CHAPTER-ONE

INTRODUCTION

1.1 General Background of the Study

Recording transactions in the set of books of account and preparation of financial statements require certain fundamental theory (or principle) or assumptions as guide. Such principles are described as broad rules, which are accepted and adopted by accounting profession as a guide in recognizing, recording, measuring and reporting the financial affairs and activities of an enterprise. These principles are called “Generally Accepted Accountancy Principles (GAAP).”These are the rules, which are universally adopted by accountings as a guide to action. The rules consist of number of concepts and procedures of accounting. These rules cannot be rigid like those of physical sciences. Accounting rules have to be used with responsible degree of flexibility in response to circumstances of an enterprise depending on the economic environment, social needs, legal requirements and technological development (ASB/Nepal, 2003:Preface). Accounting rules have been evolved from thinking and experience of members of accounting profession, business companies, government agencies and other concerned persons. They are, thus, man made rules, which are generally accepted and followed by accounting profession i.e. recording transactions in the book of account and reporting about financial affairs of any institutions.

The historical development of accounting practice has been closely related to the economic development of the country .In the earlier stages of the economy, business enterprise was very often managed by its owner, and the accounting record and reports were used mainly by the owner manager in conducting the business. Banker and other lenders often relied on their personal relationship with the owner rather than on financial statements as the basis for making loans for business purposes.

As business organization grew in size and complexity, “resource manager” and “resource providers” became more clearly differentiated .The existence of latter group which includes owners, creditors, government, labor union, customers and the general public, required for accurate financial information for use in judging the performance of management and safeguard of their resources .In addition, as the nature, size and complexity of business unit increased, the accounting and reporting of financial statements became more and more complex. With these development came an awareness of the need for a framework of concepts and generally accepted accounting principles as guides for the preparation and reporting of the basic financial statements (Fees and Warren, 1987:557).

Accounting system as a ‘language of business’ communicates the financial performance and position of an enterprise to various interested parties by means of financial statements, which have exhibit a true an fair view of financial results and it states of affairs. Like any other language, accounting has its own set of rules. The basic assumptions or rules used in preparing financial statements had evolved over many years as a product of the collective experience of practicing accountants. As a result, different companies used a wide variety of accounting methods. It was then felt that there should be some standardized set of rules and accounting principles to reduce or eliminate unfaithful representation of the financial information and confusing variations in the accounting methods or polices used to prepare financial statements .In order to suggest rules and criteria of accounting measurements several accounting methods were felt to be developed.

Financial statements are prepared and presented for external users by many types of enterprises. Although such statements may appear similar from enterprise to enterprise, there are differences, which have been caused by the absence of a clear conceptual framework to guide the choices made of accounting principles by accountants and auditors. These differences have led to the use of variety of definitions of the elements of financial statements; that is, for an example, assets, liabilities, equity, income and expenses. They have resulted in the use of different criteria for the recognition of items in the financial statements and in a preference for different bases of measurement. The scopes of the financial statements and the disclosures made in them have also been affected.

The accounting systems are rules specifying the accounting methods and disclosures to be employed by entities in the preparation of financial reports. Accounting systems are the fundamental guidelines that determine whether a specific accounting method is acceptable. These include the set of generally accepted accounting principles that have stood the test of time over many years. Suitable accounting system and methods place restrictions on behavior of its users and therefore affected parties must accept them.

The lack of proper and suitable accounting model makes the regulating agencies difficult to establish their effectiveness. Different regulating agencies including the tax authorities seek information in different ways. The companies have to furnish the information in accordance with the respective regulations but unfortunately, the shareholders and investors do not have access to such additional information. All these inconsistencies and the practices of exhibiting less information on financial performance makes the investors further discourage. The lack of standards in accounting methods and policies also make the confusions to the partners, owners shareholders etc.

The concept of good corporate governance has a direct relation with disclosure culture. Unless the financial transactions are transparent, the reliability of the financial statements will be questionable. The performance of management will be not enhancing especially in the context of country like Nepal. The only way to enhance this is to lay down certain standards with legal authority .The high quality accounting systems result in greater investors ‘confidence, improving liquidity, making fair market prices possible and reduced capital cost. It results in transparency, comparability and full disclosures. So government and private enterprises of Nepal seem to get benefit from the adaptation of standard Accounting Systems.

