

**ACCOUNTING PRACTICES AND STANDARDS IN
NEPALESE COMMERCIAL BANKS**

A Thesis

Submitted By:

BHANU BHAKTA KHANAL

Central Department of Management

Tribhuvan University

T.U. Reg. No: 7-1-1-453-2002

Exam Roll No: 280019

Roll No: 369/065-067

Submitted To:

Office of the Dean

Faculty of Management

Tribhuvan University

**In Partial Fulfillments of the Requirements for the Degree of
Master in Business Studies (MBS)**

Kirtipur, Kathmandu

October, 2012

RECOMMENDATION

This is to certify that this thesis

Submitted by:

BHANU BHAKTA KHANAL

Entitled:

“Accounting Practices and Standard in Nepalese Commercial Banks”

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

.....
(Mr. Achyut Gyawali)	(Prof. Dr. Bal Krishna Shrestha)	(Asso.Prof. Ajay p. Dhakal)
Thesis	Chairman	For Head
Supervisor	Research Committee	Central Depart. Of Mgmt.

Date:

VIVA -VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by:

Bhanu Bhakta Khanal

Entitled:

Accounting Practices and Standards in Nepalese
Commercial Banks

and found the thesis to be the original work of the student and written according to the prescribed format of Faculty of Management. We recommend the thesis to be accepted as partial fulfillment of the requirements for the Master's Degree in Business Studies (MBS).

Viva-voce Committee:

Chairperson (Viva-voce committee)

Member (Thesis Supervisor)

Member (External Expert)

Member (CDM)

Date:-.....

DECLARATION

I hereby declare that research work reported as thesis entitled “Accounting Practices and Standards in Nepalese Commercial Banks” submitted to the Faculty of Management, Central Department of Management, Tribhuvan University, is my original work. It is carried out as the partial fulfillment of the requirements for the degree in Master of Business Studies (MBS) under the supervision and guidance of Mr. Achyut Gyawali, Faculty of Management, Central Department of Management, Tribhuvan University, Kirtipur.

Bhanu Bhakta Khanal
Central Department of Management
Campus Roll No.369/065-067
T. U. Reg. No. 7-1-1-453-2002
Exam Roll No. 280019

ACKNOWLEDGEMENT

This study has been prepared for partial fulfillment of the requirement for the master degree in business studies. It is my privilege to complete this thesis entitled "Accounting Practices and Standards in Nepalese Commercial Banks)"which analyzes the accounting practices and stanmdards of some leading commercial banks of Nepal

During the research work many individuals have supported me. First of all, I would like to extend my sincere gratitude to my respected supervisor Mr. Achyut Gyawali, for his constrictive guidance, suggestion, timely supervision and kindly co-operation in completing of this thesis work. His guidance and help has been a great source of encouragement and inspiration to me for bring out of this thesis.

I wish to express my heartily gratitude to Mr. Ajaya Prasad Dhakal, department head, Prof. Dr. Bal Krishna Shrestha, chairman of research committee, Mr. Mukunda Pd. Rimal, admimistrator, and Mr. Rishi Raj Dawadi, chief administrator and all administrative body of this department for their co-operation as well. Thanks are also due to the Managers, officials, and staffs from the selected Joint Ventures Banks. My thanks go to the Central Library, TU, Kathmandu from where I benefited by collecting information. I also wish to express my special gratefulness to my friends for providing necessary suggestion during the preparation of thesis.

Finally, I would like to express my deep sense of indebtedness to my entire family member who inspired and support me in different ways to bring to this thesis in this shape.

Bhanu Bhakta Khanal

TABLE OF CONTENTS

Recommendation	ii
Viva-Voce Sheet	iii
Declaration	iv
Acknowledgement	v
Table of Contents	vi
List of Table	viii
List of Abbreviations	ix

CHAPTER - ONE

INTRODUCTION

1.1	Background of the Study	1
1.2	Focus of the Study	7
1.3	Statement of the Problem	8
1.4	Objective of the Study	10
1.5	Significance of the Study	11
1.6	Limitations of the Study	11
1.7	Organization of the Study	12

