-scale industries.
- To identify to the major accounting problems faced by them in practical.
- To present or display their transactions and able to provide the necessary information to the management for decision-making. In addition, evaluate the efficiency and sufficiency of accounting system
- To identify, how the supporting institution have been providing the accounting training to the small-scale industries and examine the effectiveness of such training.
- To identify the appropriate model of accounting system which can display the transactions of business, appropriateness in term of cost, simplicity & applicably and in generating sufficient information to the management for decisions making.

1.4 Significance of the Study

There is a need to make our industrialization process dynamic & consolidated by developing and expanding cottage & small-scale industries in keeping with our limited markets, level of technical knowledge, position of transportation and the geographical structure of the country. Small-scale industries are backbone for developing countries like Nepal. To develop and strengthen the small-scale industries the financial aspect should be string. An entrepreneur is frequently required to make several types of decisions. It is impossible to make right decisions with out appropriate information. The main source of internal information is accounting system. However, in many Nepalese company's managers were forced to make decisions based on incorrect data. Therefore, they are losing their profits. Even they do not know where their money goes and come from. Thus, it is necessary to examine their accounting system.

This study helps to examine the existing accounting system used by small-scale industries to identify the accounting problems faced by small-scale industries. Apart from this, this study also will contribute to identify how the supporting institutions have been providing the accounting knowledge or training for small-scale industries. Similarly it helps to identify the appropriate accounting system which will be sufficient to provide the information to management for decisions making and appropriate in terms of cost, simplicity applicability, effectiveness for display or present the entire transactions of business.

1.5 Limitation of the Study

The following are the major limitations of the study.

- This study is mainly based on primary data. Therefore, the limitations of primary data may exist.
- There is no earlier study about the accounting system be practiced in small-scale industries. Therefore, the study lacks review of previous related studies in this area.

- Time frame and resources also constrain this study.
- This study takes only 70 small-scale service industries as sample and draw conclusion. Therefore, the conclusions drawn are suggestive rather than prescriptive.
- This study focuses only an accounting system of small-scale service industries.

1.6 Organization of the Study

The project study is divided into the following five chapters:

Chapter-one

It entitles “introduction chapter”. The reading materials in this chapter are general background of the study, a brief introduction of the services firms and their background, statement of the problem, objectives of the study, significance of the study, limitations of the study and organization of the study.

Chapter-two

This chapter is concerned with literature review. The reading materials in the chapter are conceptual review and review of previous related studies.

Chapter-three

This chapter consists of research methodology adopted for the study and includes research design, data collection procedures and data analysis tools.

Chapter-four

This chapter comprises data presentation and analysis.

Chapter-five

This chapter is concerned with the output of the study in the form of summary, recommendations and conclusion.

CHAPTER TWO

REVIEW OF LITERATURE

2.1 Introduction

Review of literature includes consulting books and reports of previous studies in the related field, such as study reports, text books, articles, journals, thesis and dissertation etc. The main objective of the view of literatures is to gain more knowledge about the subject matter being studied. This helps to find out why research study has been conducted in one's choice field to study, and what remains to be done. It provides the foundation for developing a comprehensive theoretical framework from which hypothesis can be developed for testing. The literature review links the present studies

2.2 Conceptual Framework

2.2.1 Meaning & Definition of Accounting

The act of keeping records in a regular and systematic manner is called book keeping. Book keeping is an elementary stage of accounting. Accounting means the process of analyzing financial transactions and recording them in the book of account to show the financial results of operations. Accounting is the eye of the business which shows a path to go ahead. It is also known as an administrative tool a means to an end which produces the financial information needed for successful administrators and shows the clear picture of revenue and expenditure made for specific periods. The financial picture mostly has two parts one showing profit and loss and other showing assets and liabilities (Balance Sheet)

It is earlier said that accounting means the systematic record and analysis of financial transactions maintained in a regular and manner. It has been subjected to numerous studies. Some definitions concerning the term 'Accounting' has

been mentioned here. "Accounting is a systematic generating and communicating financial information to tabulate the result of operation of entrepreneur. [Sharma & Vithal, 1991, P-20]

"Accounting is art of recording classifying and summarizing in a significant manner and in term of money transactions and events which are in part at least of financial character and interpreting the result" [CAP, 1996, P-17]

"Accounting is considered as one of the most effective tools of the management for measuring efficiency form the above definitions, it is clear that accounting means the collection and processing of financial data of an entity to report the decisions makers. In general terms there are three aspects of accounting functions, which it adopts to suit business transactions. The second aspect deals with the method of controlling day to day business operations. The third aspect is the management or service aspect, which analyzes business situations for appraising the past and deciding the best action to follow in the future." [H. M. Suran, 1999, P-30]

2.2.2 Importance of Recording for Small Industries

Book Keeping is a tool to keep a record of financial transactions. The importance of recording for small industries arises because of following causes.

- a) **Planning:** The financial information is important due to effective financial management. It deals with costing forecasting, budgeting and planning.
- b) **Communication:** Accounting generates the valuable information and passes to all respective i.e. managers, shareholders, creditors, bankers etc.
- c) **Recording:** It is difficult to remember the various financial receipts and payments taking place during a period of time. It shows whom payment has been made, when and what for?
- d) **Controlling:** Accounting is considered as one of the most effective control tools e.g. production control, inventory control, sales control, credit control etc.

- e) Proof: Taxation authorities are likely to believe the facts contained in the set of accounting books. If it is maintained according to generally accepted accounting principles.
- f) Evidence: Accounting records, backed up by proper and authenticated vouchers are good evidence in a court of law.
- g) Valuation tool : If a business is to be sold as a going concern then the value of different assets shown by the balance sheet helps in bargaining proper price for the business .
- h) Business Position: Accounting shows whether the business earned profit or suffered losses and what is the position of the business can be known from accounting records.
- i) Decision making: Accounting helps to the decision making process through effecting allocation of limited resources.
- j) Goodwill: accounting increased the goodwill of the business. It helps to keep smooth relationship with customers, suppliers etc. if sales are on credit basis then how much is due from each customer and when it is expected to receive. If purchase on credit basis then how much is due for payment and when it is supposed to pay.
- k) Profitability: An entity can increase profitability using various accounting techniques such as cash management, inventory management etc all above factors are related with profitability.

2.2.3 Objectives of Accounting

The major objectives of accounting are as follows:

- i) To maintain records: Since human memory is limited, it is very difficult for a person to remember all financial transactions which a business performs. Therefore, accounting maintains permanent records of all financial transactions of a business in books and computers based on a set of rules.

- ii) To ascertain profit or loss: A business has the prime motive of earning profits. Therefore, accounting ascertains whether the business has earned a profit or suffered a loss by preparing profit and loss account at the end of a period.
- iii) To show a business's financial position: Besides its profit or loss, the business also needs to know about its financial position at the end of the period. Therefore, accounting shows the financial position of the business by preparing a statement called the balance sheet. The balance sheet is a statement of capital, liabilities and assets of the business.
- iv) To communicate information: Financial information is essential to its users for taking financial decisions. Therefore, accounting communicates the information of operating results and financial position of the business to different users for their decision making purpose.
- v) To determine tax amount: Every business has to pay taxes of different kinds of the government. Therefore, accounting provides financial information to the tax office, which helps in determining the amount of tax liability.

2.2.4 Origin and Evolution of Book-Keeping

The exact date of the origin of book-keeping is not yet known. It is said that the practice of book-keeping began with the invention of money in Lydia, Greece during 700 B.C. Clearly, book-keeping in its true sense, first, arose in classical Greece. However, the practice of the well-known system of double-entry book-keeping slowly and quietly evolved in Italy during the 13th and 14th centuries. It became well-known to the world only after Luca Pacioli, a Franciscan friar and a lecturer on mathematics, got his book 'summa de Arthmetica, Geometria, Proportionet, Proportionalita' (Everything about Arithmetic, Geometry and Proportion) first published in 1494 in Venice, Italy. The book contained a chapter headed particulars communize Scriptures (A section on Accounts and Records) which dealt with the principles of double-entry book-keeping. The first

English translation of De Computes was published by Hugh Old Castle in 1543, which popularized double entry book-keeping all over the world. Many improvements were made thereafter from time to time to the original form of double-entry system as described by Luca. Today, the double-entry system has been established as the most systematic and scientific system of book-keeping and is universally applied in all forms of entities. Therefore, Luca Pacioli is regarded as the 'father of modern book-keeping'.

2.2.5 Accounting Evolution in Micro Firm

Typically manufacturing firm was operating accounting system to provide information on short run operation. Cost accounting records were the basis and most highly developed source of such information on short runs operations. A cost accounting system was the main accounting device, which was not helped top management to control cost. Cost accounting systems compiled full financial information on the cost of good manufactured. When the bonus incentive system was available to member of the sales staff, then as an indirect consequence of the accounting system developed. [The Accounting Review, 1976, Page 472] Accounting practices in micro firm prior to 1900 was brief descriptive the fact is such firm evidently did not concentrate upon commercial efficiency and assessment of overall firms performance.

"Historically of course all accounting system had to be maintainable by hand. The image of the accounting with green eye shade and quill pen sitting on a high stool and meticulously maintaining the accounting records reflect those early manual system." [Fred, Steve, 1958 p-54]

Today, small companies generally use cash registers, adding machines etc. Even some small companies use automated or computerized system.

2.2.6 Evolution of Accounting in Nepal

The history of account keeping is not so old. In fact, accounting was found started in Nepal during Lichhevi period and was developed somewhat during Malla period. During Lichhevi period government revenues were collected from

Trust (Guthi), property tax (Zinsi Kar) and voluntary work (shramdan), and renovation of temples and for conducting religious items (Hom, Kotihom and other sorb of Yagya). During Malls periods, along with the above mentioned sources, the government collected revenues also from trade and custom. Like in the previous days they also incused expenses for war, construction and renovation of temples ponds, stone and golden taps for drinking water supply, irrigation, holy shrines and for conducting religious rites. But since the financial transactions were very few in number they didn't have the number they didn't have to developed system of accounting. The record keeping system was not systematic, scientific and long lasting.

The importance of account keeping is felt more those countries. Where the government are responsible to the people and where the financial transactions are quite voluminous. Before the down of democracy in 2007 B.S. neither the government was responsible to neither words the people nor was the volume of financial transactions considerably hardly. As such the government could not make enough effort to develop the good accounting system in the country. Going to the lack of a set type of accounting principle, people used to keep account records in offices according to their own knowledge and experience. Hence varieties of accounting were followed in different part of the country.

Infect, the need of a definite system of accounting was felt since the origin of modern history of Nepal for record of government revenues and expenses, different offices were established at different times at different system of accounting. For example, for recording land revenue and administrative expenses of the government, two books called Laldhadda and Mothdhadda were introduced in the country in the year 1871 and 1879 B.S. respectively.

In the year 1925 BS, an office called Kitab Khana was established with a view to register the name of the government employees and to record their salaries. The office is still functioning. At the some time the government established a different office called Kaushi Tosha Khana for keeping proper record of such salary expenses. At present the function of such office is limited to the

determination and distribution of pensions to the retired government employees. Towards 1936 B.S. Khardar Gunbanta, a senior official that time, propounded a new accounting system called Shyaha Shrestha Pranah. It was an advanced form of accounting, which brought a greater resolution in the history of accounting keeping. The government followed it with the object of exhibiting the actual position of it remained in practice in Nepal till the fiscal year 2022/23, for more than eight decades. The advantage of this system was that it could show the total of incomes expenses- and balance at time unless this system three different books of accounts were found maintained namely, Shyaha (a kind of journal) A Warje (a kind of ledger and depot).

Shyaha Shrestha, though on important system, was pruned insufficient especially in places where transactions were numerous and voluminous. As the volume of the financial transactions in Terai belt used to be much more than in mountainous regions, this Shrestha Pranali could not meet accounting needs of Terai regions.

Hence in the year 1968, the government followed a new accounting system in the office of such belt in the name of "Faram Shrestha Pranali" but, in the mountainous regions the name Shyaha Shrestha Pranali was in practice. Thus both the Shyaha and form Shrestha Pranli were in practice in Nepal at the same time.

After the historical revolution of 2007 BS Nepal experienced a new democratic government, which was totally responsible to wards the people with a view to communicate to the Nepalese people about revenue and expenditure position of the country, the then government declared budget system on 21st Magh 2008, which was quite a new thing for the people of Nepal as both the accounting system could not supply timely date, statistics, and other information necessary for the preparation of annual budget, the government fill the necessity of the new and convenient accounting system for the country for the purpose of auditing the books of accounts of Nepal government offices and of checking frauds and misappropriation of cash and budget, the auditor general, as a constitutional body according to the constitution of Nepal 2015. In the same year with a view

to facilitate budget preparation and implementation and to establish there by uniformity in financial administration a new act called "Procedural suit of Government fund expenditure 2016" was enacted. As a result, so as to facilitate payment of government fund expenditure and to exercise control on budget, the government followed in the year 2017, a new accounting system. It was named as Bhuktani Shresta Paranali (Payment accounting System). Since then government expenditure were recorded according to budget head.

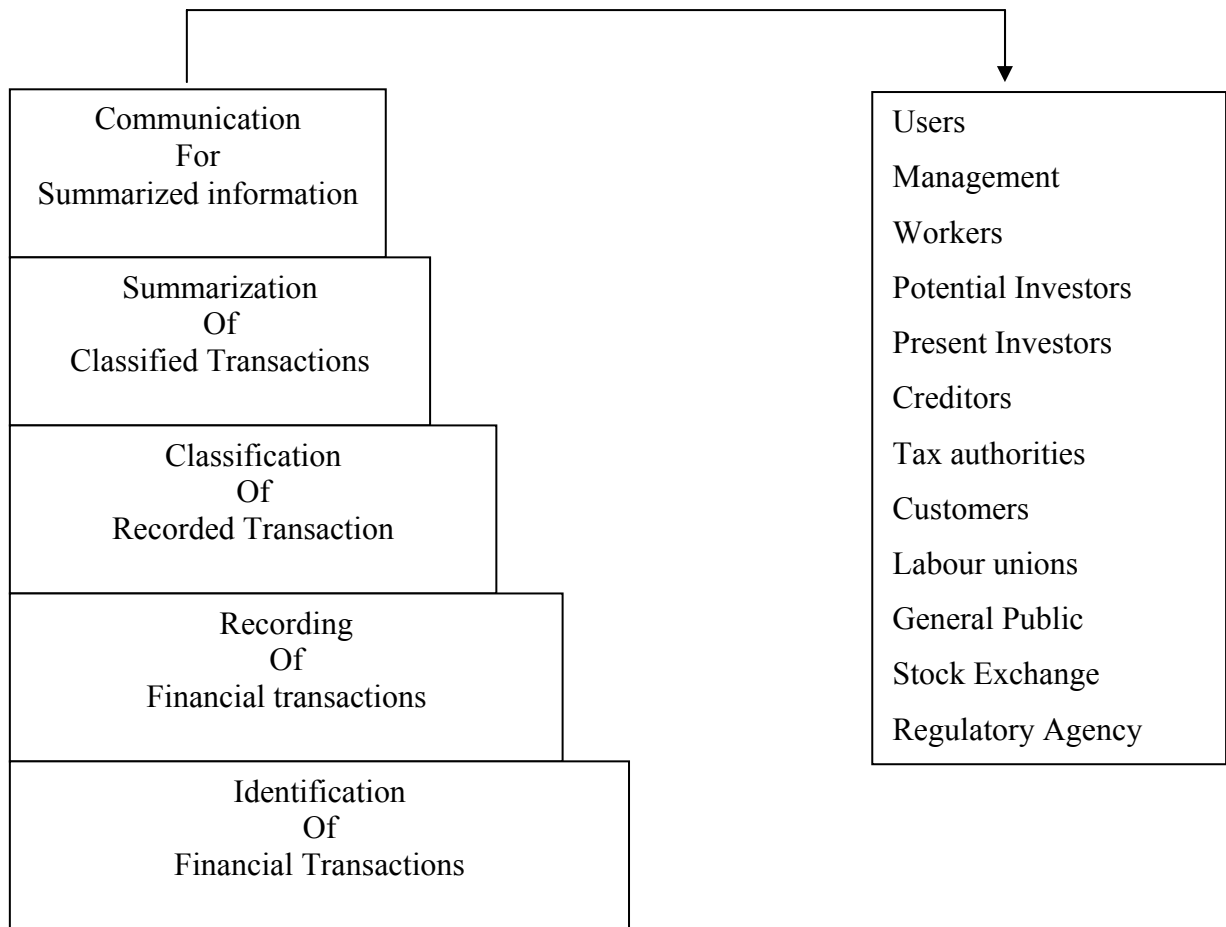
In 1960 (20th Magh 2019 BS) accounts committee was formed to study and analyze the problem of accounting in Nepal. After detailed study of 288 days the committee made a report to introduce a new accounting system. His majesty the King Mahendra granted royal seal on it in 1961 (on 2nd Chaitra 2018 B.S) and it become a new accounting system of government of Nepal but it was put in to practice only from fiscal year 2062/63 for the budget appropriation and from 1974/75 assumption may not be true in reality.

2.2.7 Accounting Process

Accounting process is the procedures for identification of financial data, secondary classifying, summarizing and commuting its sources. The accounting process makes that analysis possible by identifying, recording, classifying and summarizing an entities transaction and preparing reports that present the summary result. [Fred, Harold Steve, 1958, p-54]

Figure 2.1 is diagram of the sequence showing how accounting monitors the results of an entity's transactions.

Figure No. 2.1
The Accounting Process



Sources: Office practice and Accounting, Dhurba Lal Pradhan

Accounting process refers to complete sequence of accounting procedure, which is required to be repeated in the same order during some accounting period. Accounting process includes the following items,

- a) Identification of financial transaction: Only those transactions and events, which are of financial nature, are taken into consideration for recording by accounting. If a transaction has no financial character then it can not be measured in term of money and no record is made of such transaction.
- b) Recording: Accounting is the art of recording financial transaction and events in a systematic way. Recording is done in a book called "Journal". This book is further sub divided into various subsidiary books. Such as

cash book, purchase book, sales book, purchase return book and sales return book.

- c) **Classifying:** Records of transactions may run into thousands of pages and to find out the details about a particular transaction or event may be difficult. For easy location, transaction of the same nature is grouped in to one place. This is achieved by opening according in a book called ledger.
- d) **Summarizing:** The classified information may run into hundreds of pages and the user of accounting information may not have the time to go through all the records. Therefore, for the purpose of presenting the classified date in short and in a concise manner, summarizing is done. This involves preparation of I) Trading Account II) Profit and loss Account III) Balance sheet.
- e) **Communicating:** Recording classifying and summarizing lose much of their importance if this processed information is not communicated to those have to make use of them i.e. managers, owners, creditors etc.

2.2.8 Accounting Principles (Concepts & Conventions)

Accounting has developed its own concepts and conventions. These concepts and conventions have been evolved after centuries of experimentation end use and have now become accepted principles AICPA has defined the term "Principles" as a guide to action a settled ground or basis of conduct for practice. Accounting principles can be classified into two categories.

- A. Accounting concepts
- B. Accounting Conventions.

2.2.8.1 Accounting Concepts

Accounting is based on certain assumption. This assumption use known as basic accounting concepts. Those basic accounting concepts are as follows.

- a) **Business entity concepts:** This concept states that the business and its owners are tow separate and distinct entities. According to this concept,

all transactions of the business have to be accounted for from the view point of the business and not from the view point of its owners. The distinction between the business and its owners is essential in order to ascertain the true picture of the business. If the two are not separated for all accounting purpose, the transaction of the business will be mixed up with the personal transactions of its owners and the true picture of the business can not be obtained.

- b) Going concern concept: This concept implies that a business has an indefinite life and it exists for a long period of time all business transactions are performed and recorded from this point of view the long term expenditures such as the purchase of land building and machinery that the business makes are recorded in books of account assuming that it will exist and run for a long period of time. Their costs and not the current resale values are recorded spreading over their estimated working lives.
- c) Matching Concept: This concept provides guidelines as to how the profit or loss of business should be determined. The concept, therefore, states that the revenue earned in a period has to be matched with the expenses incurred in the same period so as to find out the true profit or loss of the business. While matching the expenses with the revenue, the latter should be realized first and then only the expenses relating to the revenue should be recognized. An expense or revenue of the previous or the next year of this should not be matched with those of this year. If they are matched, the true profit or loss can not be ascertained.
- d) Cost Concept: This concept implies that the cost of anything such as service or on asset is recognized when it is incurred and not when cash is paid for it. According to the concept, the cost is assumed to be incurred when the service or the assets is used to generate revenue. Besides, the concept assumed that the asset is taken into account at the cost of its purchase and not its market value.
- e) Revenue Concept: This concept is also called realization concept. The concept states that revenue is assumed to be earned when it is realized.

According to the concept, revenue is realized and services are transferred to the buyers and services are provided to the clients for cash or for cash assets or in anticipation of realizing the value of sales on a future date.

- f) Money measurement concept: This concept assumed that only those business transactions which are measured and expressed in monetary terms have to be taken into account. It is also assumed because money provides a common measure for different goods, services, assets and liabilities. This concept also assumed that monetary units such as rupee are stable units in value, but this assumption may not be true in reality.
- g) Accounting period concept: The accounting period concept implies that for the purpose of reporting financial information, the whole life of the business is divided into imaginary time intervals. Each time interval is called an accounting period which is normally of one year. In Nepal, it begins on the first Shrawan every year and ends on the last day of Asad the next year.
- h) Accounting equation (Dual aspect concept): Dual concept may be stated as "for every debit, there is a credit". Every transaction should have two side effect of same account. This concept has resulted in accounting equation, which states that of any point of time the assets of any entity must be equal (in monetary term) to the total of owner's equity and outside's liabilities. This may be expressed in the form of equation. [Fred, H, stare,1958, page 20]

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

Resources		obligations
Property rights		Creditors
Of an entity	=	Claims against + Expected to produce assets
Net equity		
+ Resources less		
- Obligations owners		
Claims against assets		
Future benefits		

2.2.8.2 Accounting Conventions

The term convention means "established usage". Conventions are based on practicability and usage. For example, the relationship of 12 units forming a dozen is a convention. Conventions are categorized as follow:

- a. Relevance
- b. Objectivity
- c. Feasibility

a. Relevance

A principle is relevant to the extent that it results in information that is useful to those who want to know something about a certain business. [Jain & Narang, page 111/112]. The convention of relevance emphasizes the fact that accounting should make only such information as is relevant and useful for achieving its objectives. For example, business is interested in knowing as to what has been labour cost? It is not interested in knowing how much employees spend and what they save. [Juneja, Chawla, Saxena, 1991, page 20]

b. Objectivity

A principle is objective to the extend that the accounting information is not influenced by the personal bias of those who furnish the information should be measured and expressed by the standard which are comely acceptable. [Juneja, Chawla, Saxena, 1991, page 20] For example, assets should be recorded on its cost price not other prices.

c. Feasibility

The last convention, relating to feasibility, applied to the time, labour and cost of generation accounting data and its accuracy in relation to probable use and resulting benefits.

2.2.9 Accrual Accounting and Cash Basis Accounting

2.2.9.1 Accrual Accounting

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

2.2.9.2 Revenue Recognition Principle

How do we assign revenues to particular periods? First how do we determine when revenues have actually been earned? The revenue recognition principle states that revenues are recorded when two main criteria have been met.

- i. The earning process is substantially complete, which generally means that a sales has been made or services have been performed.
- ii. An exchange has taken place.