1.2 Focus of the Study

Nepal is an independent freedom, landlocked and developing country of the world. It has been developing its different aspects such as communication, health and education slowly and gradually. Generally Nepal is still known as country of illiterate because there are still more people uneducated. In the sector of education, Nepal has been developing with a greater speed within the past ten years. It can be proved by the establishment of different schools, colleges and universities in different parts of the country. So, there is the positive sign of development of education. The man can get the higher studies and can get his masters and PhD only after his schools. We know that morning shows the day. Similarly the student who has passed from the good school only can be the good student in his further study. So there is the great role of schools for making man be the good citizen because it is the first destinations from where a man can get his formal education. There are so many schools for providing the formal education. The progress of the country depends upon the educated people of the country. And there is no doubt that schools have been helping for the same being a first step of providing education. There are private and government schools in these regards.

When we talk about the schools, we need to talk about the importance of education. Education is the foundation of development of nation. It changes dark into light. It makes the man responsible to new ideas. Education provides technical as well as administrative manpower needed for the development of a nation. It provides engineers, doctors, leaders, mechanics, teachers, and clerks' etc.in different fields. It is precious property. The more we spend it, the more it increases. The early men had to pass miserable life due to lack of education. But the people in the present are passing comfortable life with the help of education. Such important education can be received first from schools. So the schools are the first place from where we can get the formal education. It helps to prepare people to get higher studies.

This study focuses on the adaptability of Standard Accounting Systems that can be used in the Nepalese schools. The study has observed the existing method of accounting methods followed by Nepalese schools. It has attempted to disclose the problems of execution of existing accounting system. Thus the study contributes on promotion of accounting systems. The study highlights the financial reporting system of the schools.

1.3 Importance of the Accounting System

In every country there are different types of organization either service motive or profit motive. These organizations are established to perform the specific work and to get definite objectives .In order to achieve these objectives, such organization require performing a number of functions on regular basis. These organizations require a number of resources like men, material, money, and means of communication and means of transportation to perform their functions smoothly and efficiently. These resources should be utilized in the best possible manner to meet ever-changing need of the society. Such ever-changing need of the society can only be satisfied through the continuous flow of accurate and reliable information. Hence every organization requires a suitable accounting system for the effective recording, classification and summarization of the resources and activities for achieving its objectives. So, the accounting system is equally important for both government as well as private sectors of the country.

Every organization performs a large number of financial transactions on regular basis. These financial transactions relate to buying, selling, paying expenses, receiving incomes, acquiring assets, meeting liabilities and collecting dues. The accountant or owner of the business cannot keep in memory all these financial transactions over a long period of time. Therefore such financial transactions should be recorded systematically in a set of books for future reference. Hence accounting system helps for keeping records of financial transactions systematically in a set of books with a view to prepare future financial statements. Now –a-days there have been developed modern techniques, methods and modern equipments for maintaining the records of financial transactions. Different computer programmer such as Fact, Tally etc have been using in different offices. In Nepal, most of the offices are adopting computer accounting system and some of the organizations are still in practice of the same traditional accounting system. Whatever may be the accounting system used, both of them help to know the operating results (profit and loss) and financial position (assets and liabilities) of a business.

Most of the firms have to make decision under uncertainty when faced with complex situations. If all the information necessary for decision-making were available, a firm would make a correct decision. In order to make wise and rational decision by the firm, a firm needs the right information at the right time. Accounting plays this important role and makes the task of rational decision making easier in case of a firm (Taylor, 1985:237).

Accounting system has played a vital role in every organization for the following reasons:

1) It helps to keep records for a long period of time.
2) It helps to classify the transactions into personal, real and nominal accounts.
3) It helps to determine correct profit or loss, and surplus or deficit.
4) It helps to disclose true financial position.
5) It helps to supply various information's to the management and concerned parties.
6) It helps to assess correct amount of tax by supplying accurate and reliable information relating to incomes, expenses, and profit and loss.

So, we cannot imagine any organization, which does not have proper accounting system. It is just like the mirror, which shows the actual financial information just like the actual face shown by mirror. So, it has its own great importance in every sector of economy.

1.4 Statement of the Problems

Lack of awareness concerning the accounting tools and techniques, lack of proper and update accounting training, financial limitations etc. are some major problems faced by schools of Nepal. The study is concerned on the problems faced by schools of Nepal in their accounting. Until and unless there is no such study that tells the accounting system, policy and procedures adopting by the schools of Nepal, how can they prepare various accounting reports? Similarly how can they disclose the public accountability to the general public? And how can they practice internal accounting system? So, accounting system is needed to test the validity and reliability of the accounting or financial information.

Accounting practice through out Nepal should be consistent. But there are not uniform standards in preparation of financial statements. The contents, the style of presentation, the way of interpretation and qualifying statements are different from one school to another school.

