CHAPTER -I
INTRODUCTION

1.1 Background of Study

Any organization and person must necessary to keep systematic record to know about day to day transaction. No one can remember all the transactions which are happened and no one can know about the position and performance of any organization. For this purpose a system is necessary to record and analysis of financial transactions. This system is called accounting. Accounting means the process of analysis financial transaction and recording them in the book of account to show the result of financial information. Accounting is one eye of the organization, which shows a path to go ahead.

Accounting system is a means of collecting, summarizing, analyzing and reporting in monetary term the information of the business. Accounting may be defined as the indentifying, measuring, recording and communicating of business information. It is also known as administrative tool, means to an end, which produces the financial information, needs for successful organizer (Hilton, 2009). However, account is a mirror, which shows the clear picture of revenues and expenditure made for specific period.

"Accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money transaction and events which are part at least of financial character and interpreting the result there off"- (American institute of certified public accountants 2009).

"The accounting practice is based on body of principles and procedures design to act as a guide in recording and reporting those affairs and activities of an economic unit that are capable of expression in monetary values"- (Porwal, 2009).

Accounting is used to refer the various activities of the business like recording, classifying, summarizing and communicating the financial information. Its scope is wider than that of book-keeping. Accounting first takes the financial information recorded by bookkeeper and analyses, interprets and communicates them to the various users in the form of financial reports and statements. The main purpose of accounting is to determine the true profit or loss and financial position of the business firm at the particular date and assist the management in decision making process. Truly speaking, accounting starts when book-keeping ends.

Managerial accounting is the process of identifying, measuring, analyzing, interpreting and communicating information in pursuit of an organization goal (Hilton, 2005).

Managerial accounting is an integral part of the management process and managerial accountants are important strategic partners in an organization's management team.

Objective of Managerial Accounting Activity

Managerial Accountants add value to an organization by pursuing five major objectives.

i. Providing information for decision making and planning, and proactively participating as part of the management team in the decision-making and planning processes.
ii. Assisting managers in directing and controlling operational activities.
iii. Motivating managers and other employees toward the organization's goal.
iv. Measuring the performance of activities, subunits, managers, and other employees within the organization.
v. To analyzes the relationship of different component, which affects the accounting standard of selected banks.

Nowadays, managerial accounting analysis is considered so crucial in managing an enterprise that in most cases managerial accounts are integral members of the management team.

"A Commercial institution licensed as a taker of deposits. Banks are concerned mainly with making and receiving payment on behalf of their customer, accepting deposits and making short term loans to private individuals, companies and other organization" (Oxford Dictionary of Business, Second Edition).

Banks are necessary for the development of country. They are important because they are replicated to alleviate poverty and improve standard of living of poor people and make sound economic environment. Commercial banks can contribute allot of to this sphere by demarcating the level and actively bringing all the people in participation.

Bank accounting is the part of systematic recording, presenting and interpreting financial transaction (American institute of banking and the American bankers Association). The Accounting system of banks has certain distinctive features. Bank pay a major role in maintaining confidence in the monetary system through their close relationship with regulatory authorities and government hence there is considerable and wide spread interest in the well being of banks and in particular their solvency and the relative degree of risk that attaches to the different types of their business. Through banks transaction can be recorded in *book* of accounts on double entry principles. Banking transactions special have distinctive special features including the risk with their activities.

According to (Regmi, 2010), "Daily transaction of banks are numerous, interlocked and interdependent, some mistakes are bound to creep in it, if a mistake is committed anywhere it affects other account too, therefore to devise such a specialized system of book-keeping that is could ensure immediate entry of numerous transactions and keep internal check on the book of accounts."

There are certain basic data needs to be satisfied in all banks. Every bank must maintain accounting record to supply data for regulatory reports. Such as the call reports to the NRB, income and dividends reports as well as for tax returns. In addition accounting records must be supply information for report to management, depositors, stock holders, and the public at large accurate and adequate accounting records are essential to a well managed bank (American institute of banking and the American bankers associations).

The regulators tend to focuses on specifying information which is useful for taxation or to protect the economy and do not consider the potential usefulness of the information to prepare.

Commercial banks should be responsible to change the economy and financial activities of the fiscal policy of government. Therefore for transparency, the accounting system of bank should entire significant accounting policies, guidelines and discloser with respect to statutory requirements understanding the financial statements more clearing on presenting. The afore said three elements exigency are conductive to enhance understanding and developing capabilities of financial statements for the users including employees, lenders, suppliers, others, trade creditors, governments, customers, agencies public in general and potential investors (Poudel, 2009).

Seen in this light, the study of accounting practice in commercial banks assumes special importance with today's increasing liberalization and expansion of commercial banking business. It has become increasingly important for the general people to be aware of accounting practice of commercial banks to know about how they are doing and to strengthen the accounting practice and standard to achieve the sound accounting information for them and for all.

Commercial banks in Nepal

The origin of banking is traceable to the accent Assyrians, Babylonians and Athenians but the four runners of modern banks are considered to be the bank of Venice, (1171) the bank of Genoa (1320) and the bank of Amsterdam (1609). The martins bank in London has been operating on its original site since Sir Thomas Gresham, a goldsmith established it in 1563 'at the sign of Grasshopper ". Bank in America is strongly influenced by its heritage although banks have involved into professionally managed and electronically connected brokers (Edmister 1980). The merchant goldsmiths and money lender are said to be the ancestors of modern banking above modern banks, gradually replaced goldsmiths and moneylenders.

The concept of financial institution in Nepal was introduced when the first commercial bank, The Nepal Bank ltd. was established in 1937 as a semi government organization without existence of a central bank in the country. It was established under special banking act.1936 having elementary function of commercial banks. Later on April 26th 1955 the 1st central bank named as the" Nepal Rastra Bank" was established with an objective of supervising, protecting and directing the function of commercial banking activities. Another commercial bank fully owned by the government named "Rastria Banijaya bank" established in 1966 (Regmi, 2009).

There was a long gab of 17 years before new entrants earning in to the banking sector. The Nepal Bank ltd dominated the financial sector of the country for almost 30 yrs without any competitors. Rastra Banijaya Bank and Nepal bank ltd. opened numerous branches covering almost all accessible part of the country. This network of branches greatly helped in mobilizing small saving and movement of capital within the country. it was when, the government gave approval for opening the 1st joint venture bank in 1984, fulfilled the long gap of developing of banking sector . The Nepal Arab Bank ltd thus opened the door for the joint venture bank in Nepal. In 1985 and 1986 two other joint venture banks namely Nepal Indosuez Bank and Nepal Grindlays Bank started their operations. In 1990s, with the liberalization policy adopted by the government other commercial banks came into the market. (Ragmi, 2009).

The inception of Nepal Arab Bank Limited (renamed as Nabil Bank limited since 1st January 2002) gave a new ray of hope to the sluggish financial sector. The very marketing concept of Nabil forced the banks in operation to be more customers oriented and led the influx of commercial banks. (Poudel, 2009) and with the 1990's liberal economic policy adopted by the successive governments, many commercial banks came into being. Presentation of development of commercial banks is as follows;

List of licensed commercial banks in Nepal

1) Nepal Bank Ltd.
2) Rastriya Banijya Bank
3) Nabil Bank Ltd.
4) Nepal Investment Bank Ltd.
5) Standard Chartered Bank
6) Himalayan Bank Ltd.
7) Nepal SBI Bank Ltd.
8) Nepal Bangladesh Bank Ltd.
9) Everest Bank Ltd.
10) Bank of Kathmandu Ltd.
11) NCC Bank Ltd.
12) Lumbini Bank Ltd.
13) NIC Bank Ltd.
14) Machhapuchhre Bank Ltd.
15) Kumari Bank Ltd.
16) Laxmi Bank Ltd.
17) Siddhartha Bank Ltd.
18) Agriculture Development Bank Ltd.
19) Global Bank Ltd.

20) Citizens Bank International
21) Prime Commercial Bank Ltd.
22) Bank of Asia Nepal Ltd.
23) Sunrise Bank Ltd.
24) Development Credit Bank
25) NMB Bank Ltd.
26) Kist Bank Ltd.
27) Janata Bank Nepal Ltd.
28) Mega Bank Nepal Ltd.
29) Commerz and Trust Bank Nepal Ltd.
30) Civil Bank Ltd.
31) Century Commercial Bank Limited

Source: - "Modern Banking System of Nepal" (Regmi, 2009).

The commercial Bank Act 1974 was amended in 1994. This Act removed the entity barriers placed on commercial banks; consequently the door was opened to foreign banks and private sector to start the banking business. The private sectors were encouraged to undertake banking, insurance and other financial activities. At present various jointure banks are opened in Nepalese economic environment. All together there are 32 commercial banks in the operation.
Now the commercial banks have reached to the every nooks and corners of Nepal. There are more than 1000 branches of 32 commercial banks operating in Nepalese economy.

1.2 Focus of the Study

"The accounting practice is based on body of principles and procedures design to act as a guide in recording and reporting those affairs and activities of an economic unit that are capable of expression in monetary values" (Poudel, 2009).

This definition underscores two important points. First, the process of designing of accounting practice. Second, the principle of practices to act as a guide in recording as a guide in recording. The main purpose of this study is to identify accounting treatment and procedure is made by commercial banks listed in NEPSE index. Among the 32 commercial banks five are selected as sample. It is tries to examine accounting practice and standards conducted by commercial banks.

1.3 Statement of the Problem

A sound banking system is important because the key roles it plays in the economy. Intermediation, maturity transformation, facilitating payment flows; credit allocation and maintaining financial discipline among borrowers. Banks provide important positive externalities as gather of saving, allocators of resources and provides of liquidity and payment services. In transaction and developing economics with less well developed financial market, banks typically are the only institution producing the information necessary for intermediation, providing the portfolio diversification required for maturity transaction and risk reduction and helping monitor corporate governance. Even in economic with highly developed financial market, banks remain at the centre of the economic and financial activity and apart from other institution as primary providers of payment services and as a fulcrum for monetary policy implementation (IMF 1996). Hence, there is considerable and widespread interest in the well being of banks and in particular their solvency and the relative degree of risk that attaches to the different types of their business. The operation and thus the accounting and reporting requirement of banks are different from those of commercial enterprises (International Accounting Standards, 1993).

Its systematic record keeping of transaction measures success of any enterprises. In other word, systematic account keeping is one main fundamental of organizations work performance. So generally, all programs keeping accounting using double entry book keeping system. Commercial banks are managing their accounting practice and standards with double entry book keeping system. They do accounting for maintaining daily revenue and expenses as well as monthly budget and program, progress report, trail balance, profit and loss account, balance sheet etc. banking accounting system has long procedure then general accounting and accounting system followed by other manufacturing company. Commercial bank has to manage records of micro loan disbursement, repayment saving and other tasks. It has number of vouchers, register, other forms long procedures and own silent features. Banking accounting system has been developed under long practice of small types of financial sector. BAS has own identification, various terms. It is also controversy and complexity in practice. We cannot apply BAS without special knowledge and training. BAS is not stilling openly studied and analyzed in academic level. So the researcher is motivated to study the characteristics, problems and possibilities of it. The main problem of this research is to analyze and identify them.

Accounting practice of commercial banks is largely governed by the directives issued by the NRB, commercial bank Act.1974, Rastra Bank Act.1955, Foreign exchange Regulation act and companies Act. 1997. Commercial banks are established under company act as a company with limited liabilities on the recommendation of the Nepal Rastra Banks. This commercial bank act has provided various powers to NRB such as a power of inspection and to issue necessary directives to the commercial banks. Hence the context of Nepal various operation and practices depend upon the legislation and supervision of NRB (Thapa, 2010).

It is necessary to bring out strong aspect and practices and analyze the weakness of commercial banking accounting system. How does commercial bank of Nepal follow this accounting system in practice? Why is this system not fully and uniformity applied in branches of commercial banks? What are the practiced and experienced problems they are to be analyzed in this system? How they are preparing various reports for regulatory authority at the same time how they are disclosing the public accountability to the general public and how they are practicing internal accounting system? So that the validity and reliability of the accounting or financial information can be tested. So this research study has tried issues;

- How the commercial banks disclose their financial information?
- How they follow the accounting system in practice?
- Do they apply banking accounting system in all fully and uniformity branches?
- Do they follow the regulatory guidelines on disclosing financial statement?
- Whether the accounting control system is efficient?
- Can we believe the information provided by commercial banks?
- Are there any possibilities for further improvement in the accounting practice?

1.4 Objectives of the study

The basic objective of this study is to examine the accounting practice among commercial banks. How the commercial banks are maintaining their books of account for the internal and regulatory purpose. More especially following are the objectives of this study.

- To identify accounting scenario treatment and procedures is made by commercial banks.
- To examine accounting practice and standards conducted by commercial banks.
- To explain need and viability of commercial banks in Nepal.
- To examine the NRB directives regarding accounting, policy and financial disclosure.
- To analyzes the relationship of different variables, which affects the accounting standard of commercial banks.

1.5 Significance of the Study

For over all development of the country, financial position plays vital role. If the financial position is not strong the other function of production system cannot be properly operated. To discover the possibilities and further important of each commercial banks are necessary. Commercial banks have achieved remarkable growth in recent decades. People expect quick and qualitative facilities from financial institutions, at the same time they expect honesty and soundness from their concerned banks. The accounting practice determines the reliability of information that the financial institutions provide.

Thus this study is significant to the general people at one hand and in other hand this study is significant to NRB as directly regulates the operation of commercial banks in order to regulate and develop the sound banking system. This study will give some direction to the NRB in order to make the transparent accounting practice and to disclose the actual and appropriate financial situations. This study helps to manager of commercial banks too. It will help them to improve the better accounting practice. This study is significant to management shareholders general public, policy maker and academician.

More especially followings are significant of the study;

- Helps in improving the better accounting standard and practice in Nepalese commercial banks.
- Helps in examining reliability of information.
- Helps to NRB in order to make the transparent accounting practice.
- Helps to policy maker, manager, potential investor and lenders act.
- Helps in explaining need and viability of commercial banks in Nepal.

1.6 Limitations of Study

This study is case study of a commercial bank that is it may or may not represent all the financial institution but it defines five commercial banks. They will represent all the commercial banks in some extent. Due to limited time and resources to conduct the study it may have draw backs. The study only focuses on accounting standards and practices of the selected banks only so generalized recommendation may or may not be equally applicable to others although this study, tries to examine the accounting practices and standards of listed commercial banks.

1.7 Organization of the Study

This study organized in five different chapters. Each devoted to some aspects of the study on accounting practices and standards of commercial banks in Nepal. Chapters will consist of;

Chapter 1- Introduction

Chapter 2- Review of literature

Chapter 3- Research methodology

Chapter 4- Presentation and analysis of data

Chapter 5- Summary, conclusion and recommendation

The first chapter deals with the subject matter consisting background of the study, focus of the study, statement of the problem, significance of the study, objectives of the study, limitations and chapter organization of the study.

The second chapter is literature review that includes a discussion on the conceptual framework, role of commercial banks in economy, accounting framework, and accounting for information, accounting information system, accounting practices of commercial banks, review from journals, review from thesis and review from independent studies in Nepal.

The third chapter describes the research methodology adopted in carrying out the present research .it deals with research design, population and sample, nature and sources of data, method of data collection and method of data analysis.

The forth chapter is concerned with analytical framework. It includes the analysis of financial as well as statistical tools.

The fifth chapter is the final chapter which is concerned with the suggestive framework that consists of summary, conclusion and recommendation of the study.

CHAPTER-II
REVIEW OF LITERATURE

Review of Literature is foundation of any kinds of research work. This chapter highlights available literature related to this research, which makes base of knowledge for the study. This chapter is basically concerned with review of literature relevant to the topic “Accounting Practices and Standards in Nepalese Commercial Bank” the more detail description manner. Every present study is based as past research studies. The chapter deals the literature that is available in concerned subject as to my knowledge, research work and relevant study on this topic, review of journal and articles as well as few part thesis related to concept, rules, principles and practices of commercial banks was also review.

2.1 Conceptual Framework

A bank is an institution which collects many from those who have it spare or who are saving it out of their income and lends this out those who require it. In another words, a bank is a financial intermediary accepting deposits and granting loans: offers the widest menu of services of any financial institutions. It helps in the remittance of many from are places to another. In fact a modern commercial bank performs such a variety of functions that is difficult to give a precise and general definition of it (Regmi, 2010). Commercial banks are private and public corporate bodies which, like any other commercial firm, strive to maximize their profit by carrying on transaction in money. (Poudel, 2009) states banks earn some income by providing services, such as opening the current and saving deposits accounts, providing services safe deposit boxes and remittance facilities, collecting cheque, monies etc. to their customers.

Commercial Bank Act 1974 defines the commercial Bank as “a bank which conducts currency exchange transactions, accepts deposits, supplies credit, and perform, commercial dealing other than a bank which has been prescribed as with corporative, agricultural industrial or any other specific objective.

”Commercial banks are the commercial institutions arising at earning profit through dealing with money, accepting deposit and advancing loans. It deals with credit and has the ability to create credit as a multiple of its reserves. It is a unique financial institution that creates demand deposit which serves as a medium of exchange and as a result the bank manages the payment system of the country. In the modern world banks perform such a variety of functions that it is not possible to make an all-inclusive list of their functions and services. Some basic functions of commercial banks:-

2.1.1 Accepting Deposit

According to Regmi, (2010): “The first important function of a bank is to accept deposit from those who can save but cannot profitability utilize this saving them.” He further mentioned types of accounts to attractant saving from all short of individuals, types of accounts are i) Fixed Deposit, ii) Current Deposit, iii) Saving Deposit.

Money in

i) Fixed deposit accounts are deposited for fixed period of time and cannot be withdrawn before the expiry of that period. The longer the period, the higher will be the rate of interest. Rate of interest is higher than that of other types of deposits.

ii) Current deposits are also called demand deposits or demand liabilities, no interest is paid on these accounts, money from and in as much amount as described by the depositors. These accounts are generally maintained by the traders and businessmen who have to make a number of payments everyday (Poudel, 2009).

iii) Saving deposit account aims at to encourage and mobilize small saving of the public. Certain restrictions are imposed on the depositors regarding the number of withdrawal and the amount to be withdrawn in a given period. Cheque facility is provided to depositors. Rate of interest deposits is low compared to that on fixed deposits (Regmi, 2010).

States bank accepts saving deposit from individuals and nonprofit making Organizations. NRB how ever does not bear banks from accepting saving deposit from profit making organization.

2.1.2. Advancing of Loans

The second major function of a commercial bank is to provide loans and advances from the money which it receives by way of deposit (Regmi, 2010). Before advancing loans, banks satisfy themselves about the credits worthiness of the borrowers and of supplies loans or make investment against the guarantee of government, foreign government, or against guarantee provided by any local or foreign bank of financial institution trusted by bank. Bank may provide direct loans and advances to all types of persons against the personal security of the borrowers or against the security of movable and immovable properties. Considering the credit worthiness of the borrowers various types of loans granted by the banks are:-

1. **Overdrafts:** The bank can provide loan through overdraft facility to its customer where customers withdraw more than their deposits. Interest is charged from the customers on the overdrawn amount. Banks generally grant overdraft to persons trusted by the bank.
2. **Discounting bills of exchange:** If a creditor holding a bill of exchange wants money immediately, the bank deposit the amount of the bill in the current account of the bill holder after deducting its rate of interest for the period of loans. The length is generally 90 days. When the bill of exchange matures, the bank gets its payment from the banker of the debtor who accepted the bill.
3. **Money at call:** Such loans are very short period loans and can be called back the bank at a very short notice of say one day to forty days. These loans are generally made to other banks or financial institutions.
4. **Other types of loans:** Banks give loans to the needy customers for productive purpose. Loans are given to the business customer to meet their working capital and long term requirement. Personal customers

take loan against their fixed deposits and for consumer's credit. Small loan for productive purpose is also given to personal customers. Banks are now offering various types of customer loans to personal customers: home loan auto loan, educational loan etc. Similarly, banks also lend to the priority sector and poorer sector as statutory requirement.