CHAPTER – TWO

REVIEW OF LITERATURE

2.1	Conceptual Framework	13
2.2	Role of Commercial Banks in the Economy	19
2.3	Specialized Accounting Field	20
2.4	Accounting Framework	22
2.5	Responsibility of an Accountant in Modern Times in Bank	47
2.6	Accounting for Information	48
2.7	Accounting Information in Decision Making for the Banks	49
2.8	Accounting Information System	49
2.9	Accounting and Reporting Standards for Commercial Banks	51
2.10	Accounting Practices of Commercial Banks	57

2.11 Review of Articles/Journals/Books	64
2.12 Review of Thesis	68
2.13 Research Gap	70

CHAPTER - THREE

RESEARCH METHODOLOGY

3.1 Introduction	31
3.2 Research Design	32
3.3 Population and Sample	73
3.4 Nature and Source of Data	73
3.5 Method of Data Collection	74
3.6 Methods of Data Analysis	75

CHAPTER - FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 Loan Classification and Provisioning	81
4.2 Notes on Accounts	84
4.3 Identification of major Problems of Accounting Practice	85
4.4 Internal Control Aspect	85
4.5 Preparation of Annual Report	88
4.6 Accounting Treatment	91
4.7 Analysis of Data	96
4.8 Major Findings of the Study	112

CHAPTER - FIVE

SUMMARY, CONCLUSIONS & RECOMMENDATIONS

5.1 Summary	116
5.2 Conclusion	118
5.3 Recommendation	119

Bibliography

Appendix

LIST OF TABLE

Table	Title	Page
4.1	Loan Classification and Provisioning	81
4.2	Responses Relating to Adequacy of Internal Control	85
4.3	Responses Relating to the Internal Audit	86
4.4	Responses Relating to the Internal Control Tools	87
4.5	Responses Regarding the Impact of NRB Directives on Accounting	89
4.6	Responses Regarding the Qualitative Characteristics Of Information Presented in Financial Statement	90
4.7	Responses Regarding Implementation of NRB Directives	91
4.8	Current Ratio	98
4.9	Debt Ratio	99
4.10	Debt-equity Ratio	101
4.11	Return on Total Assets Ratio	103
4.12	Return on Total Deposit Ratio	104
4.13	Return on Shareholder's Equity Ratio	106
4.14	Coefficient of Correlation between Current Ratio and Debt Ratio.	108
4.15	Coefficient of Correlation between Current Ratio and Debt Equity Ratio.	109
4.16	Coefficient of Correlation between Debt Ratio and Return on Shareholders' Equity Ratio.	110
4.17	Coefficient of Correlation between Return on Total Assets and Return on Shareholders' Equity Ratio.	111
4.18	Coefficient of Correlation between Current Ratio and Return on Total Deposit Ratio.	112

LIST OF ABBREVIATIONS

ABBS	-	Any Branch Banking Service
A.D.	-	Anno Domini
ATM	-	Automatic Teller Machine
AGM	-	Annual General Meeting
AIS	-	Accounting Information System
B.S.	-	Bikram Sambat
Cr.	-	Credit
C. V.	-	Co-efficient of Variation
D/E	-	Debt-equity
Dr.	-	Debit
Depart.	-	Department
EBL	-	Everest Bank Limited
FIFO	-	First in First out
F/Y	-	Fiscal Year
GDP	-	Gross Domestic Product
Govt.	-	Government
HBL	-	Himalayan Bank Limited
IASC	-	International Accounting Standards Committee
i.e.	-	That is
JVBs	-	Joint Venture Banks
LIFO	-	Last in First out
Ltd	-	Limited
MBS	-	Master in Business Studies
Mgmt.	-	Management
NABIL	-	Nepal Arab Bank International Limited
NIBL	-	Nepal Investment Bank Limited
NRB:	-	Nepal Rastra Bank

OE	-	Owners Equity
RBB	-	Rastra Banijya Bank
SCBL	-	Standard Chartered Bank Nepal Limited
S.D	-	Standard Deviation
SWIFT	-	Society of World Wide Inter Bank Financial Telecommunication
TA	-	Total Assets
TL	-	Total Liabilities
TU	-	Tribhuvan University
UK	-	United kingdom
UN	-	United Nation
U.S.A.	-	United State of America
WTO	-	World Trade Organization
WWW	-	World Wide Wave