Therefore, this study is needed to disclose the following issues:

- How has the school maintained their accounts?
- How do they disclose their financial information?
- Do they follow the regulatory guidance/directions on disclosing financial statements?
- How reliable are the information provided by schools?
- Have schools been using appropriate accounting system?
- How much the accounting control system exercised by the schools is efficient?
- Are current accounting practices efficient to disclose the actual condition of the schools?
- What are the weaknesses in current accounting system used by schools?
- Are there any possibilities for improvements in accounting practice so as to strengthen the current condition?

1.5 Objectives of the Study

The objective of the study is to identify the accounting problems faced by schools and to give appropriate accounting model for them. This research helps to point out the weakness of the accounting model being practiced by the schools. Besides this, the main objectives of the study are:

- To examine the existing accounting system used by schools.
- To identify the major accounting problems faced by them in their practical field.
- To evaluate the efficiency and sufficiency of accounting system to present or display their transactions and ability to provide the necessary information to the management for decision-making.
- To identify, how the supporting institutions have been providing the accounting training to the schools and also examine the effectiveness of such training.
- To find out the appropriate models of accounting system which can display the transactions of schools, appropriateness in term of cost

simplicity & applicably and in generating sufficient information to the management for decision making.

- To discover the possibility of further improvement in order to strengthen the accounting practice of schools.

1.6 Hypothesis of the Study

The followings hypothesis has been assumed on this study:

Null Hypothesis:

A statistical hypothesis, which is stated for the purpose of possible acceptance, is called a null hypothesis and is denoted by H_0.The null hypothesis formulated on this study, has been given below:

1(a) H_0: Account keeping system does not depend on the educational background (degree) of the accountants of the schools. In other words, there is not significance difference in account keeping system by level of education of accountants of the schools.

2(a) Ho: There is no significant difference of accounting system maintained by account trainee and non-trainee. In other words, the account keeping by trainee is not different from the account keeping by non-trainee staffs.

3(a) Ho: There is not significant difference in the accounting efficiency after training of the accounting staffs. In other words, the accounting efficiency of accounting trainee is not increased after receiving training.

Alternate Hypothesis:

Any hypothesis, which is complementary to the null hypothesis (Ho) is called an alternate hypothesis and is denoted by H_1 .The alternate hypothesis formulated on this study has been presented below:

1(b) H_1: Account keeping system depends on the educational background (degree) of the accountants of the schools. In other words, there is significant difference in account keeping system by level of education of accountants of the schools.

2(b) H_1: There is significant difference of accounting system maintained by account trainee and non-trainee. In other words, in other words, the account keeping by trainee is differed from the account keeping by non-trainee staffs.

3(b) H_1: There is significant difference in the accounting efficiency after training upon the accounting staffs. In other words, the accounting efficiency of accounting trainee is increased after receiving training.

1.7 Significance of the Study

Generally schools are established for providing education rather than making profit. They are taken as service motive organization. But in the present context of privatization, there are so many schools established for profit motive. According to prevailing rule, the private schools can be registered under the company act –2053.So, in this sense, private schools are also the business organization. Especially the private schools are established for generating profit by providing the quality education. So, the different private schools have been investing their capital towards education expecting a high return there from. On the other hand, the government schools are established for providing education rather than making profit. Whatever may be the types of schools, both of them need to record different types of transaction such as collecting fees, paying salaries, acquiring assets, purchasing different materials needed for the schools etc. Thus these transactions should be recorded in sets of books systematically so as to control over the misuse of the resources and recording them for the future reference as well. So, the proper accounting system has played great role in these regards. Accounting is the means of providing information to the school management to formulate plans, policies and different strategies. A sound and constructive school system must be based on proper procedures practices and operations. The wide recognition given this principle can be best be illustrated by pointing to the considerable degree of external control exercised over schools by regulatory authorities created by the government. Also widely recognized is that external controls are not sufficient in themselves. So, internal checked system must be used. And there is no doubt that accounting system of school being internal system has the great role in this regards.

The more the schools in the country, the more the people of the country can be educated. It is most necessary to the developing country like Nepal. Schools are taken the foundations of development. So, schools are backbones of the country. To develop and strengthen the schools, the financial aspects should be strong. It is impossible to make right decisions at right time without proper accounting information. The main source of internal information is accounting system. But in many schools, school managers are forced to make decisions on the basis of incorrect data. So, they are loosing their profits or surplus (govt. schools) Thus it is necessary to examine their accounting system.

This study helps to examine the existing accounting system used by schools, identify the accounting problems faced by schools. Besides these, this study also will contribute to identify how the supporting institutions have been providing the accounting knowledge or training for schools which will be sufficient to provide the information to the manage met for making decision in term of cost, simplicity applicability, effectiveness for display or present entire transactions of schools. This study will also examine the accounting system of both government &private schools .So this study will provide which sector (Govt. or private) has been maintaining the accounting system properly.