2.2.9.3 The Matching Principle

Once a company determines which revenues should be recognized during a period, how does it identify the expenses incurred? The matching principle requires that all expenses incurred to generate the revenues recognized in an accounting period be matched with those revenues. The cost of the merchandise sold, for example, should be matched to the revenue derived from the sale of that merchandise during the period. Expenses that cannot be matched with revenue are assigned to the accounting period in which they are incurred. Recognized revenues- matched expenses = net income for the period

Accrual basis accounting is the foundation of accounting for most business to day.

2.2.10 Cash Basis Accounting

Some small business record transactions and recognize revenues and expenses only when cash is received or paid. With the cash approach, income is what is left when cash disbursement of a period are subtracted form cash receipts during that period. Cash basis accounting is a system of accounting in which the transactions are recorded and revenues and expenses are recognized only when cash is received or paid.

This system doesn't make a complete record of financial transactions of a trading period, as it does not record outstanding transactions like outstanding expenses and outstanding incomes. The system being used on a record actual cash receipts and actual cash payments will not be able to disclose correct profit or loss for a particular period and will not exhibit true financial position of the business on a particular day.

2.2.11 Responsibility of Accountant in Modern Times in Small Business

Traditionally, the accountants were expected to compile and present the financial information to the owners of the entity at the end of the accounting and financial management the responsibility and field of accountant's functions have grown enormously. The function of accounting beyond the traditionally accepted double entry routines can be grouped under.

- a) Financial Function
- b) Central Function
- c) Planning Function

a) Financial Function

Every business faces the problem of raising and using the funds. The responsibility of accountant of small business under finance function is to ensure that.

- i) Funds are obtained at the lowest cost and
- ii) Funds are optionally used i.e. highest return is obtained

The accountant while discharging finance function faces the following types of problems.

- What type of expenditure firm should commit?

- Amount of funds committed by the firm on various projects?
- What source should be used to raise the funds for a particular project?
- Ways and means of getting maximize benefit out of the use of funds?
- Method and time of repayment of funds borrowed?

Of course, the decision on the above-mentioned problems is taken in the light of management policy and objectives on the enterprise.

b) Control Function

Accountant of small business has to do the following to discharge his responsibility of being the controller.

- To communicate the goals as approved by the management to individuals in their respective fields.
- To make all the managers and various others persons leading their units, aware of their responsibility and asset them in achieving their goals as efficiently as possible.
- Look after the co-ordination of various activities of all the organizational units so as to optimize results.
- Evaluate the performance and the degree of achievement of various responsibility centers as compared to the goals set for them and assess their efficiently.
- Identify areas of unsatisfactory performance and asset in the formulation of corrective measures at both ends.

c) Planning Function

The process of planning involves long term decisions as well as short-term decision has to be taken regarding.

- Selections of one alternative out of many e.g. make or buy decision, drop of continue decision etc.
- Profit maximization or loss minimization.

For problems involved in planning function, accountant has to depend not only on accounting information but also outside information. As regards

long term planning, the task is to plan for continuity and development of the firm

2.2.12 Accounting for Information

Accounting is a system of generating and communicating financial information to tabulate the results of operations of enterprises. Both inside and outside the enterprise may need the information. External inducer refers to persons outside the management of the enterprise such as creditors, shareholders, government, bankers etc. internal inducers include the management personnel working within the enterprise. A small business is generally carried on by the sole trader or by the partners. But an incorporated company, which separates management from ownership, usually conducts a large business. Management needs accounting information in:

- Selecting out of alternative proposals.
- Controlling acquisition and maintenance of inventories (Stock), cash receipts and payments.
- Planning or budgeting for the future.
- Appraising the performance
- Dividing remedial measurement for the deviations of the actual results from the budgeted targets.

2.2.12.1 Accounting Information in Decision Making for Typical Business

The manager of a company usually will develop a business plan for operating the business. As the business operates, resources flow in from the sale of goods and services and flow out for expenses. On an accounting basis, the managers need information about sources and amounts of funds, revenues (products and services sold), expenses, the amounts invested in equipment and inventory, the cash position, the amount spent for research and development and amount of money used in the sales efforts.

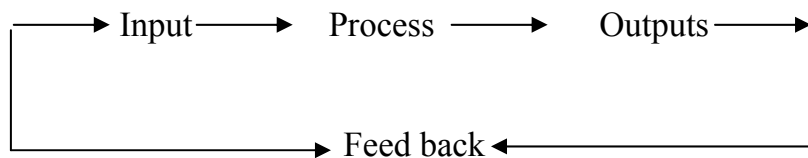
The manager needs such information for two reasons: first, accounting information will help the manager make sound decisions that can improve the effectiveness and efficiency of the business. Second, accounting information

reports what the score was during the immediate past periods. This score keeping is important to the evaluation and control of performance.

2.2.12.2 Accounting Information System in Small Business

The term system refers to "an assembly of methods; procedures of techniques that are united by regulated interaction to form an organized whole." In fact, system means a collection of things interacting and inter-dependent to form a complex whole.

Figure No. 2.2
Internal environment



Sources: Management for Small Business, Agrawal, Govinda

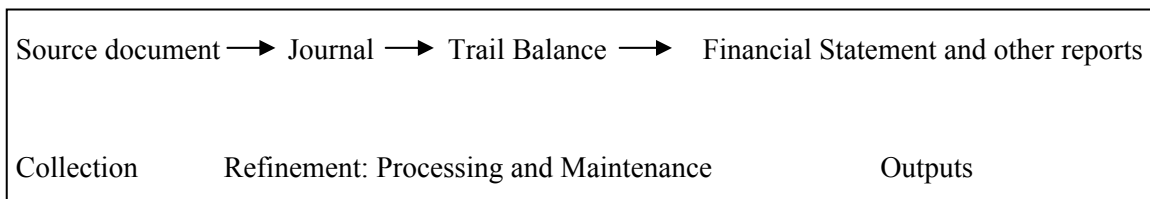
A system receives inputs as men, materials, money and machines and so on. Processes them, and generates such outputs as finished products or services. The system model of an entity is drawn in the above figure.

Accounting informs system is an invaluable asset of the small business. No organization runs with an accounting information system of its own. The importance of accurate, reliable and timely data and information is requested for performing management functions while planning, controlling and decision making. Traditionally, accounting system was concerned with only financial accounting, i.e. the area of accounting concerned with periodically measuring and reporting on the financial status and operating results of organizations to interested external parties. This obligatory function of accounting system was useful to record the transactions, maintain ledgers, prepare financial statements and report to the interested external parties. Besides, the traditional accounting systems were of little use for the management while planning, controlling and making decisions. For this purpose, management accounting system is developed. In another words management accounting system is a "resource of management

that supplies financial information at all levels to be used in planning and administrating the business.

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

Figure No. 2.3
Data Processing Cycle in Accounting



Source: Accounting information system and business organizations, Barry E. Cushing, 3rd Edition, 1982 Wesley Publishing Co. Inc. USA.

Accounting information system does two tasks plan, co-ordinate and controls various activities of organization supply information to the required parties.

2.2.13 Book Keeping and Accounting

The terms book-keeping and accounting are used sometimes synonymously but they are substantially different in nature. Booking keeping refers to the recording of the economic events. It is a process of recording accounting information's. It is apart of accounting. It is a part of accounting. It is the preliminary stage of accounting. It is an activity complementary to the accounting process, which is concerned with the recording financial data relating to business operations in a significant and orderly manner. However, accounting is much more extensive in its scope. It does the designing of system for classifying and summarizing recorded data and interpreting them for internal and external end- users.

2.2.13.1 System of Accounting

There are two system of accounting in use. They are:

- (A) Single entry system
- (B) Double entry system

(A) Single Entry System.

Under the single entry system of book keeping only one aspect of every transaction is recorded in the book of account. This system is usually adopted by firms having few transaction and professional man. In this system the main records kept are those of cash and personal accounts. Sometimes subsidiary books may be maintained under this system but posting is made only those entries, which effect personal accounts.

Single entry system of book-keeping is not any particular system of accounting. "Single entry cannot be termed as system as it is not based on any scientific system like double entry system. It is incomplete and disjointed form of accounting system." [R.N. etal, Accounting Principle, 2000, p-24] But Kohlar has defined it as a system of incomplete recording. "Single entry system is a system of book keeping in which only records of cash and personal accounts are maintained, it is always incomplete double entry system, varying with circumstances. The degree of incompleteness of record varies from business to business according its nature and complexity."

Single entry system can be classified into two heading:

- a) Pure single entry
- b) Single entry in the popular sense

a) Pure single entry

Under this type of single entry, the dual aspect of each transaction is ignored. Only the personal accounts of the debtors and creditors are kept, all real and nominal accounts are not maintained.

b) Single entry in a popular sense

Single entry in a popular sense or quasi single entry is term covering numerous system of book keeping which through differing one from the others in detail. It is also known as incomplete of double entry system. Under this system some subsidiary books are maintained but only those entries are posted which effect personal accounts.

Single entry in a popular sense may consist of:

1. Double entry for certain transactions such as cash received from debtors or cash paid to creditors.
2. Single entry in respect of some transactions such as purchase of fixed assets. Payment of expenses etc.
3. No entry in respects of some transactions such as bad debts, depreciation, loss of stock by fire etc..

2.2.13.2 Asserting Profit under the Single Entry System

It is not possible to prepare profit & loss accounts this system. So the exact profit or loss for a particular period cannot be ascertained. But some procedure can be followed to ascertain the profit loss made by the firm. When the single entry system is in use the profit & loss for the period can be ascertained by comparing the capital at the end of the period with that at the beginning, adjusting of the effect of withdrawals or introduction of capital during period. If the closing capital exceeds the opening capital, such exceeds the closing capital, such excess is considered to be a loss for the period. Generally, capital is considered as the excess of assets over liabilities.

Profit or loss can be ascertained by following two methods if single entry is followed:

- (a) Statement of affairs
- (b) Conversion method

(A) Ascertainment of Profit or Loss by Statement of Affairs

Statement of affairs is a summarized statement of financial position, i.e., a statement of assets and liabilities at a particular date of business. It is prepared to show the financial position of a business under single entry system of book keeping. It is very much like a balance sheet. The right hand side of statement of affairs is for assets and left hand side for liabilities. It is prepared with such information as is available from the accounting records maintained under single entry system.

Table No. 2.1

Ruling of statement of affairs:

Statement of affairs

Liabilities	Amount	Assets	Amount
• Bills payable	***	• Cash	***
• Sundry creditors	***	• Bank	***
• Loan	***	• Bills receivable	***
• Bank overdraft	***	• Furniture	***
• Outstanding expenses	***	• Machinery	***
• Advance income	***	• Delivery van	***
• Other liabilities	***	• Advance expenses	***
• Capital(Bal. Figure)	***	• Outstanding income	***

Sources: "Principle of Accounting" Koirala & Acharya

To ascertain profit or loss, statement of profit and loss should be prepared.

Table No. 2.2

Statement of Profit & Loss Account

Particulars	Amount
• Closing capital	****
Add: Drawing during the year	****
Less: Capital introduced during the year	(****)
Less: Opening capital	(****)
• Net profit or (loss)	****

Sources: "Principle of Accounting" Koirala & Acharya

(B) Ascertainment of profit or loss by conversion method

Under single entry system adequate accounting information is not available. Profit ascertained disclosed by the system might not be real one as much not gladly accepted by tax authority. So sometimes a trader may adopt the double entry system by giving up the single entry system. For this, single entry system must be converted into double entry system

The conversion of double entry system into double entry system may be done in the following two ways:

- a) Conversion from certain date
- b) Conversion of the whole set of books

a) Conversion from certain date

For converting the books maintained on single system into double entry system on a given date the following steps are followed:

- 1) Preparation of statement of affairs on the date on which conversion is to be done.
- 2) Pass the opening journal entry for the items of statement of affairs debiting all assets accounts and crediting all liabilities accounts and capital accounts.
- 3) Post the opening entry into ledger, except debtors' creditors and any others accounts as already appear in ledger.
- 4) Then prepare others subsidiary books.

These processes completed the double entry in the ledger on the given date.

b) Conversion of whole set of books

The following procedures may be followed for conversion of the whole set of books.

- Preparation of opening statement of affairs.
- Prepare opening entry in the journal and post into ledger all the assets and liabilities except those as already appear in the ledger.
- Post the total subsidiary books in the respective ledger.
- Prepare cash account for finding out the missing figures of cash or bank balance in the beginning or at the end. Then cash book should be prepared by showing:

Table No. 2.3

Cash Book

On the debit side	On the credit side
<ul style="list-style-type: none">• Cash collection from debtors• Cash sales• Income from investment• Sales proceeds of assets	<ul style="list-style-type: none">• Total payment to creditors• Wage, salaries and others expenses paid• Payment for purchase of assets• Drawing by the proprietor

Sources: "Principle of Accounting" Koirala , Acharya & et, al

- Posting should be made to respective accounts from debit side and credit side of the cashbook.
- If no records are kept in respect of certain transactions, recording and posting should be made for such transactions.
- Balance of the accounts and prepare the trial balance in the usual manner.
- From the trail balance and allied information, prepare Trading, profit & loss accounts and balance sheet.

These above steps complete the conversion of whole set of books.

2.2.13.3 Single Entry Book Keeping Practices in Small Business

Many small business, however not always use the complete book-keeping cycle and use a single entry book- keeping system instead of the double entry system of journals and ledgers. They mean they don't record the income until the actual cash pay out.

Many small business firms prefer less detailed records, though less accurate to save the expenses if a double entry system.

Although single entry system are recording timely but its records may be inaccurate and do not contain the necessary information's to prepare balance sheet.

Single entry system generally uses a daily and monthly summary book.

a) Daily Summary Book

The daily summary book takes the place of cash receipts and cash payments journals. Daily cash report provides cash information's for the summary book.

Even in small business that uses a cash register for payments etc. are paid by cheque. For this reason, the daily summary book provides a cheque number column.

Others payments records other items paid by cheque. At the end of the month all are totaled.

b) Monthly Summary Book

The totals for the month are transferred from the daily summary book to a monthly summary book. Notice that in the monthly summary book it is not necessary to provide a cheque number column. Otherwise the columns are same.

At the end of the year, information is available as to the total amount paid out for each cost expenses items as well as the total amount received from sales, if any return on purchase or sales, it is shown in bracket in the particulars columns.

2.2.14 Double Entry System

In 1494, a Franciscan Monk, Lucas Pacioli, described a method of arranging accounts in such a way that the dual aspect would be expressed by a debit amount and equal credit amount. This concept in modern accounting is called double entry system.

The double entry concepts arise from the fact that, there can not be a transaction unless there are two parties to it. Every transaction resulting in transfer of money goods or service must imply existence of at list two parties. One is the receiver, another giver. The set of records based on this duality is known as double entry system of book keeping.

In business, the resources owned (assets) and claims of owner (capital) and claims of outsider (liabilities) against these assets should always be equal. This can be translating in the form of an accounting equation.

Figure No. 2.4
Accounting Equation

What I own	=	what I owe	+	My capital
Or Assets	=	Liability	+	Capital
Or A	=	L	+	C
Or A	=	L	+	C+ Income
Or A	=	L	+	C + (Revenue-expenses)-Drawings
Or A → E+D	=	L	+	C+R

Sources: Management for Small Business, Agrawal, Govinda

When transaction takes place, it may change the total of assets and liabilities but their relative position shall remain unchanged. This means, any increase or decrease in total assets must simulate outlay produce a corresponding increase or decrease in the total liabilities and capital. This is how a double entry system work

2.2.14.1 Rules for Debit & Credit

The rules of debit and credit can be understood by either using the accounting equations as basis or types of accounts as the basic.

Rules for debit & Credit on the basis of the accounting equation.

The rules can be translated in the form of an accounting equation.

$$\text{Assets} + \text{Expenses} + \text{Drawing} = \text{Liability} + \text{Capital} + \text{Revenue}$$

Rules for debit and credit for Assets and Expenses

The proprietor become liable for cost of running the business and buying assets thereby, capital being reduced. In this way increase in assets and expenses will be debited and decrease in assets and expenses will increase the proprietors capital and thus credited

Dr.	Assets Account	Cr.
(+) Increase	(-) Decrease	

Dr.	Expense Account	Cr.
(+) Increase	(-) Decrease	

Rules of Debit and Credit for Capital, Revenue and Liabilities

An increase in liability will increase proprietor's claim against the business because the amount borrowed has been received on behalf of the proprietor. In the same way increase in capital and revenue will also increase the proprietor's claim against the business. The decrease in liability, Capital and revenue would decrease the proprietor's claim. Therefore, any increase in liability capital and revenue should be credited. The decrease in them should be debited.

Dr.	Liability Account	Cr.
(+) Decrease	(+) Increase	

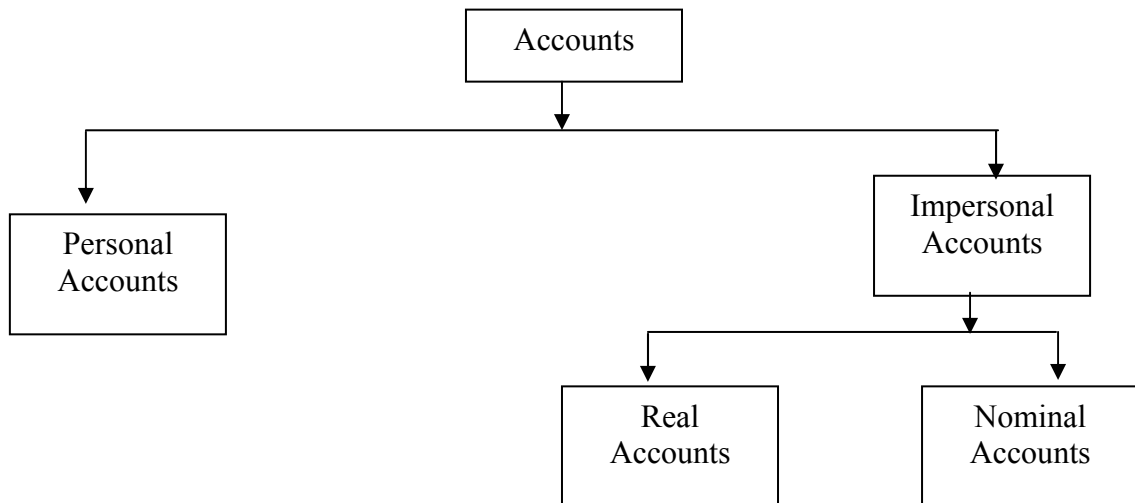
Dr.	Capital Account	Cr.
(-) Decrease	(+) Increase	

Dr.	Revenue Account	Cr.
(-) Decrease	(+) Increase	

2.2.14.2 Rules for Debit and Credit on the Basis of the Account

Rules of debit and credit were conventionally explained using type of accounts as the basis. In this method, accounts are classified as personal and impersonal accounts.

Figure No. 2.5
Types of Account



Sources: "Elementary Accounting" Shrestha, Ram Prasad

Personal Account

Accounts involving, both natural and artificial person called personal accounts. Natural person represents human beings. Artificial person represents the firms, companies, institutions etc. i.e. Ram & Co., Shrestha furniture, Rita A/C personal accounts either receive or give some thing to the business, that is why the rules also identify the debit or credit on the basis of receiver and given. The rules is

Debit - the receiver

Credit- the giver

Impersonal Accounts

Accounts which do not involve persons are impersonal accounts. There may relate to assets, expenses, income, revenue, loss or gains. Impersonal accounts are classified as real and normal account.

Rules of debit and credit for real accounts

Real accounts being concerned with property they either come on or go out of the business as a result of transactions or events taking place in the business. Hence the rules is debit what comes in and credit what goes out

Debit - What comes in?

Credit - What goes out?

Rules of debit and credit for Nominal Accounts

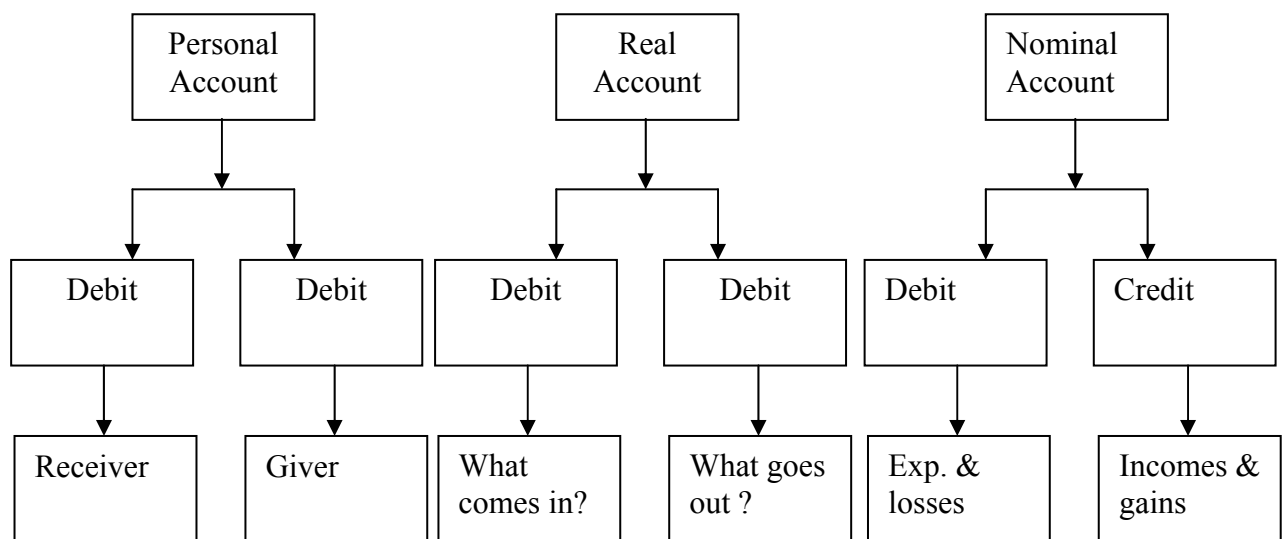
All accounts relating to expenses or losses and income or gains are normal accounting. e.g. Rent Account. Salaries A/C, Commission received A/C, Discount Allowed a/c etc. All expenses or losses are debited and income revenues or gains are credited.

Debit = All Expenses/Losses

Credit = All incomes and gains

The Rule of debit and credit are known in the following chart.

Figure No. 2.6
Rule of Debit and Credit



Sources: "Elementary Accounting" Shrestha, Ram Prasad

2.2.15 Journal

The literal meaning of the journal is record of day to day financial transactions. Formally, however, it may be defined as a book of original entry or be defined as a book in which the financial transactions of the business are systematically

recorded in order of their occurrence. The following definitions are important to consider.

"The journal or daily record as originally used was a book of prime entry in which transactions were copied in order of date from a memorandum or waste book. The entries as they were copied were classified into debits and credits, so as to facilitate their being correctly posted after words in the ledger." [R.N. etal, 2000, p-43]

"A journal is a book, employed to classify or short out transactions in a form convenient for their subsequent entry in the ledger." [Freeman etal, 1958, p-59]

It is clear from the above definition that the journal is a book of prime or original entry in which all financial transactions of a business are systematically recorded according to their date of occurrence and is maintained with a view to help prepare the subsequent ledger book.

A) Ruling of Journal

The format of general journal is important for recording the transaction following the rules for debit and credit. The specimen of the journal is as shown below

Table No. 2.4

Journal entries in book of.....