2.1.3. Agency Functions

Banks also perform certain agency functions for and on behalf of their customers:

i) Remittance of Fund: Sending and receiving fund to from various places is the need of the day Remittance services of the bank has benefited both the business and personal customers. Fund transfer is made through various modes like demand draft telegraphic payment order, SWIFT (Society of Worldwide Inter Bank Financial Telecommunication) for exchange remittance and other various messages among member banks.

ii) Collection and payment of credit Instrument: Banks collect and pay various credit instruments like cheque, bills of exchange, promissory note bonds etc.

iii) Execution of standing orders: Banks execute the standing instructions of their customers for making various periodic payments. They pay subscriptions, rents, insurance premium etc. on behalf of customers on the standing order.

iv) Acting as Representative and correspondent: According to Commercial Bank Act 1977, Commercial Banks can work as agent of the Rastra Bank on conditions prescribed by it and take custody of collect, hold or redeem amounts bullion or securities or perform similar other functions on behalf of HMG. In the capacity of a commission agent of behalf of customers take off, and arrange for the sale or purchase of shares debenture or securities of limited companies, collect interest dividend etc.

v) Acting as trustee and Executor: Banks preserve the wills of their customers and execute them after their death.

2.1.4. General Utility Services

In addition to agency service the modern banks provide many general utility services as given below:

i) Safe Deposit Locker: Customers keep valuable (ornament and documents) in the bank as bankers offer safe deposit locker service. These lockers can be unlocked only with the joint keys: one of the banks/and the other of the customers (Regmi, 2010).

ii) Traveler's cheques: Travelers cheques are defined as the cheques of 17efinite17. It is so because travelers carry these cheques instead of cash to be away from the risks associated with carrying cash. A traveler signs the cheque while buying and countersigns it while cashing which help the cashing bank determine the confide holder of the instrument Banks issue these cheques to facilitate travelers. These cheques are accepted to in a large number of places the world over (Poudel,2009).

iii) Letter of Credit (L/C): A letter of credit is defined as a letter issued by the bank on behalf of the buyer (applicant) in favor of the seller (beneficiary) expressing its definite undertaking to effect payment for the specified amount provided the seller complies with the terms and conditions stipulated in the letter (Regmi, 2010). There are various types of letter of credit (details on Hand Book to Banking by Bhuwan Dahal and Sarita Dahal). Letter of credit and its financial settlement's details can be obtained from the article of Ram Raj Upadhya on bi-yearly publication "PRASHICHAN" Vol. 48, L/C facials the foreign trade.

iv) Guarantee: A guarantee is infinite and irrevocable under taking by a bank (guarantor) on behalf of its customer (debtor) to make payment up to a specified sum of money to the beneficiary (creditor) on demand in case of default by its customer. A guarantee implies that the debtor fulfils the contract.

However, the bank issues the guarantee never guarantees that the debtor fulfils the contract. This is just a guarantee of financial compensation to the creditor caused by debtors non- performance. Non-fulfillment of the contract by the debtor causes loss to the creditors. (Regmi, 2010).

v) Foreign Exchange Business: Banks also deal in business of foreign currencies. Again, they may finance foreign trade by discounting foreign bills of exchange.

vi) Making venture capital Loans & Supply loans on the basis of co-financing with other banks and financial institution.

vii) Financial advising: Banks offers a wide range of financial advisory service for helping financial planning to consenting to business manager and checking on the credit standing of firm.

2.1.5. Miscellaneous

Services like, Automated Teller Machine (ATM), Anywhere Branch Banking services (ABBS), tele-banking credit card, debit card, Internet Banking, and with the advancement in the technology banks is offering many services to personal and business customers. Internet is the latest innovation of science and technology through it, customers avail a number of banking services from home with few clicks. Because of the absence of cyber law, Nepalese banks have not offered this facility till date.

ATM is an unattended computer terminal that performs basic teller function: dispensing cash, accepting deposits, account enquiries transfer of fund across various accounts including utilities bill payment, statement enquiry, request for a cheque book, recording stop payment instruction etc.

Similarly, because of it revolution1, it is likely that a customer of a bank becomes customer of the whole banking community. Any where Branch Banking service enables a customer of a branch to become the customer of a whole bank.

Customer may acquire information like balance exchange rate and may instruct to do various jobs over phone/fax.

This technological advancement in the banking business has expanded functions of commercial banks. Banks issue various types of cards to their customers. This relieves the customer of carrying burden. Cards are the instrument of payment used to pay the price of goods and/or services in lieu of cash to cash items Bands are issuing credit card, debit card and smart card.

2.2. Role of Commercial Banks in the Economy

Financial institutions are currently viewed as catalyst in the process of economic growth of a country. A key factor in the development of an economy is the mobilization of domestic resources. As intermediaries, the financial institutions help the process of resources mobilization. Policies such as lending to the priority sectors, lending to the educated unemployed people, creation of entrepreneurship in the society are certain example which the government in developing economics tries to implement with the help of financial institutions, furthermore, the selective credit controls imposed in most developing economies, and the proposed regulation of bank credit distribution in some industrial countries are examples of importance attached to the intermediary function of commercial banks as financial institutions (Regmi, 2010).

Financial institutions transfer the resources by mobilizing them from surplus units and in turn lend these funds to deficit unit. Traditionally, Commercial banks had the unique role of mobilizing domestic & foreign savings and allocating them among investors. Legislative and regulatory developments in the last decade have radically changed the business environment for banks. Banking deregulation has been both a cause and effect of the globalization of financial markets in some developed countries have experienced both unprecedented growth and profound structural changes resulting from assets securitization, internalization and reduced segmentation. The cumulative result of the recent development has been the extensive erosion of the uniqueness of commercial banking. Bank products are becoming increasingly in distinguishable from the products of other financial and non-financial firms. Bank everywhere are likely to experience of market decline in their role in direct intermediation or assets transformation. Thus their traditional role of accepting depositing and extending short-term credit are diminishing (International Accounting & Reporting Issues, 2005 Review, UN)

With the expanded role of commercial banks, they are largely responsible for collecting household saving in terms of different types of deposit and regulating them in the society by lending in different sectors of economy. The banking sector has now reached to the most remote areas of the country and has experienced a good deal in the growth of the economy. Deposit institutions have been under increasing pressure from competitors offering new products: while at the same time they lost their monopoly over their normal functions owing to increase competition from other financial and non-financial firms (Poudel, 2009).

2.3 Specialized Accounting Fields

As in many other areas of human activity in the twentieth century, accountants have developed a number of specialized fields. This tendency towards specialization has been caused in large measure by growth in size of business unites, mounting taxes, and increasing regulation of business by law and by and by governmental agencies. Their influences, together with rapid technological advances and accelerated economic growth, have created the need for a high degree of expertness in various specialties.

There was a lack of uniformity in financial reporting practices, which made the comparison of financial statements and reports difficult.

That is why, in many countries, the governments had to prescribe a format, by law, for preparing financial statements. Attempts are also being made towards harmonization of financial reporting practices by international agencies and others, for example the international accounting standards committees, International Federation of Accountants .

Similarly, the “generally accepted accounting principles” are a guide to the accounting profession in the choice of accounting techniques and the preparation of financial statements. It changes in response to changes in the economic and social conditions, to new knowledge and technology, and to demands of users for more serviceable financial information.

It is thus clear that accounting practice is influenced by social-economic, political legal, statutory, professional institutional and other considerations. They have to be in tune with the changing environment. As a result, accounting practices have improved due to a conceptual theoretical framework and a standard setting process (Hilton, 2009).

The role of accounting has been changing with economic and social developments over the past few centuries. The traditional view of accounting as being concerned solely with a historical discretional of financial activities is no longer acceptable. Over a period of time new dimensions has been added to the accounting discipline. Till the first quarter of this century, financial statements & were prepared primarily to reveal the wealth and income earned at the end of the accounting period by the proprietor of a firm.

Classification and summarization reduces those data to relatively small: highly significant and interrelated item that, when properly assembled and reported, describe the financial condition & result of operation of specific economic activity. As an information system, it collects and communication economic other entity to a wide variety of persons whose decision & actions are related to the activity (Dev, 2009).

Accounting Environment

Since accounting “covers the entire administration/management of information for all socio-economic activities and conditions in both micro and macro economic sectors covering internal & external information needs of interested group, a clear analysis and assessment of this accounting environment is of prime importance. The environment in developing and under developed economics is different from that prevailing in developed economics. Naturally, we find sophisticated accounting systems process and procedures in developed economics compared to the simple & obsolete systems and processes in use in undeveloped economics", (Hilton, 2009)

It is now well recognized that corporate activities have economic as well as social impacts on society. We have reached a stage where cost-benefit analysis is considered more significant a limited study of revenues & expenses, environmental pollution. Product of service contributions to consumers and society, physical resources and environmental contributions, human resources as well as community development have come within the domain of corporate social accounting and reporting.

Accounting theory methodology and practice are influenced strongly by requirement in the company's acts of in legal and tax decrees and other regulatory measures, such as Monopolies and Restrictive Trade Practices Acts; Foreign Exchange Regulation Act etc.

This neither increases the comparability and usefulness of accounting information neither the absence of legal and statutory measures nor is their strict adherence desirable. It depends upon the stage of economic and social development in a country. In U.S.A. the private sector is dominant. (Hilton, 2009)

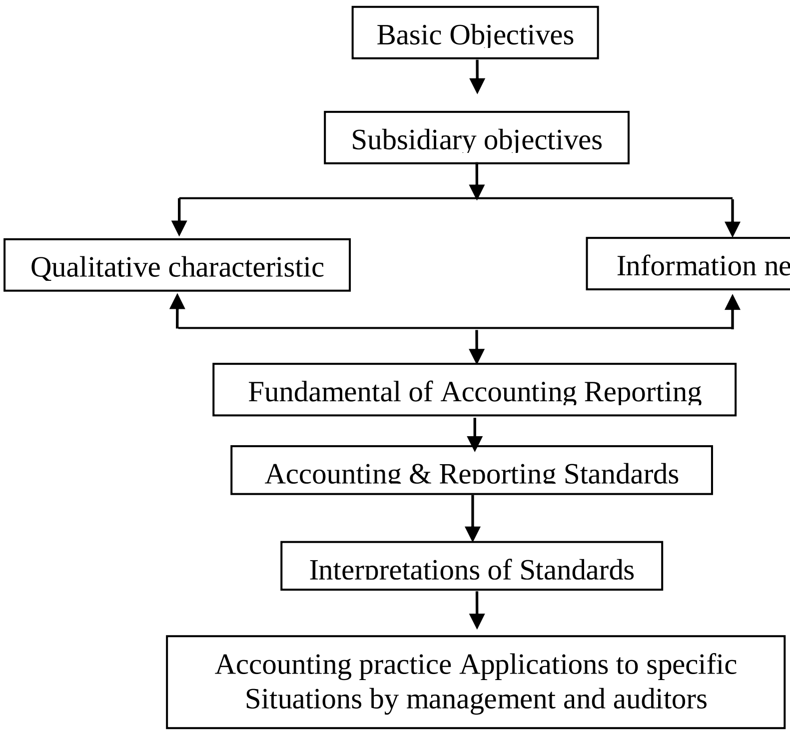
2.4. Accounting Framework

An examination of following figure show that the basic and subsidiary objectives are at the second level of the hierarchy, serving as the first important step for the development of the remainder of the element of the Accounting Practice. Below their objectives, we find the qualitative characteristic to meet and the information need in term of number format and content of financial statement.

On the fourth level of the hierarchy, we find the fundaments of accounting and reporting. By this we mean the definition of assets, liabilities, capital, earning, revenue and expenses and valuation based in accounting. Next- at the fifth and sixth levels accounting and reporting standards and interpretations of standards serve as a guide to accounting practice.

Figure 2.1

Hierarchy of Elements in a conceptual framework for Financial Accounting and Reporting



(Source: FASB Discussion Memorandum “Conceptual framework for Accounting and reporting-consideration A the report of the study group on objectives of Financial Statement”, (2007)

2.4.1. Fundamentals of Accounting and Reporting

While the elements of the structure may differ according to the methodologies used and the assumptions made, a consensus exists on the primary of certain of elements as essential of accounting (Hilton, 2009). Even if different approaches and methodologies are used for the based on a sit of elements and relationship that govern the development of accounting techniques the elements are:

1. A statement of the objectives of financial statements.
2. Statement of the postulates and theoretical concepts of accounting. These are derived the stated objectives.
3. A statement of the basic accounting principle. These are based on both the postulates and theoretical concepts.
4. A body of accounting techniques. These are derived from the accounting principles. These assumptions, based principle and modifying principle are together called operating guidelines.

2.4.2 The Accounting Principles (Concepts and Conventions)

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

A. Accounting Concepts B. Accounting Conventions

A) Accounting Concepts

Accounting concepts may be considered as postulates i.e. basis assumptions or conditions upon which the science of accounting is based. There is No authoritative list of these concepts but some of the usual concepts are discussed here.

i) Business Entity Concepts

This concept implies that a business unit is separate and distinct from the entrepreneurs. This means that account should be kept for the business entity, as distinct from the persons associated with the business entity. “IN practice, difficulties arise in defining the business entity as distinct from the owner, particularly in the case of a bank.

ii) Money Measurement Concept

Money is the only practical unit of measurement that can be employed to achieve homogeneity of financial data, so accounting records only those transactions, which can be expressed in terms of money through quantitative records, are also kept. It is automatically assumed that rupee is a stable unit of measurement. However, it is not turn because of inflation. In accounting all transactions are stated in monetary amounts, whether or not cash is involved. According to this concept employer’s morale is not recorded but wages paid him are recorded.

iii) Going Concern Concept

Another according concept is going concern concept. This means that in the absence of evidence to the contrary, the entity is expected to continue in operation, at least for the foreseeable future. If the accountants made the opposite assumption that an entity was about to go out of business, that would record liquidation values rather than the original exchange prices of transactions. In accounting, It is assumed that the business will continue to operate in the future. Thus transactions are recorded in the books keeping in view the going concern aspect of the business unit.

iv) Cost Concept

The cost principle is that an asset is recorded in the book at the price paid to acquire it and this cost is the basis for all subsequent accounting for the asset.

In another words, accountants record transactions at historical costs that are originally paid for acquiring the assets. The historical cost is assumed to represent the fair market value of the item at the date of the transactions because it reflects the actual use of resources by independent parties. Due to such factors as inflation this amount may be quite different from what an entity would have to pay at a later time to buy or replace the item.

v) Accounting Period Concept

To certain the true and fair financial position of a business entity on a particular date it is reasonable to divide the life of the business into accounting periods. So it is able to know the profit or loss of each such period and the financial position at the end of such a period.

An entity's life is divided into distinct and equal (Comparable) periods in order to make report financial information in a timely and regular manner. IN practice, the size of period for many businesses require are: a month, a quarter or annual basis.

B) 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 follows.

i) Relevance ii) Objectivity iii) Feasibility

i) Relevance

A principle is relevant to the extent that it result in information that is useful to those who want to know something about a certain business. "The conventions relevance emphasizes the fact that only such information should be made available by accounting as is relevant and useful for achieving its objectives. For example, business is interested in knowing as to what has been total labour cost? It is not interested in knowing how much employees spend and what they save."

ii) Objectivity

A principle is objective to the extent that the accounting information is not influenced by the personal bias of those who furnish the information. The convention of objectivity emphasizes that accounting information should be measured and expressed by the standard which are comment acceptable. For example, assets should be record on its cost price not other prices.

iii) Feasibility

The last convention, relating to feasibility, applies to the time, labour and cons of generating accounting data and its accuracy in relation to probable use and resulting benefits.

2.4.3 Principle of Accounting

Financial statements are generated by a company's financial accounting system. Accounting system that not only generates financial statement but also provide additional information about the companies' financial success. To obtain these statements, accounting records an organization' transaction is any event that effect the financial position of an organization and requires recording. Many concepts, convention, and rules determine what events are to be recorded as accounting transaction and how their financial impact is measured (Dev, 2009).

A pre-requisite for the preparation of financial statement is a set of books of account properly maintained and balanced. After ass adjustments and reconciliations have been made at the end of the financial year, the closing entries from the books of account are listed is in two columns of debit and credit entries. This is called a trial balance. If the trial balance is correctly balanced the figures contained in it are used to prepare the trading & profit loss Account and the Balance sheet.

2.4.3.1. Recording of Transactions

A business enterprise engages in variety of transactions, which have to be recorded expeditiously and analyzed if the basic financial statements are to be prepared. It is helpful at this stage to recognize the flow of accounting data in so far records in involved. In sequential order mechanizes of accounting may be summarized as follows:

i. A business transaction takes places.
ii. The transaction is recorded in a document usually called a voucher providing all the necessary details of the transactions.
iii. The transaction recorded in the document or the voucher is then analyzed in order to decide which account should be debited and which account should be credited.
iv. The transaction is than recorded in either one of the special journals like the cash book for cash transaction the sales day book for credit sales transaction and the purchase day book or in the journal proper.

2.4.3.2 Rules for Recording Business Transaction

Accounting to the accounting cycle, details of transaction are first recorded in the journal, often referred to as the book of original entry. However, it is appropriate to fully understand the system of double entry before we begin to record entries in the journal. Double entry system is the recording of the dual effect of each transaction in appropriate accounts.

Rule of the Double Entry System

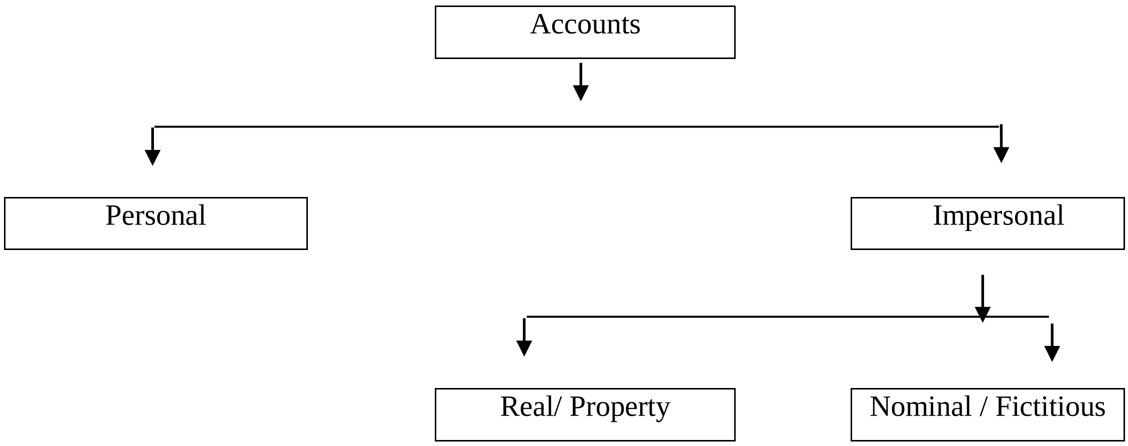
Account: An Accounting records in which the result of similar transactions are accumulated, show increased, decreased, and a balance.

Debit and Credit

An account is divided in two parts. Left-hand side is known as “debit side” and right hand side is known as “credit side”. Amount entered on the debit side (left hand side) are called debits and amounts on the credits side (right hand side) credits. “To debit” means ‘to make an entry in the left-hand side of an account and to credit means to make an entry in the right-hand of an account. Abbreviation used for debit is Dr. and for credit Cr.

Rules of Debit and Credit

a) Account Based Classification



i) **Personal Accounts: Accounts recording transactions relating to individuals or firms or company are known as personal accounts. The rule is “Debit the receiver and credit the giver.”**

Personal accounts may be classified as:

a) Natural person’s personal Account i.e. Shyam A/C

b) Artificial person’s personal Account i.e. A Co Ltd A/C

c) Representative personal Account

In certain cases (due to the matching concept) of accounting the amount on a particular date, is payable to the individuals of recoverable from individuals. Such amount: i) relates to the particular head of expenditure or income and

ii) Represent persons to whom it is payable or from whom it is recoverable. Such accounts are classified as representative personal accounts e.g. Wages outstanding Account, Pre-paid Insurance Account etc.

ii) Real Accounts: these are the accounts of Assets. The rule is

Debit what comes in and Credit what goes out.

Real accounts may be classified as:

a) Tangible real Account

Accounting recording transactions relating to tangible things, such as good, cash machinery etc.