This study is important to the general people at one hand because the accounting practice determines the reliability of information that the schools provide. And on the other hand, this study is significant to Ministry of Education, Regional Education Directorates and the District Education Offices as they are the regularity authority to the schools. This study is significant to the schools proprietor or managers for developing the better accounting practice.

Until now there are no any books and publication or research conducted that tells the accounting practice of schools of Nepal. This study is important to management, partners of schools, general public, policy makers and academician. This study will explore for possibility of better accounting practice and will represent the current accounting status of schools.

Generally the accounting system is needed for the schools for the following reasons:

- To study the recording practice of schools.
- To study the reporting practice of the schools.
- To discover the possibility of further improvement in order to strengthen the accounting practice of schools.
- To control over the misuse of resources of the schools and to keep the records for the future reference.

Last but not at the least, it will provide literature to the researchers who want carry out further research in this field.

1.8 Limitations of the Study

This study is a case study of some of the schools of Parsa district .So, it may or may not represent all the schools of Nepal. But this study will definitely represent the accounting systems of schools. Due to the limited time and resources to conduct this study, it may have some drawbacks. The study only focuses on accounting practice of the selected schools of Parsa district.

The following are the main limitations of the study:

- Time frame and resources are constraint in this study.

- There has not been any research conducted on this topic. So, this study lacks of previous related studies in this area.
- This study is mainly based on primary data. So, the limitations of primary data may exist.
- This study has taken only few schools (will be specified on the thesis) as sample and draw conclusion. So, the conclusions drawn are suggestive rather than prescriptive.
- The research observes only the accounting system of schools. It does not include the accounting system of other enterprises.

1.9 Organization of the Study

Each chapter concentrates to some aspect of the study of practice, problems and issues of accounting system of schools. The rational behind this kind of organization is to follow a simple research methodology approach. The research contains the following five chapters:

Chapter –one

This chapter entitles “introduction” chapter.” This chapter covers the general background of the study, focus of the study, importance of the study, statement of the problem, objectives of the study, limitations of the study, significance of the study and organization of the study.

Chapter –two

The second chapter focuses on the review of literature. It consists the conceptual framework, past research related to the accounting practice and research gap.

Chapter –three

This chapter covers the detail research methods that are planned for conducting this study. The chapter deals with the research design, the population and sample, sampling procedure, sources of data, data collection procedure, method of analysis and presentation, tools and techniques of analysis and research variables.

Chapter-four

This chapter deals with presentation, analysis and interpretation of data. The observed information has been analytically studied and presented. The data has been presented in table and charts, quantitative tools have been used, and generated quantitative result has been interpreted in this chapter. It consists of testing of hypothesis, analysis of questionnaire, and analysis of open –end opinions and major findings of the research.

Chapter –five

This chapter covers the summary and conclusions of the analysis .A brief conclusion from the analysis have been drawn and necessary recommendations have been made through this.

CHAPTER-TWO
REVIEW OF LITERATURE

This chapter aims to establish a conceptual framework and make a review of the relevant studies that have already been done on the research topic so that some new contributions could be given to the established body of knowledge. This chapter has been divided three main sections first section will encompass the conceptual framework. The second section will present the review of previous study on the topic. The final section will explain the research gap.

2.1 Conceptual Framework

2.1.1 Meaning and Definition of Accounting

In simple, the act of keeping records in regular and systematic manner is called book keeping .In other words, it is the process of analyzing financial transactions and recording them in the book of account to show the financial results of operations. Accounting is an eye of the business, which shows a path to go ahead. Accounting is also known as an administrative tool, which means to an end, which produce the financial information needed for successful administrators. Accounting is a mirror, which shows the clear picture and mostly has two parts one showing profit and loss and other showing assets and liabilities (balance sheet).

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

According to Subash Sharma & M.P.Vithal,” Accounting is a systematic of generating and communicating financial information to tabulate the results of operations of enterprises.”

Similarly K Fred and Harold W.Steve have defined, as “Accounting is service activity designed to accumulate, measure, communicate financial information about organization for decision making purpose.”

A committee of American institute of Certified Public Accountants (CPA) has defined as:” accounting is art of recording, classifying and summarizing in a part at least of financial character and interpreting the results there of.”

From the above definitions, it is clear that accounting means the collection and processing of financial data of an entity to report the decisions makers. In general terms there are three aspects in accounting functions, which is adapted to suit business requirements. The first aspect is in respect of system it lays down for recording day-to-day business transaction. The second aspect deals with the method of controlling day-to-day business operations. The third aspect is the managerial or deciding the best action to be followed in the future.

2.1.2 Objectives of Accounting:

- To have a permanent record of each transaction of the business (i.e. entity)
- To show the financial effect on the entity of each transaction recorded
- To ascertain the combined effect of all the transactions (during an accounting periods) on the financial position on a particular date.