Date (1)	Particular (2)	L.F. (3)	Debit Rs. (4)	Credit (5)

Sources: "Principle of Accounting" Koirala, Acharya & etal

7) Treatment of bad debts (Debtors becoming insolvent)

Bad Debts A/C Dr.

To person's A/C

(Being bad debts written off)

8) Treatment of bad debt recovered

Cash A/C Dr.

To Bad Debt Recovered A/C

(Being bad debt recovered)

9) Treatment of drawing (Personal expenses of the owners)

Owner's drawing A/C Dr.

To Cash A/C

(Being drawing.....)

10) Treatment of exchange of new asset with old one plus cash payment.

Assets A/C Dr. (Diff. amount i.e. New-Old)

To Cash A/C

(Being new assets exchanged with old one and paid cash for excess)

11) Treatment of depreciation charge on fixed assets

Depreciation A/C Dr.

To Assets A/C

(Being depreciation charged on assets)

12) Treatment of payment or receipt of representative personal accounts

a) Expenditure incurred but remained unpaid which is known as
outstanding expenditure:

Expenses A/C Dr.

To Outstanding expenses A/C

(Being expenses e.g. salary outstanding)

when payment made

Outstanding expenses A/C Dr.

To Cash A/C

(Being outstanding expenses e.g. salary paid)

b) When income accrued due but not received it is known as "Income accrued due"

Income accrued due A/C Dr.

To income (e.g. dividend) A/C

(Being dividend accrued but not received)

When received income

Cash A/C Dr.

To income accrued due A/C

(Being income e.g. dividend received for.....)

C) Rule for Passing Opening Entry

In the case of continuing business we are required to pass an entry in the journal for bringing the new books all assets and liabilities as appearing in the books on the last day of previous year. This entry is known as opening entry. Rules of opening entry.

- Debit- each assets accounts
- Credit - each liabilities accounts

Excess of debit over credit represent capital balance

2.2.16 Ledger

The final destination of all entries made in journal is the ledger as they are all subsequently transferred to it. The ledger is the most important book under the double entry system. It is permanent book of record, which contains all accounts

relating to financial transactions of a business. Therefore it is also called the book of accounts. An account contained in the ledger book is called ledger account. It provides the financial information such as how much a particular person owes to or from the business, what is the value of particular assets the business process at a point in time, or what is the amount of a particular head of expenses or income the business has incurred or earned during a particular period.

A) Format of Ledger Account

The ledger account is ruled either 'T' shape or in running Shape. Running shape account shows the balance after each posting. As such it is also called balance shape.

Ruling of 'T' Shape account format

Table No. 2.6

**In the book of.....
..... Ledger Account**

Dr.				Cr.			
Date (1)	Particular (2)	L.F (3)	Amount (4)	Date (5)	Particular (6)	L.F (7)	Amount (8)
	To.....				By.....		
	To.....				By.....		
	To.....				By.....		

Sources: "Principle of Accounting" Koirala, Acharya & et,al

Ledger accounts contain the following information's.

- i) Date column the date of transaction is recorded.
- ii) In particular Column, particular relating to the transaction are written.
- iii) In L.F. Column, a reference is made to page number of book of originate entries.

- iv) In debit column, the debit amount of the account being debited
- v) In credit column, the credit amount of the amount being credited.
- vi) The Dr/Cr. Column shows the debit or credit balance of amount.
- vii) In balance column the balance column shows the balance of the amount.

B) Posting journal entries to the ledger account.

Posting is the process of recording financial transaction in the concerned accounts contained in the ledger book. Posting is completed only when the two aspects of all the financial transactions of a business that took place during a particular period are recorded in the ledger accounts. While pasting in the ledger accounts the following steps are taken.

- a) Open the page on which the concerned account is located with help of an index in the ledger book.
- b) Enter the date of the transaction in the date column on the concerned side of the account.
- c) Record the concerned reference account. In the particular column of the concerned side with appropriate word to or by.
- d) Enter the page number either journal or subsidiary book in folio column of the concerned side where the particular entry or account is located.
- e) Write the relevant amount in the 'Amount' column on the concerned side.

C) Balancing and closing the accounts.

The ledger account are balance and closed after all transactions occurred during a period have been posted there in. Generally, the accounts are balanced and closed at the end of an accounting period. The purpose of balancing & ledger account is to determine the net effect or position of the concerned account at a certain time. The balance of an account is the difference between the total of debit items and credit items appearing in the account. The following steps are taken while balancing / Closing a ledger account.

- a) Prepare all required accounts in the ledger book.
- b) Post all journal entries / transactions in the concerned accounts.
- c) Total the two side to the accounts separately by nothing the difference

- d) Put the difference on the shorter/difficult side of the account to make the two sides equal.
- e) Against the difference, write the words, to balance C/c on debit side or By balance c/d on credit side. Whatever is the case in the particular column of the concerned account? The balance used to close the account is called the closing balance.
- f) Write the totals in two amount columns opposite each other and draw two parallel lines below the amounts.
- g) Bring down the amount of balance on the opposite side to the account for the next accounting period. Against the amount write the words to balance b/d on debit side or by balance b/d on credit side, whatever is the case in the particulars column of the concerned amount.

2.2.17 Subsidiary Books

Subsidiary books are a part of journal created for recording specific transactions of the business, e.g. purchase book, sales book, cash book, bill receivable and bill payable books etc. These books are maintained with a view to avoid the disadvantage of journal as mentioned above. As it is more practical, convenient and can provide information easily and readily to system is also called 'practical system of accounting'.

In fact how many subsidiary books are to be maintained in a business organization is not certain. A concern may follow any number of subsidiary books as per its needs. The subsidiary books, which a business house usually maintains at personal, are.

1. Purchase Book
2. Purchase Return Book
3. Sales Book
4. Sales Return Book
5. Cash Book
6. Bills Receivable Book
7. Bills Payable Book
8. Journal Proper

2.2.17.1 Purchase Book

Purchase Book is the book, which records the credit purchase of goods. It is also known by different other names like Bought Book, Invoice Book, Purchase Day book, Purchase Journal etc. These book records i) Only those goods, which are purchased on credit and ii) purchase of only those goods which are meant either for manufacturing or for re-sale. This clearly states that this book does not record cash the purchase to goods nor does it record the purchase of assets like furniture, machinery, building etc.

Table No.2.7

Format of Purchase Book

In the books of :

Date	Particular	Invoice No.	Ledger Folio	Amount	
				Details	Total

Sources: "Principle of Accounting" Koirala, Acharya & etal

Purchase book contain the following information.

- 1) Date column records the date of goods purchased.
- 2) Particular column records the name and address of supplies of name and address of supplies of goods, description of goods such of type quality, rate and trade discount (if any)
- 3) Invoice No. Column shows the number of invoice send by the supplier.
- 4) Ledger folio column the page number of ledger book is recorded when the account of the supplier is located.
- 5) Amount column to divide into details and total, sub columns. The details sub column is used to record the detail of amounts with addition and subtractions. The total sub column shows the total amount of a purchase transaction.

2.2.17.2 Invoice

When goods are purchased on credit a statement giving details of goods purchased is received from the supplier. The statement is known as an invoice. The invoice shows the details of the name and address of the supplier and buyer, quality of goods, rate per unit, percent of trade discount, cash discount, credit term, expenses incurred on dispatch of good and means and modes of payment

Table No.2.8
Specimen of Invoice

PUJA ACADEMIC ENTERPRISES PVT. LTD	
Main Road-2, Narayangarh	
Telephone no. 520157, Fax 977-056-521602	
Email : puja@wlink.com.np	
INVOICE	
Invoice No.....	Date:
Order No.	
To,	
Adhikari Pustak Bhandar	
Traffic Chowk, Biratnagar	
Order Terms: 20% cash discount if paid within 30 days, credit period 45 days	

Sources: "Principle of Accounting" Koirala, Acharya & etal

Preparation of the Purchase Book

In this book, purchase returns of merchandise purchased on credit are recorded. Sometimes, goods purchased are returned to the supplier for various reasons, such as:

- Goods are not of required quality, or
- Goods are of defective or damaged, or unsatisfactory etc.

Debit Note

When goods are so returned to the suppliers, the transaction is called return outward or purchase return. For every return, a debit note is prepared in duplicate and the original one is sent to the supplier for making required entries in its book. The debit note contains the name and address of the suppliers, the detailed description of goods returned and reason for return. A specimen of debit note is given below.

Table No. 2.9

Debit Note

T.A.: Trade Temple 111377 Telephone: 241124 Harirampur			No. Mail Road,
From : Ramsager Trading Co.; Harirampur To : Prem Trading Co. Balarampur			
We are debiting your account with the value of under mentioned materials returned to you for the season stated below. Meanwhile we await your instructions.			
Description	Specification	Price	Amount
Ten Umbrella	1'3" folding	102	1020
Reason: Defective materials and discolored			
Ref: No. 5460			Invoice Signature

Sources: "Principle of Accounting" Koirala, Acharya & etal

Debit Note is a source document for recording entries in the purchase return book. Each debit note is serially numbered and dated.

The format of purchase return book is given below which is similar to that of the purchase book.

Table No. 2.10

Purchase Return/Return Outward Book

Date	Particulars	L.F.	Amount (Rs.)

Sources: "Principle of Accounting" Koirala, Acharya & etal

While preparing purchase return journal, date of return of goods is entered in date column, and name and address of the supplier in first line and goods as per debit note no. in second line in particular column and amount of debit note in amount column.

Posting from purchase return book

The posting from the purchase returns journal required that the suppliers individual accounts are debited with the amount of returns and the purchases returns account is credited with the periodical totaled as is done in the case of posting from the sales journal.

Debit the personal account.

Credit the periodical total to returns outward or purchase returns account.

2.2.17.3 Sales Book

Neither sales journal nor sales book is used for recording only one type of transactions-sales of merchandise/goods on account or on credit. That is, all credit sales of merchandise are recorded in the sales journal.

Cash sales are recorded in Cash Book or cash receipt journal. The source of documents for recording entries in the sales journal are sales or outgoing invoices or bill issued by the firm to the customers.

Format of the sales journal is similar to that of purchases book, which may be shown below:

Table No. 2.11

Sales Book

Date	Particular	L.F.	Amount

Sources: "ElementryAccounting" Shrestha, Ram Prasad.

Preparation of sales book

The entries in the sales book are made from the copies of the invoices, which have been sent to the customers along with the goods. Such copies of the invoices may be termed as outgoing or outward invoices. The detailed of invoice need not be recorded in this book. If more information about the transaction is desired it can be obtained by referring to the file copy of the sales invoice.

Debit the personal account of the customers with the value of sales to them.

Credit sales account with periodical total.

2.2.17.4 Sales Return Book

This journal is used to record sales return from customers of the goods sold to them on credit. When our customers return goods, the transaction is called return inward or sales return.

Credit Note

When customers are credited with the value of sales return goods in the book of account, customer is sent intimation to this effect. This is done through a statement called credit note. The credit note is also prepared in duplicate and contains details relating to the name of the customers, details of the merchandise received in the sales return book. The specimen of credit note is given below:

Table No.2.12

Credit note

T.A.: Shivson Telephone: 14220 Kathmandu 1990		No. 71217 Basantapur, August 11,
From: Basant Trader, Kathmandu To: Adarsha Trading concern, Bhairabpur		
We are crediting your account with the value of under mentioned materials received from you, for the reason stated in your debit note no. 17578		
Description	Specification	Price
Amount		
Leather shoes 10 Doz	Children size	120.00
1200.00		
Ref.		Signature

Sources: "Principle of Accounting" Koirala, Acharya & etal

The format of sales return book is given below which is similar to that of the purchase returns journal.

Table No. 2.13

Sales Return Book

Date	Particulars	L.F.	Amount

Sources: "Principle of Accounting" Koirala, Acharya & etal

While preparing the sales return book journal, date of credit note is entered in date column, and entered name and address of the customers in the first line and goods as per credit note no. in second line of the particular column and amount

of credit note in amount column. It should be noted that if any trade discount was allowed to customers, it should be shown deducting from the gross value of return.

Posting from the Sales Return Book

The posting from the sales return journal required that the customer's account be credited with the amount of returns and the sales returns account be debited with the periodical total in the same as is done in the case of posting from purchase journal.

Credit the personal account of the customer who returned goods.

Debit the periodical total to sales returns account.

2.2.17.5 Cash Book

Cash book is used to record all transactions relating to cash receipts and cash payment. This is very popular book and is maintained in all organizations because the largest number of transactions relate to cash and bank. It is so because every transaction must ultimately, relate in cash transactions. Cash book is not only dispensed cash received journal and cash payment journal but also ledger account for cash. As such, this book services the purpose of both journals as well as ledger account. That is the cash book is the only book, which serves the dual purpose of the journal as well as the ledger. So a narration should be given for entries in cash book. This book enables us to know the balance of cash in hand and at bank at any point of time.

Types of Cash Book

Cash Book can be different type. The type of cash Book to be used by any business firm will depend upon the nature and requirement. Generally, Cash Books are following types.

1. Single Column Cash Book:
 - Cash book & Bank book
2. Double column cash book

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

3. Triple Column cash book

- Cash book with cash, bank and discount column

4. Petty Cash book

- Analytical petty cash book
- Impress system petty cash book

1) Single Column Cash Book

The Cash Book, which contains only one column of amount, is called single column Cash Book. Receipts of cash and cheque will be entered on the debit side and payment of cash and endorsement of cheque received on the credit side of Cash Book. The issue of cheque is not required to enter in cash book containing cash column only. The format of single column cash book or simple cash book containing cash column only is given below:

Table No. 2.14
Single Column Cash Book

Dr				Cr.			
Date	Particulars	L.F	Amount (Rs)	Date	Particulars	L.F	Amount (Rs.)

Sources: "Principle of Accounting" Koirala, Acharya & etal

Entries in the Cash Book are made as in cash ledger account. That is, receipts of cash are entered on the debit side beginning by 'TO' on particular column and payment on credit side with 'by' alone with date of transaction and amount in amount column.

Balancing of Cash Book

The Cash Book is balanced and closed in the same manner as that of ledger account. But Cash Book must show debit balance, as more cash cannot be paid than cash receipts. So the debit or receipts side will always be bigger than credit or payment side. The difference will be written on credit side as 'by balance c/d'. After totaling on debit and credit side, the debit balance is brought down again on the debit side with 'To balance b/d' on particular column and amount on cash column. It shows the cash balance in hand in the beginning of the next period.

Simple Bank Book

Single column Cash Book with bank column only is termed simple Bank Book. Most organizations now a day maintain Bank Book instead of Cash Book for recording the cash transactions. Such organizations make cash transactions through bank only. Cash will be received through bank and payments through cheque i.e. through bank. The Bank Book also contain only one column for amount i.e. bank column. The recording process in Bank Book is same as that of in the bank account. But the Bank Book sometime may show credit balance if overdraft arrangement has already been made with the bank. The format of Bank Book through same as that of Cash Book is give below

Table No. 2.15

Simple Bank Book

Dr				Cr.			
Date	Particulars	L.F	Amount (Rs)	Date	Particulars	L.F	Amount (Rs.)

Sources: "Principle of Accounting" Koirala, Acharya & etal

Balancing of Bank Book

Generally, Bank Book also shows debit balance as that of the Cash Book. It means, debit total of Bank Book exceeds the credit total in the absence of

overdraft. But, if there is an overdraft arrangement with the banker, credit total of bank books may exceed the debit total. Overdraft is an arranged loan in which bank charges interest. If debit total of bank book is heavier to credit total, then difference will be written on credit side with the words 'by balance c/d' in particular column and amount in the bank column and vice versa.

2. Double Column Cash Book

Double Cash Books are the following three types:

- a) Cash book with Cash & Discount Column
- b) Cash book with Bank & Discount Column
- c) Cash book with Cash with Cash and Bank Column.

a) Cash Book with Cash & Discount Column

Cash Book may contain a column for discount. Cash discount arises at the time of cash receipt and cash payment. Cash discount refers to deduction in cash received and payments. It may be received and allowed. The suppliers of goods allow cash discount to the customers at the time of cash received from them and it is received at the time of cash payment to the suppliers. Provision of cash discount is made by the suppliers of goods for encouraging prompt payment from debtors. Discount allowed is an expense and so required to be debited and received in an income and so credited. It is closely related with cash received and cash payment. So it is convenient to add a column for 'discount' on each side of the Cash Book for recording discount expenses and income. The Cash Book containing discount column is termed as double column Cash Book and the format of which is given below.

Table No. 2.16
Cash Book with Cash & Discount Column

Dr					Cr.				
Date	Particulars	L.F	Cash (Rs.)	Discount (Rs)	Date	Particulars	L.F	Cash (Rs.)	Discount (Rs)

Sources: "Principle of Accounting" Koirala, Acharya & etal

Discount is allowed when cash is received from the debtors. And cash received and discount allowed is entered on debit side and cash payment and discount received on the credit side of the Cash Book. In gist, it will help the student to remember that whenever cash is debited, discount is also be debited and conversely, if cash is credited, discount is also credited.

Balancing of Cash Book with Cash & Discount Column

The Cash Book with cash & discount column contains cash account and discount account. Only the balance of cash will be determined in such type of Cash Book like in single column Cash Book. The balancing of the discount column is not required. Only the total discount column on both sides will be shown in Cash Book.

b) Cash Book with Bank & Discount Column

When cash transactions are made through bank, Cash Book with bank and discount column is maintained. In such case all cash receipts will be through bank and payments through cheque. The format of cash book with bank and discount column is given below:

Cash Book with Bank & Discount Column

Table No. 2.17
Cash Book with Bank & Discount Column

Dr					Cr.				
Date	Particulars	L.F	Bank (Rs.)	Discount (Rs)	Date	Particulars	L.F	Bank (Rs.)	Discount (Rs)

Sources: "Principle of Accounting" Koirala, Acharya & etal

When cash or cheque is received through bank from the customers, it is entered in the debit side of bank column of Cash Book. And similarly, when cheque is issued to the party, the bank column of cash book is credited. The discount column of debit side of the cash book represents discount allowed to the customers. The customers pay less than what is due from them. So it represents a loss sustained by the merchant or firm. The discount of the credit side represents discount allowed to the merchant by his creditors. And it represents gain.

Balancing the Cash Book with Bank & Discount Column

When the cash book is completed, the trader can find out the balance at bank. Calculating and recording the balance at bank is known as balancing the Cash Book. For calculating the balance at bank, the amount columns (bank column amount) on either side is totaled and find out the difference. Generally, the total of amount column on the debit side exceeds that of the credit side. The balance is placed on credit side with 'By balance c/d', then totaled equal and ruled off in one straight-line. Single lines are drawn above the total, whereas below then double are drawn. Some time, credit of bank column may exceed the debit total. In such case, difference amount will be short-term bank loan in the form of overdraft and balance will be credit one. And the balance is placed on debit side with 'To balance c/d'.

But the discount columns are not balanced. They are simply totaled. The discount column on the debit side represents discount allowed to the customers and a loss sustained by the firm. The discount column on the credit side represent discount received from the creditors and profit.

(c) Cash Book with Cash & Bank Column

Some firms may maintain Cash Book with cash and bank column ignoring discount column. Such Cash Book combined the cash account and bank account. And the procedure of recording in such Cash Book is the same as to recording in single column Cash Book and Bank Book. The format of the Cash Book with cash and bank column is shown below:

Table No. 2.18
Cash Book with Cash & Bank Column

Dr					Cr.				
Date	Particulars	L.F	Bank (Rs.)	Cash (Rs)	Date	Particulars	L.F	Bank (Rs.)	Cash (Rs)

Sources: "Principle of Accounting" Koirala, Acharya & et,al

Contra Entry

Cash received from the customers and drawn from bank are shown on the debit side of cash column and payment or deposit into the bank on credit side of cash column. Amount paid into the bank and withdrawn from bank for official use affect both side of the cash book. Such transaction effect debit side of the cash column and credit side of the bank column. If cash is deposited into bank, it affects credit side of Cash Book on cash column and debit side of the Cash Book on bank column. Likewise, if cash is withdrawn from bank for office use, then it affects debit side of Cash Book on cash column and credit side on bank column.

Such entries are called 'contra entries'. Contra entries are those entries, which affect the both side of the Cash Book, To distinguish contra entries from the rest of then tries the letter 'c' is written against in the L.F. column.

Treatment of Cheque Received

Often a cheque received from a customer is paid into bank on the same day or the next day. Hence it is entered on the debit side of Cash Book directly in the bank column.

Balancing the cash book with cash and bank column

Balancing of the Cash Book is done to find out the amount of cash remained in hand and at bank. For balancing the total of the cash and bank column on either side of cash book and find out the difference. And the amount of difference in cash column will be debit balance and recorded on credit side with 'by balance c/d' the difference in bank column sometimes will be credit balance and recorded on debit side with 'to balance c/d'.

3. Triple Column Cash Book

Cash Book with Cash, Bank and Discount Column

These days' bank transactions are more numerous than cash transactions. Bank transactions refer to payments into and out of bank. So most firm maintain cash book with cash, bank and discount column. The transactions relating to cash, bank and discount are interrelated. So it is convenient and appropriate to have triple column Cash Book, the format of which is given below.

Table No. 2.19
Triple Column Cash Book

Dr						Cr.					
Date	Particulars	L.F	Discount (Rs)	Bank (Rs.)	Cash (Rs)	Date	Particulars	L.F	Discount (Rs)	Bank (Rs.)	Cash (Rs)

Sources: "Principle of Accounting" Koirala, Acharya & et,al

Balancing the Triple Column Cash Book

The cash columns are balanced exactly in the same manner as explained in the single column Cash Book. Discount columns are totaled but not balanced. Bank columns are also balanced like cash columns. But if there is overdraft, the difference is written on the debit side as 'To balance c/d' instead of 'by balance c/d' on credit side for simple balance.

Steps in Balancing

- a) Total up the cash and bank column on both sides.
- b) Find out separately the difference between the totals of cash and bank columns on the two sides of Cash Book.
- c) Place the difference on the smaller sides and makes total equals on two sides of Cash Book.
- d) Total up the discount columns on the two sides.

4. Petty Cash Book

Every business has to make payments involving petty amounts. That is, a firm has to make a large number of small payments, like bus fare, cartage, postage, telegrams etc. such payments by their very nature cannot be made by cheques. Usually, the petty cashier makes these payments, which maintain a separate Cash Book to record such small payments only. Such Cash Book is known Petty Cash book. It is more efficient and convenient to pay such amounts out of readily accessible cash fund, often called a float.

For maintaining an efficient control an imprest system is established with the fund regularly reimbursed by way of a cheque.

The system works as follows:

- a) The custodian of the fund maintains control over the cash and recording.
- b) Petty Cash voucher need to be kept as evidence of the release of money.
- c) At any time the fund should hold the balance originally established in the form of either cash or Petty Cash vouchers.
- d) At regular intervals or as required, the cash is replenished by the drawing of a cheque.
- e) A petty cash book is needed to provide detailed break down of the purpose of payments.

Imprest System

The best system of petty cash is imprest system. Under imprest system, the expenses are reimbursed periodically. Under this system, the petty cashier is provided with a fixed amount of money known as imprest or floats which is sufficient to meet the needs of balancing periods. Balancing period may be a week or month. At the end of the balancing period, the petty cashier is given a cheque equal to the amount of payment made during the same period.

