

**MANAGEMENT ACCOUNTING PRACTICES IN JOINT
VENTURE BANKS OF NEPAL**

By

RAM DIXIT THAPA

Shanker Dev Campus

Campus Roll No.: 493/062

T.U. Regd. No.: 7-2-278-1016-2002

**A Thesis Submitted to:
Office of the Dean
Faculty of Management
Tribhuvan University**



*In partial fulfillment of the requirement for the degree of
Master of Business Studies (MBS)*

Kathmandu, Nepal

August 2010

RECOMMENDATION

This is to certify that the thesis

Submitted by:

RAM DIXIT THAPA

Entitled:

**MANAGEMENT ACCOUNTING PRACTICES IN JOINT
VENTURE BANKS OF NEPAL**

*has been prepared as approved by this Department in the prescribed format of
the Faculty of Management. This thesis is forwarded for examination.*

.....
Shashi Kant Mainali
(Thesis Supervisor)

.....
Prof. Bishweshor Man Shrestha
(Head, Research Department)

.....
Prof. Dr. Kamal Deep Dhakal
(Campus Chief)

.....
Dhruba Subedi
(Thesis Supervisor)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

By

RAM DIXIT THAPA

Entitled:

MANAGEMENT ACCOUNTING PRACTICES IN JOINT VENTURE BANKS OF NEPAL

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the degree of

Master of Business Studies (MBS)

Viva-Voce Committee

Head, Research Department

Member (Thesis Supervisor)

Member (Thesis Supervisor)

Member (External Expert)

DECLARATION

I hereby declare that the work reported in this thesis entitled “**Management Accounting Practices in Joint Venture Banks of Nepal**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Shashi Kant Mainali** and **Dhruba Subedi** of Shanker Dev Campus, T.U.

.....

Ram Dixit Thapa

T.U. Regd. No.: 7-2-278-1016-2002

Campus Roll No. : 493/062

ACKNOWLEDGEMENT

Though management accounting is a new evolving phenomenon of accounting concept in modern business world, whatever the tools and techniques have been developed, are accepted as the inevitable management instruments for effective, efficient and rational decision-making. Realizing this fact, an attempt has been made in this thesis to shed light on the present practice of management accounting tools and techniques in Joint Venture Banks of Nepal.

Firstly, I would like to express my warm gratitude to my thesis supervisors Shashi Kant Mainali and Dhruba Subedi of Shanker Dev Campus, T.U. for their valuable guidance as well as Co-Operation in completing this thesis work. I am also grateful to the campus administration and staffs of Shanker Dev Campus library for their co-operation.

I am thankful to the managers, department chief, respective authorities and staffs of all 7 Joint Venture Banks and Commercial Banks which are taken as sample for this thesis work for providing me all the necessary data and information for my study.

Lastly, I am equally grateful to all the authors, whose books, reports and thesis have been consulted during my thesis preparation period.

Ram Dixit Thapa

TABLE OF CONTENTS

Recommendation	
Viva Voce Sheet	
Declaration	
Acknowledgement	
Table of Contents	
List of Tables	
List of Figures	
Abbreviations	
	Page No.
CHAPTER – I	
INTRODUCTION	
1.1 Background of Study	1
1.2 Evolution of Banking System in Nepal	2
1.3 Statement of the Problem	4
1.4 Objectives of the Study	5
1.5 Importance of the Study	5
1.6 Limitations of the Study	5
1.7 Organization of the Study	6
CHAPTER – II	
CONCEPTUAL FRAMEWORK AND	
LITERATURE REVIEW	
2.1 Meaning of Management Accounting	7
2.1.1 Origin and Evolution of Management Accounting	8
2.1.2 Functions of Management Accounting	10
2.1.3 Objectives of Management Accounting	11
2.1.4 Role of Management Accounting	11
2.1.5 Career Opportunity in Management Accounting	14
2.1.6 Management Accounting in Nepalese Perspective	15
2.1.7 Background and Meaning of Commercial Banks	16
2.1.8 Joint Venture Banks of Nepal	18

2.1.9 Contribution of Banking Sector in Economic Development of Nepal	21
2.1.10 A Brief Review of Management Accounting Tools	23
2.1.11 Cost Classification and Cost Estimation	23
2.1.12 Cost Estimation for Planning and Decision Making	26
2.1.13 Cost Allocation	26
2.1.14 Product/Service Costing Method	28
2.1.15 Cost-Volume-Profit Analysis	30
2.1.16 Budgeting for Planning and Control	32
2.1.16.1 The Budgeting Process	33
2.1.16.2 Elements of Budget	34
2.1.16.3 The Master Budget: A Network of Inter-relationship	35
2.1.16.4 Zero Based Budgeting	40
2.1.16.5 Activity-Based Budgeting	41
2.1.17 Management Control Systems and Responsibility Accounting	42
2.1.17.1 Management Accounting Control System	42
2.1.17.2 Responsibility Accounting	43
2.1.18 Standard Costing Control of Direct Material and Direct Labor Cost	43
2.1.19 Flexible Budgeting	46
2.1.20 Decision Regarding Alternatives in Business Operation	47
2.1.20.1 Process of Decision Making	48
2.1.20.2 Decision Situation	48
2.1.21 Pricing Decisions of Product/Services	51
2.1.22 Long-Term Investment Decisions	55
2.1.22.1 Relevant Information for Investment Decisions	55
2.1.22.2 Investment Projects Evaluation Techniques	56
2.1.22.3 Capital Budgeting Under Risk and Uncertainty	62
2.1.23 Managerial Use of Financial Statement Analysis	63
2.1.23.1 The Statement of Cash Flows	65
2.1.23.2 Presentation of Cash Flow Statement	66