2.1.3 System of Accounting:

a) Single Entry Book Keeping System: This system ignores the two fold aspects of each transaction as considered in double entry book keeping system. Under single entry system, merely personal aspects of transaction i.e. personal accounts are recorded. This method takes no note of the impersonal aspects of the transactions other than cash. It offers no check on the accuracy of the posting and no safeguard against fraud because it does not provide any check over the recording of cash transactions. Therefore, it is called “imperfect accounting.”

b) Double Entry System: Luca Pacioli, who was a Franciscan Monk of Italy. With the passage of time, first evolved the double entry system; the system has gone through lot of developmental stages. It is the only method fulfilling all the objectives of systematic accounting .It recognizes the two fold aspects of every business transaction.

2.1.4 Basis of Accounting System:

a) Cash or Receipts Basis: It is the method of recording transactions under which revenues and costs and assets and liabilities are reflected in accounts in the period in which actual receipts or actual payments are made. “Receipts and payments account” in case of clubs, societies, hospitals etc., is the example of cash basis of accounting.

b) Accrual or Mercantile Basis: It is the method of recording transactions by which revenues, costs, assets and liabilities are reflected in accounts in the period in which they accrue. This basis includes considerations relating to outstanding; prepaid, accrued due and received in advance.

c) Hybrid or Mixed System: This is the combination of both the basis i.e. cash as well as mercantile basis. Incomes are recorded on cash basis but expenses are recorded on mercantile basis of accounting. The following illustration will clear the cash and accrual basis of accounting:

Illustration:

Fees received in 2007	Rs.2500
Fees accrued	Rs.700
Fees received in advance	Rs.500

From above examples, under cash system fees received shall be recorded at Rs.2500.

Under accrual basis, fees received earned=	
Fees received	Rs.2500
Add: fees accrued but not received	(+) Rs.700
Less: fees received in advance	(-) Rs.500
	Rs.2700

2.1.5 Evolution of Accounting:

No social study has ever been static-it has always evolved. Necessarily, the present day shape and contents of accounting is a product of history.

The origin of accounting as social study can be traced back to very ancient days. Indeed, it was as old as the beginning of the use of money itself. Even the barter system some primitive form of accounting existed. For, otherwise, how could loss and gain have been calculated? The objective of gain has always been the driving force of any exchange and this gave birth to the need for accounting.

But till the 13th century, the mode of; keeping accounts was primitive. Books of business were no more than mere note book transactions .A French merchant wrote in his book: ‘Lent 10 gold coins to a man last year, I forget his name’. In Europe, calculations were made largely in Roman numerals, and sums were very often wrong. Long divisions were regarded as something of a mystery, and the use of zero was not clearly comprehended.

Is it surprising, therefore, that a system of accounting, as we know, could not have been developed? However, it did develop in the fifteenth century and its genesis can be traced to Double Entry Book keeping that is said to have been fashioned by Italian Franciscan monk, Luca Pacioli (about 1445-1520), the multitalented mathematician and philosopher. His treatise Summa De Arithmatica, Preportioni at Proportinalita was published in

1494.However, Pacioli is not regarded as the inventor of the system; he is said to have just collected the different aspects of it comprehensive tract).

Of course, for a considerable time, the Double Entry System ignored in Europe; the people thereof continued following what is time; the Double Entry Principle came to be acquainted as a principle of action. The shareholders and others interests were to be safeguarded; they were to be acquainted with the performance of the companies. The need was statutorily recognized and there emerged as an information system for the investors and others such statement is balance Sheet, Profit and loss Account, etc. By and by, the dimension of this financial information system expanded and it came to be all-pervasive.

Since business and other concerns operate in the social setting, evolution of accounting could not come to a halt just at providing information to the investors and managers alone. Social cost as well as social benefit had to be assessed. This brought into being social accounting, an important adjunct to the system of measuring and assessing. Economic activities are described as 'activities performed for making a living and which again, in money-economy are nothing other than money earning and money spending activities.

2.1.6 Evolution of Accounting in Nepal

There is no any evidential proof about the origin of accounting system In Nepal. Lichchhavi and Malla period were of great importance from the view point of financial administration. During the Lichchhavi Period, the government revenues were collected from Panhcali (local government body), Guthi (trust) Jinsi kar (property tax), Shramdan (voluntary work), etc and expenditure were made for war, renovation, etc. During Malla period, with the beginning o trade relation with Tibet, revenues from customs and trade were also added in the line of government revenue and expenses were incurred on the same head but in larger band more frequent extent. Thus, accounting is found started from the Lichhavi period in a form according to the need and knowledge of the ruler and then continued onward in the Malla period. But such an accounting system was not scientific and long lasting.