Analytical Petty Cash Book

Generally, petty cash book is maintained in analytical form, which helps to obtain the analysis of expenditure. Under analytical cash book, expenses are analyzed on the basis of nature and types. The credit side of petty cash book contains number of columns for different head of expenditure including column for total. The debit sides of petty cash book contains only one column for the cash received from the cashier. The ruling of the analytical petty cash book is shown below:

Table No. 2.20
Analytical Petty Cash Book

Cash Received	Date	Particulars	L.F	Total Payment	Postage & Telephone	Cartage & Carriage	Printing & Stationary	Advertisement	Traveling Expenses	Wages	Miscella neous

Sources: "Principle of Accounting" Koirala, Acharya & etal

The petty cash book is balanced periodically. The various expenses are debited and a petty cash account is credited. The petty cash account will then show the balance in the hands of the petty cashier.

2.2.18 Concept of Bank Reconciliation Statement

The difference between the Cash Book and the Pass Book balance need to be explained. For explaining the difference between the Cash Book and Pass Book balance, reconciliation statement is required to be prepared. And such reconciliation is called Bank Reconciliation. Bank reconciliation is a schedule explaining any difference between the balance shown in the Bank Pass Book and the balance shown in the Cash Book. A Bank Reconciliation Statement is periodically prepared to explain the reasons for the differences between balance shown by the Pass Book and that shown by the cash Book. It is an integral part of any process of control over cash system. This statement may disclose internal control failures, such as unauthorized cash disbursement of failures to deposit cash receipts, as well as errors in either the Bank Pass Book or the Cash Book.

2.2.18.1 Cause of difference between cash book and pass book balance

Certain transactions recorded in the cash book may not have been recorded in the pass book. In the same way, transactions recorded in the pass book may not have been recorded in the cash book. As such the balance shown by the cash

book and pass book differ. Following are the main causes that make difference in the pass book and cash book balance.

- a) Cheque issued but not cashed.
- b) Direct payments by the customers into Bank.
- c) Interest and dividend collected & credited by bank.
- d) Interest allowed by bank.
- e) Any others amount credited by the bank.
- f) Cheque paid into the bank but not cleared and credited.
- g) Bills discounted with bank but dishonored.
- h) Direct payment by the bank on standing instruction.
- i) Bank charges debited in the pass book.
- j) Interest on overdraft charged by the bank.
- k) Any others amount debited by the bank.

2.2.18.2 Procedure for bank reconciliation statement.

Following procedures should be followed in sequential order for finding out the cause of difference in the Cash Book and the Pass Book balance.

- a) Compare the debit side of the Pass Book against the credit side of the Cash Book and tick in both books those entries that appear in each.
- b) Compare the credit side of the Pass Book against the debit side of the Cash Book and tick in both books those entries that appear in each.
- c) Pick up the amount from the debit side of Pass Book of the untick entries.
- d) Pick of the amount of the untick entries from the credit side of the pass book.
- e) Pick up the amount of the untick entries from the debit side of Cash Book.
- f) Pick up the amount of the untick entries from the debit side of Pass Book.

The amount of the untick entries of the debit and credit side of both the Cash Book and the Pass Book caused he discrepancy between the balance of the two books. After picking the amount of the entries that are responsible for difference between the cash book balance and Pass Book balance, prepare the statement of Bank Reconciliation.

2.2.18.3 Preparation of Bank Reconciliation Statement.

After listing the unpick entries along with the amount, the bank reconciliation is prepared starting from either (a) balance as per Bank Pass Book, or (b) balance as per Cash Book.

Bank Reconciliation Statement is prepared to show the balance as per Cash Book starting from Pass Book Balance. It is also prepared to show balance as per Pass Book starting Cash Book balance.

Following items that cause difference in the balance will be added to and deducted from the Cash Book balance, if it is started from Cash Book balance.

Table No. 2.21
Reconciliation Statement of

As on

	Rs.	Rs.
Balance as per cash book		xxx
Add :		
a) Cheque issued but not cashed	xxx	
b) Direct payment made by customers into bank	xxx	
c) Interest and dividend collected & Credit by the bank.	xxx	
d) Interest allowed by the bank.	xxx	
e) Any other amount credited by the bank.	xxx	xxx
Less :		
f) Cheque paid into bank not cleared and credited	xxx	
g) Bills discounted with the bank but dishonored.	xxx	
h) Direct payment made by the bank on standing instruction.	xxx	
i) Bank charged debited in pass book	xxx	
j) Interest on overdraft charged by the bank	xxx	
k) Any other amount debit by the bank	xxx	xxx
Balance as per pass book		xxx

Sources: "Principle of Accounting" Koirala, Acharya & etal

Note: Treatment of the above items will be reversed if the starting point is as per pass book, i.e. items to be added will be deducted and vice versa; items to be deducted will be added.

2.2.19 Meaning and Concept of Depreciation

Almost all business owns some non-trading fixed or long lasting assets like land, building, machinery, furniture, vehicles etc. These fixed assets are generally used for facilitating activities of the business. Such non-trading fixed assets increase the revenue earning capacity of the business. These assets are basically purchased with the intention of permanent use and not for resale.

These assets are not of infinite durability. All fixed assets except land decline in value with passage of time and are reduced to scrap. That is, each year the intrinsic value of the assets declines. Such reduction in the value of asset each year is a loss/or expenses, which is technically termed as depreciation. Depreciation, therefore, means a fall in the value of assets because of afflux of time or physical wear and tear. In others words, the gradual reduction or loss in the value of an asset caused by its use for the purpose of earning revenue is called depreciation. It also means the allocation of cost of fixed assets over its economic useful life. Actually, the depreciation is the allocation of expired cost of fixed assets.

2.2.19.1 Accounting Treatment for Depreciation

The entire process begins with the purchase of fixed assets. Then following journal entries will be made for recording depreciation on assets:

(I) For purchase of fixed assets

Fixed assets a/c Dr.

To Cash a/c

(Being purchase of fixed assets)

(II) For providing depreciation at the end of the each year

Depreciation a/c Dr.

To assets a/c

(Being depreciation on assets @..... % p.a.)

- (III) For transferring depreciation to profit and loss account
Profit and Loss a/c Dr.
 To depreciation a/c
(Being transfer of deprecation to P/L a/c)

2.2.19.2 Method of Depreciation

There are various methods of providing depreciation of fixed assets and major of these are listed below:

- a) Fixed installment Method
- b) Reducing balance Method
- c) Annuity Method
- d) Depreciation Fund Method
- e) Insurance Policy Method
- f) Revaluation Method
- g) Machine Hour Rate Method
- h) Sum of the Year's digits Method.

a) Fixed Installment Method

This method is also referred as Equal installment Method, or Original Cost Method or Straight Line (SL) Method, or simple or historical Cost Method. Under this method of depreciation a fixed amount is deducted each year as depreciation. The amount is such that the assets are reduced to zero or equal to scrap value at the end of the estimated useful life. The amount of depreciation to be charged to asset at the end of each accounting year is determined with the help of following formula

$$\text{Year Depreciation} = \frac{\text{Original Cost of Assets} - \text{Scrap Value}}{\text{Estimated Working life of the Asset}}$$

Accounting Treatment

Depreciation is calculated and recorded on assets concerned at the end of each accounting year. The recording process begins from the purchase of asset.

Depreciation is an expense and as such it should be transferred to profit and loss account. So the accounting treatments of depreciation begin from purchase of asset and end with transfer to depreciation to profit and loss account shown as under:

When asset is purchased

Asset a/c Dr.
 To Bank a/c
(Being asset purchased on cash)

When depreciation is charged

Depreciation A/C Dr.
 To asset A/C
(Being depreciation charged on -----@ ---- for the year)

When transfer of depreciation

Profit and loss A/C Dr.
 To depreciation A/C
(Being Depreciation account transferred to Profit and loss a/c)

When asset sold on expiry of its useful life

Bank A/C Dr.
 To asset A/C
(Being scrap of asset sold)

If profit earned on sale of asset

Asset A/C
 To profit and Loss A/C
(Being profit on sales of scrap transferred to profit and loss A/C)

If profit on sales of asset

Profit and loss A/C
 To asset A/C
(Being loss on sale of scrap transferred to profit and loss A/C)

b) Reducing Balance Method

This method is also referred as the Diminishing Balance or Written down Value (WDV) method. Under this method rate or percentage of depreciation is fixed

but it is applied on the reducing balance of assets, i.e., cost less depreciation. That is, annual depreciation amount is determined as percentage of the brought down value of the asset for that year. As such the balance in the asset account will keep on reducing but will never become zero. That is, the value of asset can never reduce to zero. And what remains in the assets account at the end is taken as equal to scrap value.

c) Annuity Method

Under this method, interest on capital is also considered while ascertaining the amount of depreciation. It avoids the demerit of not considering interest on capital, which remains on two methods discussed earlier i.e. Straight line Method and Diminishing Balancing Method. On the assumptions that if the capital spent on purchase of assets, would have been invested in another field with the possibility of earning certain amount of interest. Thus, under this method ascertaining the amount of depreciation requires adding of interest on remaining value of asset. It continues till the value of asset will be zero or equal to scarp value. In this method, one side reduces the value of asset due to depreciation, and another side, increase the value of asset due to interest. In this method, depreciation amount remain constant each year but interest amount decrease gradually. This method is suitable for long-term lease.

d) Depreciation Fund Method

Assets cannot be used forever. Every asset has certain life. After using for certain time they became useless. In such situation, we have to replace them by new machine. For that purpose, large fund is needed, which may not be available in organization and have to face financial crisis. To save organization from such financial crisis a fund is established called depreciation fund.

Deducted amount from the value of asset as depreciation each year is collected in depreciation fund. Such fund is invested in such marketable securities, which can be converted into cash very soon and also earn interest. Interest and depreciation amount are reinvested continuously. The fund amount increasing

each year. Such process remains continuous till the expiry of assets. When asset expires, investments are sold and available fund is used to purchase new assets. This method also called sinking fund method or amortization fund system.

Accounting Treatment

When asset is purchased

Asset A/C Dr.
 To Bank
(Being asset purchased on cash)

When depreciation is charged

Profit and Loss A/C Dr.
 To depreciation fund A/C
(Being the amount of depreciation charged to profit and loss A/C)

While investing the money charged by way of depreciation

Depreciation fund investment A/C
 To bank A/C
(Being the amount of depreciation invested in securities)

For receipt of interest

Bank A/C Dr.
 To depreciation fund A/C
(Being the interest @ ----- on ----- securities for one year received)

For sales of securities or investment

Bank A/C Dr.
 To depreciation fund investment A/C
(Being the amount of realized on the sales of securities or investment)

If profit on sales of securities

Depreciation fund investment A/C Dr.
 To depreciation fund A/C
(Being the profit on sales transfer to depreciation fund account)

If loss on sale of securities

Depreciation fund A/C Dr.

To depreciation fund investment A/C

(Being loss on sales of investment transfer)

When assets transferred to depreciation fund A/C

Depreciation fund A/C Dr.

To asset A/C

(Being the transfer of old asset to depreciation fund A/C)

When scrap sold

Bank A/C Dr.

To asset A/C

(Being sales of scrap)

When balance of asset transfer to profit and loss account

Assets A/C Dr.

To profit and Loss A/C

(Being the balance of asset transferred to profit and loss A/C)

e) Insurance Policy Method

Under this method, the asset is insured with insurance company for the amount equal to the replacement cost or purchasing cost. Amount ascertained is annually paid to insurance company as insurance premium. In this method, the working life of the asset is estimated and then insurance policy is purchased for that estimated period. With expiry the insurance policy period, policy amount is taken from the insurance company and used to purchase new asset.

Accounting Treatment

When premium is paid

Depreciation fund policy A/C Dr.

To bank A/C

(Being policy taken for replacement)

When depreciation is charged

Profit and loss A/C Dr.

To Depreciation fund A/C

(Being depreciation charged on asset)

When policy money received

Bank A/C Dr.

To depreciation fund policy A/C

(Being policy money received on maturity)

When transfer the depreciation fund policy

Depreciation fund policy A/C Dr.

To depreciation fund A/C

(Being the transfer of policy account to depreciation fund account)

When asset is retired

Depreciation fund A/C Dr.

To assets A/C

(Being asset is retired)

When scrap is sold

Bank A/C Dr.

To Asset A/C

(Being scrap of the asset sold)

f) Annual Valuation Method

Under this method, assets are revaluated every year for determination of depreciation amount. If there is increase or no change in the value of assets, no depreciation charged for that year. Similarly, if decrease difference amount is taken as depreciation for that year.

g) Machine Hour Rate Method

This method is used especially for determination of depreciation of machine, life of which is measured on the basis of working hours instead of years, under this

method, for ascertaining the depreciation amount each year, the following procedure is followed:

- a) Determine the life of machine in hours.
- b) Divide the cost of machine by total working hours and determine the depreciation amount per hour.
- c) Multiplying the annual working hours by depreciation amount per hour and ascertain the annual depreciation amount.

Formula may be:

$$\text{Depreciation per hour} = \frac{\text{Cost of Machine} - \text{Scrap Value}}{\text{Life of machine in hour}}$$

h) Sum of year digits method

Under this method, the following procedure is followed to determine the amount of annual depreciation:

- a) Determine the life and scrap value of asset
- b) Reduce the estimated scrap value from the cost of asset.
- c) Write the estimated life's digits (i.e. 1, 2,3,4,5 etc.) and add all.
- d) Develop ratio of each digit to sum of all digits to sum of all digits from opposite sequence.
- e) Determine depreciation amount per year from that ratio by multiplying depreciable amount.

2.2.20 Trial Balance

Trial Balance is a statement in which the debit and credit balance all the accounts are noted down and finally totaled up to ascertain if they are equal. In other words, it is a statement of debit and credit balances of all the ledger accounts, which is prepared to check their arithmetical accuracy. It is usually prepared at the end of the financial year after the account have been closed, but if desired it can be prepared, monthly, quarterly or half yearly too. Since it is statement of debit and credit balances of all the ledger accounts, it is necessary that before drawing it, all the accounts should be properly closed.

Format of Trial Balance given as following

Table No. 2.22

Trial Balance.....

On the basis of Ledger total

S.No	Heads of Accounts	LF	Debit Rs	Credit Rs

Sources: "ElementaryAccounting" Shresth, Ram Prasad

There are two methods of preparing Trial Balance

- a) Total Method
- b) Balance Method
- c) Compound Method

- a) Total Method: Under this method trial balance is prepared by laling up the total of debits and credits of all the ledger accounts.
- b) Balance Method: Under this method, only the balances of the entire ledger accounts are taken unto prepare the trial balance.
- c) Compound Method: It is the combination of the method, the total method and balance method. Thus it is also known as total cum balance method.

2.2.21 Receipts and Payments Account

Receipts and Payments account is a summary of cash receipts and payments during the accounting period. It records all and receipts all and cash payments including capita receipts and revenue receipts irrespective of accounting period. All cash and bank receipts are recorded on debit (receipts) side and all cash and bank payments are recorded on credit (payments) side of receipt to and payments accounts.

Format of Receipts and Payments Account

2.2.22 Income and Expenditure Account

Income and expenditure account is prepared by non trading concern to reveal surplus and deficit arising out of operating activities during the accounting period. It is one of the final accounts of non trading concern like the profit and loss account of trading concern. All the revenue incomes during the accounting period are shown on income side and all the revenue expenses during the period are shown on debit (expenditure) side of income and expenditure account. The excess of credit side over the debit side i.e. excess of income over expenditure is termed as Surplus, when the excess of expenditure over the revenue income is termed as deficit. The surplus or deficit of income over expenditure is transferred to capital fund. The surplus is added to capital fund and deficit is subtracted from capital fund. This account is prepared on the accrual basis.

Table No. 2.24

Income and Expenditure Account

For the year ended.....

Dr.		Cr.	
Expenditure	Amount	Income	Amount
To salaries and wages	xxx	By subscription	xxx
To Rent, sales and taxes	xxx	By General donation	xxx
To printing and stationeries	xxx	By entrance fee(only revenue income)	xxx
To journals and stamps	xxx	By life membership fees	xxx
To Honorarium	xxx	By sales of newspaper	xxx
To traveling and conveyable	xxx	By proceed from..... xxx	
		Less : expenses xxx	xxx
To water and electricity	xxx	By Dividend and interest on investment	xxx
To depreciation of sports equipment	xxx	By profit sale of fixed assets	xxx
To loss on sales of fixed assets	xxx	By rent of hall, Purloin	xxx
To insurance premium	xxx	By other receipts	xxx
To general and office exp.	xxx	By deficit	xxx
To audit fees	xxx		
To surplus	xxx		

Sources: "Elementary Accounting" Shrestha, Ram Prasad

2.2.23 Trading Account

Trading account is the first part of the final account of a trading venture. It is prepared with a view find out gross profit or gross loss made in the business for a given period of time. It is prepared in T from of ledger. It shows mainly four types of items of transactions. They are:

- a) Stock - opening and closing stock.
- b) Purchase and sales of good, less purchase return and sales returns.
- c) All expenses relating to the purchase of goods.
- d) All factory expenses expect repairs and renewals and depreciation of factory assets.

Table No. 2.25
Ruling of Trading Account
Trading Account

Particulars	Rs.	Particulars	Rs.
To opening Stock	xxx	By sales	xxx
		Less: Return inward	
To purchase	xxx	By closing stock	xxx
Less: return			
To purchase expenses			
a) Carries inward	xxx		
b) Freight inward	xxx		
c) Custom duty	xxx		
d) Clearing charge	xxx		
e) Duty etc	xxx		
To factory expenses			
a) To production exp.	xxx		
b) Fuel, power light	xxx		
c) Factor rent	xxx		
d) Factory insurance	xxx		
To gross profit	xxx		
Carried to P&L A/C	xxx		

Sources: "Elementary Accounting" Shrestha, Ram Prasad

2.2.24 Profit and Loss Account

Profit and loss account is the second part of final account. Immediately after preparing trading account, this profit and loss is prepared with a view to see the net profit or the net loss of a firm during a given period of time.

Ruling Profit and Loss Account

Table No. 2.26
Profit and Loss account of.....
For the year ended.....

Dr.		Cr.	
Particular	Rs.	Particulars	Rs.
To salaries Exp.	xxx	By Gross Profit b/d	xxx
To printing and stationery	xxx	By Discount received	xxx
To postage and telegram	xxx	By commission received	xxx
To telephone charge	xxx	By rent received	xxx
To fax and email charge	xxx	By interest received	xxx
To rent, rates and taxes	xxx	By gain on sale of assets	xxx
To legal charge	xxx	By depreciation on assets	xxx
To trade expenses	xxx	By net loss transferred to capital	xxx
To audit fee	xxx		
To carriage outwards	xxx		
To export duty	xxx		
To discount allowed	xxx		
To commission paid	xxx		
To interest paid	xxx		
To depreciation	xxx		
Machinery @.....			
Furniture @.....			
Building @.....	xxx		
To loss on sale of assets	xxx		
To net profit transferred to capital	xxx		
	xxx		xxx

Sources: "Elementary Accounting" Shrestha, Ram Prasad

2.2.25 Balance Sheet

A statement of assets and Liabilities of the concern at a given date is known as balance sheet. It is prepared at a particular date to show the financial position of a non trading concern. It is prepared in the similar way of balance sheet of trading concern. It is prepared at the end of an accounting period.

Ruling of Balance sheet

Table No. 2.27

Balance Sheet

As on.....

Liabilities		Amount	Assets		Amount
Capital fund			Fixed asset		
Opening Capital Fund	xxx		Building	xxx	
Add : surplus and loss	xxx		Add : Purchase	xxx	
Add : entrance fee	xxx		Less : Depreciation	(xxx)	xxx
(Capitalized)					
Add : Capital Expenditure			Other fixed asset	xxx	
From special fund	xxx		Add : Purchase	xxx	
Add : other (capitalized)	xxx		Less : Depreciation	(xxx)	xxx
			Sport Equipment	xxx	
			Add : Purchase	xxx	
			Less : Depreciation	(xxx)	
Special fund	xxx		Furniture	xxx	
Un income from	xxx		Add : Purchase	xxx	
special fund			Less : Depreciation	(xxx)	xxx
Less : expenses	(xxx)	xxx			
Advance subscription		xxx	Investment		xxx
Outstanding		xxx	Sport materials		xxx
Other advance income/ receipts		xxx	Outstanding subscription		xxx
Bank overdraft		xxx	Accrual interest rent etc		xxx
Creditors		xxx	Prepaid expenses		xxx
			Cash at bank		xxx
			Cash in hand		xxx
		xxx			xxx

Sources: "Elementary Accounting" Shrestha, Ram Prasad

2.3 Review of Related Literature

Sufficient researches in the area of accounting standards in Nepalese corporate companies have not been made. A few researches have been conducted in the area of accounting practice in Nepal. As accounting is the foundation to accounting standards, researches made on these areas have been taken in to consideration for the sake of review to examine what and how accounting practice is done in Nepal.

An attempt has made here to review some of researches, which have been conducted in the periphery of accounting in the context of Nepal.

Sharma, Sagar (2002) had conducted a research in the topic 'Management Accounting Practices in the Listed Companies of Nepal'. It is a survey study concentrated on examining the present practice of management accounting tools in the listed companies of Nepal and identifying the area where management accounting tools could be applied to strengthen the company. The research was concerned with management accounting. It did not consider the overall accounting practice of enterprise. All the data of the research were obtained through primary sources.

In his study report, he states that various management accounting tools, which were taught in colleges, were not found applied by the listed companies of Nepal. He further stated that tools like capital budgeting, budget, ratio analysis and cash flows were in practice but application of new tools like zero base budgeting, ratio analysis and cash flows were in practice but application of new tools like zero base budgeting, activity costing, target costing, value engineering, etc were almost nil in the listed companies were in infant stage in practicing management accounting tools.

Sharma added that lack of information, extra cost burden and cognizance about management accounting tools was the main factor causing problems in the application of such tools. In his recommendation, he suggested to use

management accounting tools in order to strengthen the competitiveness of Nepalese listed companies.

Neupane, B.P. (2003) in his research 'Compliance of IASs in Nepal' has tried to find whether Nepalese corporate Companies with their accounting practices with IASs. He aimed:

- To discuss the framework of IAS.
- To find out the methods of accounting followed by different institutions.
- To compare the requirements of IAS with the accounting system followed by these institutions.
- To make recommendations regarding IAS with the accounting system followed by these institutions.

His study concentrated only on four standards, dealing with financial statements: IAS-01, IAS 07, IAS 08, IAS 16. The study was confined to four Nepalese corporate Companies viz. Nepal Lever Ltd., Bank of Kathmandu, Standard Chartered Bank and National Life and General Insurance Co. Limited.

The study concluded that there was no company following IASs in Nepal.

Accounting Standards Board, Nepal (2003) advocates some of the problems regarding the harmonization of accounting practices. They are:

- Many companies are more focused on preparing financial systems with the sole purpose of meeting the statutory obligations than making the financial statements understandable to a simple layman. The willingness to make their financial statements for stakeholders is lacking.
- There are cases where the management is deceptive and thereby taking advantage of the weak accounting regulations and defrauding its stakeholders and potential investors.
- In some cases, there is a complete lack of awareness and understanding of the accounting standards. Many of the accountants and auditors are

ignorant of these standards because accounting standards are not generally taught in schools colleges or professional institutors of Nepal (ASB/NEPAL, 2003).

Therefore, ADB suggested that His Majesty Government is required to issue accounting policies and financial statement instructions on the basis of the accounting standards issued by the ASB, Nepal to overcome the above weaknesses in its accounting system.

Bhattarai Ishowari Prasad (2004) In a dissertation entitled "The Corporate Financial Reporting in Nepal: The effect of change in price level" attempted to examine the current status of price level change accounting practices in Nepal and to point out the major problems of practicing the price level change accounting in Nepal with their reminds. The study was conducted on the basis of survey research. The opinions of experts and partitions had been taken. The study focused on the corporate financial reporting practice in Nepal.