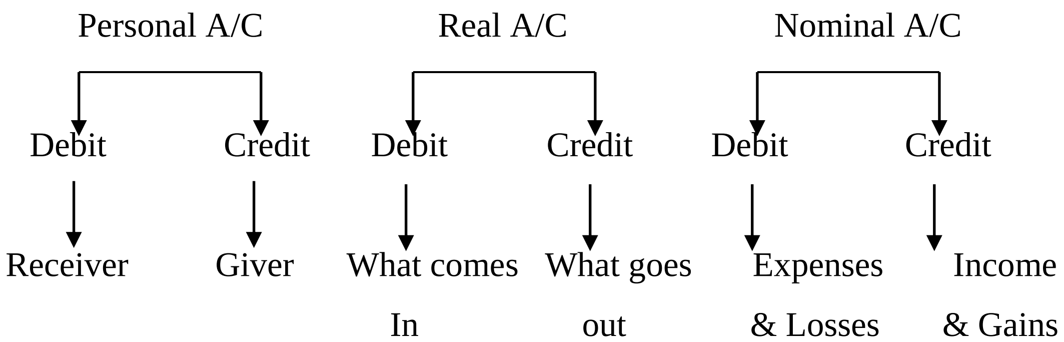
b) Intangible real Account

The accounts recording transactions relating to intangible things such as goodwill, patents, copyright etc.

iii) Nominal Accounts: The accounts recording transactions relating to the losses gains, expenses and incomes are known as nominal Accounts e.g. Salaries A/C, Wages A/C, Commission A/C, Bad debt A/C etc.

The rule is "Debt all expenses and losses and credit all income and gain".

The rules of Debit and Credit are shown in the following chart.



Assets A/C

Dr.	Cr.
Increase +	Decrease -

Capital A/C

Dr.	Cr.
Decrease -	Increase +

Liabilities A/C

Dr.	Cr.
Decrease -	Increase +

Expenses/Losses A/C

Dr.	Cr.
Increase +	Decrease -

Revenue/Profit A/C

Dr.	Cr.
Decrease	Increase

Debit balance = Credit balance

2.4.3.3. Characteristics of Commercial Bank's Accounting System

Although Commercial Banks keep accounting using double entry bookkeeping as other banks, it's accounting system has own special characteristics which are followings:-

2.4.3.4 Provision of 5 Daily Registers

Separately daily 5 registers have been provided for recording of the transactions with clients, personnel and inter-branch transactions:

a) Receipts register: In this register, transactions with clients like as repayment of loan installment, collection of individual and group saving etc.
b) Loan/ saving disbursement register: In this register, the disbursement of loan/saving/interest subsidy is recorded.
c) Other Income register: In this register, receipt amount from the transactions except clients like as personnel, inter-branch account, providing of food and services is recorded with credit voucher.
d) Payment register: In this book, the payment amount related to transaction except clients with debit voucher.

2.4.3.5 Other Provisions

1. Durable goods less or equal to Rs. 1000 should not be capitalized and not depreciated. It is shown as miscellaneous furniture.
2. The diminishing balance method is applied to depreciate of fixed assets.
3. Fixed assets are shown as full price and depreciated amount is included in accumulated depreciation account.
4. First in first out (FIFO) method is used for store issuing.

5. Interest income is based on cash basis and other income is also show as accrual basis.
6. Loan disbursement sheets, collection and repayment sheets are recognized as voucher.
7. Three types of vouchers are used: a) Debit Voucher b) Credit Voucher c) Journal Voucher
8. Four types of passbooks are provided to clients.

2.4.3.6. System of Accounting

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

i) Single Entry System ii) Double Entry System

1) Single Entry System

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

Single entry system can be classified in two headings:

i) Pure single entry ii) Single entry in the popular sense.

i) Pure Single Entry

Under this type of single entry system, 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.

ii) Single Entry in the Popular Sense

Single entry in the popular sense or quasi single are terms covering numerous systems of book-Keeping which, through differing one form the other in detail. It is also known as incomplete form of double entry system. Under this system some subsidiary books are maintained but only those entries are posted which affect personal accounts.

2) Double Entry System

It is an accounting system under which every transaction requires two entries in the books. One against the party of account receiving is known as double entry system of accounting.

Pacioli, first propounded the principle of double entry system in 1494 AD. He described a method of arranging accounting in a way of the dual aspect that is known as double entry system of accounting today.

Every business transaction has two aspects i.e. when a receive something, he gives something else in return. This method of writing every transaction in two accounts is known as Double Entry System of Accounting. Of the two accounts one account is given debit while the other account is given credit with on equal amount. Thus, on any date, the total of all debits must be equal to the total of all credit because every debit has a corresponding credit.

Advantages of Double Entry System

The following are the main advantages, which can be derived from those of double entry system:

a. It provides a complete record of every transaction whether it relates to the personal or impersonal accounts.
b. It provides an arithmetical check on the records, as the total of debit entries must be equal to the total credit of all entries.
c. The amount owing to outsiders and the amount due to the business can be ascertained with the help of personal accounts.
d. The profit and loss account can be prepared with the help of nominal accounts, which is helpful to the business to ascertain the operating result of the business.

e. It helps to prepare the balance sheet of the institution, which is helpful to ascertain the financial position of the business on a particular day.

Dual Effect Concept

S.N.	First effect relating to one account	Identical effect on other account
1.	Increase in Assets	Decrease in Assets. Increase in Liabilities Increase in Owner's
2.	Decrease in Assets	Increase in Assets Decrease in Liabilities or Owner's equity
3.	Increase in Liabilities	Decrease in Liabilities Decrease in Owner's equity Increase in Assets
4.	Decrease in Liabilities	Increase in Liabilities Increase in Owner's equity Decrease in Assets
5.	Increase in Owner's equity	Decrease in Liabilities Increase in Assets
6.	Decrease in Owner's equity	Increase in Liabilities Decrease in Assets

2.4.3.7 Books of Account

A business maintains seven books of prime entry. They are journal, four subsidiary books, the cash book and the petty cash book. Summaries of the records in these books are carried toward to the ledger at periodical/ say once a month, intervals. Sometimes, the cash book may be maintained in the form of a ledger account in which case these would be only six books of prime entry. The balance outstanding in the ledgers: how much the firm owner to each account and how much each account owner to the firm as on the date of posting the summaries.

2.4.3.7.1 Journal

Formerly, the journal had much greater significance than today. Then, only two books ledger and journal used to be maintained. All daily transactions were recorded in the journal and periodically carried over to the ledger.In modern book keeping practice the importance of the journal has been greatly reduced separate books are now maintained for recording credit sales and credit purchases, cash transaction and return of goods sold and purchased. The purpose of the journal is confined to the recording of residual entries which cannot be record in the other books. Some of the entries recorded in the journal are:

- Transaction which cannot be recorded in other books (for example, sales & purchase of furniture’s and fixtures etc)
- Opening & closing entries
- Transfer entries

Table No. 2.1: Format of Journal Entries

Date	Particular	LF	Dr. (Rs.)	Cr. (Rs.)
Yearly Monthly Date	Name of a/c ……….....Dr. To name of a/c ……Cr. (Being ……………..)		××× -	- ×××

2.4.3.7.2 Subsidiary Books

Four important subsidiary books are the sales books, purchase (or buy) book and two books for return in word and returns outward. In addition two books and two bills payable books are maintained to record bill that is bills are maintained to record bill transaction. The sales book and the purchase book are maintained to record daily sales on credit and the daily purchase on credit respectively. The basis for the entries in these books is the invoices drawn by or on the firm. Brief particulars of the invoices are entered daily in the concerned books along with the date of the transaction(s) and amounts. The invoices are filled serially as permanent record.

2.4.3.7.3 Cash Book

The cash book can be maintained as the cash account of the ledger (In which case entries from the cash book will be periodically posted to the ledger) or as a ledger. The modern convention is to maintain the cash a separate ledger.The cash book records all cash transaction that is cash receipt and payments on a daily basis. In addition a petty cash book is also maintained in which entered incidental expenses such as postage, cartage expenses etc. The cash book records all cash transaction that is cash receipt and payments on a daily basis. In addition a petty cash book is also maintained in which entered incidental expenses such as postage, cartage expenses etc.

Large firms find it simpler to route their entire cash transactions through banking Accounts (Current Accounts maintained with banks). IN these cases cash book with only bank columns are kept. Smaller firms may need to keep some cash in the till, while depositing the balance in the bank. This necessitates the maintenance of cash books with cash bank columns. Types of cash book can be broadly classified in to four categories are:

i) Simple cash book ii) Double column cash book

iii) Triple column C.B. iv) Petty cash

According to the rule for Assets Accounts, all cash receipts are posted on the left-hand (debit) side of the cash-book while cash payments are posted on the right hand (credit) side of the book.

Table No. 2.2: Format of Cash Book

Dr. Simple Cash Book Cr.

Date	Particular	LF	Amount	Date	Particular	LF	Amount

2.4.3.7.4 Ledger

The ledger contains three types of Accounts. Personal Accounts are individual Accounts opened in the name of each firm or person (natural or legal) with whom the firm trades in goods on credit terms. Assets Accounts relate to three assets these are cash, goods and capital goods. However, if the firm maintains a separate cash book as a ledger, a separate cash accounts need not be opened in the ledger. If transactions in the personal Accounts are heavy, the firm may maintain separate ledger for Personal Accounts and Capital Goods Accounts.

The Goods Accounts and the Capital Goods Accounts are maintained to record all sales and purchase of goods whether against cash payment or on credit terms. Nominal Accounts in ledger record the entries under the various heads of expenses and incomes, profit & losses. The ledger contains two more Accounts that is Capital Accounts and Drawing Accounts (usually only in the case of partnership firms). These two Accounts showed the firm's own personal account representing the liability to the proprietor or partners or owners of the firm and the deposit in or with drawl from the firm by the partners of the profits of the firm.

As all these accounts are kept in a book is called ledger. There are two ways or presenting account: i) T. Account Format, ii) Columnar account format.

Table 2.3: Format of ledger Account

Dr. Title of Account Cr.

Date	Particular	JF	Amount	Date	Particular	JF	Amount

Table 2.4: Format of Columnar Account

Dr. Title of Account Cr.

Date	Particular	JF	Debit	Credit	Balance

The same account rules apply for both formats that we have discussed earlier for recording (rules for recording business transaction).

As the business grows in size, more than one ledger is required for recording its transactions that have also expanded with the business. Since the bulk of the entries are made in the accounts of debtors and creditors. These two classes of account are taken out of the general ledger and put in separate ledgers. The use of more than one ledger makes it possible to subdivide work and to obtain rapid accounting information when required. To make the general ledger complete by itself, control accounts one to take place of all the debtors and to replace all the creditors are constructed and incorporated within general ledger. The General ledger is, therefore, made self-balancing by the use of control Accounts.

2.4.3.7.5 Trial Balance

Accounting to Hilton,(2009) “Managerial accounting”, the trial balance is extracted from the ledger on a particular date by collecting all debits and credit balances from the ledger as on that day. It will be seen that the debit and credit balances of the trial balance are equal if all transactions have been posted for their debits and credits and also if the balances have been struck correctly. We therefore say a trial balance essentially proves the arithmetical accuracy of the books dept. According to Hilton (2009) the following errors do not affect the equity of the trial balance:

i. Errors of omission: A transaction is omitted completely from the books so that there is no debit and credit entry of transaction.
ii. Errors of commission: An entry is posted to the correct side of the ledger but the wrong accounts.
iii. Errors of principle: An entry is made in the wrong class of account.
iv. Complete reversal of entry.
v. Compensating errors: Errors on one side of the ledger are compensated by errors of the same amount on the other side.
vi. Errors of original entry: The original figure may be incorrectly entered although the correct double entry principle has been observed using this incorrect figure.

The objects of a trial balance are; to provide the arithmetical accuracy of the books and to provide and analysis from which, subject to adjustment, the final accounts can be prepared.

Table No. 2.5: Format of Trial Balance

Trial Balance

S.N.	Particulars	Unadjusted TB		Adjustments		Adjusted TB	
		Dr.(Rs.)	Cr.(Rs.)	Dr.(Rs)	Cr.(Rs)	Dr.(Rs)	Cr.(Rs)
	Total						

2.4.3.7.6 The Profit & Loss Account

The profit & Loss Account or the income statement is the report which is of greatest interest and importance to end users of accounting statements because it enables them to ascertain whether the business operations have been profitable or not during that particular period. Generally, a business is commenced with a view to earning profits. In simple terms if the debit and credit balances from the Nominal Accounts are transferred to a new account. Profit and loss accounts a firm can ascertain whether it is a profit making concern or losing venture.

Table No. 2.6: Format of P/L A/C

Dr. P/L Account Cr.

Particulars	Amount	Particulars	Amount

The balance sheet presents the picture of the assets and liabilities of a business as on a date, which coincides with the last day of the accounting period. It is a classified summary of the balances of the accounts reminding open in the ledger after the balances of the nominal accounts have been transferred to profit and loss account, but includes the balance of that account. In the language of accounting balance sheet communicates information about assets liabilities and owner's equity of a business firm as on a specified date. Assets are resources of the firm which are acquired from funds provided by outsiders, known as liabilities and funds provide by owners, known as owner's equity. This relationship cab be expressed in the following accounting equation (Hilton, 2009).

$$TA = TL+OE$$

Where, TA is total assets, TL is total liabilities and OE is owner's equity, and

$$TA - TL = OE$$

This indicates that the owner's equity is the firms remaining resources after the obligations of outsiders have been taken care of.

Table No. 2.7: Format of Balance Sheet

Balance Sheet

Liabilities	Amount	Assets	Amount

2.4.3.8 Principle of Accounts

Basic accounting principles are general decision rules, which govern the development of accounting techniques. Dome called them basic accounting features. The principles that we shall discuss in brief are: the revenue principle, the cost principle, the matching principle, the objectivity principle and the full disclosure principle. The exceptions or modifying constraints are: materiality, consistency, conservatism, timeliness, and cost benefit and industry practice.

a) 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 record when two main criteria have been met.

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

b) 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, shook is matched to the revenue derived from the sale for that merchandise during the period. Expended that cannot be matched with revenues are assigned to the accounting period in which they are incurred.

Recognized Revenues – matched expenses = Net income for the period

c) The Revenue Principle

Expenses are using or consuming of goods, and services in the process of obtaining revenues, for accounting purposes, and expenses are recognized in the period in which it incurred which is not necessarily the same as the period in which cash is paid. The period an expense in deemed to be incurred is the period in which the goods are used or the services are received.

Costs are generally recognized when an entity's economic benefits are used up in delivering or producing goods, rendering services or other activities that constitute its ongoing major or central operations to provide reduced or further benefits.

That is why depreciation is treated as expenses. Expenses are measured by the valuation of the goods or services used or consumed. The acquisition cost or historical cost has been regarded as the appropriate valuation basis for which has lost some of its validity due to excursive inflation. The question that is being debated is: will the valuations of expenses at historical coast lead to correct determination of income in a situation, where prices are no more stable? Proper recognition and measurement of revenues and expenses are necessary to determine the income correctly. See detail on recognition of expenses into Hilton’s Managerial accounting 2009.

d) Principle of Objectivity

The principle of objectivity has meant different things to different writers. Various writers state that the objectivity implies that all accounting transactions should be evidenced and supported by business documents i.e. invoices, vouchers etc. The evidence substantiating the business transactions should be objective i.e. free from the bias of the accountant or others. These supporting documents from the basis for record of entries and of audit are recorded based on documentary evidence is readily and objectively verifiable and universally acceptable (Hilton, 2009).

e) The Full Disclosure Principle

The full disclosure principle "specifies that there should be complete and understandable reporting on the financial statements of all significant information relating to the economic affairs of the entity" (Paul, 2009)

To meet the requirements of this principle, all published financial statements are supported by a section called "Notes to the financial statements, Presentation of information necessary for the optimum operation of efficient capital markets." Signifies disclosure in financial reporting according to Mandrakes, a complete set of financial statements normally includes a balance sheet, a income statement, a statement of changes in financial position which may be presented in a variety ways, for example, as a statements of cash flows or a statements and explanatory material that are an integral part of the financial statements. They may also include supplementary schedules and information based on or derived from and expected to read with such statements (Paul, 2009).

2.4.3.9 The Exception or Modifying Principles

The objectives of financial reporting, the postulates and the concepts provides a general framework for the development of accounting Patrice without certain special qualities, the principle might not fulfill the needs of the users of these principle and reports. The users of financial statements of underdeveloped countries large mass of data, and interpret the same in order to make predictions. Therefore, financial statements should be prepared after taking into consideration the ability of the users to assimilate the details constrained there in. There should be qualitative characteristics of financial statement understand ability, relevance, reliability faithful representation, neutrality, prudence, completeness, comparability the basis principle.

To be reliable the information in financial statements must be complete within the bounds of materiality and cost. Users must also be able to complete the financial statements of different enterprises in order to evaluate their relative financial position, performance and changes in financial position. Hence, the measurement and display of the financial effect of like transactions and other events must be carried out in a consistent way throughout an enterprise's. Compliance with International Accounting Standard, including the disclosure of the accounting polices used by the enterprise, helps to achieve comparability.

a) Cost-Benefit Principle

The balance between benefit and cost is a pervasive constraint. The benefits derived from information should exceed the cost of providing it. It does not mean that to save cost, very little information should be given to users. In fact, the information should be given enough to reduce the uncertainty in decision-making. The benefits should be measured from the user's point of view (Hilton, 2009). The evaluation of benefits and costs is however, substantially a judgmental process. Furthermore, the costs do not necessarily fail on those users who enjoy the benefits. Benefits way also be enjoyed by users other than those for whom the information is prepared; for example the provision of further information to lenders may reduce the borrowing cost of an enterprise.

b) Materiality

American Accounting Association defines the term materiality as "An item should be regarded as material if there is reason to believe that knowledge of it would influence the decision of informed investor". It refers to the relative importance of an item or events (Pillai & Bagavati, 2008).

Materiality in its essence is of relative significance. All material information should be disclosed that is necessary to make the financial statement clear and understandable. Information is material if its omission or misstatement could influence the economic decision of users taken on the basis of the financial statement (IASC). The fundamental accounting principle of materiality must be followed without exception for each transaction when the amount involved in the transaction is material, i.e. Significant in relationship to the overall financial effect.

c) Consistency

The consistency principle holds that in the accounting process, all concepts principles and measurement approaches should be applied in a similar or consistent way from one period to the next in order to assure that the data reported in the financial statements are reasonably comparable over time (Dev, 2009). If there are frequent changes in the treatment of accounts there is little or no scope for reliability.

This principle does not allow changes at will from one accounting approach to another. It however permits changes in accounting techniques if it is likely "to improve the measurement of financial results and financial position, e.g. switching over the FIFO method to LIFO method of inventory valuation during inflation, or changing over to straight line method from diminishing balance method of changing deprecation. (Koirala, 2011)

The auditors are required to make a mention in their audit reports if the financial statements are not prepared in conformity with GAAP applied on a basis consistent with that of the preceding your. The application of the consistency principle makes financial statement more comparable and more useful.

d) Conservation

According to Koirala (2011),“Principle of Accounting" conservation or prudence is observed when reporting all accounting information. Cautions accounting practices are observed so that assets are neither over rated nor liabilities is underrated". The prepare of financial statements do however, have to contend with the uncertainties that inevitably surround many events and circumstance, such as the collecting ability of doubtful receivables, the probable useful life of plant and equipment and the number of warranting claims that may occur. Such uncertainties are recognized by the disclosure of their nature and extent and by the exercises of conservation or prudence in the preparation of the financial statement (IASC, 2008).

However, the exercise of prudence does not allow for example, the creation of hidden reserves or exercise provisions, the deliberate overstatements of assets or income or the deliberate overstatement of liabilities or expenses because financial statement would not be natural and therefore not have the quality of reliability (IASC,2008).

e) Timeliness

If there is due delay in the reporting of information it may lose its relevance management may need to balance the relative merits of timely reporting and the provision reliable information. To provide information on a timely basis it may often be necessary to report before all aspect of a transaction or other event are known thus impairing reliability. Conversely, if reporting is delayed until all aspects are know the information may be highly reliable but of little use to users who have had to make decision in the interim (IASC, 2008)

One of the primary qualities derived in useful accounting information is that it should be relevant. If relevance the information that is given to the users of financial reports should be current and supplied frequently (Hilton, 2009).

f) Industry Practice

Practical consideration may, however require departure from the basic principles discussed above. The unique characteristics or unusual nature of some industries and business enterprise require the use of different accounting methods and procedures to produces realistic and useful financial reporting, (Hilton, 2009).