The need of accounting was felt necessary with the increase of transactions, in course of time. After the beginning of the unification of Nepal in 1825 B.S. It is believed that a memorandum record of government revenues and expenditures, as an accounting system began to maintain records .In this regard, two books called Laldhadda and Mothdhadda were introduced in the years 1871 and 1879 B.S. respectively. The book Laldhadda was used to record the government revenues and administrative expenditures whereas the book Mothdhadda for recording the transactions of Kipat Byabastha (land management). These two books have proven to be the foundation for the origin and development of accounting system in Nepal. In the year 1925 B.S., an office called, 'Nepal Kitabkhana was formed to register the name of the government employees and to record the Royal Palace employees and the pension transactions of the retired employees. The accounting record of salary expenses used to be recorded in Kaushi Tosha Khana,a section under Kitab Khana.

Again, with the passage of time, transactions were also increased in different sectors like land revenue in the name of Malpot (land tax), revenue from forest, trade and customs etc. in the revenue side and war, peace and security, religious activities salaries to the government employees, administrative expenses, government subsidies, pension expensed and other developmental expenditures in the expenditure side. Such an increase of government transactions led to the development of accounting system in the country. Towards 1936 B.S., Khardar, Gunawanta, a senior official of that time, introduced a new sort of accounting system called Shyaha Sresta Pranali, with a view to record the government revenues and expenditures in a simple, uniform and systematic way so as to exhibit the actual position of the government revenue and expenditure. This system was remained in practice in the country till 2022/23 fiscal years and ultimately replaced by the new accounting system of HMG.

Even though Shyaha Shrestha Pranali was comparatively more systematic and scientific accounting system, it could not cover the numbers and complicated transactions in the Terai –region of the country. As a result, in about 1968 B.S. Faram Shresta Pranali (Form accounting system) was introduced and brought into practice in the Terai region .It had 51 different forms to record and report the transactions and thus implementation of New Accounting System of HMG, there were two accounting systems- Shyaha Shresta Pranali in the Mountainous region and Faram Shresta Pranali in the Terai region and Katmandu valley. Since the autocratic Rana Rulers did not give any importance to the accounting system and to the entire financial administration, the accounting system could not be developed at the time and situation during the period of Rana Regime.

After the historical movement of 2007 B.S. the autocratic Rana–Regime was overthrown and democratic government was established in the country. Since, then the government seemed to be more responsible to the people. As a result, the government declared budget system for the first time, in the country in 2008 B.S. to let the people know about the government's projected revenues and expenditures. Again, economic planning was started from 2013 B.S. for the balanced economic development of the country. But because of the lack of appropriate accounting system, the necessary data, figures and other financial information could not be obtained for the preparation of a sound budget and economic plans and for their implementation. Thus, the government felt the necessary of an appropriate accounting system for recording the government transactions. But due to the political instability and lack of the guiding rules during the first decade of the democratic era, such an accounting system could not be introduced. Thus, in the year 2016 an act called **"Procedural Rules for Government Fund Expenditure 2016"**was passed and enacted by the government in order to establish the uniformity in financial administration. On the other hand, the Auditor General was appointed as per the 'Constitution of Nepal 2015'as a constitutional body to check the frauds and misappropriation for government budget and to audit the accounting thereto.

After the enactment of the act **"Procedural Rules for Government Fund Expenditure 2016"** Bhuktani Shresta Pranali (Payment Accounting System) was introduced in 2017 B.S., which was based on the principle of double entry system. But within a very short period, it was proven to be insufficient to cover the government transactions, especially the revenues, foreign aids and donation and budget transfer etc.

Even though the political system was changed from multiparty democratic system to party less Panchyat system, it did not disturb the development of accounting because of some serious limitations of the payment accounting system; a new accounting system was introduced as per the recommendation of 'Accounts Committee2017'. It replaced the payment accounting system and all other old accounting systems. It is based on the principle of double entry system. This system is used, nowadays throughout the country.

2.1.7 Accounting Systems Used in Nepal

There were various types of accounting systems in the introduction of the New Accounting System. Some of the accounting systems used in Nepal were as follows:

1. Wasil Banki Sresta Pranali
2. Syaha Sresta Pranali

3. Form Sresta Pranali
4. Bhuktani stesta pranali
5 New accounting system

1) Wasil Banki Pranali: This was a simple statement, which was used to record the revenues and expenditures of government offices. It was based on single entry system of book keeping .The one page of the book was used to record the incomes and the other page was used to record expenditures. The book of accounts was closed at the end of the fiscal year or after the completion of the job. There was no provision of analyzing the financial transactions into different heads. This system was suitable only for those offices, which were established for definite period and had the limited number of financial transactions. So, this system was unscientific and impracticable for accounting purpose.