2.1.23.3 Ratio Analysis	67
2.1.24 Practicing of Management Accounting Tools Around the Globe	69
2.1.24.1 Different Pricing Practice and Cost Management Methods in Various Countries	69
2.2 Review of Previous Studies	70

CHAPTER – III RESEARCH METHODOLOGY

3.1 Introduction	80
3.2 Research Design	81
3.3 Sources of Data	81
3.4 Population and Samples	82
3.5 Data Collecting Procedure	82
3.6 Data Processing Procedure	82
3.7 Major Management Accounting Tools	82
3.8 Statistical Procedure	83

CHAPTER – IV PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction	84
4.2 Percentage Analysis of Management Accounting Practice	85
4.3 Hypothesis Test	94
4.4 Major Findings	95

CHAPTER – V SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary	99
5.2 Conclusion	101
5.3 Recommendations	101

Bibliography

Appendices

LIST OF TABLES

Table No.	Title	Page
No.		
4.1	Practice of Management Accounting Tools in the Joint Venture Banks of Nepal	85
4.2	Base for not Practicing any Management Accounting Tools in JVB'S of Nepal	86
4.3	Budget Preparation System in JVB'S of Nepal	86
4.4	Budget Practice in JVB'S of Nepal	87
4.5	Types of Budget Practice in Joint Venture Banks of Nepal	87
4.6	Base for Budget Preparation in JVB'S of Nepal	88
4.7	Capital Budgeting or long-term Investment Decision Practiced in JVB's of Nepal	88
4.8	Basis for Alternative Decision Practiced in JVB's of Nepal	89
4.9	Practice of Pricing Service in JVB's of Nepal	90
4.10	Method of Segregation Mixed Cost into Fixed and Variable in JVB's of Nepal	90
4.11	Cost and Revenue Estimation Practice in JVB's of Nepal	91
4.12	Risk Adjustment Practice used while Evaluating Capital Investment in JVB's of Nepal	91
4.13	Tools used for Evaluation of Overall Performance at the end of the Accounting Year in JVB's of Nepal	92
4.14	Practicing of Pricing for the issue of Inventory in the JVB's of Nepal for Perpetual	92
4.15	Joint cost Allocation in the JVB's of Nepal	93
4.16	The Main Factor that Affect the Decision Making Process in JVB's of Nepal	94

LIST OF FIGURES

Figure No.	Title	Page
No.		
2.1	Role of Management Accountant as a Staff Position	14
2.2	Variable Costing	29
2.3	Cost-Volume-Profit Analysis	31

ABBREVIATIONS

ABB	=	Activity Based Budgeting
ABC	=	Activity Based Costing
ADBL	=	Agriculture Development Bank Limited
ARR	=	Accounting Rate of Return
AV	=	Average
CBN'S	=	Commercial Banks of Nepal
CMA	=	Certified Management Accountant
CVP	=	Cost Volume Profit Analysis
DLH	=	Direct Labor Hour
DMH	=	Direct Machine Hour
GDP	=	Gross Domestic Product
HBL	=	Himalayan Bank Limited
IFIC	=	International Finance Investment and Commerce Bank Limited
IMA	=	Institute of Management Accountants
IRR	=	Internal Rate of Return
JVB's	=	Joint Venture Banks of Nepal
MA	=	Management Accounting
MCV	=	Material Cost Variance
MIRR	=	Modified Internal Rate of Return
MMV	=	Material Mix Variance
MOS	=	Margin of Safety
MPV	=	Material price Variance
MUV	=	Material Usage Variance
MYV	=	Material Yield Variance
NABIL	=	Nepal Arab Bank Limited
NBBL	=	Nepal Bangladesh Bank Limited
NCC	=	Nepal Credit and Commercial Bank Limited
NCO	=	Net Cash Outlay

NIBL	=	Nepal Investment Bank Limited
NIDC	=	Nepal Industrial Development Center
NMB	=	NMB Bank Limited
NPE	=	Nepalese Public Enterprises
NPV	=	Net Present Value
NRB	=	Nepal Rastra Bank
NSBI	=	Nepal SBI Bank Limited
PBP	=	Payback Period
PE	=	Public Enterprises
PI	=	Profitability Index
PPC	=	Profit Planning and Control
PTC	=	Public Trade Companies
SCBN	=	Standard Chartered Bank Nepal Limited
SIDC	=	Small Industries Development Corporation
TPV	=	Total Present Value
WTO	=	World Trade Organization
ZBB	=	Zero Base Budgeting