He concluded from his study and stated that the financial reporting practices done in Nepal were just for meeting the legal requirements. He further stated that uses of financial reporting for internal control purpose and providing information were still secondary. This amply clarifies that the standardization of corporate financial reporting practices lacked in Nepal. He added as a recommendation that Nepalese corporate firm should prepare financial reports as per NASs before practicing price level changes accounting, further he stressed to issue accounting standards in Nepal.

Asian Development Bank (2002) conducted a study over Nepal Government accounting and auditing standard. This study pointed many weaknesses in the system of government account and thus, suggests adopting either International Public Sector Accounting Standards (IPSAS) or NASs. The findings of the diagnostic are as follows.

- There is no complete reporting of government cash funds.
- There is no reporting of government assets liabilities or equity.
- There is no accounting policies established for financial reporting.

- There is confusion of terminology used in financial reports.
- There are deficiencies in reconciliation controls and balance confirmation.
- There are no audit opinions issued on the central financial reports.
- There is lack of financial reporting for management purposes.
- There prime records for financial reports are maintained manually.
- There are no complete databases of various 'off budget' funds maintained.

2.4 Research Gap

Accounting standards are not merely improved from of accounting; these are the most essential thought/asset of accounting practice. As the accounting is the language of business it is required to be uniform through out the business world. The accounting language used by all enterprise to another must be similar in order to have an effective communication. Users of accounting information should be able to understand and compare the reports of various organizations. Realizing the value of accounting standards; international societies of accountancy and business strived to develop accounting standards for uniform practice. As a result in 1972 AD, LASs were pronounced. These LASs are nothing but generally accepted accounting principle (GAAP) for its users. Gradually, these LASs are pronounced in the name of IFRSs. These are issued from London. USA also has its own standards on accounting. Those are pronounced by financial Accounting standards Board (FASB). Most of other developed and developing countries have standards most similar to LASs/IFRSs or they fully accept and comply with IFRSs. India also has developed Indian Accounting standards most similar to LASs (in order to achieve similarity in word wise accounting practice) in 1977 AD.

Recently Nepal has also shown interest in accounting standards. The country has started developing accounting standards. So far eleven accounting standards have been issued. Six of them have been implemented. But no research has been conducted neither from government side nor form private sector regarding the need and implementation of accounting standards. No doubt, accounting

standards are not bad evils they are granting of a boon to an enterprise. However an empirical research on the practice of accounting standards required before its implementation. It was needed to explore the GAAP used by Nepalese enterprises and to find the deviation between existing NASs in order to get practical problem of accounting standards. Thus there was a massive research gap on the topic. This research has uncovered this research has uncovered this research gap. So this is a completely new research topic in the field of researchers in Nepal, and making board recommendations on the successful execution of NASs in Nepal. In the advent of Nepal's entrance into WTO, it has been extremely necessary for Nepalese corporate firm to stand in parity with international accounting practices. This study is expected to be complement to this need. This study has also made an effort to raise general awareness among Nepalese corporate companies exploring the current issue of NASs and contribute to its practice in Nepal.

CHAPTER THREE

RESEARCH AND METHODOLOGY

3.1 Introduction

Research Methodology is a way to solve the research problem systematically research methodology helps to analyze examine and interpret various aspects of research work. It is followed to achieve the basic objectives and goal of the research work. Research methodology describes the accounting problems faced by small scale industries and to give appropriate accounting model for them.

3.2 Research Design

"The research design is the plan structure and strategy of an investigation conceived so as to obtain answer to research question and to control variance. The plan is the overall scheme or program of research. It includes an outline of what the investigator will do from writing the hypothesis and their operational implications to final analysis of data". Thus research design is a plan to obtain answer of research question through analysis of data.

The present study is basically description and analytical research design. It's based on descriptive survey study. [Haward Wolff and Panta, 2000, p-50]

3.3 Population and Sample

The total number of registered small scale industries in Makawanpur district is considered as a population of this study. The total numbers of registered service industries under cottage small industry district office of Makawanpur in different year are as in Appendix-5

It is assumed that 1353 industries are in operation at the end of 2063/2064. It is hardly possible to study the whole population in the present study. This study will base on the sample of 70 industries.

3.4 Sample Selection

3.4.1 Selection of Sample District

In this study, Makawanpur district as sample district.

3.4.2 Selection of Sample Firms

The total firms are related to service industries divided into 10 different groups based on similarities and five samples from of the following group chosen.

- Computer Training
- Communication Service
- Legal Service
- Clinics
- Art Centers
- Photo Studio
- Printing Press
- Beauty Parlor
- Repairs Shop
- Advertising Firms

3.5 Data Collection Method

This study uses primary source of information, Personal contact (interview), field survey, questionnaires, Observation etc. are the main sources of primary data. However, questionnaires and observation has used in this study.

On set of questionnaire had been prepared appendix-1) and distributed to the entrepreneurs to collect information. The researcher personally collected the questionnaires distributed by visiting entire 70 service firms (appendix-2) frequently unless it is filled and returned. Close observation of the firms also made while visiting them.

3.5.1 Data Analysis Tools

The data obtained from the questionnaires and observation are carefully edited and then coded in the standard code sheet. The tabulation of data is made as per

the need. Mostly percentage method had used for the purpose of data analysis and interpretation. In addition, Chi-square Test and has also been used to test the hypothesis.

3.5.2 Formulation and Test of Hypothesis

(A) Chi-Square Test

Under the test of goodness of fit we try to find out how far the observed values of a sample proportion of a given phenomenon are significant different from the expected values. This is done by comparing the desired values of χ^2 from the formula easier with the table values of χ^2 for the required degree of freedom depending on the number of observation and level of 0.05 (normally) unless otherwise stated

a) Formulation of the Hypothesis

General procedure of testing hypothesis, which has applied in this study, is a follows:

I) Null Hypothesis: A statistical hypothesis, which state for the purpose of possible acceptance called a null hypothesis and denoted by H_0 . The null hypotheses formulated in this study are:

1. (A) H_0 : Account keeping system is dependent of academic background of the accountants.
2. (B) H_0 : There is no significant difference of accounting pattern between account trainees and non-trainees.

II) Alternative Hypothesis: any hypothesis, which is complementary to the null hypothesis (H_0), called an alternative hypothesis and denoted by H_1 . The alternative hypotheses formulated in this study are:

- 1 (a) H_1 : Account keeping is not dependent of academic background of the accountants.
- 2 (b) H_1 : There is significant difference of accounting pattern between account trainees and non-trainees.

b) Computing the Test Statistic

Calculate an appropriate test, which is based on an appropriate probability distribution for testing whether the null hypothesis should be accepted or rejected.

' χ^2 ' Calculated using this formula:

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

Where,

O = Observed frequencies

E = Expected frequencies

To calculate the expected frequencies (E) the following equation is used :

$$E = \frac{RT \times CT}{N}$$

Where,

RT= the row total for the row containing the cell.

CT= the column total for the column containing the cell.

N = the total number of observations

c) Decision Rule

Make a decision by comparing the calculated value of χ^2 with tabulated values of χ^2 .

If calculated $\chi^2 \leq$ the tabulated χ^2 it is not significant and H_0 is accepted
Otherwise, if rejected.

(B) Test of Significance of a Sample Proportion

Test of significance of a sample proportion in which the population is divided into two mutually disjoint classes representing the qualitative characteristic in such a way that one possesses a particular attribute and other does not possess that attribute.

In order to test whether there is any significant different between the sample proportion and the population proportion we proceed as follows.

a) Formulation of the hypothesis

General procedure of testing hypothesis, which has applied in this study, is a follows:

- I) Null Hypothesis** $H_0:p = 0.5$ Majority of the firm has not maintained accounting records.
- II) Null Hypothesis** $H_0:p = 0.5$ Majority of the firm has audited their accounting records.
- III) Null Hypothesis** $H_0:p= 0.5$ Majority of the institutions not feels effectiveness of trainings.

Alternatives Hypothesis $H_1: p>P_0$ The population proportion is greater then P_0 (Right tail test)

- I) Alternatives Hypothesis** $H_1: p>P_0$ Majority of the firm has maintained accounting records.
- II) Alternatives Hypothesis** $H_1: p>P_0$ Majority of the firm has not audited their accounting records.
- III) Alternatives Hypothesis** $H_1: p>P_0$ P_0 Majority of the institutions feels effectiveness of trainings.

b) Computing the Test Statistic

Under H_0 the test statistic is
$$Z = \frac{\text{Difference}}{SE(p)} = \frac{p - E(p)}{SE(p)}$$

Where,

$$p = \text{Observed sample proportion of success} = \frac{X}{n}$$

X = Number of success possessing the given attribute.

n = Sample size of the trials.

$E(p)$ = Expected value of sample proportion = P

$$SE(p) = \text{Standard error of the sample proportion} = \sqrt{\frac{PQ}{n}} = \sqrt{\frac{P(1-p)}{n}}$$

Where p is the population proportion of success and Q is the population proportion of failure such that $P+Q=1$

For population percentage p

$$SE(p) = \sqrt{\frac{P(1-p)}{n}}$$

If the sampling is from a finite population of size N , then

$$\sqrt{\frac{(N-n)P(1-p)}{(N-1)n}}$$

Thus

$$Z = \frac{p - P}{\sqrt{\frac{PQ}{n}}}$$

c) Decision Rule

Make a decision by comparing the calculated value of Z with tabulated values of Z .

If calculated $Z \leq$ the tabulated Z it is not significant and H_0 is accepted
Otherwise, if rejected.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

Presentation and analysis of data is an important stage of the research study. The main purpose of analyzing the data is to change it from an unprocessed form to an understandable presentation. The analysis of data consists of organizing data by tabulation and then placing that in presentable form by using figure and table. This chapter deals with the accounting practices, problems and inquires about account training provided by supporting institution. The researcher is trying to draw conclusion with the help of table and chart. Therefore, this chapter related to processing of input data to obtain output of the study.

4.2 Observed Data

4.2.1 The Academic Background of the Entrepreneurs

The given data shows the entrepreneur's academic background. There are no entrepreneurs' having no normal education. Large numbers of entrepreneurs are in intermediate level stand at 28. But only seven entrepreneurs are in degree and above. Where as 21 entrepreneurs are in upto SLC.

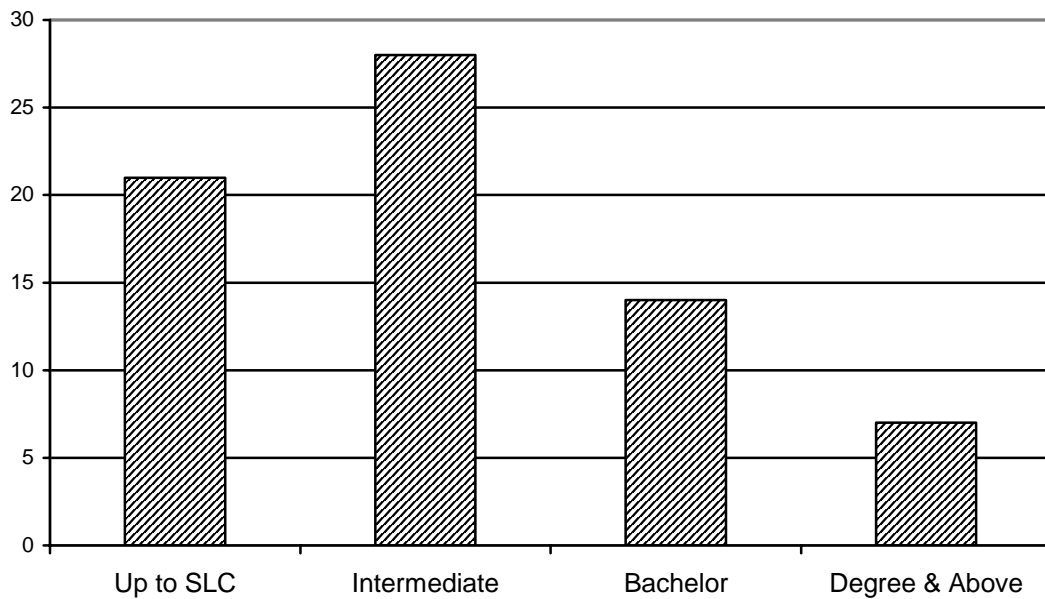
Table No. 4.1

Academic Background of the Entrepreneurs

Level of education	Numbers	%
No normal education	-	-
Upto SLC	21	30
Intermediate	28	40
Bachelor	14	20
Degree and above	7	10
Total	70	100

Sources: Opinion Survey, 2008

Figure No. 4.1
Academic Background of Entrepreneurs



Source: Table No. 4.1

4.2.2 Maintenances of Accounting Records

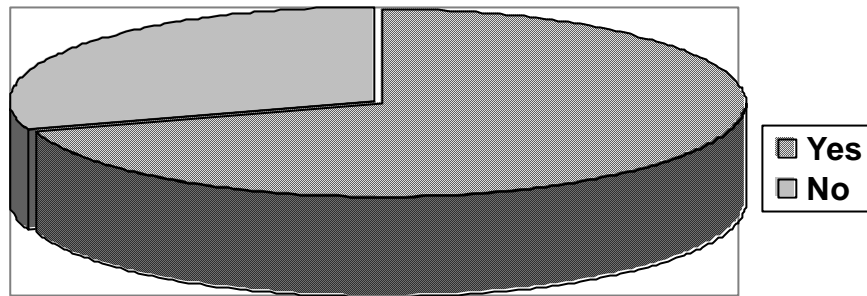
The following table and pie chart reveal the maintenance of accounts in their firm. Forty-nine firms are having accounting records in accordance with the double entry book keeping system. This represented 70%. Out of seventy twenty-one firms have not maintained proper accounting records.

Table No 4.2
Maintenances of Accounting Records

Particulars	Number of firm	Percentage
Yes	49	70
No	21	30
Total	70	100

Sources: Opinion Survey, 2008

Figure No. 4.2
Maintenance of Accounting Records



Source: Table No. 4.2

Test for maintenance of accounting records.

In the usual notation, we are given $n = 70$

$P =$ the sample proportion of auditing accounts $= 21/70 = 0.3$

$P =$ the population of proportion of maintaining records $= 1/2 = 0.5$

$Q = 1 - P = 1 - 0.5 = 0.5$

Null hypothesis: $H_0: P = 0.5$ Majority of the firm has not maintained accounting records.

Alternatives hypothesis: $H_1: p > P_0$ Majority of the firm has maintained accounting records.

Under H_0 , test statistic

$$\begin{aligned}
 Z &= \frac{p - P}{\sqrt{\frac{PQ}{n}}} \\
 &= \frac{0.7 - 0.5}{\sqrt{\frac{0.05 \times 0.5}{70}}} \\
 &= \frac{0.2}{\sqrt{\frac{0.25}{70}}} \\
 &= \frac{0.2}{\sqrt{0.0037}} \\
 &= 3.346 \\
 |Z| &= 3.346
 \end{aligned}$$

Critical value at 5% level of significance for right tail is 2.571 i.e.

$|Z_{0.05}| = 2.571$

Decision: Since calculated value is greater than tabulated value, null hypothesis is rejected and alternative hypothesis is accepted. Therefore, Majority of the firm has maintained accounting records.

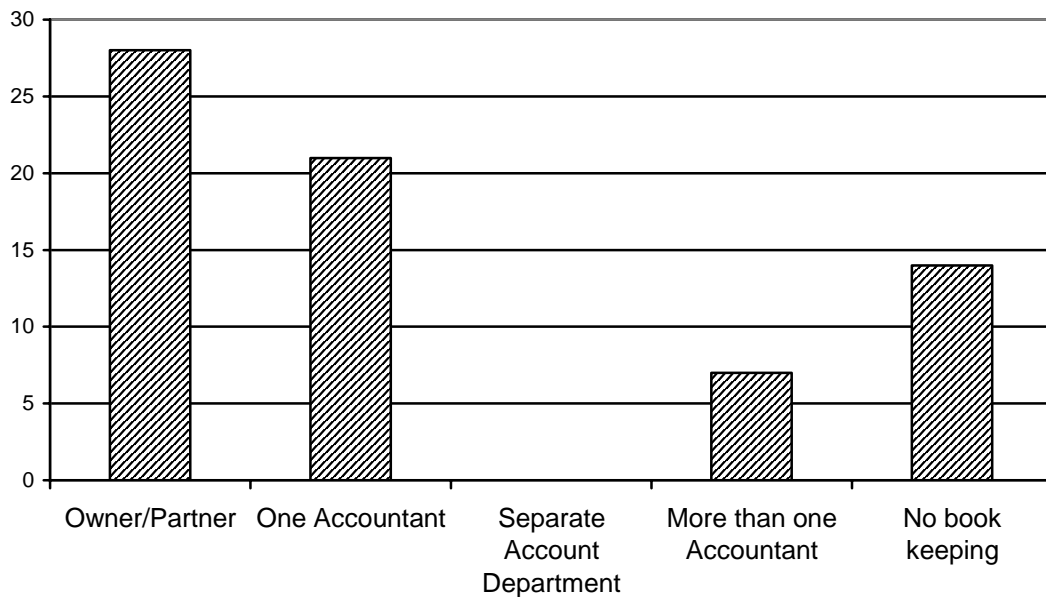
4.2.3 Book Keeping Personnel

Table No. 4.3
Book Keeping Personnel

Classification	No. of firm	%
Owner/Partner	28	40
One accountant	21	30
Separate accountant department	-	
More than one accountant	7	10
No book keeping	14	20
Total	70	100

Sources: Opinion Survey, 2008

Figure No. 4.3
Book Keeping Personnel



Source: Table No. 4.3

The above table and figure shows the book keeping personnel in the sample firm. Twenty-eight (40%)-bookkeeper owner self-kept the record. Whereas no any firm who kept separate account department. Only 21(30%) have one accountant which is more than not keeping records in their firm at 14 firms. Seven (10%) firms have more than one accountant, which is consisted in second last position.

4.2.4 Accounting System Used by Firm

Table No. 4.4

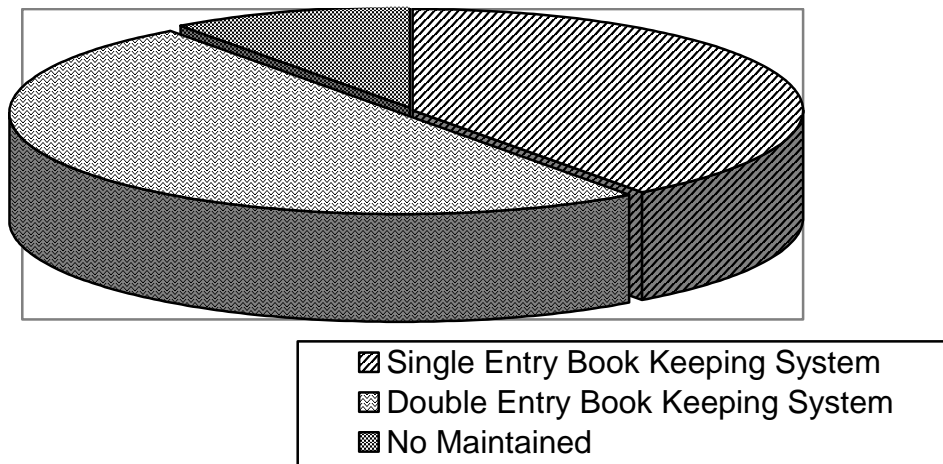
Accounting system used by firm

Classification	No. of firms	Percentage
Single entry book keeping system	28	40
Double entry book keeping system	35	50
No maintained	7	10
Total	70	100

Sources: Opinion Survey, 2008

Figure No. 4.4

Accounting System Used by Firm



Source: Table No. 4.4

The above diagram reveals the accounting system used by sample firm. Thirty-five (50%) firms used double entry book keeping system. There are 28(40%) firms, which used single entry book keeping system, but only seven (10%) firms are not maintaining account. It shows that firms are getting improvement their accounting system. They are conscious about scientific accounting system rather than old concepts.

4.2.5 Final out Put from Book Maintained

Table No. 4.5

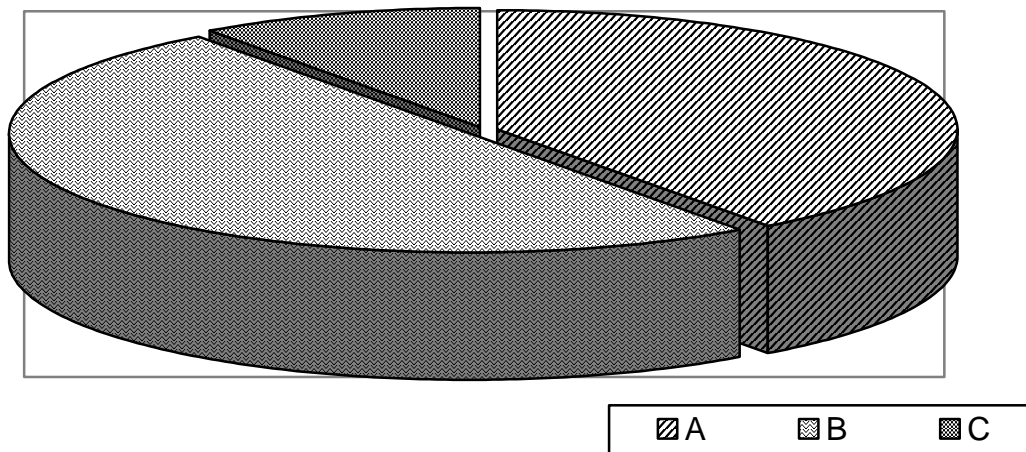
Final Out put From Book Maintained

Classification	No. of firms	%
Receipt and payment account with income and expenditure account, Profit and loss account and balance sheet. (A)	28	40
Single entry system with separate register pages in one register for different type of transactions. (B)	35	50
No proper account (C)	7	10
Total	70	100

Sources: *Opinion Survey, 2008*

Figure No. 4.5

Final Output from Book Maintained



Source: *Table No. 4.5*

4.2.6 Mode of Maintaining Accounts:

Table No. 4.6

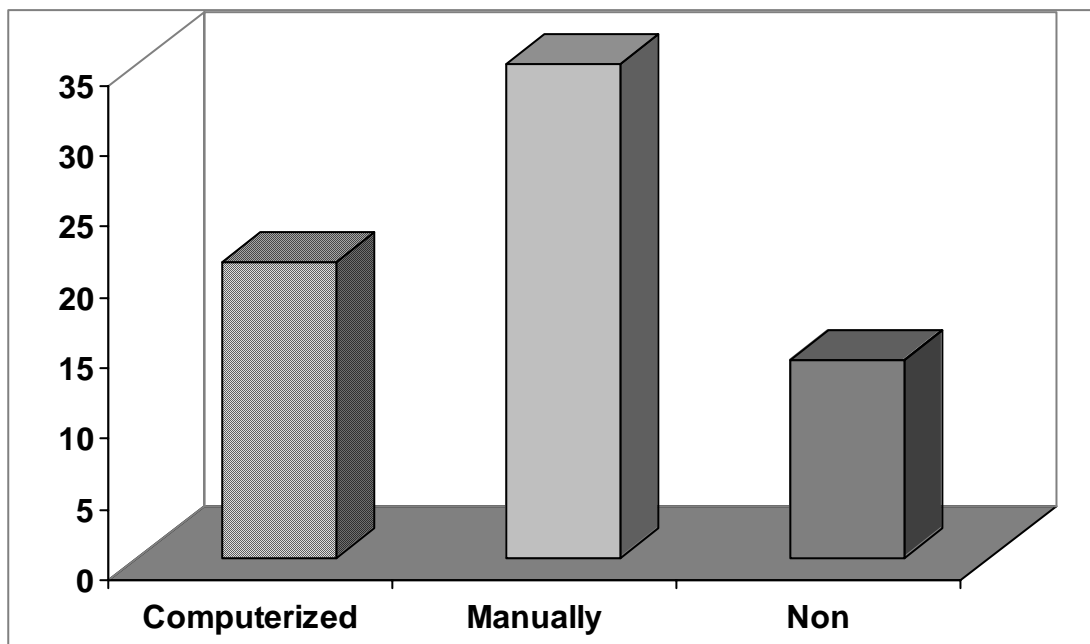
Mode of Maintaining Accounts

Type	No of Firm	Percentage (%)
Computerized	21	30
Manually	35	50
Non	14	20
Total	70	100

Sources: Opinion Survey, 2008

Figure No. 4.6

Mode of Maintaining Accounts



Source: Table No. 4.6

The above figure shows the mode of account maintaining in observed firms. Most of the firms have kept their account manually are 35 firms. Only 21 (30%) firms have computerized accounting system whereas 14 (20%) firms do not have any accounting records.