2.5 Responsibility of an Accountant in Modern Times in Bank

Traditionally, the accountant was expected to compile and present the financial information to the owners of the entity at the end of the accounting period. But with the advent of cost accounting, management 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) Control Function c) Planning Function

a) Financial Function

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

i) Funds are obtained at the lowest cost, and
ii) Funds are optimally user 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 sources should be used to raise the funds for a particular project?
- Ways and means of getting maximums benefit out of the use of funds?

b) Control Function

Account of the bank has to do the following to discharge his responsibility of being the controller.

- To communicate the goal as approved by the management to individuals in their respective fields.
- To make all the managers and various other persons leading their units, aware of their responsibility and asset them in achieving their goals as efficiently as possible.
- To look after the co-ordination of various activates of all the organizational units so as to optimize results.
- To evaluate the performance and the degree on achievement of various responsibility centers as completed to the goals set for them and asses their efficiently.
- To identity areas of unsatisfactory performance and asset in the formulation of corrective measures.

c) Planning Function

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

- Selection of one alternative out of many e.g. drops or continues decisions 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.

2.6 Accounting for Information

Accounting is a system of generating and communicating financial information to tabulate the result of operation of as enterprise. The information may be needed by both inside and outside the commercial banks. External endures refers to persons outside the management of the commercial banks such as creditors, shareholders, government, bankers etc. Internal endures include the management personnel working with in the commercial banks.

i) Selecting out of alternative Proposals.
ii) Controlling acquisition and maintenance of inventories (Stock), cash receipts and payments.
iii) Planning or budgeting for the future.
iv) Appraising the performance.
v) Dividing remedial measures for the deviations of the actual results from the budgeted targets.

2.7 Accounting Information in Decision Making for the Banks

Manager of a branch usually will develop a working plan for operating the bank. As the bank operates, resources flow in from loan and borrowing and other services and flow out for loan disbursement and expenses. On a continuing basis, the manager needs information about sources and amounts of funds, revenues, expenses, the amounts invested in equipment and inventory, the cash position, the amount spent for research and development and the amount of money used in the providing service 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 bank. Second, accounting information reports what the source was during the immediate past periods. This score keeping is important to the evaluation and control of performance.

2.8 Accounting Information System (AIS)

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

Input → Process → Outputs

↓

Feedback ← Environment

A system receives inputs as mean, materials, money and machines and so on. Processes them, and generates such outputs as finished products or services. The system models of an entity are drawn in the above figure. Accounting information system is an invaluable asset of the bank, no organization cannot run without an accounting information system of its own. The importance of accurate, reliable and timely data and information is required for performing management functions while planning controlling and decision-making.

Traditionally, accounting system was concerned with only financial accounting i.e.: The areas 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 transaction maintain ledger, prepare financial statements and report to the interested external parties. Besides, the traditional accounting systems were of little use for the management while planning and controlling and making decisions. For this purpose, management accounting system is developed. In another words management accounting system is a "Resources 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 the analysis of present situation and forecasting the future prospects.

Data processing Cycle in Accounting

Source document → Journal → Ledger → Trial Balance → Financial Statement

↓ ↓

→ Files → Other reports and analysis

Collection: Refinement; Processing and Maintenance

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

AIS Sub System

The major subsystems of AIS can be categorized in various ways. The given figure shows the functional sub system of a small business.

Accounting Information System

Purchasing Cycle | Production Cycle | Revenue Cycle | Planning Cycle | Reporting Cycle | Financial Cycle

Accounts Receivable | Inventory | Account Payable

Subsystem of AIS identified with the major transaction cycles.

2.9 Accounting and Reporting Standards for Commercial Banks

Guidance in the area of accounting and disclosure by enterprises generally and by commercial banks in particular has been provided by a number of international, regional and national organizations. A description of the international guidance that currently exists as follows:

2.9.1 Inter Governmental Working Groups of Expert on International Standers of Accounting Reporting (ISAR)

ISAR Previously studied main objectives of general purpose financial statements and the broad concepts and underlines their preparation and presentation. The result of this study and the recommendation of the working groups are contained in the publication objectives and concepts underlying Financial Statements (New York, UN, and Sales No. E. 89 II A). A clear statements of objectives and concepts is useful is formulating national standards on accounting & reporting. The above mentioned UN Publication contains information on the objectives of financial statements in providing useful information to all users, the characteristics of useful information, the elements structure and general concepts underlying financial statements and comment about some specific companies of Financial Statements. These general accounting principles apply to both financial and non-financial entities.

ISAR has also issued guidance on accounting and reporting for specific matters, which is contained in the publication "Conclusions on Accounting and Reporting by Transactional Corporations (New York and Geneva: United Nations 1994, sales no. E. 94 II A). Some of the sections which apply to commercial banks are those dealing with objectives and principle of accounting & reporting consolidated Financial Statements; foreign currency transactions and translation; accounting for inflation; disclosure of accounting policies; information items for general purpose reporting and contents of the Boards of Directors reports."

2.9.2 European Union

The council of the European Union has issued a directive which relates to accounting and reporting for commercial banks-council Directive of 8 December 1986 on the Annual Accounts and Consolidated Accounts of Banks and other financial institution (EEC). It contains regulations on the layout of bank balance sheets and profit and loss accounts special provisions with regard to certain items in those financial statements; valuation rules; contents of notes to the accounts; Provisions relating to consolidate accounts; and auditing and publication of the accounts.

2.9.3 Basle Committee on Banking Supervision

The Basis Committee has been working for a number of years on guidelines for the capital requirements for banks, and this has resulted inter alias in the International Convergence of Capital Measurement & Capital Standards (1988) and the Amendment to the capital Accord to Incorporate market Risk (1996).

More recently the Basle committee has been working with the Technical committee of the International organization of securities commission to study banking exposure problems relating to financial derivative transactions. Two documents were jointly issued in 1995 by the Basle Committee and International organization of securities commission:

i) Framework for supervisory Information about Derivatives Activities of Bank securities Firms.
ii) Public Disclosure of the trading and Derivatives Activities of Bank & securities firms.

2.9.4 International Accounting Standards Committee (IASC)

IASC has laid down a framework for the preparation and presentation of financial statements as well as international accounting standard committee (IASC) in a number of specific accounting and disclosure subjects IAS 30. Disclosures in the financial statements of Banks and similar Financial Institutions; is particularly relevant to the current topic IAS 32. Financial Instruments; Disclosure and presentation, a standard issued in 1995, also apply to commercial banks.

The users of bank financial statement need a better understanding of the special operation of a bank and in a particular its solvency, liquidity and also the relative degree of risk that attaches to the different areas of its business. The objectives of this IAS are to describe the reporting requirement of a bank, encourage management to provide a commentary on the financial statements that describes the way it manages and controls its liquidity and solvency as well as the full spectrum of risk associated with the operations of the bank (Regmi, 2010).

Although a bank is subject to supervision and provides the regulatory authorities with information that information is not always available to all users. Therefore, disclosure in the financial statement needs to be sufficiently comprehensive to meet the needs of user and within the reasonable constraints.

2.9.5 National Accounting Standards

Nepal Rastra Bank (NRB) is the central bank of Nepal and the banker to Government of Nepal. It was established in 1955 by the NRB Act, 1955 (which was repeated in 2002 by the new NRB Act, 2002), as an autonomous corporate body with perpetual succession. It is fully owned by HMGN and managed by HMGN. The NRB authorize NRB to issue mandatory directives to commercial banks and financial institutions in banking on banking operations, currency and credit. So far, NRB has issued 10 directives dealing respectively with maintenance of minimum capital fund by commercial banks, loan classification and loan loss provision, limit on credit exposure and facilities to a single borrower, group or sector, accounting policies and format of financial statements minimization of inherent commercial bank risk; good corporate governance; time frame for implementation of regulatory directives; investment in share and securities; statistics and information to be furnished to NRB; and transfer or sales of shares of the promoters, (NRB Banking and financial institutions supervision Department, 2002).

The NRB Directives Published by NRB

Banking and financial institution supervision Department (2002A.D.) have prescribed principle accounting policies for commercial banks dealing with disclosure of accounting policies; consistency in accounting head; notes on accounts; and contingent liabilities. Commercial banks are required to publish their annual financial statements in public newspapers, and to created Audit committees and carry out internal audits.

The following five Acts govern most banks and finance companies, the commercial bank act 1974; the Agricultural Development Bank Act 1996. All these Acts have remarkable similar provisions governing operations and financial management of banks and finance companies. All are required to be set up as limited liabilities companies except those prepare accounts according to the law, and only with the authorization of NRB. All have to prepare accounts according to the directives issued by NRB; provide statistical and other information periodically as required by NRB, have their annual financial statement prepared in a format approved

by NRB, and audited within five months following the end of the fiscal year; lay the audited accounts before the annual General Meeting; which also appoints their auditors from a list approved by NRB, and only for three successive items. In addition to the matters auditors are required to specify by the company act 1997, auditors of all these three types of banking institutions also have to specify eight to ten matters, including for example whether transactions conducted by the bank are within the scope of its authority and whether or not works has been done in accordance with directive of NRB.

2.9.6 Fair Presentation and Compliance with Nepal Accounting Standards

- Financial statements shall present fairly the financial position, financial performance and cash flows of the entity. The appropriate application of Nepal Accounting Standards, with additional disclosure when necessary, results, in virtually all circumstances, in financial statement that achieve a fair presentation.
- An entity whose financial statements comply with Nepal Accounting Standards shall disclose that fact. Financial statements shall not be described as complying with Nepal Accounting Standards unless they comply with all the requirements of each applicable Standard.
- Inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used or by notes or explanatory material.
- In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard would be misleading, and therefore departure from a requirement is necessary to achieve a fair presentation, an entity shall disclose.
- In order to ensure that financial statements that states compliance with Nepal Accounting Standards will meet the standards required by users,

this Standard includes an overall requirement that financial statements shall give a fair presentation, guidance on how the fair presentation requirement is met and further guidance for determining the extremely rare circumstances when a departure is necessary. It also requires prominent disclosure of the circumstances surrounding a departure (accstd NAS1).

2.9.7 Objectives of Accounting Standards

The objective of this Accounting Standard is;

- To prescribe the basis for presentation of general purpose financial statements.
- To ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities.

To achieve this objective, this Standard sets out overall considerations for the presentation of financial statements, guidelines for their structure and minimum requirements for their contents. The recognition, measurement and disclosure of specific transaction and events are dealt with in other Nepal Accounting Standards (accstd NAS1).

2.9.8 Policies of Nepal Accounting Standard

- Management shall select and apply an entity's accounting policies so that the financial statements comply with all the requirements of each applicable Nepal Accounting Standard. When there is not specific requirement, management shall develop policies to ensure that the financial statements provide information that is; relevant to the decision and reliable in that.
- In the absence of a specific Nepal Accounting Standard, management shall, whenever practicable, adopt the relevant International Accounting Standard and use its judgment in development an accounting policy giving consideration to definition, recognition and measurement criteria for assets, liabilities, income and expenses set out in the framework to

provide most useful information to users of the entity's financial statements.

- Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements. (accstd NAS1).

2.10 Accounting Practice of Commercial Banks

The main function of a bank is to deal with cash. Double Entry System of Book-keeping is adopted in banking companies. The slip system is popular in banks for efficient and quick record of all transaction. There is not a separate system of maintaining accounts but only a device to expedite the posting in personal ledgers of the customers. The day to day transactions of a banking company being numerous and the accounting entries are to be completed before the completion of transaction, the slip system is quicker and speedier apart from smooth flow of work. The main slips are pay-in-slips withdrawals cheques etc. Clients of the bank fill in the slip. These slips serve as a basis of entry in ledger, which are analyzed on the basis of these slips. For instance when a pay in slip is duly filled in and given to the counter along with cash, the cashier sings of the counter foil which is returned to the client. The portion retained by the cashier, passes on to the concerned persons, who make entries in the concerned ledger and lastly go to file. Thus the slip system keeps the accounts up to date, apart from speedy work by avoiding subsidiary books. The slip can be passed vary easily instead of bulky registers from person to person (Pillai & Bhagvati, 1998)

The general ledger of a bank contains control accounts of all subsidiary ledger apart from other accounts, e.g. assets account contra accounts (for letter of credit, bills received and sent for collection guarantee give), etc. Subsidiary ledgers include the personal ledgers of customers' i.e. current account, saving accounts, fixed accounts, cash certificate, loans, cash, credits etc. Various types of bills registers are also maintained for bills purchased, inward bills for collection and outward bills for collection. Other subsidiary register include those for demand draft, telegraphic & mail transfer letters of credit and guarantee letters. The large banks also maintain separate subsidiary ledger for detailed expenses heads.

Banks maintain a day-book to record entries chronologically. Each department of the bank also maintains a journal to record the entries originating from the department. These departmental journals are memoranda books only. Further Gupta's has given the accounting procedures that are private in the banks. He has emphasized on following aspects of banks.

- The ledger and other books of account are kept up to data (normally, entries in the customers ledger are made directly from the original documents i.e. cheques, pay-in-slips and other voucher. At the end of each day all original documents are classified and their summarized totals are posted to the control accounts in the general ledger.)
- The trial balance of the general ledger is extracted and agreed every day.
- Trial balance of customer's ledger is prepared periodically and agreed with the balance in the general ledger control accounts to ensure their accuracy.
- The bills registers other subsidiary registers, departmental journal etc. are kept up to date and are subject to suitable internal checks.
- Controls and records maintained on computers.
- Where the system of ATM's (Automatic Teller Machines) is prevalent, adequate control should exist on hardware and other system.

The main characteristics of banks system of book keeping can be given as:

a) Direct posting from vouchers: Entries in the personal ledgers are made directly from vouchers instead of being posted from the books of prime entry.
b) Preparation of summary sheet: The vouchers entered into different personal ledger each day summarized on summary sheet and then totals of which are posted to the control accounts in the general ledger.

c) Daily preparation of trial balance: The general ledger trial balance is extracted and tallied every day.

d) Rigorous and continuous check: Entries detailed in the personal ledgers and the summary sheets are checked by person other than those who have made the entries. A considerable force of such checks is employed, with the general result that most clerical mistakes are detected before another day begins.

e) Control Accounts: A trial balance of the detailed personal ledger is prepared periodically, usually every two weeks, and agreed with general ledger control accounts.(Garrison, 1998)

2.10.1 Internal Accounting Audit and Control (IAAC)

In view of the numerous risks inherent in their business, financial institutions need well-developed control system to manage and control such risks. These risks are exacerbated by the high volume and value of transactions and the fundability of the medium of most transaction money. The internal accounting control systems can range from the most sophisticated artificial intelligence systems to the maintenances of a fundamental segregation of duties. There is often a highly regulated system of review and approval and a strong emphasis on exception transactions monitoring and reporting (Hilton, 2009).

Most of the banks establish internal and it function that may be an important elements in the system of internal accounting control. This department is normally changed with reviewing compliance with the control system on an ongoing basis. This emphasis on internal accounting control is also in response high degree of regulation in many sectors of the financial service industry. Banks are subjects to examination by various supervisory agencies that focus on the control in place to safe guard the institution its assets and its customers.

NRB's regulatory directives also strongly emphasis on internal accounting controls. NRB has given the regulatory directives regarding internal audit and control. Banks shall develop the procedure work method to perform within the rules regulations and legal provision in order to make effective internal control. It emphasizes on development of control mechanism that must include following maters.

- Development of procedure regarding appraisal of banks true condition and safe guarding bank assets; bank management and internal control system.
- Procedure of testing reliability of banks statistics.
- Procedure of managing financial risks (liquidity, Assets/Liability, foreign exchange management)
- Procedure of assets quality appraisal.
- Procedure of investigation the behavior of loan flow, Treasury operation, foreign exchange management, liquidity management capital adequately, human resource management information system including the compliance with legal provision of the banks, (Pandey, 1997).

2.10.2 Reporting Issue

The annual accounting statements or financial statements as they are called are classified summaries of the books of account. There are several objectives for compiling the financial statements. The main function of these statements is to convey relevant information to the users who are divers; users may be the board of directors, owners/shareholders, statutory authorities: creditors, prospective investors, business economists, research scholars, and so on. In almost all countries, corporate bodies have to prepare financial statements in accordance with the provisions of prevailing company legislation. Non-corporate bodies through not subject to strict legal supervision (audit for instance) are nevertheless required under compulsion of revenue laws to declare their annual revenue, profits or losses etc. in a prescribed manner (Koirala et. al, 2011).

In Nepal, the companies Act, 1997 lays down in sections 82,83,84 the Account of company, preparation of annual account and report, balance sheet profit and loss account. Section 83 provides the type of annual account and that have to be prepared by the board of directors of a public company every of its annual general meeting and in the case of a private company, within 60 days of the expiry of its fiscal year. The annual account relate to:

a) Balance sheet up to the last date of the fiscal year.
b) Profit & loss account of the fiscal year.
c) Description of cash flow of the fiscal year.

According to the commercial bank act 1974, sec. 25 the bank shall prepare its balance sheet and profit and loss account according to the form and procedure prescribed by the Rastra Bank, and complete their audit within a period of five months from the date of expiry of its financial year. The balance sheet and profit and loss account shall bear he signature of the executive chief the chief accountant, and of more than half of the directors of the bank. The balance sheet and profit and loss account so audited shall be published in prominent news papers for the information of the public.

In case of bank, the bank should prepare its balance sheet and profit and loss account according to the form and procedure prescribed by the Rastra Bank, and complete their audit within a period of five months from the date of expiry of its financial year. The balance sheet and profit & loss account should bear the signature of the executive chief the chief account, and of more than half of the directors of the bank. The balance sheet and profit and loss account so audited shall be published in prominent news papers for the information of the public Commercial Bank Act (1974, sec. 25). The bank should regularly submit financial & other necessary to the forms and within the time limit prescribed by the Rastra Bank.

Commercial bank act, companies act, and NRB's directives requires Annual Report to be prepared that should include the following minimum financial information.

a) A balance sheet which summarize the financial condition of the bank at the reporting date.
b) Profit and loss statements, which summarized the income, profits and loss of the bank resulting from its operations for the reporting period.
c) A statement of cash flow showing the cash receipts and disbursement on operating activity, investing activity and financing activities.
d) Notes to the financial statements which constitute an integral part thereof, notes should contain a report on the summary of significant accounting policies, description of capital, retained earning capital reserves accounts etc. adjustment for inflation foreign currency transaction adjustments taxes on incomes, etc.
e) A statement by the board of directors.
f) An auditor's opinion on the statements based upon his/her examination.

All banks shall comply all such directives in case such directive is not complied with action may be taken according to the Nepal Rastra Bank Act (1974).

2.10.3 Bank Auditing

In almost all countries an independent auditor examines the accounts of banks. These examinations tend to be of two types where the auditor concentrates on whether the accounts are properly prepared in accordance with national laws and regulations, and more thorough review and examination of the business and individual transaction of the business and individual transactions to ensure that the financial statements reflect a true and fair view of the banks statements of affairs and the results of its operations (UN, 2005).

The commercial Bank Act 1974, States that the accounts of the bank shall be audited under the company act by an auditor appointed by the auditor-general of Nepal if it is fully owned by HMG, and in the case of other banks by a general meeting of the shareholders from among the auditors approved by the

Rastra Bank (Sec.27). Provided that the general meeting shall not appoint the some auditor for more than three consecutive times.

The auditor shall submit a report, addressed to the authority having appointed him, to the office and the company, certifying the books of accounts, records and balance sheet, statements of income and expenditure as well as cash flow report audited by him. A copy of this report along with the notice of AGM, in the case of a public company, and as mentioned in the articles of unanimous agreement in the case of a private company, shall be forward to each shareholders & the office (Companies Act, 1997).