2) Syaha Sresta Pranali: In the process of historical development of government accounting system in Nepal, Kharidar Gunawanta in 1936 B.S introduced Syaha Sresta Pranali. It was in practice up to 2022/23B.S. This system was more scientific and systematic than Wasil Banki Sresta Pranali.Various types of books, which were used under Syaha Sresta Pranali, were as follows:

a) Syaha: Syaha was the primary record of financial transactions like journal voucher. It was used as the first step under sresta pranali to record the incomes and expenditures of government offices. Syaha was prepared in T-shape in local made paper (Nepali paper). To provide a number of columns for incomes and expenditures, a leaf was folded into 16, 24,32,or 36 creases as per the requirement of an office but folded in 16 creases was the most common .So this was also called sixteen creases Syaha (Sohra Tode Syaha). The Syaha was divided into two parts. On the right hand side of the Syaha, all the expenses were recorded and on the left hand side of the syaha, all the incomes were recorded. At the end of the day, both sides of the Syaha were totaled which was called ‘Terij’. Again, the total amount up to the previous day was added with the current day’s amount to obtain the grand total up to the current day, which was called ‘berij’. Syaha can be closed either at the end of the month or at the end of the fiscal year. The following types of Syaha were used for recording different types of transactions:

- Nagadi Syaha:It was used to record cash transactions.
- Jinsi Syaha:It was used to record all the transactions relating to properties.
- Dharauti Sayha:It was used to record the amount deposited by the public as security deposit.

b) Awarje: Awarje was another important book of accounts, which was used, as the second step under Syaha Sresta Pranali.Awarje was similar to Ledger. The financial transactions were posted in the Awarje on the basis of syaha. It was maintained to keep final record of all the government revenues and expenditures in a classified manner according to the date of incomes and expenses. Awarje was classified into the following categories:

1) Income Awarje:It was used to post the government revenues in a classified way.

2) Expenditure Awarje:It was used to post all the government expenditures in a classified way.

c) Dhapot: Dhapot was the final statement of financial transactions of a government office. It could be compared with modern balance sheet. It was prepared to present the revenues and expenditures of government office in summary form to know the position of public fund on a given date. The following types of Dhapot were used under Syaha Sresta Pranali:

- Job end Dhapot: It was prepared after the completion of a project work or at the end of job.
- Month end Dhapot: It was prepared at the end of every month.
- Year-end Dhapot: It was prepared at the end of the every fiscal year.

3) Form Sresta Pranali: When the number of financial transactions of the government offices became voluminous and complicated, the accounting system has to be changed. As a result, in 1968 B.S., form sresta pranali as introduced. It was specially developed to record land revenues of the Terai and city areas of the kingdom of Nepal. This was called Form Sresta Pranali because a number of forms were used for recording a number of financial transactions. A ready-made form could be used to maintain the records so as to remove the difficulty and tediousness of preparing different forms every time. For recording the large number of financial transactions, altogether 51 different forms were used.

4) Bhuktani Sresta Pranali: When the budget system was introduced in 2008 B.S., then the government became more responsible to record the revenues and expenditures of public funds in systematic way. As a result, in 2016 B.S., 'procedural rule for government fund expenditure 2016'was enacted. Consequently, Bhuktani Sresta Pranali was developed in 2017 B.S. to record the revenues and expenditures of government offices according to the budget heads. It was more systematic and scientific accounting system, which was based on double entry system of book keeping system. Under this system, the government offices were classified into central level and operating level offices. Financial control through audit, concept of decentralization, freezing all unspent budget amounts at the end of accounting year and depositing all amounts into consolidated fund were notable characteristics of this system.

5) New Accounting System: The present accounting system is the new accounting system of Nepal government that keeps the systematic record of all revenues and expenditures of the government offices, performed through bank. It is based on double entry book keeping system, which keeps record according to budget heads in prescribed forms. It has been followed in recording and reporting financial transactions of different organizations. This system has been in practice in Nepal from 2019/20.