4.2.7 Account Closing Period:

Table No. 4.7

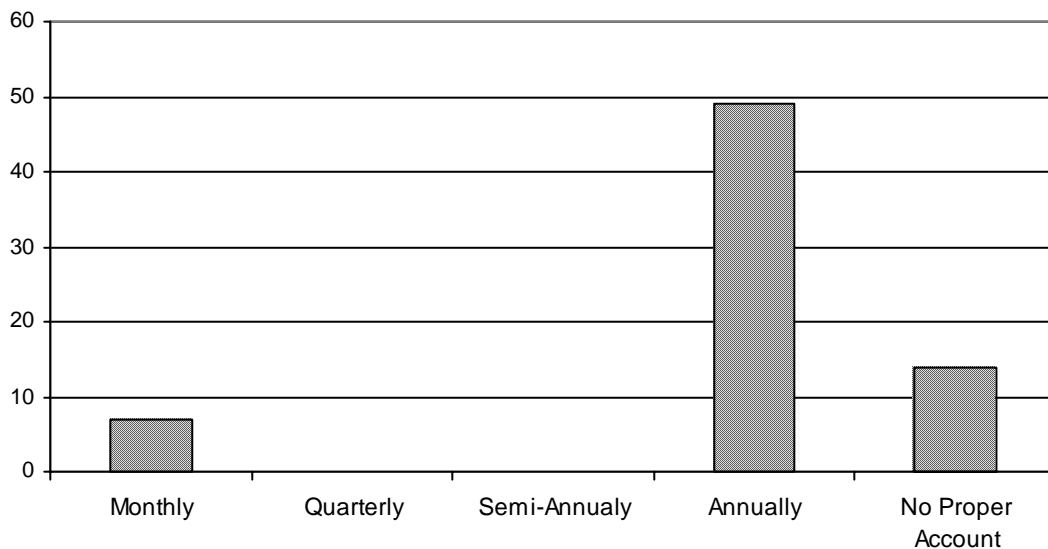
Account Closing Period

Type	No of Firm	Percentage (%)
Monthly	7	10
Quarterly	-	-
Semi-Annually	-	-
Annually	49	70
No Proper Account	14	20
Total	70	100

Sources: Opinion Survey, 2008

Figure No. 4.7

Account Closing Period



Source: Table No. 4.7

One of the most important part of the keeping accounts is to closing account with out closing can not show the all kind of reports in the study, firms close 49 (70%) of their accounts annually but firms only close 7 (10%) of their accounts in monthly. 14 (20%) of firms have no proper accounts closing. It is also observed that there is no firm who closed their firms quarterly and semi annually.

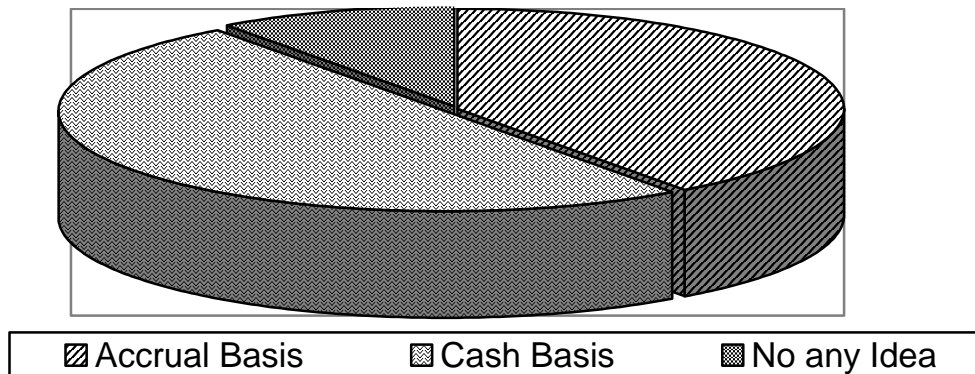
4.2.8. Basis of Maintaining Account:

Table No. 4.8
Basis of Maintaining Account

Type	No of Firm	Percentage (%)
Accrual Basis	49	70
Cash Basis	7	10
No any idea	14	20
Total	70	100

Sources: Opinion Survey, 2008

Figure No. 4.8
Basis of Maintaining Account



Source: Table No. 4.8

I observed that, 49 (70%) firms are keeping accounts under accrual basis, but only 7 (10%) firms are keeping their accounts under cash basis. There are 14 (20%) firms, who have no any idea about maintaining accounts.

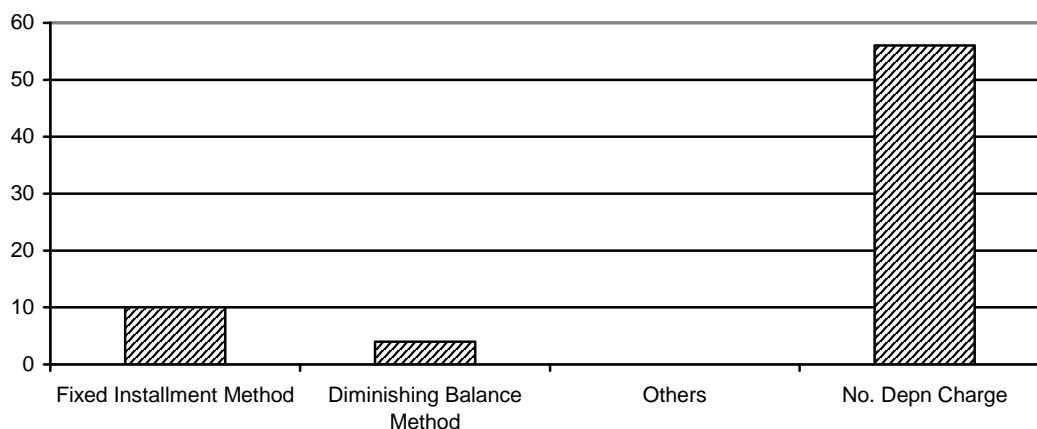
4.2.9. Method of Charging Depreciation:

Table No. 4.9
Method of Charging Depreciation

Type	No. of Firm	Percentage (%)
Fixed installment method	10	14.3
Diminishing balance Method	4	5.7
Others	-	-
No Depreciation charge	56	80
Total	70	100

Sources: Opinion Survey, 2008

Figure No. 4.9
Method of Charging Depreciation



Source: Table No. 4.9

Above figure shows that, 56 (80%) firms have no charge the depreciation 4 (5.7%) firms are found charging depreciation under diminishing balance method and 10 14.3% firms are charging depreciation under fixed installment method. Most of the firms don't have accounting records regarding depreciation of fixed assets. The main causes are:

- Some firms are unknown about the usefulness accounting records regarding depreciation.
- Some firms have desire to record depreciation but don't have knowledge.
- Some firms are unable to estimate the life of the assets, essential for calculating amount of depreciation.

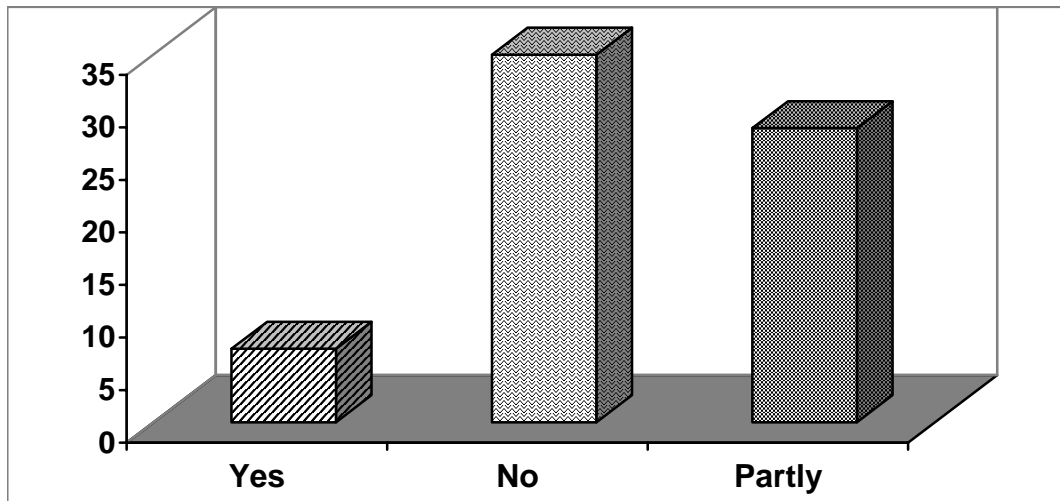
4.2.10. Satisfaction with Accounting System Used:

Table No. 4.10
Satisfaction with Accounting System Used

Type	No. of Firm	Percentage (%)
Yes	7	10
No	35	50
Partly	28	40
Total	70	100

Sources: Opinion Survey, 2008

Figure No. 4.10
Satisfaction with Accounting System Used



Source: Table No. 4.10

7 (10%) firms are satisfied by using accounting system. whereas 35 (50%) firms are dissatisfied. 28 (40%) firms have no right answer about satisfaction of using accounting system. It reveals that, they desire to improve or change their present account keeping systems.

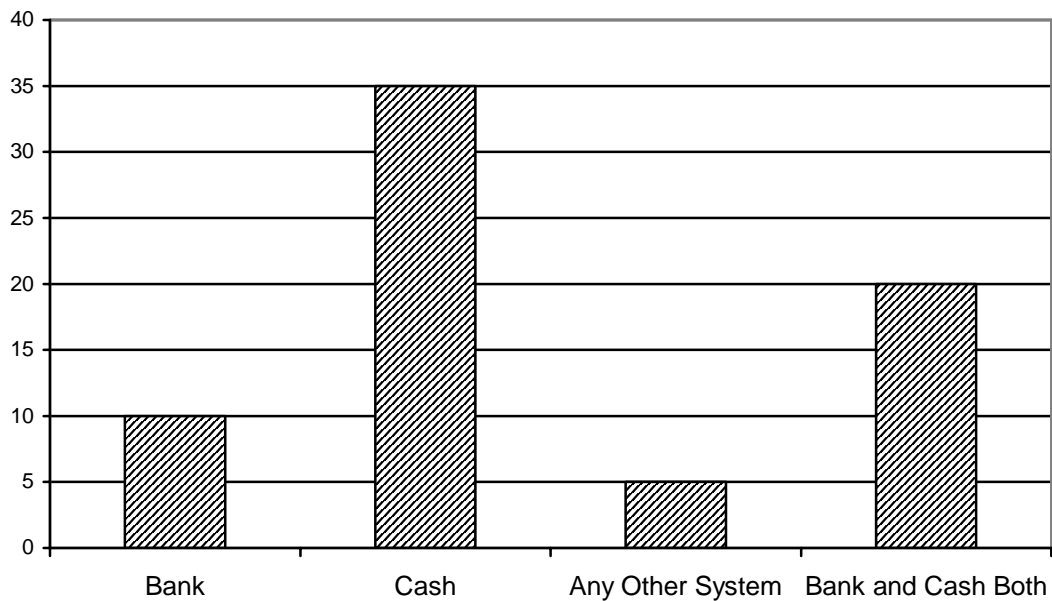
4.2.11. Mode of Operating Financial Transactions:

Table No. 4.11
Mode of Operating Financial Transactions

Options	No. of Firm	Percentage (%)
Bank	10	17.29
Cash	35	50
Any other system	5	7.14
Bank and Cash both	20	28.57
Total	70	100

Sources: Opinion Survey, 2008

Figure No. 4.11
Mode of Operating Financial Transactions



Source: Table No. 4.11

The above table and chart shows that, the types of operating financial transaction. There are 35 firms who used cash for their financial operation. 10 firms are operating their transaction through bank, whereas 20 firms are used bank and cash both for their operation. As we can see that 5 firms are used any other system. Normally, small firms deal with bank for two purposes:

- To deposit and with draw huge amount of money.
- To take bank loan and pay it.

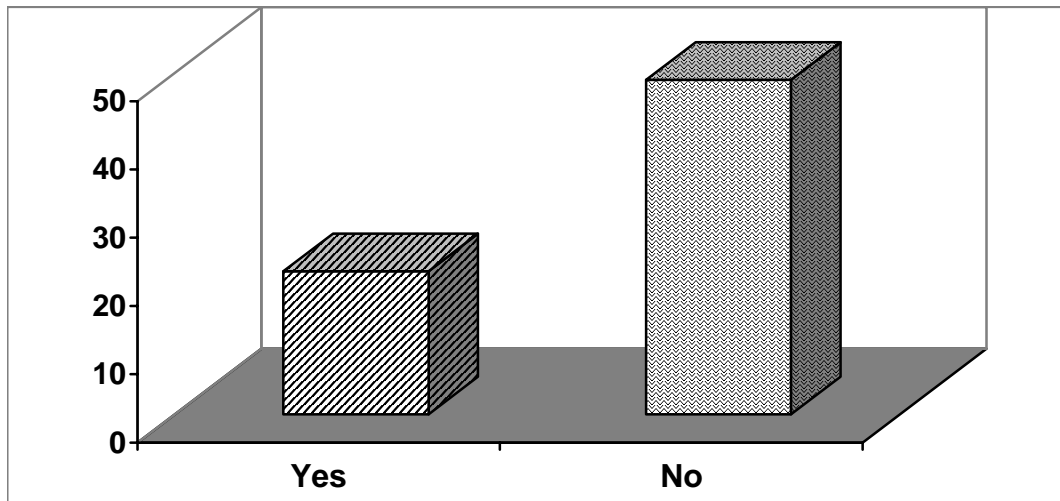
4.2.12. Audit of Account:

Table No. 4.12
Audit of Account

Options	No. of Firm	Percentage (%)
Yes	21	30
No	49	70
Total	70	100

Sources: Opinion Survey, 2008

Figure No. 4.12
Audit of Account



Source: Table No. 4.12

The majority of firms are not audited their account, stood at 49(70%) firms. Where as 21(30%) firms are audited their accounts. It is found that all proprietorship firms are not interested to audit but limited partnership firms audited their accounts. It is also found that limited companies are interested to go for audit after improving their accounting system.

Test for audits of accounting records.

In the usual notation, we are given $n = 70$

$P =$ the sample proportion of auditing accounting records $= \frac{21}{70} = 0.3$

$P =$ the population of proportion of auditing accounting records $= \frac{1}{2} = 0.5$

$Q = 1 - P = 1 - 0.5 = 0.5$

Null Hypothesis: $H_0: P = 0.5$ Majority of the firm has audited their accounting records.

Alternatives hypothesis: $H_1: p > P_0$ Majority of the firm has not audited their accounting Records.

Under H_0 , test statistic

$$\begin{aligned}
 Z &= \frac{P - p}{\sqrt{\frac{PQ}{n}}} \\
 &= \frac{0.3 - 0.5}{\sqrt{\frac{.05 \times 0.5}{70}}} \\
 &= \frac{-0.2}{\sqrt{\frac{0.25}{70}}} \\
 &= \frac{-0.2}{\sqrt{0.00357}} \\
 &= -3.346 \\
 |Z| &= 3.346
 \end{aligned}$$

Critical value at 5% level of significance for right tail is 2.571 i.e. $|Z_{0.05}| = 2.571$

Decision: Since calculated value is greater than tabulated value, null hypothesis is rejected and alternative hypothesis is accepted. Therefore, majority of the firm has not audited their accounting records.

4.2.13. Availability of Information to Management:

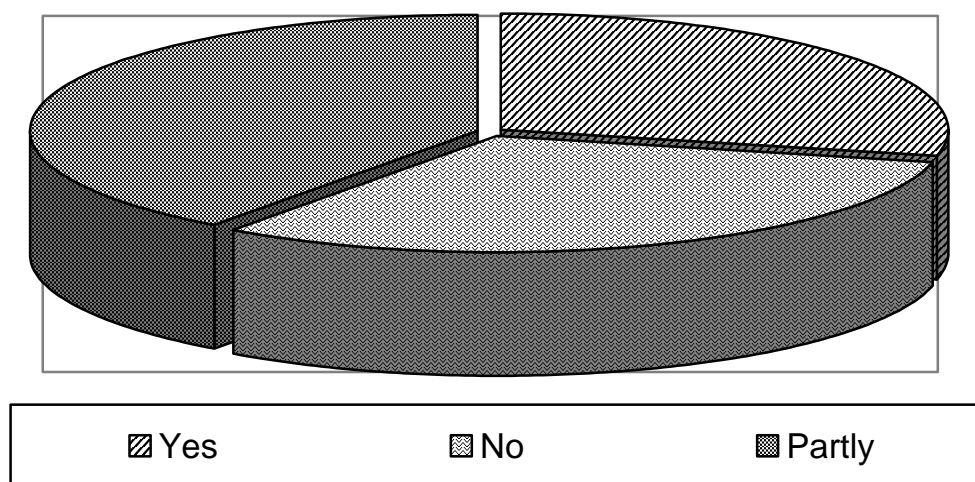
Table No. 4.13

Availability of Information to Management

Provide information to management	No. of Firm	Percentage (%)
Yes	20	28.57
No	22	31.43
Partly	28	40
Total	70	100

Sources: Opinion Survey, 2008

Figure No. 4.13
Availability of Information to Management



Source: Table No. 4.13

Exerting accounting system of (28.57%) firms provide the necessary information to management for decision making but exerting accounting system of 22(31.43%) firms do not provide necessary information. Because, they don't maintains account properly. Similarly exerting accounting system of 28(40%) firms also do not provide sufficient information provide partly information to management for decision making.

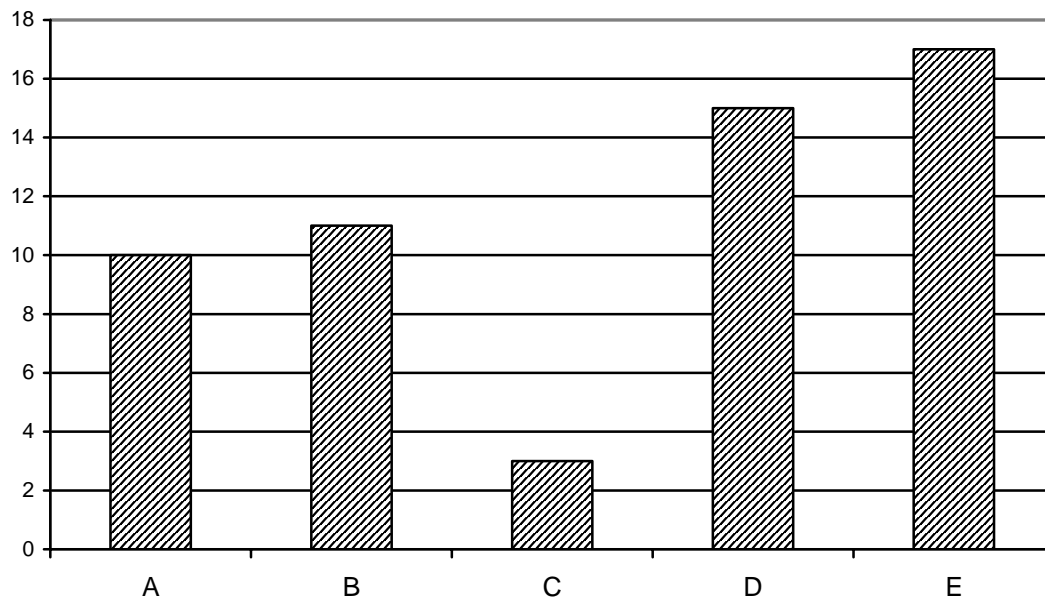
4.2.14. Purpose of Accounting:

Table No. 4.14
Purpose of Accounting

Purpose	No. of Firm	Percentage (%)
To know the result of operation i.e. profit or loss (A)	10	17.29
To obtain only balance of cash after payment (B)	11	15
For future requirement (C)	3	4.29
To identify, credit transaction (D)	15	21.42
No clear Objective (E)	17	24.29
Total	70	100

Sources: Opinion Survey, 2008

Figure No. 4.14
Purpose of Accounting



Source: Table No. 4.14

The observed 70 firms, 24(34.29%) firms use the accounting system to know the profit and loss account. Whereas only 3 (4.29%) firms are use accounting system to fulfill the future requirement. 11(15.71%) firm maintain system to obtain balance after payment and 15(21.42%) firms wants to about credit transaction 17(24.29%) firms have no only clear idea about the accounting system.

4.2.15 Effectiveness of Existing Accounting System

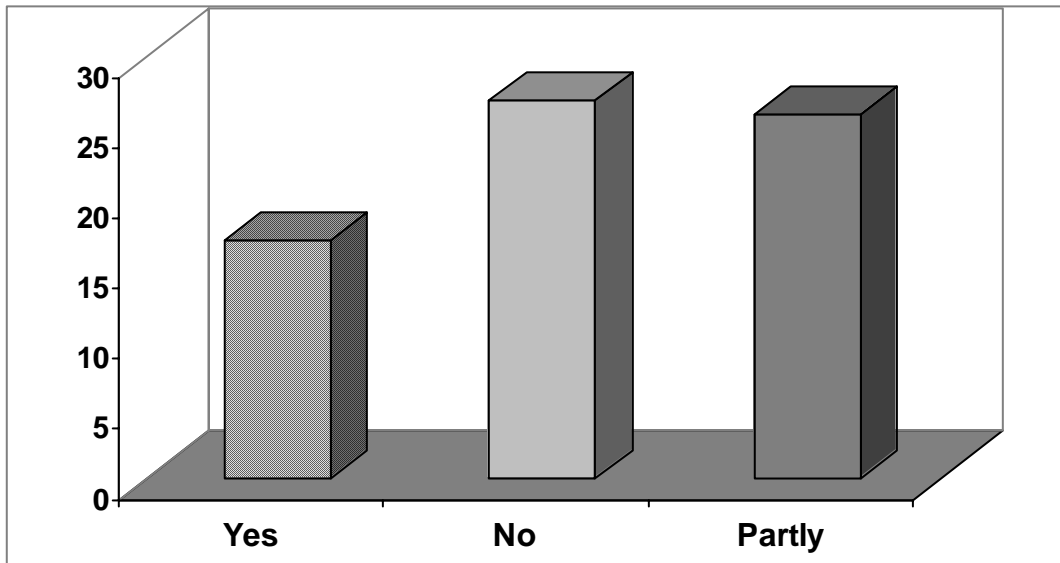
Table No. 4.15

Effectiveness of Existing Accounting System

Effectiveness	No. of Firm	Percentage (%)
Yes	17	24.29
No	27	38.57
Partly	26	37.14
Total	70	100

Sources: Opinion Survey, 2008

Figure No. 4.15
Effectiveness of Existing Accounting System



Source: Table No. 4.15

The following figure shows that the existing accounting system 27(38.57%) firms can not display their transaction. But 17(24.29%) firms only deploy their accounts sufficiently and effectively, similarly, existing accounting system 26(37.14%) firms Cr. partly their transactions.