The audit report shall also indicate the following:

a) Whether necessary information and explanations have been made available or not to complete the auditing.
b) Whether the balance sheet, the P/L account and the statements of cash flow have been prepared in conformity with this act or not and whether the reports are in compliance with the accounts maintained by the company or not.
c) Whether the account & records have been properly maintained by these company in accordance with the law or not.
d) Whether, on the basis of the explanation and information made available in the course of audition and in the opinion of the auditor, the balance sheet properly reflect the economic situation of the company or not, and the statements of profit and loss of the fiscal year ending on the same date and the statements of cash flow properly reflect the profit and loss and cash flow of the company, respectively.
e) Whether the board of directors or any representative or any employee has acted country to law or committed misappropriation or caused loss or damage to the company or not.

2.11 Review of Articles/Journals/Books

In this part of the research effect has been made to evaluate and review of relevant journals and articles which are published in different magazines, news paper, economic journals, bulletin of the World Bank and other related books.

Gyawali (2012) had conducted a research on the topic, "Management Accounting Practices in Private Hospital in Nepal." On The Nepalese management Review of Central Department of Management TU. Some of specific objectives and findings are as follows:

Specific objectives

a) To study and examine the present practice of management accounting tools in Nepalese private hospital.
b) To identify the areas where management accounting tools can be applied to strengthen the Nepalese private hospitals.
c) To identify difficulties in applying management accounting tools in Nepalese private hospitals.
d) To make recommendations to overcome the difficulties in applying management accounting tools in Nepalese private hospital.

Major findings

a) Most of the private hospitals practiced "CVP", "Annual Budgeting", "Cash Flow", "Ratio Analysis", "Variable Costing" for planning and controlling and decision making. 71% of private hospitals practiced CVP, 100% of the private hospitals practiced Cash Flows, Ratio Analysis, 71% of the private hospitals practiced Annual Budget for planning, controlling and Decision Making.
b) Almost all private hospitals practiced "Master Budget" and "Cash Budget" respectively. Almost 43% of private hospitals practiced "Master Budget" and 43% of the private hospitals practiced "Cash Budget" respectively.

c) It was found that in most of the private hospitals, it was the account committee that prepared the budget. Almost in 71% of the private hospitals, "Account Committee" prepared the budget while in 43% of the private hospitals "Planning and Department" prepared the budget and in 29% of the private hospitals, "Finance Division" and "Budget Committee" prepared the budget.

d) Almost the private hospitals practiced "Short Term Budget". 71% of the private hospitals practiced "Short Term Budget"(1 year or less) and 43% of the private hospitals practiced "Medium Term Budget"(3 years) while preparing "Long Term Budget"(5 years or more) was very low. The main reason behind this was lack of information and expert to forecast. It takes a lot of time and money.

e) 57% of the private hospitals practiced "FIFO" and 29% of the private hospitals practiced "LIFO".

f) Out of total private hospitals, 57% of the private hospitals followed "Cost Based Pricing", and "Going Rate" practiced by 43%.

g) There was no practice of taking consultancy services. Hiring outside expert were almost nil for preparation of budget. It was too expensive to hire outside expert.

This study is the first research study about Accounting Practice adopted by the commercial bank in Nepal. There is no any research done on the accounting standard & practice, however, a few studies were nearly related with accounting of different industry. A study was conducted on "The problem faced By the small Business Community to adopt Double Entry System Of Bookkeeping" by Viswakarma 1999.

The objective of the study was to examine the problem faced by the small business community to adopt double entry system of bookkeeping. The study was based on the analysis of the responses of small business concern from Kathmandu Valley. In his study 110 respondents were considered. The major findings of the study were as under;

Major findings

a) Most of the business firm was not adopting proper system of bookkeeping.
b) Most of the small business firm were facing different short of problems in Auditing their Accounts and also the Auditor were trying to take extra benefits from the business man because of unsystematic Accounting Records.
c) Most of the respondents had suggested in different ways for the improvement of existing financial administration of the government.
d) As per the respondents opinions the provision of accounting workshop, seminar and short term training at low cost. The available accountants provided by T.U. should be efficient and skilled in their profession: and regular auditing programmed should be provided to the business firm.

Another study by Adhikari (1998) on "Accounting Practices in Nepalese Small Industries" was also related with accounting practice but of different industry. The objective of the study was to identify the accounting problem faced by small entrepreneurs and to give an appropriate accounting model for them. The major or findings of this research were as:

Major findings

a) Most of the small entrepreneurs are lacked with the minimum concept of accounting principle.
b) Most of entrepreneurs were using single entry-bookkeeping system and don't prepare profit & loss account and balance sheet.
c) Major problem faced by small entrepreneurs were: costing and pricing problem, VAT implementation, allocation of proper overheads, supervision, credit control, budgeting practice, and auditing.

He has recommended that due to the lack of knowledge they don't practice proper accounting method thus the government should lunch special program about the accounting principle and model and train them. Above to studies were related to accounting practice of different industry. The researcher could not found other nearly related research on accounting to commercial bank. But there are various studies regarding commercial bank. The researcher found numerous researches in the field of financial analysis, profit planning and capital structure. Due to the Irrelevancy to the current topic they have been avoided here. But they were also studied.

Pradhan (1991) in this article, "Nepalma Banijaya Bank Ka Uplabdhi Tatha Chunuuti" concluded some major issue in local banks in comparison to recently established joint venture banks.

The study deals with whole banking system of Nepal in respect to their profitability and performance. Some of his findings to this study are given as:

The deposit collection rate of local banks is very poor in comparison to joint venture banks. The patterns of deposit are also different between these banks. The ratio of current deposit in local bank is 9.34% only, where the same as the commercial banks is 52.5%. But the tiled deposit ratio is very high is local banks.

Thapa (2001*):* principles and practices of Nepalese Banking. "It describes the meaning and function of Nepalese commercial banks.

Sherpa (2001*)*: A study on corporate information disclosure and its effect of share price was found to be indirectly related with our concern. He has conducted a study on corporate Information disclosure & Its Effect on share price: A study of Nepalese Listed Companies. This study has attempted to identify some of the characteristics of companies in Nepal which are associated with and probable implication of the quality of corporate disclosure in order to evaluate the quality of information disclosed in annual report an index of disclosure with 55 items of information in the disclosure index have been calculated with the help of the questionnaire survey of various user groups of corporate Annual Report. In order to test the significance of the relationship between the quality corporate disclosure and company characteristics, multivariate analysis, such as regression model was used. Major finding of this study was that companies which disclose inadequate information are likely to be a) less profitable as measured by earning margin; b) small in size as measured by total assets; c) Small in size as measured by number of outstanding shares. Inadequate corporate disclosure in annual report is likely to widen fluctuations in the market price of security.

The researcher found research study about the "Nepal Rastra Bank Directives, Their implication and impact on the commercial Banks: A cash study of Himalayan Bank Limited" conducted by Pandey (2002). The objective of the study was to examine the three directives of NRB: viz provision regarding minimum capital; provision regarding loan classification and their provisioning and provision regarding single borrower limit. An effort was made to find out if the directives were implementation. Although the study was limited only HBL, it however revealed that there was a significant impact of the directives on the various aspects of the commercial banks.

A study was found to the management accounting practice in the listed companies of Nepal conducted by Sharma (2002). This study has highlighted the use of tools of management Account in the Nepalese Industries.

2.12 Review of Previous Thesis

Research is ongoing thesis process main purpose of the literature review is to find out what who works have been done in the field of research study being undertaken as far as possible some of the thesis have been reviewed.

Karki (2002) has conducted a research in “A Comparative Study on Budgeting System of Rastriya Banizya and Himalayan Bank Limited.” Some of major objectives and finding are as follows;

Objectives

a) To determine comparative systematic budgeting capacity.
b) To identify comparative revenue and cost efficiency.
c) To know the comparative fund mobilization and lending policy.

Some major findings

a) Total revenue and total cost of RBB is higher than HBL but its profits are lower.
b) Governments seem less conscious in the present situation of RBB.
c) In case of RBB, its deposit, total revenue, loan and advances are increasing every year whereas the profits are negative of highly fluctuating, which is mainly due to high fluctuation in cost.
d) As the accounting system, of RBB is careless that it has not been audited from the FY 1993/94 and it difficult to take decision about data analysis.
e) NO proper planning strategy seems to be developed although HBL is operating at profit but RBB is running with heavy cumulative loss.
f) Interest coverage ratio of both banks is more than 1 except in the FY 1995/96 of RBB. It shows that interest paying capacity of both banks is sound but the ratio of HBL is higher than the ratio of RBB. It means HBL is stronger to pay interest liability.
g) Interest spread is higher in RBB than in HBL.
h) Return on paid up capital is always negative in RBB. Net profit is also negative in RBB.

Thapa (2010) conducted a study on "Management Accounting Practices in Joint Venture Banks of Nepal." His major objectives and some of major findings are;

Objectives

a) To study and analysis the present practice of management accounting tools in the joint venture banks of Nepal.

b) To identify the areas where management accounting tools can be applied to strengthen the banks in commercial activities.

c) To make recommendations to overcome the difficulties an applying management accounting tools in joint venture banks.

Major findings

a) While analyzing the application of management accounting tools practices in Nepalese Joint Venture Banks for planning, controlling and decision making. It was found that ratio analysis, cash flow analysis and capital budgeting are widely practiced representing 100%, 100% and 100% respectively. Similarly, cost-volume-profit analysis, responsibility accounting and segregation into fixed and variable tools were practiced representing 71%, 42%, and 42% respectively.

b) The nature of the business of banks was taken as major difficult for the application of managerial accounting tools and technique by almost all CB's of Nepal.

c) While examining different banks, it was found that management accounting tools were in practice in one way or the other but banks were practicing most of the privileged tools of management accounting such as sensitivity analysis, judgmental analysis, past actual expenses basis for budget preparation. Banks were not practicing new advance technique of management accounting tools such as: zero base budgeting, activity based costing and target costing etc. this was because companies did not have any information and cognizance about the tools.

d) From the open end analysis, it was found that the major difficulties for application of new advance management accounting tools were respectively.

2.13 Research Gap

Financial strength is the most essential requirement for over all development of country. It plays vital role. To improve the further possibility, development of financial institutions is necessary. Here, the researcher has focused to commercial banks in Nepal. People expect quick and qualitative facilities from bank. To increase honesty and soundness from their concerned banks, accounting standards and practices should be determined. Here, past research doesn't represent accounting treatment and procedure conducted by commercial banks.

Ancient research with concerned topic was completely dependent over limited Journal, articles and books but new research has no boundary analyze the related document to improve its quality and effectiveness. Ancient research doesn't explain need and viability of commercial banks in Nepal but new research has mainly focused on it. Ancient research was not serious to explain NRB directives practiced in commercial banks but new research has explained about NRB directives regarding accounting, policy and financial disclosure clearly.

So, this study will be fruitful to those interested scholars, students, teachers, civil society, stakeholders, businessman and Government for academically as well as Policy Perspectives.

CHAPTER-III
RESEARCH METHODLOGY

3.1 Introduction

The research methodology is the systematic way of solving research problem. Research methodology refers to overall research processes, which a researcher conducts during his/her study. It includes all the procedures from theoretical underpinning to the collection and analysis of data. As most of the data are quantitative, the research is based on the scientific models. It is composed of both parts of technical and logical aspect, on the basis of historical data. Research is systematic and organized effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well thought out activities of gathering recording, analyzing and interpreting the data with the purpose of finding the answer to the problem. Thus the entire process by which we attempt to solve problem is called research.

Research methodology is a path from which we can solve research dilemma systematically to accomplish the basic objective of the study. This study is to discover the accounting practice of commercial bank in Nepal.

3.2 Research Design

A research design refers to the conceptual structure within which the research is conducted. The research design is the arrangement of conditions for collection and analysis of data in a manner that aim to combine relevance of the research purpose with economy in procedure. Research design in the plan structure and strategy of investigation conceived so as to obtain answers to research questions and to objective of this study.

It is the process which gives us an appropriate way to reach research goal. It includes definite procedures and techniques which guide in sufficient way for analyzing and evaluating the study. This study is carried out by using both quantitative and qualitative analysis method. Mostly, secondary data has been used for analysis, but the discussion and personal interview with the concerned employees of the selected banks and also used for qualitative analysis. Hence, research design of this study is based on descriptive and analytical method.

3.3 Population and Sample

The population refers to the industries of the same nature and its services and product in general. Thus, total of 32 commercial banks operating in Nepal constitute the population of the data and the bank under study constitutes the sample for the study. Among them only five banks are selected as the sample banks to carry out the study. The sample size represents almost 10% of the total population.

a) Everest Bank Ltd.
b) Nabil Bank Ltd.
c) Nepal Investment Bank Ltd.
d) Standard Charter Bank Ltd.
e) Himalayan Bank Ltd.

3.4 Nature and Source of Data

The researcher has used two types of data viz. primary data, and secondary data. The primary data are those which are collected as a fresh and for the first time and thus happen to be original in character. The primary data have been collected through personal interview, with direct observation technique, telephone inquiry, and questionnaire survey. The questionnaire and interviews (telephone and personal) have been taken with executives and non-executives each belonging to 5-sample banks. The survey of commercial bank is based on a structured questionnaire as well as unstructured dialogue. The responses from 10 respondents from sample banks reside in Kathmandu valley could be ascertained. The secondary data on the other hand are those, which have already been collected by someone else and passed already through statistical process. The secondary data have been collected from the following major sources.

a. Annual reports of commercial banks.
b. Nepal Rastra Bank's directives (published and unpublished).
c. Publication of Nepal Rastra Banks.
d. Various Acts (Commercial bank Act, Rastra Bank Act etc).
e. Other governmental and non-governmental publications.
f. Published articles of different authors.
g. Various accountancy books of different authors and publications.
h. Previous studies and reports.
i. Journals, websites and newspapers.

3.5 Method of Data Collection

It indicates the sources of data and how they collected. In this study data are collected through published sources. They were collected from the correspondent offices and their respective websites.

The annual reports of EBL for the period of five years were obtained from the field visit of its Human Resources Department at its head office located at Lazimpat, the annual reports of SCBNL for the period of five years were obtained from the field visit of its head official at New Baneshwor and the annual reports of NABIL for the period of five years were obtained from the field visit of its head office at Kamaladi. NRB publications have been collected by the personal visit of concerned Departments of NRB at Baluwatar. The data regarding the profile of NABIL, SCBL and HBL and other related documents were collected from internet websites. Unpunlished master's thesis, books, research papers, articles, journals have been collected mainly from Center Library of Tribhuvan Univrtsity, library of Shanker Dev Campus and NRB Magazines and newspapers were from concerned authorities.

After collecting data, as necessarily required, they were separated and analyzed presentation and analysis of the collected data is main theme of the research work. Collected raw data were first presented in systematic manner in tabular forms and them analyzed by applying different financial and statistical tools to achieve the research objectives. Besides these, some graph, charts and tables have been presented to analyzed and interpret the finding of the study.

3.6 Method of Data Analysis

Various financial and statistical tools will be used to complete the research study such as ratio analysis, mean, standard deviation, coefficient of variance. For presentation purpose, different types of tables, charts, figures and graphs are used as per necessary.

3.6.1. Tools for Analysis

For the purpose of data analysis, various financial and statistical tools are used to achieve the objective of the study. The evaluation of data is carried out to the pattern of data available.

A. Financial Tools

Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet. In other words, to evaluate the performance of any organization financial tools are very useful to determine the strengths and weakness of a firm as well as its historical performance and current financial condition. Ratio is an important analytical tool to summarize the large quantities of data and to make quantitative judgments about organization. The financial tools employed in this study basically represent ratio analysis, leverage analysis and others.

Ratio Analysis

Ratio analysis is a method of analyzing and interpreting financial statements to assess the presentation of an organization by creating the ratios from the information of different accounts consisting in balance sheet and income statement. It is defined as the indicated share of two mathematical expressions and as relationship between two or more things. Therefore, it is used as an index or yards stick for evaluating the financial position and performance of a firm. The qualitative judgment regarding financial performance of a firm can be accepted out with the help of ratio analysis. Despite the fact that there are many ratios, only those ratios have been covered in this study, which are related to investment operation of the bank.

This study contains following ratios:

1) Financial Leverage Ratio

Financial leverage shows what portions of the capital assets are financed by outside funds. When successfully employed, this ratio benefits the shareholders by raising their expected return-earnings per share. High ratio shows banks success in exploiting debt to be more profitable as well as it also indicates its risk.

a) Debt Ratio

This ratio shows the proportion of outside fund used in financing total assets. It signifies the extent of debt financing on the total assets and measure the financial securities to the outsiders. This ratio can be calculated by using the following formula;

$$\text{Debt Ratio} = \frac{\textit{Total debt}}{\textit{Total assets}}$$

b) Debt-equity Ratio

Debt-equity ratio shows the relationship between debts and shareholder's fund. It is a test of long-term solvency of a firm. It measures the relative claims of creditors and owners are against the assets of the firm. The objective of computing this ratio is to judge the effectiveness of the long-term financial policy of the business.

This ratio is computed by dividing the long-term debts or total debts by the shareholder's funds.

$$Debt - equity\ Ratio = \frac{Total\ debt}{Total\ equity}$$

2) Profitability Ratios

A company should earn profit to survive and grow over a long period of time profits are essential, but it would be wrong to assume that every action initiated by management to company should be aimed at maximizing profits. Profitability ratios indicated the degree of success in achieving desired profit. Various profitability ratios are calculated to measure the operating efficiency of business enterprises. Through profitability ratio the lenders and investors want to decide whether to invest in a particular business or not.

a) Return on Total Deposit

The ratio of return of Total deposit measures the capacity of bank to generate profit from its investment on total deposit. In other words, return on total deposit is the contribution of total deposit to net profit after tax. So this ratio is the proportion of return form total deposit and it is calculated as follows.

$$Return\ on\ total\ deposit = \frac{Net\ profit\ after\ tax}{Total\ Deposit}$$

b) Return on Total Assets

This ratio is measured the rate of return earned by the firm as a whole for all its investors. It is calculated by dividing net profit by total assets. A higher ratio indicates the efficiency of overall financial resources to invest. So that, the

Higher ratio, the better will be the performance. Return on total assets in computed by using the following formula.

$$Return\ on\ Total\ Assets = \frac{Net\ profit\ after\ tax}{Total\ Assets}$$

B. Statistical Tools

For the purpose of the study simple statistical tools are used. Mainly financial tools and techniques have been used to show the financial condition of the selected commercial banks. Hence, statistical tools used in the study are as follows:

1. Mean

Mean is the typical value around which most of the data tend to customer. This is the values which lie between two extreme observation of the entire data and give us the idea about the concentration of the value in the central part of the distribution. This is calculated as follows;

Mean = $\overline{X} = \frac{\Sigma X}{N}$

Where,

$\overline{X}$ = Arithmetic average

$\sum$x = Sum of values of all items, and

N = Number of terms

2. Standard Deviation (S.D.)

The standard deviation is the absolute measure of dispersion. It can be thought of as a rough measure of average amount by which observation deviations deviate on either side of the mean. Denoted by Greek letter σ (read sigma), standard deviation is extremely useful for judging the representative of the mean. It is computed as follows;

$\sigma = \sqrt{\frac{\Sigma d2}{n-1}}$

Where

σ = Standard deviation

$\sum d^2$ = Sum of the squares of the deviations measured from the arithmetic average, and

n= Number of items

3. Coefficient of Variation

The coefficient of variation is the ratio of standard deviation to the mean for a given sample used to measure spread. Mathematically,

C.V = $\frac{\sigma}{\bar{X}} \times 100$

Where,

C.V = Coefficient of Variation

σ= Standard deviation, and,

$\bar{X}$= Arithmetic average

4. Correlation Analysis

It is statistical tools that can be used to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two set of figure. The variable method of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The coefficient of correlation is always between+1 and -1. When r, the coefficient of correlation is +1, there is perfect positive relationship between two variables (i.e, one dependant variables and one independent variable), when r is -1, there is perfect negative relationship between two variables, dependent and independent variable. And when r is equals to 0 there is no relationship between variables. So this topic tries to find out relationship between the following variables and helps the bank to make appropriate policies regarding deposit collection, fund utilization and profit maximization.

- Coefficient of Correlation between Current Ratio and Debt Ratio.
- Coefficient of Correlation between Current Ratio and Debt Equity Ratio.
- Coefficient of Correlation between Debt Raito and Return on Shareholders' Equity Ratio.

- Coefficient of Correlation between Return on Total Assets and Return on Shareholders' Equity Ratio.
- Coefficient of Correlation between Current Ratio and Return on Total Deposit.

To find out those relationships, the following formula is used.

$$r = \frac{N\Sigma xy - (\Sigma x)(\Sigma y)}{\sqrt{N\Sigma x^2 - (\Sigma x)^2}\sqrt{N\Sigma y^2 - (\Sigma y)^2}}$$

Here,

r=Karl Pearson’s Coefficient of Correlation between X and Y.

ΣXY= Sum of product of variable X and Y.

N= No. of pairs where X and Y absorbed.

ΣX= Sum of product X.

ΣY= Sum of product Y.

5. Probable Error

Here, the problem error of the correlation coefficient is applicable for the measurement of reliability of the computed value of coefficient of correlation. The probable error is defined by:

Problem Error (P.E) = $0.6745 \times \frac{1-r^2}{\sqrt{N}}$

Where, r = Correlation coefficient

N = Number of pairs of observations

Conclusion:

1. If r < P.E., the value of 'r' is not significant, i.e. there is no evidence of correlation between the variables.
2. If r>6P.E., the variable of 'r' is significant i.e. there is evidence of correlation between the variables.

CHAPTER –IV

PRESENTATION AND DATA ANALYSIS

The basic objective of the study is to examine the accounting practice of commercial banks in Nepal and to identify recording and reporting practice under regulatory framework. This chapter presents and analysis the information derived through study. First section briefly describes the present accounting environment under which commercial bank have to go through specially the legal environment. Attempts have been made to discover the legislation and regulation guiding accounting practices of commercial bank in first section. Second section is the analysis and interpretation of data.

To meet the objectives, all the licensed commercial banks in operation are taken as population. Through the random sampling method 5 banks are selected. Besides unstructured questionnaires, discussions are also made with various staff of commercial banks. The secondary data have been collected from various authentic sources like reports of concern authority, annual reports, acts, and directives issued by NRB.

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

4.1 Loan Classification and Provisioning

The banks should comply with statutory regulation relating to loan classification and provisioning. NRB regulation relating to classification and provisioning is as follows.

Table No. 4.1: Loan Classification and Provisioning

Classification	**Criteria**	**Provisioning Requirement**
Pass	Principal overdue up to 3 months	1%
Substandard	Principal overdue up to 6 months	25%
Doubtful	Principal overdue up to 1 year	50%
Bad	Principal overdue above 1 year	100%

Source: Banking Journal (July, 2011)

Pass Loan is called “Performing” and other are called “Non-Performing” Assets. Provision requirement in case of loan given against personal guarantee only is additional 20% for pass, substandard and doubtful loans. Provision for restructured, reschedule and swapped loan is 12.5% only. The provision for the performing is said to be “General Loan Loss Provision” and for the non-performing loan, the provision is said to be “Specific Loan Loss Provision”. Loan and advances and bills purchased are classified and after providing the provision net outstanding amount is shown in the balance sheet.

1. Accounting Year

Every Commercial bank is required to follow the fiscal year as Accounting year. The fiscal year in Nepal generally begins on July 16 and ends on July 15 (Sharwan 1 to Ashad 31).

2. Significant Accounting Polices and Disclosure Requirements

There are following provisions regarding accounting policies of commercial banks:

i) Disclosure of Accounting Policy

Profit and Balance Sheet should be prepared on the basis of general accounting principle, and prevalent accounting policy of banking business and information accounting standards. Major significant accounting policies those have been applied in preparation of these statements by management should be disclosed along with Annual Accounts in Schedule-27.

iii) Continuing the Accounting Policy

Bank should continue its accounting policies when it adopts once. Bank can discontinue its old accounting policy and apply new one but it should disclose the impact on profitability due to changes in accounting policy and reason for change.

iii) Major Accounting Policy

a) Depreciation Policy: Generally Bank can apply any depreciation policy on the basis of generally accepted principle. But, bank has to clearly state what accounting principle they are following. The bank management can determine the rate of depreciation.

b) Investment Policy: Accounting of investment on shares, debenture and bonds should be valued on the cost price or the market price, whichever is less. It should be disclosed in accounting policy. Listed security in the stock exchange can have fluctuation on their price, thus making balance sheet truer and fair bank has to make adequate provision for the contingent loss, this provision should be deducted from the investment. Unlisted securities are disclosed on the cost price (Regmi, 2010).

c) Exchange Fluctuation Adjustment Policy: Bank are also required to disclosed their accounting policy regarding foreign exchange/currency related assets, liabilities and exchange fluctuation income and expenditure (loss). The banks have to separately account the revaluation gain and loss on foreign currency and the income/losses from trading the foreign currency. The bank has to adjust the "Exchange Fluctuation Account" on the basis of changes in foreign currency exchange rate in the end of the month and at the end of the year and it has to determine Net Adjusted Revaluation Profit and Loss. At the year end, revaluation loss should be deducted at first from Exchange Equalization Reserve if it exceeds the Reserve then remaining loss can be transferred to profit and loss Account. 25% of the Revaluation Profit should be transferred to Exchange Equalization Reserve from the Profit and Loss Appropriation Account in case of profit on the revaluation of the foreign exchange.

d) Accounting Policy of Non-Banking Assets: Bank can collect the principle and inertest of its uncollected loan through the sale of collateral pledged to the bank. But, in case of failure to dispose the collateral pledged to it in a satisfactory pledged to it in a satisfactory price, no one offers a bid in a auction held by a these assets within seven years under Commercial Bank Act, 2031. Thus, there should clear accounting policy of management for at what price these title-acquired assets are valued.

These assets are not useable for the commercial purpose and have to be disposed of within 7 years. Thus, the bank may account the value of these assets up to its loan recovery at the year of takeover of the ownership of these assets. And if less or more than the required amount of its debt is ascertained from the sales of these non-banking assets at latter period, balance should be transferred to Profit And Loss Account. If these assets have less market value then the principle and interest to be recovered, and then market valuation should be accounted and the balance between them should be transferred to P/L Account.

e) Other Policies: Bank should disclose other accounting policies regarding: not capitalized assets; income those are recognized at cash basis and also at accrual basis, amount written off for bad loans. And accounting treatment and fact regarding paid in advance, calls in arrears and forfeited but not issued shares of paid of capital.

4.2 Notes on Accounts

Commercial Bank is required to publish to publish notes on accounts including following matters along with Annual Financial Statements in Schedule-28:

- Non-reconciled branch and agency arrears accounts situation
- Weighted Average Interest Rate Spread
- Outstanding Un-written off expenses
- The amount change in the heads of Deposit Liability in the year
- Statement showing the principal and interest of loan disbursed, loan recovered and rebated loan during the years
- Statement of amount if the bank has taken the money against the security of its own assets.

- Statement of classification of assets and liabilities on the basis of maturity period in order to minimize the liquidity risk.
- Other statement if it seems necessary to understand and analyze the Balance Sheet and P/L Account

4.3 Identification of Major Problem of Accounting Practice

Where an organization financial statement are materially misstated, it is usually because the records which underline those statements contain material errors or material irregularities, or both made by management, staff or in making judgment valuation. Respondents were asked to rank the irregularities involved or resulted in recording transaction.

4.4 Internal Control Aspect

Irregularities can be classified as distortion, or as concealment of defalcation. Distortion involves deliberately misreporting the operating result or the financial position (e.g. Inflating the valuation of stock). The concealment of a defalcation wills usually involves manipulating the appropriate records and it will be either temporary or permanent if the internal control is sufficiently week.

Table No. 4.2: Responses Relating To Adequacy of Internal Control

Question	Need Further Improvement		No need of Improvement	
Do you think your bank have Adequate internal controls over errors and misappropriates?	No.	Percent	No.	Percent
	7	39	11	61

Source: Field Survey, 2012.

In commercial bank the internal control system should adequate not only to minimize frauds and misappropriates but also in order to legal compliance. Internal control department is set up to see all of these matters. Table No. 4.2

shows that 39% of respondents have stated that their organizations need to further improve their internal control.

*Another question was asked to the respondent, whether internal audit report is presented or not. The response was very positive majority of them respond that internal audit is done frequently and audit report is presented. NRB has given the direction to take corrective action on the matter identified by Auditor Report to the Nabil Bank and Standard Chartered Bank as disclosed in the Annual Report of 58/59 both banks. The internal audit program is not only required to control the frauds, misappropriation, errors & irregularities but also to compliance aspect of prudential norms.

Table No. 4.3: Responses Relating to the Internal Audit

Question	**Need Further Improvement**		**No need of Improvement**	
	No.	Percent	No.	Percent
Whether internal audit is done regularly?	16	88.89	2	11.11
Is Internal Audit Report Presented regularly?	14	77.78	4	22.22

Source: Field Survey, 2012.

The Table No. 4.4 shows the practice of Internal Audit in the commercial bank of sample bank. It is obvious that 88.89% of selected sampled bank have found to be doing the internal audit regularly and timely and 11.11% of sample banks have problem with either it may be the problem of the regularities or timing of the internal audit. And with respect to Internal Audit Report, 77.78% reported that Internal Audit report is presented to management and discussed for significant fluctuation.

The sound internal control and corporate governance of banking companies ,the product of delegation of authorities, segregation of duties, physical control and safeguard, authorization and verification, accounting accuracy control, supervision and overall management control. Respondents were asked to assign the weights if they thought highly insufficient the certain aspect of internal control and corporate government tools and were to assign 5 if they thought highly sufficient. The response regarding it has been presented in.

Table No. 4.4: Responses Relating to the Internal Control Tools

Weight		**1**	**2**	**3**	**4**	**5**	**Total Responses**	**Mean Weight**
a)	Authorization and verification	0	0	2	8	8	18	4.38
b)	Segregation of duties	1	1	2	8	6	18	4.23
c)	Physical Control and Safeguard	1	2	3	5	7	18	4.10
d)	Delegation of Authority and Responsibility	0	2	4	7	5	18	3.93
e)	Accounting Accuracy Control	2	0	6	6	8	18	3.67
f)	Supervision	0	0	8	7	3	18	3.64
g)	Management Control	1	2	7	8	1	18	3.36

Source: Field Survey, 2012.

In order to highlight the application of internal control tools, median and quartile values of responses for each tool have been computed. The lower value of median indicates that the tools have been insufficient and the high value of median indicates that the tools have been insufficient and the high value of median shows that the tools is highly sufficient.

The mean values of the mentioned tools varied from 4.38 to 3.36. Among them the authorization and verification is highly used in commercial bank (sufficient in application). Then segregation of duties, Physical control and safeguard, Delegation of authority and responsibility, Accounting control, Supervision and Management control are sufficient respectively. The study shows that management control has least among the other tools but overall these tools are moderate to sufficient applied in the commercial bank. If above finding are taken into account, the commercial bank would be fruitful in solving the problem of internal control.

4.5 Preparation of Annual Report

According to the commercial bank Act 1974, Sec 25 the bank should prepare its Balance Sheet and Profit and Loss Account to the forms and procedure prescribed by the NRB, and complete their audit within a period of five months from the date of expire of financial year. These forms should be taken as statutory form.

Commercial Bank cannot change any items and heads of the Balance Sheet, Profit and Loss Account and schedules, so prescribed in form. If there is no any amount in a particular head, still it has to be presented, but bank can include suitable heads under the Head of “Others”. Nepal Rastra Bank has prescribed the forms and procedure of Balance .
Sheet, Profit and Loss Account, Profit and Loss Account, Profit and Loss Appropriation Account and The Cash Flow Statements. The forms of financial statement and schedules of particulars to be disclosed have been presented in

100% of sample bank found to be following the generally accepted accounting principle and or Company Act, Commercial Bank act and the directives issued by NRB while preparing their financial statements as examining their annual report and financial statement. As stated in their annual report they have to modify the heads of the items for completing the annual report so as to match with this directive.

For the transparency, the record keeping system of bank entice significant accounting policies, guidelines and disclosure with respect to statutory reporting requirement understanding the financial statements more clearly on presentation. The aforesaid three-element exigencies are conductive to enhance understanding and developing capabilities of financial statements for users. The objective of the provision of financial statements to be followed by the commercial banks issued by NRB is to develop the banking system and regulate them in order to enhance the true and fair financial situation and major banking mediators transparent. How far these accounting policies and disclosure in bank's financial statement are able to produce better banking system and the bank perception and implementation have been tried to check.

* The question was asked to the respondent to know the impact of these directives, whether directives have the negative for positive upon the public accountability, confidentiality between bank and costumers and credit worthiness and profitability of bank. The table No.4.5 presents the respondents views regarding the impact.

Table No. 4.5: Responses regarding the impact of NRB Directives on Accounting

Particulars	Positive Impact		Negative Impact	
	No. of Respondent	**Percent**	**NO. of Respondent**	**Percent**
Public Accountability	18	100.00	0	0.00
Confidentiality between customer and bank	13	72.22	5	27.78
Credit Worthiness	16	88.89	2	11.11
Profitability	9	50.00	9	50.00

Source: Field Survey, 2012.

The Table No. 4.5 presents that applying the financial disclosure accordance with NRB requirements have overall positive impact upon public Accountability, Confidentiality, and Credit Worthiness. But the controversial response was regarding the profitability the respondents are equally in favors of positive and negative impact. The entire respondent agreed upon the positive impact on public Accountability where as 77.22% of respondent stated that it would have positive impact upon the confidentiality between customers and bank. Respondents in favor positive impact on credit worthiness are 88.89%.

The respondents who said Negative Impact of the accounting policy, procedure and structure of provision on public accountability are 0%, on Confidentiality between customer and banks are 27.78%, on credit worthiness are 11.11% and on profitability are 50%.

The conclusion is that NRB directives are very positive.

* The order question was asked to the respondents regarding the qualitative aspect of information. The respondents were to judge whether the NRB provision would increase or decrease the characteristics such as understandability, relevance, reliability and comparability of information presented in the financial statement. These all can determine the usefulness of information presented in the financial statements through better policies and disclosure requirement.

Table No. 4.6: Responses Regarding the Qualitative Characteristics of Information Presented in Financial Statement.

Characteristics	Increase		Decrease	
	NO.	Percent	NO.	Percent
Understandability	17	94.44	1	5.56
Relevance	16	88.89	2	11.11
Reliability	18	100	0	0
Comparability	18	100	0	0

Source: Field Survey, 2012.

The table no. 4.6 presents the respondents view regarding understandability, relevance, reliability and comparability the qualitative characteristics of information presented in the financial statement from the structure, policy disclosure and notes on accounts requirement of NRB directive. The 100% of respondent agreed upon reliability and comparability characteristics that could be enhance form Implementation of these NRB directives. The respondents 5.56% and 11.11% do not agree upon understandability, and relevance characteristic of information presented in the financial statements from of these directives.

The researcher can conclude that it will increase the said characteristics of the information presented in the financial statement.

* Concluding question regarding NRB provision was that whether the sample banks comply with the requirement. The respondents were asked whether their banks fully comply with the requirements. The responses have been arranged in Table No.4.7

Table No. 4.7: Responses Regarding Implementation of NRB Directives

Particulars	**Respondents**	**Percent**
Fully implementing the directives	14	77.78
Moderately Implementing with non-compliance in certain cases	4	22.22
Not implementing at all	0	0.00
Total	**18**	**100.00**

Source: Field Survey, 2012.

The 77.78% respondents agreed that their bank is fully implementing the NRB directives and 22.22% respondents agreed upon moderately implementing the directives with non-compliance in certain cases.

It was the view that no bank dear to non-compliance fully or not at all.

4.6 Accounting Treatment

Recognition of principal Income and Expenditure

Studying the annual report of sample bank and with discussion with bank staff following outcome have been observed.

- Interest expenses on interest bearing deposit and interest income on loan are computed on the basis of 365 days per year.
- Interest payable on interest bearing deposits liabilities and accounted for on accrual basis.

- Interest on loans and advances are recognized as on cash basis as per directives of NRB.
- It is the practice of the Bank to account commission on accrual basis except Bank Guarantee and Letter of Credit. Banks are accounting commission on Bank Guarantee and letters of credit as income of the year of receipt on cash basis.
- It was also found that SCBN Ltd. accounted for and accrual basis over the period of the guarantee commission exceeding Rs. 100,000 on guarantees covering more than year.

Provision for Staff Banks

The selected banks have made provision for Bonus according to 10% Net profit before tax.

i) Staff Housing Fund

None of the bank have been found provisioning for creating a separate staff housing fund as per the labor Act, 2048 considering the practice followed by similar other financial.

ii) Special Considerations

From the Individual Banks: NIBL

The views of the respondent with respect to personal discussion and open end questionnaire have been outlined as;

- In order to make banking operation efficient and transparent the bank needs to strengthen Management Information System (MIS).
- In order to strengthen the financial soundness the bank has to reduce their bad loans.
- New directives issued but NRB regarding accounting of interest income and contingent loss provision have adversely affected the bank profitability.

- Loan has been provided to the shareholders holding more than 1% share but it was provided before the NRB new directives. Thus there is need to recover this loans. This loan was given to existing chairman of the bank. The loan given to banks executives and other staffs are within legal framework.

Everest Bank Limited

Catering to more than four lakh customers today, Everest Bank Limited (EBL) is a name you can depend on for professionalized and efficient banking services. Founded in 1994, the bank has been one of the leading banks of the country and has been catering its services to various segments of the society since then. With clients from all walks of life, the bank has helped develop the nation corporately, agriculturally and industrially. So one can say with all earnestly that Everest Bank Limited is truly a Nepalese bank

Punjab National Bank (PNB), our joint venture partner (holding 20% equity in the bank) is the largest nationalized bank in India. With its presence virtually in all the important centers at India and over 5600 ATM counters, Punjab National Bank offers a wide variety of banking services which include corporate and personal banking, industrial finance, agricultural finance, financing of trade and international banking. For its excellence in banking services, it was recently awarded the "Best Bank Award 2011"amongst all banks in India by the leading corporate magazine, Business India.

Nabil Bank Limited

Nabil Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 47 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Banglore, India, Internet banking system and Telebanking system.

Himalayan Bank Limited

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits.

Legacy of Himalayan lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking were first introduced by HBL. Other financial institutions in the country have been following our lead by introducing similar products and services. Therefore, we stand for the innovations that we bring about in this country to help our Customers besides modernizing the banking sector. With the highest deposit base and loan portfolio amongst private sector banks and extending guarantees to correspondent banks covering exposure of other local banks under our credit standing with foreign correspondent banks, we believe we obviously lead the banking sector of Nepal. The most recent rating of HBL by Bankers' Almanac as country's number 1 Bank easily confirms our claim.

Standard Chartered Bank Nepal Limited

Standard Chartered Bank Nepal Limited has been in operation in Nepal since 1987 when it was initially registered as a joint-venture operation. Today the

Bank is an integral part of Standard Chartered Group having an ownership of 75% in the company with 25% shares owned by the Nepalese public. The Bank enjoys the status of the largest international bank currently operating in Nepal.

Standard Chartered has a history of over 150 years in banking and operates in many of the world's fastest-growing markets with an extensive global network of over 1750 branches (including subsidiaries, associates and joint ventures) in over 70 countries in the Asia Pacific Region, South Asia, the Middle East, Africa, the United Kingdom and the Americas. As one of the world's most international banks, Standard Chartered employs almost 75,000 people, representing over 115 nationalities, worldwide. This diversity lies at the heart of the Bank's values and supports the Bank's growth as the world increasingly becomes one market.

With 19 points of representation, 23 ATMs across the country and with more than 425 local staff, Standard Chartered Bank Nepal Ltd. is in a position to serve its customers through an extensive domestic network. In addition, the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking services in Nepal.

The Bank has been the pioneer in introducing 'customer focused' products and services in the country and aspires to continue to be a leader in introducing new products in delivering superior services. It is the first Bank in Nepal that has implemented the Anti-Money Laundering policy and applied the 'Know Your Customer' procedure on all the customer accounts.

Nepal Investment Bank Limited

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. With the decision of Credit Agricola Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, had acquired on April 2002 the 50% shareholding of Credit Agricola Indosuez in Nepal Indosuez Bank Ltd. The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structure.

- A group of companies holding 50% of the capital
- Rashtriya Banijya Bank holding 15% of the Capital.
- Rashtriya Beema Sansthan holding the same percentage.
- The remaining 20% being held by the General Public (which means that NIBL is a Company listed on the Nepal Stock Exchange).