4.2.16 Training Approach by Supporting Institution

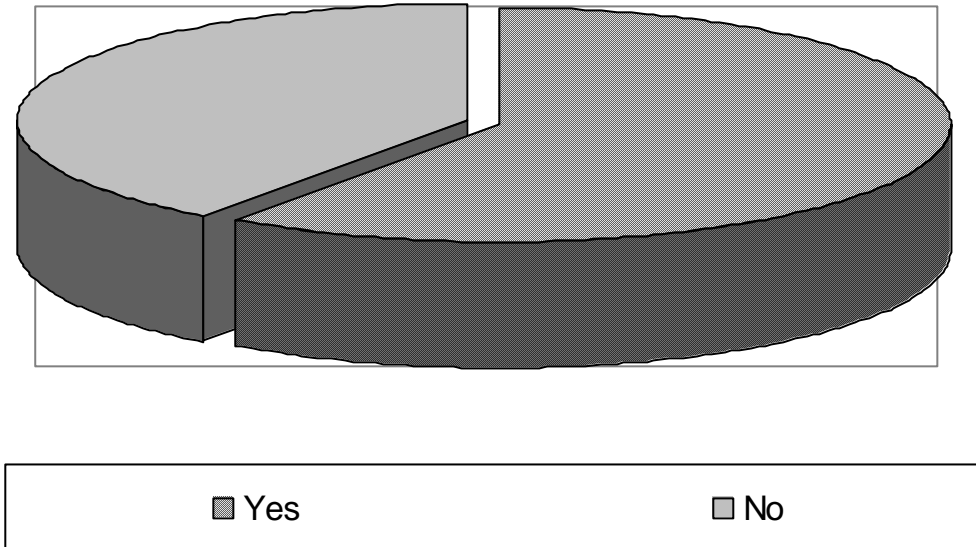
Table No. 4.16

Training Approach by Supporting Institution

Effectiveness	No. of Firm	Percentage (%)
Yes	42	60
No	28	40
Total	70	100

Sources: Opinion Survey, 2008

Figure No. 4.16
Training Approach by Supporting Institution



Source: Table No. 4.16

In order to improve the efficiency of accountant more many institutions are opened. It is found that most of the firms have taken accounting training from private institution such as training center computer training institutions etc. and few firms have taken accounting training from government institution i.e. Industrial Enterprise Development institute IEDI and donor supported and private sector organization i.e. small and micro enterprise development SMEDP, Federation of Small and Cottage Industry FNCSI, Women Entrepreneurs Association of Nepal WEAN and Treeling for Employment (T for E)

According to the survey, majority of firms have consulted by supporting institution for accounting training. The table reveals that out of 70 firms 42 (60%) have approached by one or more. Supporting institutions provide accounting trainings whereas 28 (40%) firms have not approached by supporting institutions.

Test for approach by supporting institution.

In the usual notation, we are given $n = 70$

$P =$ the sample proportion of approach by supporting institution $= 42/70 = 0.6$

$P =$ the Population proportion of approach by supporting institution $= 1/2 = 0.5$

$Q = 1 - P = 1 - 0.5 = 0.5$

Null hypothesis: $H_0: P=0.5$ Majority of the institutions not feels effectiveness of trainings.

Alternatives hypothesis: $H_1: p > P_0$ Majority of the institutions feels effectiveness of trainings.

Under H_0 , test statistic

$$\begin{aligned} Z &= \frac{p - P}{\sqrt{\frac{PQ}{n}}} \\ &= \frac{0.6 - 0.5}{\sqrt{\frac{0.05 \times 0.5}{70}}} \\ &= \frac{0.1}{\sqrt{\frac{0.25}{70}}} \\ &= \frac{0.1}{\sqrt{0.0037}} \\ &= 1.673 \end{aligned}$$

Critical value at 5% level of significance for right tail is 2.571 i.e. $/Z_{0.05}/ = 2.571$

Decision: Since calculated value is greater than tabulated value, null hypothesis is accepted. Therefore, there is no evidence to say that majority of the institutions feels effectiveness of trainings.

4.2.17. Desire for Accounting Training

Table No. 4.17

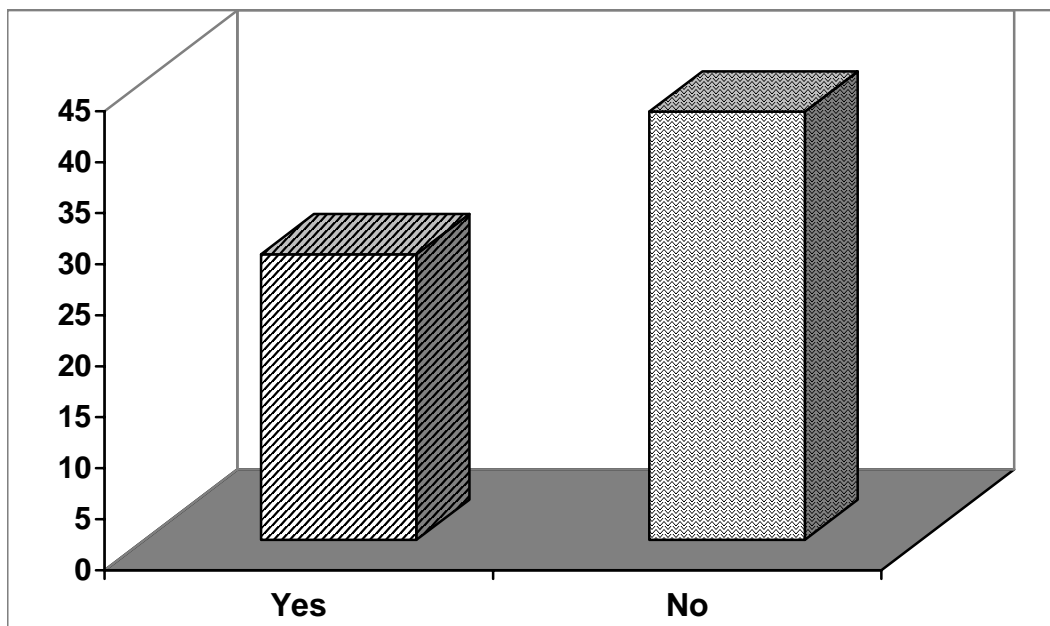
Desire for Accounting Training

Desire	No. of Firm	Percentage (%)
Yes	28	40
No	42	60
Total	70	100

Sources: *Opinion Survey, 2008*

Figure No. 4.17

Desire for Accounting Training



Source: *Table No. 4.17*

In the study it is found that 28 (40%) firms are interested in accounting training. They want to participate in account training programmer. It is also noticed that dramatically huge number of firms are not interested to go account training i.e., 42(60%) The main causes of not being interested are as follows.

- a) Lake of training center according to the type of firms.
- b) Lake of knowledge about the usefulness of account to the Owens.

c) Due to small size of business, which do not need to maintain accounts? Some enterprises who have already taken account training and maintaining systematic records, their desire to advance accountancies training including multi urge of accounting information's for decision making.

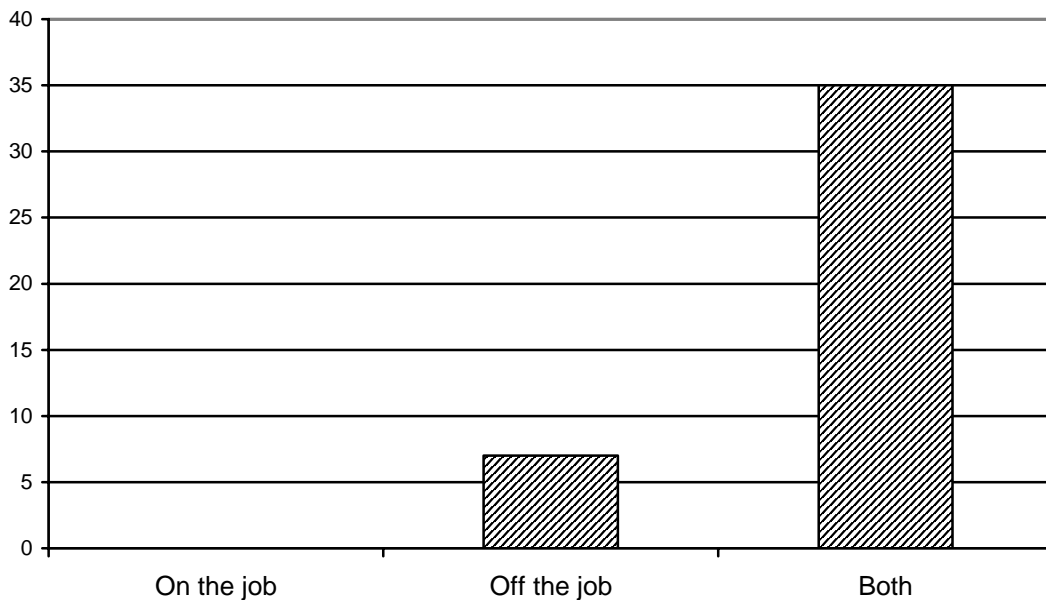
4.2.18 Method of Training

Table No. 4.18
Method of Training

Method of training	No. of trainees	%
On the job	—	
Off the job	7	16.67
both	35	83.33
Total	42	100

Sources: Opinion Survey, 2008

Figure No. 4.18
Method of Training



Source: Table No. 4.18

Out of 42 Participants 35(83.33%) are trained under both on the job and off the job training method and remaining if (16.67%) participants are trained under only one off the job training method.

4.2.19 Duration of Training

Table No. 4.19

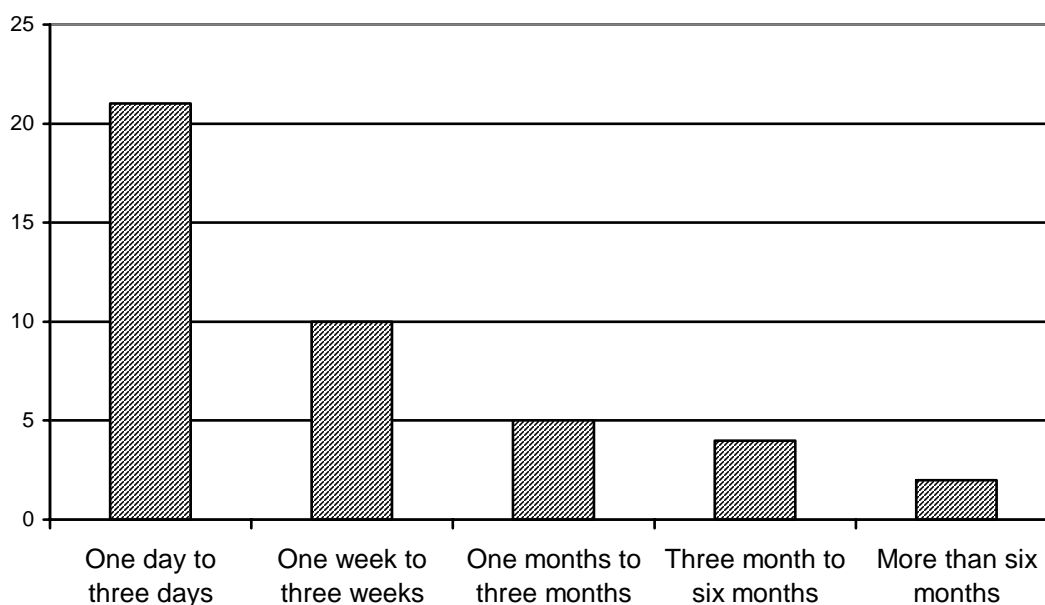
Duration of Training

Duration of Training	No. of Trainer	Percent (%)
One day to three days	21	50
one week to three weeks	10	23.8
One months to three months	5	11.80
Three month to six months	4	9.53
More then six months	2	4.46
Total	42	100

Sources: Opinion Survey, 2008

Figure No. 4.19

Duration of Training



Source: Table No. 4.19

The above figure shows the duration of training. There are 21(50%) participants who take one day to three days account training. and 10(23.81%) participants take one week to three weeks account training whereas only 2(4.76%) participants are takes more than six months training. We can see that most of the participants have taken only short period training than long period training.

4.2.20 Training Cost Bearing Party:

Table No. 4.20

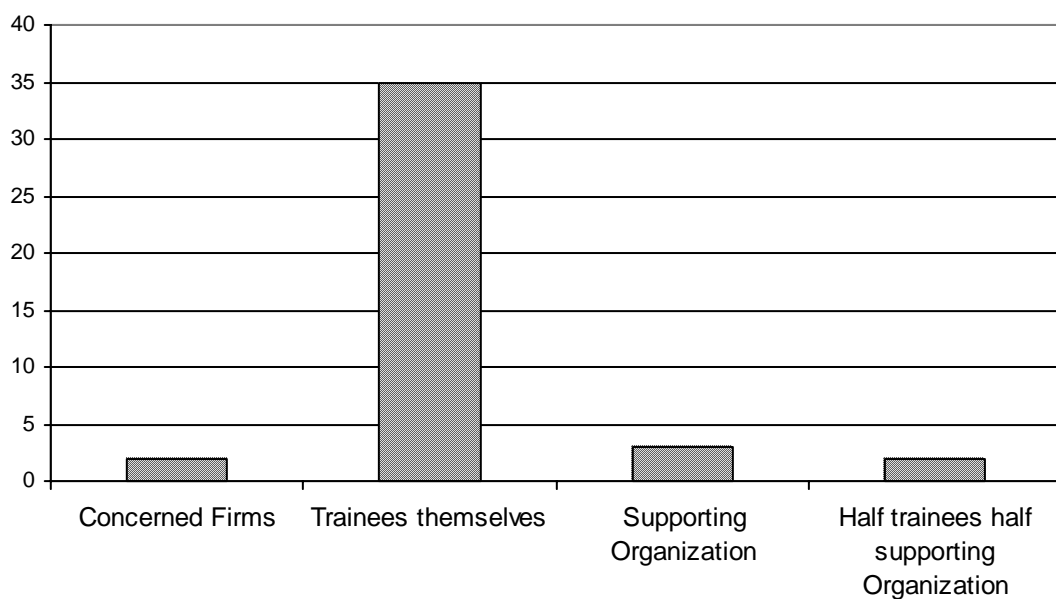
Training Cost Bearing Party

Training cost bearing party	No. of Participant	Percent (%)
Concerned firms	2	4.76
Trainees themselves	35	83.34
Supporting Organization	3	7.14
Half Trainees half supporting Organization	2	4.76
Total	42	100

Sources: Opinion Survey, 2008

Figure No. 4.20

Training Cost Bearing Party



Source: Table No. 4.20

It is found that most of the accountants have taken accounting training from private training institutions paying entire training cost themselves.

4.2.21 Accounting Knowledge before Training:

Table No. 4.21

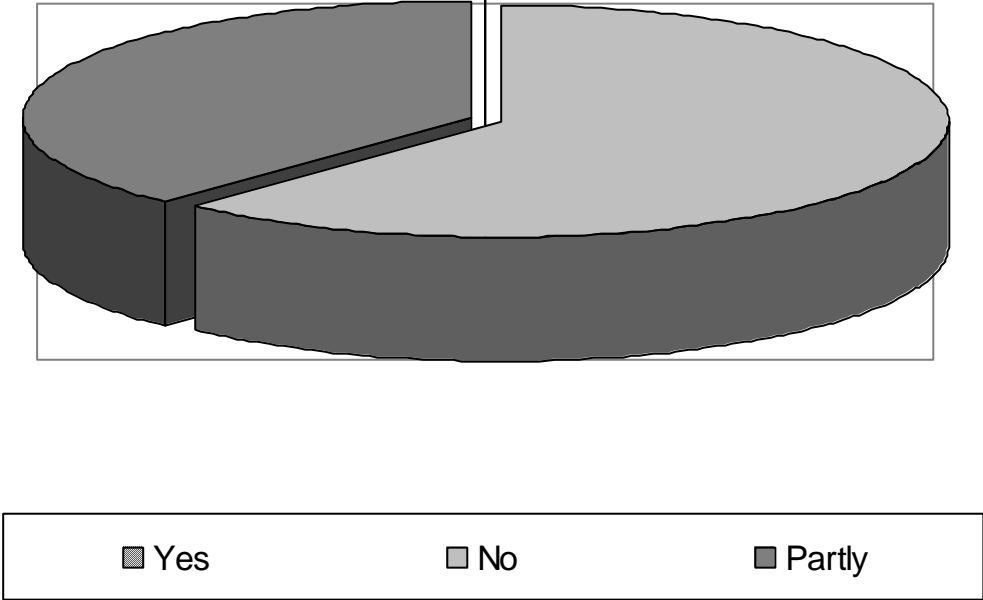
Accounting Knowledge before Training

Training cost bearing party	No. of Participant	Percent (%)
Yes		
No	26	62
Partly	16	38
Total	42	100

Sources: Opinion Survey, 2008

Figure No. 4.21

Accounting Knowledge before Training



Source: Table No. 4.21

The above figure reveals that the accounting knowledge before training there are 26 (61.90%) accountants who have not any accounting knowledge whereas 16 (38.10%) accountants have little bit knowledge about account but nobody has perfect accounting knowledge before training.

4.2.22 Maintaining Accounts:

Table No. 4.22

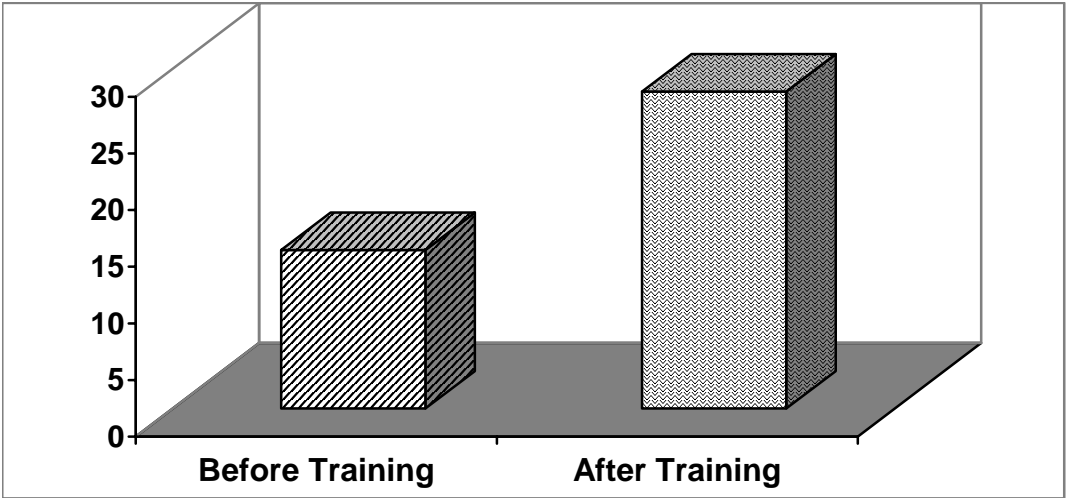
Maintaining Accounts

Maintaining Accounts	No. of Trainees	Percent (%)
Before Training	14	33.33
After Training	28	66.67
Total	42	100

Sources: Opinion Survey, 2008

Figure No. 4.22

Maintaining Accounts



Source: Table No. 4.22

In the study, out of 42 trainees 28 (66.67%) trainees are found maintaining accounts after getting training and 14 (33.33%) trainees were kept their account before training due to little bit accounting knowledge.

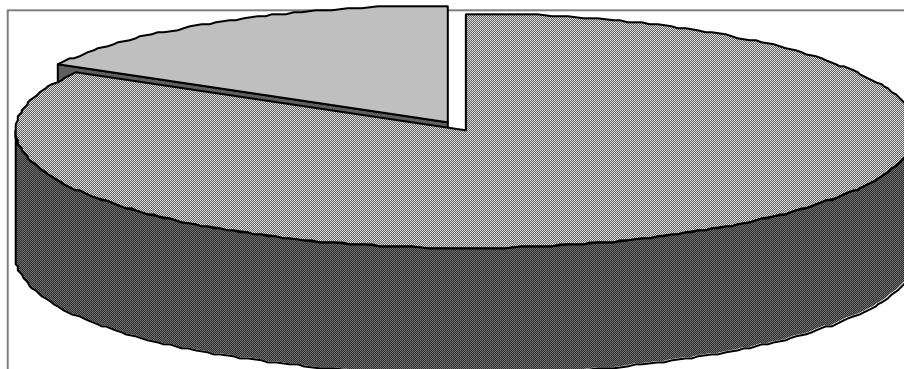
4.2.23 Change in Accounting:

Table No. 4.23
Change in Accounting

Change in Accounting Pattern	No. of Trainees	Percent (%)
Yes	35	83.33
No	7	16.67
Total	42	100

Sources: Opinion Survey, 2008

Figure No. 4.23
Change in Accounting



Source: Table No. 4.23

Out of 42 trainees, 35 (83.33%) trainees change their account keeping pattern where as any 7 (16.67%) trainees not have not change the accounting pattern. It shows the training change the trainees view about accounting system and able to maintain systematic account keeping.

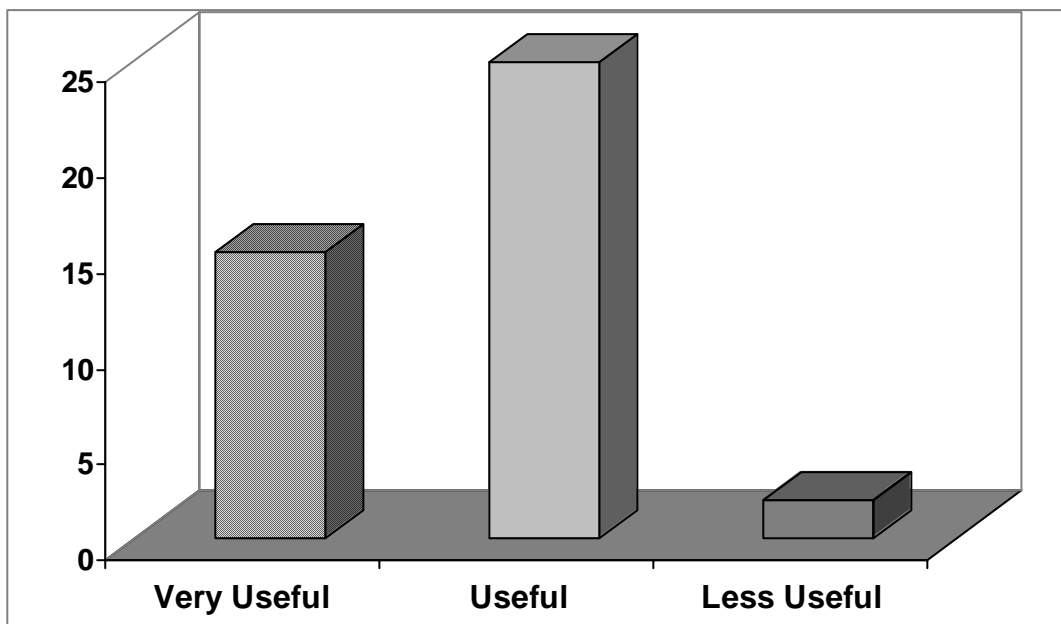
4.2.24 Evaluation of Training:

Table No. 4.24
Evaluation of Training

Classification	No. of Trainees	Percent (%)
Very useful	15	35.71
Useful	25	59.52
Less Useful	2	4.77
Total	42	100

Sources: Opinion Survey, 2008

Figure No. 4.24
Maintaining Accounts



Source: Table No. 4.24

The above figure shows the effectiveness of account training. 25 (59.52%) trainees believe that the training was useful where as only 2 (4.77%) trainees believe the training was less useful. There are 15 (35.71%) trainees who feel the training was very useful.

4.2.25 Classification of Training and Trainers

Table No. 4.25

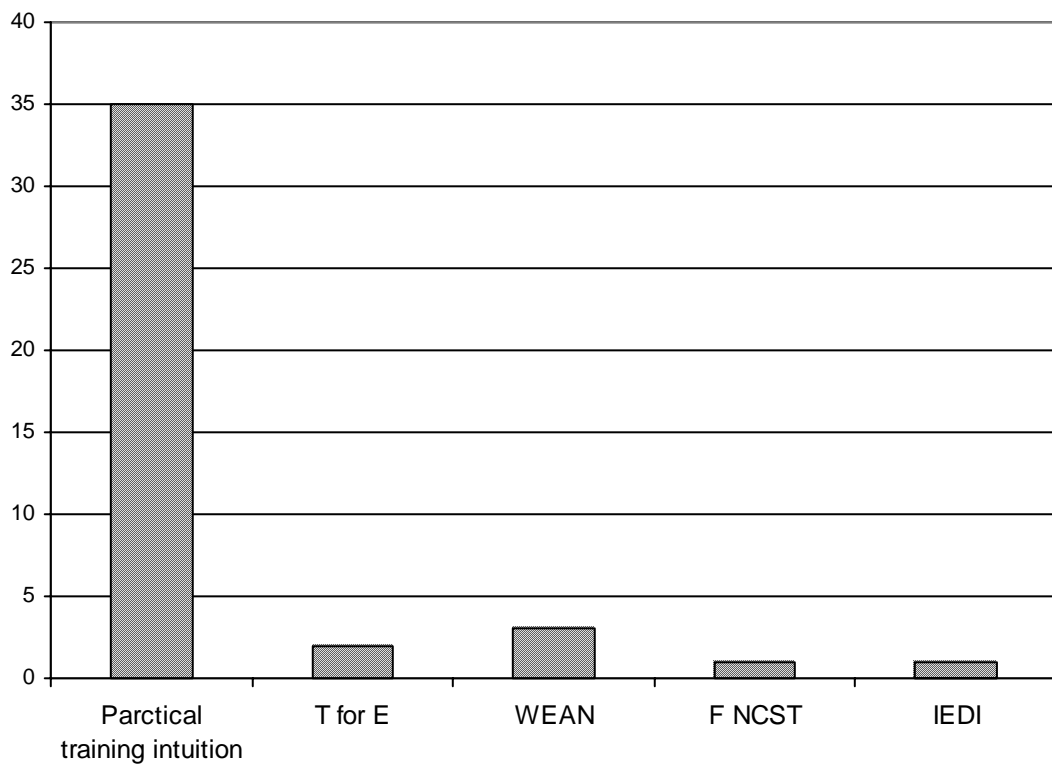
Classification of Training and Trainers

Trainers	No. of Trainees	Percent (%)
Practical training intuition i.e. computer training centers.	35	83.33
T for E	2	4.76
WEAN	3	7.15
F NCST	1	2.38
IEDI	1	2.38
Total	42	100

Sources: Opinion Survey, 2008

Figure No. 4.25

Classification of Training and Trainers



Source: Table No. 4.25

On the study 42 trainers are found participant on accounts training. It is also found that more than 83% trainees were taking accounting training operated by practical institution whereas only one trainee was taken training by FNCSI and IEDI. There were three trainees who took trainings from WEAN and 2 trainees took from T for E. It is observed that more accountants are getting knowledge from private institution than others due to easily availability.

4.2.26 Trainees Educational Back Ground and Thesis Rating of Accounting System:

Table No. 4.26

Trainees Educational Back ground and thesis rating of accounting system

Present accounting system back ground Educational	Good	Moderate	Poor	Total
Upto Intermediate	12	6	5	23
Upto Master Degree	7	7	5	19
Total	19	13	10	42

Sources: Opinion Survey, 2008

Training Educational back ground and having training should play the vital role on good account in the study. It is observed that accountants who have higher educational background as well as account training found keeping good accounting system than others.

Justification of Data with the Test of Hypothesis

1. a) Null Hypothesis H_0 : Account keeping system is not dependent of academic back ground of the accountants.

1. b) Alternative Hypothesis H_1 : Account keeping is dependent of academic background of the accountants.

Test statistic under H_0 is

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

Where,

O = Observed frequency

$$E = \text{Expected Frequency} = \frac{RT \times CT}{N}$$

RT = Row Total

CT = Column Total

N = Grand total

Table No. 4.27

Table for Expected Frequencies

Present accounting system Educational background	Good	Moderate	Poor	Total
Upto Intermediate	10.40	7.12	5.48	23
Upto Master Degree	8.60	5.88	4.52	19
Total	19	13	10	42

Sources: Appendix-4

According to Appendix-4:

$$\chi^2 = \sum \frac{(O - E)^2}{E} = 1.0271$$

$$\begin{aligned} \text{Degree of the freedom} &= (r-1)(c-1) = (2-1)(3-1) \\ &= 1 \times 2 \\ &= 2 \end{aligned}$$

Tabulated value of χ^2 at 0.05 level of significance for 6 d.f is 5.99

Decision: Since the calculated value of $\chi^2 = 1.0271$ is less than its tabulated value 5.99, null hypothesis is accepted and alternative hypothesis is rejected i.e. account keeping system is not dependent of academic background of the accountants.

4.2.27 Accounting Practice between Account Trainees and Non Trainees

Table No. 4.28

Accounting Practice between Account Trainees and Non Trainees

	Good	Moderate	Poor	Total
Training	29	7	6	42
Non Training	6	7	15	28
Total	35	14	21	70

Sources: Opinion Survey, 2008

2. a) Null Hypothesis H_0 : There is no significance difference in accounting practice between account trainees and non-trainees.
2. b) Alternative Hypothesis H_1 : There is significance difference in accounting practice between account trainees and non-trainees.

Test statistic under H_0 is

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

Where,

O = Observed frequency

$$E = \text{Expected Frequency} = \frac{RT \times CT}{N}$$

RT = Row Total

CT = Column Total

N = Grand total

Table No. 4.29

Table for Expected Frequencies

	Good	Moderate	Poor	Total
Training	21	8.4	12.6	42
Non Training	14	5.6	8.4	28
Total	35	14	21	70

Sources: Appendix-3

According to Appendix-3:

$$\chi^2 = \sum \frac{(O - E)^2}{E} = 16.8418$$

$$\begin{aligned} \text{Degree of the freedom} &= (r-1)(c-1) = (2-1)(3-1) \\ &= 1 \times 2 \\ &= 2 \end{aligned}$$

Tabulated value of χ^2 at 0.05 level of significance for 2 d.f is 5.99

Decision: Since the calculated value of $\chi^2 = 16.8418$ is greater than its tabulated value 5.99, null hypothesis is rejected and alternative hypothesis is accepted i.e. there is significance difference in accounting pattern between account trainees and non trainees.

4.3 Major Finding of the Study

The Major finding of thesis study is as follows.

- I) Out of 70 firms, 49 firms have maintained accounting records 28 firms maintained these accounts by owner themselves 21 and 7 firms have hired one and more than one accountant respectively; But 14 firms have not maintained these accounts.
- II) Accounting problems regarding manually recorded accounts
 - a) Lack of qualified and experienced accountants.
 - b) Owner is not ready to pay additional cost for keeping accounting records.
 - c) No proper knowledge about calculating depreciation.
 - d) Confusion regarding center entry for various transitions.
- III) Accounting problems regarding computerized accounts system.
 - a) Unavailability of account software
 - b) Heavy inutile cost
 - c) Little knowledge about computerized accounting system.
 - d) Lack of management supporting to maintaining account
- IV) Most of the owner likes to keep the accounts themselves due to security.
- V) Out of 70 firms only 42 enterprises did accounting trainings,
- VI) Very few firms 30% firm audit their accounts.
- VII) All entrepreneurs are literate.
- VII) Most of the firms maintained their account on account buried 70%.
- IX) The minority of firms are auditing their account Stood at 30% firms.
- X) Most of firms maintained their account in manually.
- XI) The majority of firms operate their financial transaction is in cash.

XII) Management of the small business mostly depends on the family member's decision some common characteristics observed in small business management.

- a) Decisions are delayed without understanding problems.
- b) Most of the decisions are taken by owner based on their hunch and likings.
- c) No proper planning is setup, due to little knowledge of systematic accounting.
- d) Due to salary structures and less facilities, employees are less motivated.
- e) Good communications are not found among the firms environment.

XIII) View of double entry system accordance to the user are as follows.

- a) Double entry system helps to keep the recode of both personal as well as impersonal monetary transactions of the business.
- b) Double entry system helps to know the amount of debtors and creditors.
- c) Double entry book keeping system helps to prepare trial balance for checking arithmetic accuracy of the record of transactions and shows the errors, if any.
- d) Double entry book keeping system provides accounting information to the management/owner/partners to make decision.
- e) Double entry system helps to know the operation result i.e. profit and loss account, income statement etc.
- f) Double entry book keeping systems help to prepare the balance sheet to know the financial position of the business.

XIV) It is observed that owners are not interested to prepare systematic accounts due to Compton of the tax officers.

XV) Lack of awareness, why should we pay tax to the government.

CHAPTER FIVE

SUMMARY, RECOMMENDATION AND CONCLUSION

5.1 Summary

This study is intended to focus on accounting system used by small sale service firms' attempts to identify the accounting problem and give appropriate accounting model for them. It is not easy to test to study the whole firms of the Makawanpur district. So, the study is based on the sample of 70 different service firms, which have been chosen using stratified sampling method. Percentage method used for data analysis and χ^2 test is applied to test the hypothesis.

It is found that level of accounting system being practiced in small business firm is very poor. They have been suffering from many more accounting problems. Many supporting institutions are opened in Makawanpur district, but few institutions are devoted in the real field. The real problem to develop their accounting knowledge is the owner's money minded view. They are not ready to pay money to modify the accounting knowledge of account keeper. Thus, in 40% firms the owners are the accountants themselves. It is also found that most of the firms have taken accounting training from private institution. Majority of firms are dissatisfied with their existing accounting system. Only few firms' existing accounting system displays their transactions sufficiently and effectively. Most of the firms prefer their transactions through cash. In the age technology, the small business firms are offered to private bank. According to the government firm can not pay more than Rs. 50,000 in cash they should pay through bank. But they do not follow the rule above mentioned rules. Many small businesses are using single Entry book keeping systems instead of the double entry system of journals and ledgers. They are careless on charging depreciations. Small business firms are not audited and very few partnership firms are audited but limited companies are found audited.

5.2 Recommendation:

On the basis of entire research study and analysis the following recommendation are given which may help in the improvement of account keeping system of small scale business industries

i) Operate financial transaction through bank:

The study shows that many firms are used cash for operating financial transaction. According to the accounting rule of Nepal, Government the firm should operate their financial transaction through bank.

ii) Prepare the accounts up to date:

The small scale business firms of Makawanpur district are not maintaining their account in proper manner. They are suggested to keep their account up to date. The firms should launch special program about the accounting principle and method. They should try to create the account base market economy.

iii) Participation in account training:

The owners of small sale firms are not interested to take accounting training. They think it is overburden of the firm. But I recommended them to take accounting training and push their accountant to participate accounting training. It will be the cause of profit maximization of the firm.

iv) Should adopt the computerized accounting system:

Now a day, most of the firms have practiced their account manually. They are requested to adopt the computerized accounting system. They should know with latest technology.

v) Audit their account in time:

The small scale firms are not interested to audit their firm in time. It is not good idea of account keeping. They should audit their account from the authorized auditor.

vi) What about account receivable?

Account receivable is generally kept separate from the regular books. A bill is provided for the each customer and original copy is kept within the business when cash is received, it is so marked. The balance of the

accounts receivable should agree with the total of the unpaid bills. A separate ledger should be maintained for accounts receivable.

vii) What about accounts payable?

Accounts payable columns are provided in the combination journal and posted monthly to the accounts payable account in the general ledger. Usually, the number of creditors and account payable transactions are not sufficient to warrant an account for each creditor.

5.3 Conclusion:

- a) Many small businesses however not always use the complete book keeping system and use a single entry book keeping system instead of the double entry system of journals and ledgers.
- b) They use a cash register because most of their transactions are recorded on cash basis, this means, they don't record the income and expenses until the cash is actually received or paid respectively.
- c) Firms prefer less detailed records, though less accurate to save the expenses of a double entry system.
- d) Large number of business firm doesn't prepare profit and loss account and balance sheet because the records are incomplete and contain less detailed informations.
- e) Most of the small firms lack basic concept of accounting.
- f) Government has not launched an extensive training program for improving accounting system in small firms.
- g) Training and education are the fundamental to the success of maintaining accounts.
- h) Most of the small firms have been facing the accounting problems. So, it is necessary to provide the detail accounts training to them.
- i) Majority of firms are interested to undergo account training program and are interested to change their existing accounting system into a systematic records with usage of accounting information on decision making process.

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Appendix-1

Questionnaire

I would be grateful if you supply correct information, desired blow. These informations will be used only for academic purpose. Your help will be highly appreciated. Please tick (√) or fill the blanks as per requirement.

(1) Introduction

- a) Name of the firm:
- b) Location:
- c) Date of establishment:
- d) Name of proprietor/Manager:
- e) Sex (i) Male() (ii) Female()
- f) Age:
- g) Education:
- h) Legal status:(i) Private firm() (ii) Partnership() (iii) private Ltd.()
- i) Total capital investment: a) Fixed capital Rs.....
b) Working capital Rs.....
Total capital Rs.....
- j) Source of capital: a) Equity/owners' capital Rs.....
b) Debt/borrowing capital Rs.....
Total capital Rs.....
- k) Number of employees: a) Male:
b) Female:
Total

- (2) Are the accounting records in your organization maintained? (a) Yes ()
(b) No ()

(3) What are the major incomes and expenditures of the firm?

- (a) Incomes: (i)
(ii)
- (b) Expenditures (i)
(ii)

- (4) Who maintains books of accounts in your organization?
 (a) Owner/partner () (b) One accountant ()
 (c) Separate account department () (d) More than one accountant()
- (5) Which accounting system does firm use?
 (a) Single entry () (b) Double entry ()
- (6) What is the final output of the books maintained?
 (a) Receipt & Payment Account with Income and Expenditure Account, Profit & Loss Account and Balance Sheet ()
 (b) Single entry system with separate registers or separate pages in one register for different types of transactions ()
- (7) How is account maintained? (a) Manually () (b) Computerize ()
- (8)How are accounts closed?
 (a) Monthly () (b) Quarterly () (c) Semi-annually () (d) Annually ()
- (9) What is the basis of maintaining accounts in your organization?
 (a) Accrual basis () (b) Cash basis ()
- (10) What is the method of charging depreciation in your organization?

- (11) What is the method of charging depreciation in your organization?
 (a) Fixed Installment Method () (b) Diminishing Balance Method ()
 (c) Other (please specify).....
- (12) What are the major accounting problems faced by your organization?
 (Please specify major five with priority)

- (13) Do existing accounting system display your transactions sufficiently and effectively? (a) Yes () (b) No () (c) Partly ()
- (14) Do existing accounting system provide the necessary information to the management for decision-making? (a) Yes () (b) No ()
- (15) Are accounts audited? (a) Yes () (b) No ()
- (16) Have you organization ever been approached by any supporting institutions to provide accounting training? (a) Yes () (b) No ()

- (17) If yes, which are the major supporting institutions that have approached you for training? _____
- (18) What was the method of training?
(a) On the job () (b) Off the job () (c) Both ()
- (19) What was the duration of training? _____
- (20) Who borne the training cost? _____
- (21) What was the knowledge regarding accounting system of trainee before training? _____
- (22) What is knowledge regarding accounting system of trainee after training?

- (23) Could trainee maintain accounting record properly before training?

- (24) Can trainee maintain accounting record properly after training?

- (25) What features in an accounting system you desire most?

Appendix-2

List of Sample Firms

S.N.	Name of Firms	Address	Legal Status	No. of Employees
1	Hetauda Photo Studio	Rapti Road	Private	1
2	Hetauda Digital Color Lab	Rapti Road	Partnership	5
3	Deep Photo Studio	Hetauda-4	Private	1
4	Bastipur Digital Photo Studio	Basamadi-2	Partnership	2
5	New Bhandari Digital Studio	Basamadi-2	Private	2
6	Hetauda Printing Press	Rapti Road	Private	5
7	Makawanpur Printing Press	Hetauda-4	Private	6
8	Pragati Chapakhana	Hetauda-2	Private	7
9	Mahakali Chapakhana	Rapti Road	Private	6
10	Janaki Printing Press	Hetauda-3	Private	7
11	Sima Beauty Parlor	Basamadi-2	Private	2
12	Silky Beauty Parlor	Rapti Road	Private	4
13	Yanija Herbal Beauty Parlor	Hetauda-4	Private	4
14	Upasana Beauty Parlor	Hetauda-3	Private	3
15	Suruchi Beauty Parlor	Hetauda-2	Private	2
16	Refresh Computer Center	Manahari-3	Private	4
17	College of Software Engineering	Hetauda-4	Private Ltd.	8
18	Real Unique Computer	Hetauda-2	Private	6
19	ESCOL Computer	Hetauda-4	Private	7
20	Apex Computer Education	Basamadi-2	Private	6
21	Makawanpur Kanuni Sewa	Hetauda-2	Private	4
22	Janasewa Kanuni Karyalaya	Hetauda-3	Partnership	3
23	Janta Kanuni Karyalaya	Hetauda-4	Partnership	3
24	Jana Kanuni Sewa Karyalaya	Hetauda-3	Partnership	4
25	Pairabhi Kanuni Karyalaya	Hetauda	Partnership	4
26	Aavash Communication Center	Hetauda	Private	3

27	Hetauda Communication Center	Hetauda	Private	4
28	Manakamana Communication	Hetauda	Private	3
29	Makawanpur Communication	Hetauda	Private	2
30	Royal Cyber & Communication	Hetauda	Private	3
31	Safal Pharma	Rapti Road	Private	1
32	Upakar Medical Hall	Hetauda	Private	1
33	Shrestha Pharma	Hetauda	Private	3
34	Baba Pharma	Hetauda	Private	3
35	New Tribani Medical Store	Rapti Road	Private	4
36	JK Arts Center	Hetauda	Private	3
37	Unic Arts Center	Hetauda	Private	2
38	Prakesh Arts Center	Hetauda	Private	3
39	Aavash Arts Center	Rapti Road	Private	2
40	Deepak Arts Center	Hetauda	Private	3
41	Dhanpati Bike Repair Center	Hetauda	Private	4
42	Alam Bike Repair Center	Hetauda	Private	5
43	Subir Auto Parts	Hetauda	Private	6
44	Hetauda Auto Parts	Rapti Road	Private	4
45	Prakash Auto Parts	Hetauda	Private	5
46	Saugat Consultancy	Rapti Road	Private Ltd.	2
47	Ozone Education Consultancy	Hetauda	Private Ltd.	4
48	Regal Education Consultancy	Hetauda	Private Ltd.	5
49	Oli and Associate P. (Ltd.)	Hetauda	Private Ltd.	7
50	Global Education Consultancy	Hetauda	Private Ltd.	6
51	Machan Wildlife Resort (P.) Ltd.	Sunachori	Private Ltd.	20
52	Hotel Rapti (P) Ltd.	Hetauda	Private Ltd.	10
53	Seema Hotel	Hetauda	Private	8
54	Lido Hotel (P) Ltd.	Hetauda	Private Ltd.	13
55	Hotel Avo Cado (P) Ltd.	Hetauda	Private Ltd.	12
56	Sringar Sopping Center	Hetauda	Private	10

57	Hetauda Fashion Center	Hetauda	Private	3
58	U. D. Collection	Rapti Road	Private	3
59	Spark Fashion Center	Hetauda	Private	2
60	Choice Point	Hetauda	Private	3
61	Hetauda Samudaik Hospital Ltd.	Hetauda	Private Ltd.	35
62	Kantipur Hospital & Research Center	Hetauda	Private Ltd.	15
63	Rupa Hospital (P) Ltd.	Hetauda	Private Ltd.	20
64	Shanti Hospital (P) Ltd.	Hetauda	Private Ltd.	15
65	Ram Janaki Nursing Home (P) Ltd.	Hetauda	Private Ltd.	10
66	Jana Sewa Stores	Hetauda	Private	3
67	Puja Suppliers	Rapti Road	Private	5
68	Krji Suppliers	Hetauda	Private	4
69	Jaya Stores	Hetauda	Private	3
70	Khanal Stores	Rapti Road	Private	2

Appendix-3

Calculation of Expected Frequencies Under 2 (a) Null Hypothesis (H_0) and χ^2

O	$E = \frac{RT \times CT}{N}$	(O-E)	(O-E) ²	$\frac{(O-E)^2}{E}$
29	$\frac{42 \times 35}{70} = 21$	-8	64	3.0476
7	$\frac{42 \times 14}{70} = 8.4$	-1.4	1.96	0.23
6	$\frac{42 \times 21}{70} = 12.6$	-6.6	43.56	3.4571
6	$\frac{28 \times 35}{70} = 14$	8	64	4.5714
7	$\frac{28 \times 14}{70} = 5.6$	1.4	1.96	0.35
21	$\frac{28 \times 21}{70} = 8.4$	-6.6	43.56	5.1857
	Total			16.8418

Appendix-4

Calculation of Expected Frequencies under 1(a) Null Hypothesis (H_0) and χ^2

O	$E = \frac{RT \times CT}{N}$	(O-E)	(O-E) ²	$\frac{(O-E)^2}{E}$
12	$\frac{23 \times 19}{42} = 10.40$	1.6	2.56	0.2462
6	$\frac{23 \times 13}{42} = 7.12$	1.12	1.25	0.1756
5	$\frac{23 \times 10}{42} = 5.48$	0.48	0.23	0.0420
7	$\frac{19 \times 19}{42} = 8.60$	1.6	2.56	0.2977
7	$\frac{19 \times 13}{42} = 5.88$	1.12	1.25	0.2126
5	$\frac{19 \times 10}{42} = 4.52$	0.48	0.2304	0.0510
Total				1.0271

Appendix-5

No. of Registered Service Industry under Cottage and Small Industry Development, Makawanpur District

Fiscal Year	No. of Cottage Industry	Capital Investment (in Thousand)			No. of Employment	Annual Production Capacity	Electrical Capacity in Horse Power
		Fixed Capital	Current Capital	Total Capital			
2059/60	60	54117	27180	81279	432	124260	102
2060/61	58	52258	26274	78532	418	120118	99
2061/62	72	64872	32616	97488	519	149112	122
2062/63	76	68476	34428	102904	547	157896	129
2063/64	87	78387	39411	117798	627	180177	148

Source: Cottage and Small Industry Development (Branch office Makawanpur)