We believe that NIBL, which is managed by a team of experienced bankers and professionals having proven track record, can offer you what you're looking for. We are sure that your choice of a bank will be guided among other things by its reliability and professionalism.

4.7. Analysis of Data

the data collected and presented for the purpose of analysis were analyzed in absolute rupee values, ratios in term of percentages, number of times etc. and statistical tools such as mean , standard deviation, coefficient of variation, coefficient of correlation etc.

4.7.1. Financial Tools

A) Ratio Analysis

The ratios of a firm by themselves do not reveal anything. For meaningful interpretation the ratios of a firm should be compared with the ratios of similar firms. Such comparison will reveal whether the firm is significantly out of line with its competitors, if it is significantly of the line, the firm should undertake detailed analysis to spot out the trouble areas. The study which is descriptive is conducted using each of the bank's financial statements for the last five fiscal years. Hence, various hypotheses on gauging the effectiveness of the banks are developed and tested using descriptive as well as statistical tools to analysis the compatibility of the banks.

1. Liquidity Ratios

Liquidity position of the firms has a mixed impact on the capital structure decision of the firms. The liquidity of the firm's assets can be used to how to extent to which these assets can be manipulated by shareholders at the expense of bondholders. Commercial bank should maintain its satisfactory liquidity position to satisfy the credit needs of the community, to meet demands for deposits, withdraws, pay maturity obligation on time and concert non-cash to satisfy immediate needs without loss to bank and consequent impact in long run profit. Liquidity of any business organization is directly related to working capital or current assets and current liabilities of that organization. A high degree of liquidity shows inability of proper utilization of funds where as the lack of liquidity shows the signal of poor credit worthiness loss of creditors confidence or even in legal tangles resulting in the closure of the company. Without good liquidity, bank is not able to operate its function. To measure the bank's solvency position or ability meet its short-term obligation, various liquidity ratios are calculated. The liquidity position of the commercial banks is comparatively studied through the following ratio:

a) Current Ratio

Current Ratio indicates the ability of the banks to meet to its current obligation. This ratio measures the Liquidity position of the financial institutions. It is calculated by dividing Current Assets by Current Liabilities. Where, current assets include cash balance, bank balance, money at short call, bills purchases, loans - advances and investment in government's securities. Current liabilities include short-term loan, proposed dividend, tax liabilities and bills payables. Higher current ratio indicates better liquidity position. In other words, current ratio represents a margin of safety.

Table 4.8: Current Ratio (in times)

JVBs/FY	2006/07	2007/08	2008/09	2009/10	2010/11	Mean	S.D.	C.V
NABIL	1.34	1.25	1.28	1.47	1.58	1.38	0.12	8.94

SCBL	0.89	0.98	0.86	1.02	1.20	0.99	0.12	12.12
HBL	1.18	1.09	1.12	1.30	1.39	1.22	0.11	9.28
EBL	1.45	1.40	1.24	1.39	1.54	1.40	0.097	7
NIBL	1.34	1.24	1.28	1.47	1.58	1.38	0.13	9.11

Source: Annual Report

Table 4.8 shows the current ratio of the selected banks. Where, NABIL has likely constant trend of the ratio. The highest ratio of this bank is 1.58 times in the FY 2010/11, the lowest in the FY 2007/08 i.e. 1.25 times. Similarly SCBL has increasing trend over the last three years of the study period.

HBL has also the constant trend of the current ratio over the five years study period. HBL registered the highest ratio of 1.39 times in the FY 2010/11 and the lower of 1.09 in the FY 2007/08.

EBL has most constant trend of the ratio among the selected banks for the study. It recorded the highest ratio of 1.54 times in the FY 2010/11 and the lowest ratio of 1.39 times in the FY 2009/10.

NIBL registered the highest current ratio of 1.58 times in the FY 2010/11 and lowest of 1.28 times in the FY 2007/08.

The mean current ratio of EBL is higher than other banks i.e. 1.40. In addition, a look at the coefficient of variation of current ratio of EBL showed 7%, which is lower than other banks.

It can be concluded that EBL's ratios were more consistent and stable than other selected banks.

2. Financial Leverage

Financial leverage shows what portions of the capital assets are financed by outside funds. When successfully employed, this ratio benefits the shareholders by raising their expected return-earnings per share. High ratio shows banks success in exploiting debt to be more profitable as well as it also indicates its risk.

a) Debt Ratio

This ratio exhibits the relationship between creditors fund and owner capital. This ratio shows the proportion of outside fund used in financing total assets. It also measures the financial security to the outsiders. Generally, creditors prefer a low debt ratio, owners prefer high debt ratio in order to magnify their earnings on the one hand and to maintain their concentrated control over the firm on the other.

Table No. 4.9: Debt Ratio (%)

JVBs/FY	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**	**Mean**	**S.D.**	**C.V**
NABIL	88.98	90.26	89.66	89.71	88.83	89.47	0.54	0.60
SCBL	87.59	89.23	89.12	87.49	87.43	88.17	0.82	0.93
HBL	91.02	90.63	89.47	89.22	88.65	89.88	1.01	1.12
EBL	86.25	89.42	91.92	90.92	90.64	89.83	1.96	2.18
NIBL	90.66	91.33	90.15	89.31	88.20	89.93	1.09	1.21

Source: Annual Report

The computation Table No 4.9 of financial leverage in terms of total debt to total assets reveals that the five commercial banks are highly leveraged on five years' time horizon. It means the assets of selected banks have been financed more by funds collected from creditors.

NABIL bank's total debt to total assets ratio has increasing trend up to 2008.The ratio over the five subsequent years is 88.89%., 90.26%, 89.66%

89.71% and 88.83 respectively. On an average, 89.47% of debt capital is found financed for its assets.

Standard chartered bank has the lowest average ration of 88.17% in comparison to other four banks. In other words, creditors finance 88.17% of banks fund. The ratio of SCBL has fluctuating trend. In FY 2006/07, it has 87.59%, which increased in 2008 to 89.23%. It decreased to 89.12% and 87.49% in two subsequent years. Again, the ratio decreased to 87.43% in 2010/11.

Himalayan bank has decreasing trend among five banks over the study period. On an average 89.88% of debt capital is used to finance its assets. The average ratio of HBL for the study period is 89.88%.

Everest has the average ratio i.e., 89.83% among five banks. Everest has the highest ratio i.e., 91.92% in 2009. The ratio has increasing trend from fiscal years 2007-2009 i.e., 86.25% 89.42% and 91.92% respectively. It has decreased in year 2010 i.e., 90.92% and again increased in FY 2010/11 i.e., 90.64%.

NIBL bank has the average ratio of 89.93% .NIBL's total debt to total assets has fluctuated over the study period. The least ratio recorded is 88.20% in 2011, which has negative change in 2010. In 2008, it increased to 91.33%, and again decreased to 90.15% and 89.31% in two subsequent years. It means the bank is lowered the use of its debt capital.

The ratio of five commercial banks is in slightly fluctuating trend. The coefficient of variation shows that ratio of Everest 2.18% is fluctuating in nature than the other banks. It can be noticed that the proportion of debt financing in comparison to total assets is relatively more in NIBL than other four banks. It indicates NIBL has riskier debt financing position in comparison to other banks.

In all five banks, the creditor's margin of safety is very low which means they have high risk. All the banks are found using higher debt capital to finance their assets.

b) Debt-equity ratio

The debt-equity ratio is the relationship between borrowed funds and Owner's capital. It is determined to measure the firm's obligations to creditors in relation to the funds invested by owners. A high debt-equity ratio implies that a proportion of long-term financing is from debt sources that are firm is using a great deal of financial leverage. Long-term creditors generally prefer to see a modest debt-equity ratio since it means greater protection and a greater stake in the company's future for equity holders.

The total debt includes current accounts, saving accounts, saving accounts, calls and short deposits, over-draft fixed deposit, loan and advance and borrowing from other banks. Shareholder's equity or net worth includes paid-up capital, reserve and surplus. The D/E ratio of five selected JVBs during the study period was tabulated below:

Table No. 4.10: Debt equity ratio (%)

JVBs/FY	2006/07	2007/08	2008/09	2009/10	2010/11	Average	S.D	C.V
NABIL	11.78	13.75	12.56	12.20	11.31	12.32	0.93	8
SCBL	11.83	11.82	11.68	10.44	11.64	11.50	0.54	5
HBL	14.88	13.05	11.28	11.08	10.37	12.01	1.44	12
EBL	15.39	12.64	15.40	13.64	13.46	14.11	1.11	8
NIBL	13.46	13.21	12.23	11.16	9.98	12.01	1.30	11

Source: Annual Report

The ratio of NABIL bank has ranged between 11.78 to 11.31 times. The average D/E ratio of NABIL is 12.32 that mean the debt capital financing is more than 12 times higher than shareholders equity within the bank. NABIL banks D/E ratio is 11.78, 13.75, 12.56, 12.20 and 11.31 times respectively over the five years period. Hence, the increasing trend of D/E ratio implies that Nepal bank is adopting highly moderate strategy.

Standard Chartered bank’s D/E ratio of 10.44 times is the lowest in FY 2009/10 during the study period of five years. The ratio is in decreasing trend for initial four years. 11.83, 11.82, 11.68, 10.44 2007/2008 respectively, then increasing to 11.64 in FY year 2011. Its average ratio is 11.50 times.

Himalayan banks ratio in an average is 12.01 times which states total debt is 12.07 times greater than equity. Thus, it indicates that HBL has been highly claimed by its creditors. The trend is decreasing in the overall the study period. Hence, the ratios are 14.28, 13.05, 11.28, 11.08 and 10.37 times respectively.

Everest bank has the highest D/E ratio of 15.40 times in FY 2008/09 during the study period of five years. It indicates that the bank is highly levered and has higher financial risk as well. Everest has fluctuating trend over the years as its D/E ratio range between 15.39 to 13.46 times.

Nepal investment bank has D/E ratio of 12.01 times on an average. The bank has 13.46 D/E ratio in year 2007, which decreased down to 13.21 times in year 2008. The ratio again decreased to 12.23 times in 2009 and once again the ratio lowered down gradually in last two subsequent year’s i.e. 11.16 and 9.98 times in 2010 and 2011 respectively.

On the basis of coefficient of variation, HBL’s bank’s C.V. of debt- equity ratio is higher among selected banks. It explains that HBL’s banks ratio is highly fluctuated over the study period than other banks. Similarly, SCBL has the lowest D/E ratio in comparison with other banks.

It reveals that all five banks are highly leveraged. Thus, it can be concluded that all the banks have lower ratio of shareholder’s equity over the claims of creditors.

3. Profitability Ratio

a) Return on Total Assets

Return on total assets ratio measures the profitability of bank that explains a firm to earn satisfactory return on all financial resources invested in the bank assets; otherwise its survivable is threatened. The ratio explains net income for each unit of assets. Higher ratio indicates efficiency in utilizing its overall resources and vice versa. Rate of return on total assets is major tool to judge the operational efficiency of a firm.

The return on assets ratio of selected banks is as follows;

Table No. 4.11: Return on Total Assets (%)

JVBs/FY	2006/07	2007/08	2008/09	2009/10	2010/11	Average	S.D	C.V
NABIL	2.47	2.01	2.35	2.18	2.30	2.26	0.16	6.92
SCBL	2.42	2.46	2.56	2.70	2.81	2.59	0.15	5.65
HBL	1.47	1.76	1.91	1.19	1.91	1.65	o.28	16.97
EBL	1.38	1.66	1.73	2.01	2.01	1.76	0.24	13.47
NIBL	1.82	1.79	1.70	2.4	2.02	1.91	0.18	9.63

Source: Annual Report

The table 4.11 shows the return on total assets ratio of selected banks. Where, NABIL has likely constant trend of the ratio over the five years period of the study. This bank registered the highest ratio of 2.47% in the FY 2006/07 and the lowest ratio of 2.01% in the FY 2007/08.

SCBL has increasing trend of the ratio over the five years period. SCBL recorded the highest ratio of 2.81% in the FY 2010/11 and the lowest ratio of 2.42% in the initial period.

HBL has also constant trend of the ratio. This registered the highest ratio of 1.91% in the two FY 2008/09 and 2010/11 respectively, the lowest ratio of 1.19% in the FY 2009/10.

EBL has increasing trend of the ratio. This recorded the highest ratio of 2.01% in the FY 2009/10 and 2010/11, the lowest ratio of 1.38% in the FY 2006/07.

Similarly, NIBL has the highest ratio of 2.4% in the FY 2009/10, and the lowest ratio of 1.70% in the FY 2008/09.

The mean ratio of NABIL, SCBL, HBL, EBL and NIBL are 2.26%, 2.59%, 1.65%, 1.76%, 1.91% respectively. This indicates that SCBL has been able to earn higher profit on total assets i.e. 2.59% than other banks.

With considering the C.V. of selected banks, SCBL's ratio is more consistent and stable than other banks,, because of lower C.V. i.e. 5.65%.

b) Return on Total Deposits Ratio

Return on total deposit ratio assists to identify the banks overall performance as well as its success in generating profit. The ratio here is calculated in order to diagnosis whether the banks are well efficient or not in mobilizing its total deposits so that corrective action could be forwarded to concerned banks.

Higher ratio signifies better mobilization and utilization of deposits and vice versa.

Table No. 4.12: Return on total deposit (%)

JVBs/FY	2006/07	2007/08	2008/09	2009/10	2010/11	Average	S.D	C.V
NABIL	2.89	2.34	2.76	2.45	2.69	2.63	0.2	7.7
SCBL	2.81	2.75	2.9	3.09	3.11	2.93	0.15	4.96
HBL	1.64	2.0	2.17	1.35	2.18	1.87	0.32	17.37
EBL	1.63	1.88	1.92	2.25	2.26	1.99	0.24	12.05
NIBL	2.05	2.02	1.93	2.53	2.35	2.18	0.23	10.41

Source: Annual Report

The table 4.11 shows the return on total deposits ratio. Where, NABIL has the constant trend of the ratio during the period of the study. It registered the highest ratio of 2.89% in the FY 2006/07 and the lowest ratio of 2.34% in the FY 2007/08.

SCBL recorded the highest ratio of 3.11% in the FY 2010/11 and the lower of 2.75% in the FY 2007/08 over the five years period of the study. Similarly, HBL registered the highest ratio of 2.18% in the FY 2010/11 and lowest ratio of 1.35% in the FY 2009/10.

EBL has increasing trend of the return on total deposits ratio. Where, the ranged between 1.63% to 2.26%. The ratios are 1.63%, 1.88%, 1.92%, 2.25% and 2.26% respectively over the five years period. NIBL has the highest ratio of 2.53% in the FY 2009/10 and the lowest ratio of 1.93% in the FY 2008/09 over the study period.

With considering the average ratio of the selected banks, SCBL has the highest average ratio of 2.93% than other banks. it indicates that the SCBL has been to able to earn higher profit on total deposits with compared to other banks. This is also supported by the S. D. of the ratio, i.e. SCBL has the lowest S.D. of 0.15%, which indicates the more consistent trend of the ratios than other banks.

With considering the C.V., SCBL has the lowest than other banks i.e. 4.96%. It indicates that SCBL has been more consistent and stable than other banks and more successful in earning higher return on deposits during the period of the study.

c) Return on Shareholder's Equity

A return on shareholder's equity is calculated to see the profitability of owner's investment ROE indicates how well the firm has used resources of owner's. Management's objective is to generate the maximum return on shareholder's investment in the firm. ROE is therefore the best single measure of the company's success in fulfilling its goal. Thus, this ratio is of great interest and value to the present as well as the perspective shareholder's and also of great concern to management. This has the responsibility of maximizing the owner's welfare. The ratio equals the net profit after taxes divided by the common stockholder's equity.

Table No. 4.13: Return on Shareholder's Equity

JVBs/FY	2006/07	2007/08	2008/09	2009/10	2010/11	Average	S.D	C.V
NABIL	32.76	30.63	32.94	29.74	29.29	31.07	1.52	4.88
SCBL	32.68	32.85	33.58	32.22	33.62	32.99	0.54	1.63
HBL	22.91	25.30	24.13	14.79	22.35	21.90	3.70	16.88
EBL	24.67	23.49	28.94	30.15	29.91	27.44	2.80	10.19
NIBL	26.70	25.93	23.05	27.61	22.8	25.22	1.95	7.72

Source: Annual Report

Table 4.13 shows the analysis of return on shareholder's equity of five selected banks over five years of time horizon.

Return on shareholder's equity of NABIL bank has fluctuating nature. The ratio varied from a minimum 29.29% in 2011 to a maximum of 32.94% in 2009. The bank registered decreasing trend for last three years. This reveals there has been improvement in utilizing the shareholder's funds in FY 2007 and 2009. SCBL has the highest ratio of return on shareholder's equity of 33.63% in 2011.

HBL had maximum return on shareholder's equity in 2008 of 25.30%, which declined gradually in three years i.e. 25.30%, 24.13% and 14.79% in 2008 to 2010, then rose to 22.35% in 2011. Through, HBL was unable to regain 25.30% of return; ratio in FY 2010/11 shows positive improvement. Thus, it can be said that bank may be able to utilize the owner's funds profitably.

Everest has registered the ranges between 24.67% to 29.91% amount among five years. On average, the bank utilized 27.44% of owner's fund. The ratio of NIBL bank was fluctuating as well. On an average the ratio of ROE was 25.22%. The ratio of NIBL bank has ranged between 26.70% and 25.22%.

On the basis of C.V. HBL bank has highest among all, which explains that the variability of return on shareholder's equity is quite higher than remaining banks. While comparing the ratio of ROE on an average among selected banks, SCBL has the higher percentage of return and HBL has lower percentage of return.

From the analysis, SCBL has satisfactory ROE during the study years in comparison to other banks. It reveals the SCBL has been able to utilize its shareholder's equity in most efficient manner.

4.7.2. Statistical Analysis

Statistical tools help to find out the trend of financial position of the bank and to analyze the relationship between variables that helps banks to make appropriate investment policy regarding to profit maximization and deposit collection, fund mobilization through providing loan and advances or investment on other company. In this study, statistical tools such as coefficient of correlation between different variable and also hypothesis test have been used for analyzing and interpreting the financial data.

4.7.2.1. Correlation Analysis

It is statistical tools that can be used to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two set of figure. The variable method of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The coefficient of correlation is always between+1 and -1. When r, the coefficient of correlation is +1, there is perfect positive relationship between two variables (i.e., one dependant variables and one independent variable), when r is -1, there is perfect negative relationship between two variables, dependent and independent variable. And when r is equals to 0 there is no relationship between variables. So this topic tries to find out relationship between the following variables and helps the bank to make appropriate policies regarding deposit collection, fund utilization and profit maximization.

1. Coefficient of Correlation between Current Ratio and Debt Ratio

Coefficient of correlation between current ratio and debt ratio measures the relationship between current ratio and debt ratio.

The table below shows the value of r, r^2, P.Er and 6P.Er. between current ratio and debt ratio of selected banks for the five years study period i.e., FY 2006/07 to FY 2011/12.

Table No. 4.14: **Coefficient of Correlation between Current Ratio and Debt Ratio**

Banks	r	r^2	P.Er.	6P.Er	Remark
NABIL	0.0137	0.0002	0.3016	1.8099	r<6P.Er
SCBL	0.8703	0.7574	0.1286	0.7716	r>6P.Er
HBL	(0.3780)	0.1419	0.2955	1.7730	r<6P.Er
EBL	(0.0092)	0.0001	0.3016	1.8096	r<6P.Er
NIBL	0.0033	0.000011	0.3016	1.8096	r<6P.Er

Source: Annual Report

When analyzing table 4.14, the correlation coefficient between current ratio and debt ratio of NABIL, SCBL, HBL, NIBL are 0.0137, 0.8703, (0.3780), (0.0092) and 0.0033 respectively. It is interred that there is positive cementation between current ratio and debt ratio of NABIL, SCBL, and NIBL, and negative correlation between current ratio and debt ratio of HBL and EBL.

Similarly, considering the value of 'r' and comparing it with 6PEr, it is found that the value of 'r' is lower than the value of 6PEr. of NABIL, HBL and NIBL i.e., 0.0137<1.8099, (0.3780)<1.7730, (0.0092)<1.8069 and 0.0033<1.8096 respectively. And the value of 'r' is greater than the value of 6PEr of SCBL i.e., 0.8703>0.7716.

This reveals that the value of 'r' in case of NABIL, HBL, EBL and NIBL are not significant, i.e., there is no evidence of positive/negative correlation between the ratio and in case of SCBL, value of 'r' is significant, i.e., there is evidence of positive correlation between the ratios.

2. Coefficient of Correlation between Current Ratio and Debt Equity Ratio.

Coefficient of correlation of between current ratio and debt equity ratio measures the degree of relationship between current Ratio and Debt Equity Ratio.

The table shows the values of 'r', r^2, P.Er. and 6PEr.between current ratio and debt equity ratio of NABIL, SCBL, HBL and NIBL for the five years study period.

Table No. 4.15: **Coefficient of Correlation between Current Ratio and Debt Equity Ratio.**

Banks	r	r^2	P.Er.	6P.Er	Remark
NABIL	0.0387	0.001498	0.3012	1.8072	r<6P.Er
SCBL	0.0556	0.003091	0.3007	1.8043	r<6P.Er
HBL	(0.3492)	0.121941	0.2649	1.5892	r<6P.Er
EBL	0.0497	0.0025	0.3009	1.8053	r<6P.Er
NIBL	(0.12)	0.0144	0.2973	1.7838	r<6P.Er

Source: Annual Report

When analyzing table 4.15, the correlation coefficient between current ratio and debt equity ratio of NABIL, SCBL, HBL, EBL and NIBL are 0.0387, 0.0556, (0.3492), 0.0497 and (0.12) respectively. It indicates that the correlation coefficient between these ratios of NABIL, SCBL and EBL are positive, because value of 'r' is positive i.e., r <+1. Similarly correlation coefficient between these ratios of HBL and NIBL are negative because the value of 'r' is negative i.e., r<-1.

When considering the value of 'r' and comparing with 6PEr., the value of 6PEr. is greater than 'r' all of the selected banks. i.e., 1.8072>0.0387, 1.8043>0.0556, 1:5892>(0.3492), 1.8053>0.0497 and 1.7838>(0.12). It reveals that the value of 'r' is not significant i.e., there is no evidence of correlation between the variables (ratios) in all of the selected banks.

3. Coefficient of Correlation between Debt Raito and Return on Shareholders' equity

The table shows the value of 'r', 'r^2', P.Er. and 6PEr. between debt ratio and return on shareholder equity for the 5 years study period.

Table No. 4.16: **Coefficient of Correlation between Debt Raito and Return on Shareholders' equity.**

Banks	r	r^2	P.Er.	6P.Er	Remark
NABIL	0.0748	0.0056	0.30	107997	r<6P.Er
SCBL	0.0879	0.0077	0.2993	1.7959	r<6P.Er
HBL	0.1869	0.0349	0.2911	1.7467	r<6P.Er
EBL	0.0535	0.0029	0.3008	1.8046	r<6P.Er
NIBL	0.0478	0.0023	0.3010	1.8057	r<6P.Er

Source: Annual Report

When analyzing the table 4.16, it is found that the correlation coefficient between debt ratio and return on shareholder's equity of NABIL, SCBL, HBL, EBL and NIBL are 0.0748, 0.0879, 0.1869, 0.0535 and 0.0478 respectively. They indicates that there are positive relationship between the ratios i.e., debt ratio and return on share holders equity, because value of 'r' is less than +1. i.e., r<+1.

Similarly when considering the value of 'r' and comparing it with 6PEr in all cases, the value of 'r' is less than the value of 6PEr., i.e., 0.0748<1.7997, 0.0879<1.7959, 0.1869<1.7467, 0.0535<1.8046 and 0.0478<1.8057 respectively, which meant that there is no significant relationship between debt ratio and return on shareholder's equity.

4. Coefficient of Correlation between Return on Total Assets and Return on Shareholders' equity

Coefficient of correlation between return on total assets and return on shareholder's equity measures the relationship between return on total assets and return on shareholder's equity.

Table No. 4.17: **Coefficient of Correlation between Return on Total Assets and Return on Shareholders' Equity.**

Banks	r	r^2	P.Er.	6P.Er	Remark
NABIL	0.1078	0.0116	0.2981	1.7889	r<6P.Er
SCBL	1	1	0	0	r>6P.Er
HBL	0.0441	0.0019	0.3011	1.8064	r<6P.Er
EBL	0.8553	0.7315	0.0810	0.4860	r>6P.Er
NIBL	(0.1648)	0.0272	0.2934	1.7606	r<6P.Er

Source: Annual Report

While, analyzing the table 4.17, it is found that the correlation coefficient between return on total assets and return on shareholder's equity are 0.1078, 1, 0.441, 0.8553, (0.1648) of NABIL, SCBL, HBL, EBL, and NIBL respectively. It indicates that the correlation coefficient between these ratios of NABIL, SCBL, HBL and EBL is positive because value of 'r' is positive. And correlation coefficient between these ratios of NIBL is negative because the value of ‘r’ is negative.

Similarly, Considering the value of 'r' and comparing it with the 6PEr. , it is found that the value of 'r' is greater than the value of 6PEr. of SCBL and EBL i.e., 1>0 and 0.8553>0.4860. And it is also found that the value of 'r' is lower than the value of 6PEr.of NABIL, HBL and NIBL i.e. 0.1078<1.7889,0.0441<1.8064 and (0.1648)<107606 respectively. This reveals that the value of 'r' in cause of NABIL, HBL and NIBL are not significant, i.e. there is no evidence of correlation between ratios. And in case of SCBL and EBL, value of 'r' is significant, i.e. there is evidence of positive correlation between current ratios.

5. Coefficient of Correlation between Current Ratio and Return on Total Deposits

This ratio shows the relationship between current ratio and return on total deposit.

Table No. 4.18: **Coefficient of Correlation between Return on Total Assets and Return on Shareholders' Equity**

Banks	r	r^2	P.Er.	6P.Er	Remark
NABIL	0.2533	0.0642	0.2823	1.6938	r<6P.Er
SCBL	0.2333	0.0544	0.2852	1.7114	r>6P.Er
HBL	0.3799	0.1443	0.2581	1.5487	r<6P.Er
EBL	0.2074	0.0430	0.2887	1.7320	r>6P.Er
NIBL	0.4130	0.1706	0.2502	1.5012	r<6P.Er

Source: Annual Report

When analyzing the table 4.18, it is found that the correlation coefficient between current ratio and return on total deposit of NABIL, SCBL, HBL, EBL and NIBL are 0.2533, 0.2333, 0.3799, 0.2074 and 0.4130 respectively. They indicates the there are positive relationship between the two ratios i.e., current ratio and return on total deposits of selected banks, because value of 'r' is between +1 & -1. Similarly, when considering the value of 'r' and comparing it with 6PEr. i.e.0.2533<1.6938, 0.2333<1.7144, 0.3799<1.5487, 0.2074<1.7320 and 0.4130<1.5012 are respectively, which means that there is no significant relationship between current ratio and return on total deposits.

4.8 Major Findings of the Study

Based on the analysis of the data, the main findings are given below;

- Accounting practices of commercial banks largely depends upon following regulation and directives issued by NRB. Major legislation and regulation relating to accounting activities of commercial banks are: restriction on certain activities, maintenance of minimum capital and reserve, loan loss provision and provision of accounting policy and structure of financial statement.
- NRB directives regarding the provision of accounting policy and structure aims at enhancing public accountability, confidence between customer and banks and credit worthiness by developing the banking system and regulate them in order to enhance the true and fair financial situation.
- The commercial bank are followed the generally accepted accounting principle and or companies act, commercial bank act and directives issued by NRB while preparing their financial report.
- Current ratio of NABIL, HBL, EBL and NIBL banks are in constant trend. And SCBL has increasing trend over the last three years of the study period. The mean current ratio of EBL is higher than other banks i.e. 1.40. In addition, a look at the coefficient of variation of current ratio of EBL showed 7%, which is lower than other banks. It indicates that EBL's ratios were more consistent and stable than other selected banks.
- The ratio of five commercial banks is in slightly fluctuating trend. The coefficient of variation shows that ratio of Everest 2.18% is fluctuating in nature than the other banks. It can be noticed that the proportion of debt financing in comparison to total assets is relatively more in NIBL than other four banks. It indicates NIBL has riskier debt financing position in comparison to other banks.
- On the basis of coefficient of variation, HBL's bank's C.V. of debt- equity ratio is higher among selected banks. It explains that HBL's banks ratio is highly fluctuated over the study period than other banks. Similarly, SCBL has the lowest D/E ratio in comparison with other banks. It reveals that all five banks are highly leveraged.

- The mean ratio of NABIL, SCBL, HBL, EBL and NIBL are 2.26%, 2.59%, 1.65%, 1.76%, 1.91% respectively. This indicates that SCBL has been able to earn higher profit on total assets i.e. 2.59% than other banks. With considering the C.V. of selected banks, SCBL's ratio is more consistent and stable than other banks,, because of lower C.V. i.e. 5.65%.
- With considering the average ratio of the selected banks, SCBL has the highest average ratio of 2.93% than other banks. it indicates that the SCBL has been to able to earn higher profit on total deposits with compared to other banks. This is also supported by the S. D. of the ratio, i.e. SCBL has the lowest S.D. of 0.15%, which indicates the more consistent trend of the ratios than other banks. With considering the C.V., SCBL has the lowest than other banks i.e. 4.96%. It indicates that SCBL has been more consistent and stable than other banks and more successful in earning higher return on deposits during the period of the study.
- On the basis of C.V. HBL bank has highest among all, which explains that the variability of return on shareholder's equity is quite higher than remaining banks. While comparing the ratio of ROE on an average among selected banks, SCBL has the higher percentage of return and HBL has lower percentage of return. From the analysis, SCBL has satisfactory ROE during the study years in comparison to other banks. It reveals the SCBL has been able to utilize its shareholder's equity in most efficient manner.
- This reveals that the value of 'r' in case of NABIL, HBL, EBL and NIBL are not significant, i.e., there is no evidence of positive/negative correlation between the ratio and in case of SCBL, value of 'r' is significant, i.e., there is evidence of positive correlation between the ratios.
- When considering the value of 'r' and comparing with 6PEr., the value of 6PEr. is greater than 'r' all of the selected banks. i.e., 1.8072>0.0387,

1.8043>0.0556, 1:5892>(0.3492), 1.8053>0.0497 and 1.7838>(0.12). It reveals that the value of 'r' is not significant i.e., there is no evidence of correlation between the variables (ratios) in all of the selected banks.

- Similarly when considering the value of 'r' and comparing it with 6PEr in all cases, the value of 'r' is less than the value of 6PEr., i.e., 0.0748<1.7997, 0.0879<1.7959, 0.1869<1.7467, 0.0535<1.8046 and 0.0478<1.8057 respectively, which meant that there is no significant relationship between debt ratio and return on shareholder's equity.
- Similarly, Considering the value of 'r' and comparing it with the 6PEr. , it is found that the value of 'r' is greater than the value of 6PEr. of SCBL and EBL i.e., 1>0 and 0.8553>0.4860. And it is also found that the value of 'r' is lower than the value of 6PEr.of NABIL, HBL and NIBL i.e. 0.1078<1.7889,0.0441<1.8064 and (0.1648)<107606 respectively. This reveals that the value of 'r' in cause of NABIL, HBL and NIBL are not significant, i.e. there is no evidence of correlation between ratios. And in case of SCBL and EBL, value of 'r' is significant, i.e. there is evidence of positive correlation between current ratios.
- When considering the value of 'r' and comparing it with 6PEr. i.e.0.2533<1.6938, 0.2333<1.7144, 0.3799<1.5487, 0.2074<1.7320 and 0.4130<1.5012 are respectively, which means that there is no significant relationship between current ratio and return on total deposits.

CHAPTER- FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter is dedicated to the presentation of the data collected and analysis by using various statistical tools so as to summarize them and obtain results thereof. The statistical results are then interpreted to find their meaning and implications.

5.1 Summary

A commercial bank means the bank, which deals with exchange currency, accepting deposit, providing loan and investing in various to do other commercial transaction. There is not so long history of commercial bank in Nepal. Nepal Bank Ltd. is the first commercial bank of the country which was established in 1994 B.S. then after, many joint venture banks and commercial banks have been established. In research work, there has been taken five main commercial banks i.e. NABIL, SCBL, HBL, EBL and NIBL.

Under this study, I have tried to cover the various aspects of selected joint venture banks covering the period of five years from FY 2006/07 to 2010/011. In the first introductory chapter, the study report has tried to give origin and growth of banks in Nepal, brief profile of the concern banks, general concept and function of commercial banks and the focus of the study, statement of problem, objective of the study, study area and its limitation. The basic objectives of this study are; to identify accounting scenario, treatment and procedures is made by commercial banks, to examine accounting practice and standards conducted by commercial banks, to explain need and viability of commercial banks in Nepal, to examine the NRB directives regarding accounting, policy and financial disclosure. During the research work, extensive review of various literature books, past thesis, journals have been studied and consulted. And as per requirement, internet materials from relevant websites are also visited. These works are complied in the second chapter titled "Review of Literature" of this report.

In third chapter "Research Methodology" I have gathered the required data basically from annual reports published by the concerned joint venture banks for the last five years. And also internet website of Nepal Stock Exchange is used for necessary data analyze the financial performances of selected banks. Financial tools to calculate various ratios and statistical tools such as mean, standard deviation, coefficient of variation.

Data relating to activities of the banks have been collected and presented in figures and tabular as far as possible are tried to be interpreted in the study statistical tools and findings of the study have been listed in a systematic manner. All these works are compiled in the fourth chapter titled "Data Presentation and Analysis" of the study.

Commercial bank in current year, present a new picture, a picture of innovation in practice of winder horizon and new enterprises. The most remarkable diversification of banking function is increasing participation in medium and-long term financial industries and other sector. Therefore, they are not only financial institutions of finance agriculture and industry and other economic activities, but are more than financial institution in the sense that they help saving create deposits and make the subsequent distribution of such accumulated funds.

The primary objective of these joint venture banks is always to earn profit by investing or granting loan and advances to people associated with trade, business and industry, etc. That means they are required to mobilize their sources properly to acquire profit. How well a bank manages its investment has a great deal to do with the economic health of the country because the bank loans support the growth of new business and trade empowering the economic activities of the country.

5.2 Conclusion

From the above major finding the conclusion can be derived that there is fundamental different between accounting and reporting practice of commercial bank from other industries and accounting and reporting is largely governed by statutory directives. Accounting practice of selected banks cannot be considered as satisfactory, still there are somehow possibilities of further improvements. As our study shows that the among the sample bank each of them have some limitations. The common problems are unsettled account, compliance and delegation of authority and segregation of duties, supervision and accounting control.

This study reveals that the EBL has higher mean current ratio than other selected sample banks (SCBL, NABIL, HBL and NIBL). It means EBL's solvency position is better than other four banks. The mean debt ratio of NIBL is higher than other banks, which indicates that the NIBL has riskier debt financing position in comparison to other four banks. All of five banks are highly levered. Thus, it can be concluded that all the banks have lower ratio of share holder's equity over the claim of creditors.

The analysis shows that the average return on total assets ratio of SCBL is higher than other banks (NABIL, EBL, HBL and NIBL). It can be concluded that SCBL has become successful to earn more profit than other banks. Similarly, the mean ratio of return on total deposit ratio of SCBL is higher too, so SCBL has become more successful to earn more return than other sample banks. Again SCBL has higher percentage return on, return on share holder equity. It is concluded that SCBL has satisfactory return during the study period of five years in comparison to other banks (NABIL, HBL, EBL and NIBL).

5.3 Recommendation

This finding may be useful for them who are concerned directly or indirectly with accounting standards and practices of the commercial banks. on the basis of above analysis and findings of the study, following suggestion and recommendation can be drawn.

Commercial banks are recommended to strengthen computerized accounting through integration of all branches into single banking software coverage and centralize information-processing network and upgrade or update technologies in order to strengthen prompt recording, processing and reporting.

Commercial banks are recommended to strengthen the internal inspection and auditing so that any short fall in prudential requirement, errors and misappropriates could be timely corrected. They are also recommended to strictly comply with the banking regulation and NRB Directives in order to, make transparent in their work and activities.

The commercial bank should minimize unsettled account; cash in transit and fund transfer delays. Develop management information system that could shows the overall accounting and financial position, liabilities to be settled and statutory norms to maintain.

They are recommended to timely hold their AGM, delegate the information to the investors and timely report to the regulatory bodies.

The liquidation position bank can be affected by external as well as internal factor, which includes overall economic scenarios. Based on liquidity ratio, to maintain liquidity in perfect bank should invest their idle deposit in productive sector.

The profitability ratio of SCBL is better, so other banks should reduce operating cost to achieve the operational efficiency. Since, by decreasing cost, profit of any banks can grow considerably, they must search for loopholes in their operations where unnecessary costs are being incurred and should eliminate them.

Segregation of duties, Physical control and safeguard, Delegation of authority and responsibility, Accounting control, Supervision and Management control are should applied in the commercial banks for the overall management control.

All five banks should have to follow the direction to take corrective action on the matter defined by Auditor report, internal audit program as well as Govt. regulation required to control the frauds, misappropriation, errors and irregularities of the selected organization.

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Web Sites

www.ican.org.np

www.everestbank.com.np

www.nabilbank.com.np

www.google.com.np

www.nrb.org.np

APPENDIX

Everest Bank Limited (RS. '000000')

Description	2006/07	2007/08	2008/09	2009/010	2010/011
Current Assets	20,760	25,829	33,420	38,120	41,926
Total Deposits	18,186	23,976	33,323	36,932	41,128
Total Debt	18,486	24,276	33,935	37,637	41,910
Current Liabilities	14,305	18,482	27,051	27,478	27,278
Net Income	296	451	639	832	931
Total assets	21,432	27,149	36,917	41,383	46,236
Total Investment	4984	5060	5948	5008	7744
Share Capital	1,201	1,921	2,203	2,759	3,113

NABIL Bank Limited (RS. '000000')

Description	2006/07	2007/08	2008/09	2009/010	2010/011
Current Assets	23,347	33,906	46,690	51,046	52950
Total Deposits	23,342	31,915	37,348	46,411`	49,696
Current Liabilities	17,396	27,192	36,381	34,807	33488
Net Income	674	746	1,031	1,139	1,338
Total assets	27,253	37,133	43,867	52,150	58,141
Total Investment	8,945	9,940	10,826	13,671	13,081
Share Capital	2,057	2,437	3,130	3,835	4,566
Total Debt	24,224	33,515	39,329	47,389	51,559

Himalayan Bank Limited (RS. '000000')

Description	2006/07	2007/08	2008/09	2009/10	2010/11
Current Assets	26,544	28,630	32,919	35,610	39,991
Total Deposits	30,048	31,842	34,681	37,611	40,920
Current Liabilities	22,575	26,295	29,333	27,449	28,723
Net Income	491	635	752	508	893
Total assets	33,519	36,175	39,320	42,717	46,736
Total Debt	30,644	32,785	35,182	38,111	41,430
Share Capital	810	1013	1216	2000	2400

Standard Chartered Bank Limited (RS. '000000')

Description	2006/07	2007/08	2008/09	2009/10	2010/11
Current Assets	20,279	27,017	26,030	28,087	35,641
Total Deposits	24,647	29,744	35,871	35,182	37,999
Loan & Advances	10,252	13,115	12,925	15,218	17,472
Current Liabilities	1,433	1,099	1,363	1,660	1,783
Net Income	691	818	1,025	1,085	1,119
Total assets	28,596	33,335	40,587	40,213	43,810
Total Debt	25,047	29,744	36,171	35,182	38,349
Share Capital	413	620	932	1608	1610

Nepal Investment Bank Limited (RS. '000000')

Description	2006/07	2007/08	2008/09	2009/10	2010/11
Current Assets	23,347	33,906	46,690	51,046	52,950
Total Deposits	24,488	34,451	46,698	50,094	50,138
Current Liabilities	17,396	27,192	36,380	34,807	33,488
Net Income	501	696	900	1,266	1,176
Total assets	27,590	38,873	53,010	57,305	58,356
Total Debt	25,288	35,501	47,786	51,182	51,468
Share Capital	801	1,203	2,407	2,409	3,011