2.1.8 Accounting Concepts, Bases and Policies

a) Accounting Concepts:

Accounting is an art, and not a science like physics or mathematics, where methods can be validated by natural laws. A generally accepted set of rules can provide a unity of understanding and also a unity of approach in the practice of accounting. In developing the structure of accounting theory and to relate the theory to accounting practice, the accounting profession has agreed to take for granted certain *basic concepts.* Accounting assumptions are those broad concepts that underlie generally accepted accounting principles, i.e. upon which accounting is based. These assumptions are *rules of the game* and they have emerged from consensus. Certain ideas are assumed or accepted in accounting in order to provide a unifying theoretical structure and internal logic of accounting. To be acceptable in accounting practice, accounting rules must satisfy the following: (a) they rest on realistic assumptions; (b) they are internally consistent; (c) they represent the simplest, most readily understandable explanation needs of the field of accounting (d) they have the greatest predictive value; and, (e) they satisfy the information needs of the users. We should take a look at those assumptions, which most of us refer of (either in theory or in practice). These assumptions are sometimes referred to as concepts. Some speak of conventions or doctrines. Others refer to various in combinations of concepts, conventions, principles, postulates, doctrines, axioms and the like. These terms in financial accounting are used synonymously and thus cause confusion in the mind of the reader. To avoid this, the use of the term concept has been preferred here.

i) Money Measurement Concept: Money is a good that is accepted as a unit of account, a means of payment and a store of value. Money has been adopted by the accounting system as its basic unit of measurement, inasmuch as it is the monetary expression of economic events. This is, of course, because money is the only universally known way of comparing values. It is a useful way of converting accounting data into a common unit. Otherwise is would be impossible to make any fair comparisons between various types of assets (such as plant and stock), or different types of transactions (sales of cotton and purchase of stationary). Most of the resources of a business can be expressed in terms of a money value. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone, which are capable of being measured in terms of money, are to be recorded in the books of account. In other words, an event, which cannot be translated into monetary terms, cannot be called a transaction and, therefore, cannot be recorded. Thus, only transactions, which are necessarily monetary events, are recorded...

Form the above, it can be comprehended that money, performs the following functions:

a) It performs the function of a medium of exchange.
b) It acts as a unit of accounting- enabling the creation of a pricing system.
c) It is used as a store of value - a claim to goods and services.
d) It is used as a standard of deferred payment - lending and borrowing are recorded in terms of money.

There are two problems with this concept. First, this concept ignores the fact that the monetary unit is an inelastic yardstick for measurement, as the purchasing power of money seldom remains stable. This concept assumes a stability of the measurement unit. Second, many important events cannot be recorded simply because they cannot be expressed in monetary terms, for example, a loyal and stable workforce which leads to increased production and higher profits cannot be recorded as an asset (human resources) in the Balance Sheet. Likewise, the Profit and Loss Account for the period ended cannot disclose the quality of the product the business unit manufactures. In effect, this concept limits the scope of accounting reports.

For the above two reasons, the money measurement concept is not ideal. It is recognized by all accountants that the concept has its limitations and inadequacies. Yes, it is accepted for accounting purposes because there is no difficulty in adopting the money measurement rule and it is not possible to employ a better measurement scale that can be easily understood by the users of accounting information.

ii) Dual Aspect Concept: These claims against the assets of a business unit are by the creditors and the owners. Therefore, at any point of time, the total assets of a business are equal to its total liabilities. Liabilities to outsiders are known as liabilities, but liability to the owners, in accounting parlance, is referred to as capital. These concepts express the relationship that exists among assets, liabilities and the capital, in the form of an accounting equation, which is expressed in the following simplest form as:

ASSETS = LIABILITIES + CAPITAL

This concept is built on the fact that every time something is given, someone (or something) else receives it. The accounting equation is the basis for double entry accounting. It states that every time a transaction takes place, there is always a two-sided effect.

Since accounting system requires recording of two aspects of each transaction, this concept shows the effect of each transaction on them. Assets and liabilities are two independent variables and capital is the dependent variable, for it is the difference between assets and liabilities. A transaction may affect either both sides of the equation by the same amount or on one side of the equation only, by both increasing or decreasing it by equal amounts and thus netting to zero. An increase in an asset, without a corresponding increase in liability or a corresponding decrease in another asset, must represent an increase in capital. Conversely, an increase in liability without a corresponding increase in asset, or a corresponding decrease in another liability, will indicate a decrease in capital. The types of changes affect the above equation and ultimately the three terms are limited to transactions resulting in:

1) Increase in an asset and increase in capital, for example, owner introduces further capital..
2) Increase in an asset, decrease in another asset, for example, purchased machines against cash.
3) Decrease in one asset, decrease in a liability, for example, creditors paid off by cheque.
4) Decrease in capital, increase in a liability, for example, drawings by arranging bank overdraft.
5) Decrease in capital, decrease in asset, for example, drawings of cash.
6) Decrease in a liability, increase in another liability, for example, creditors paid- off by arranging loan.
7) Decrease in a liability, increase in capital, further capital introduced to pay-off creditors.

iii) Going Concern Concept: Accounting is based on the assumption that the accounting unit is to remain in operation into the foreseeable future in pursuit of its goals and objectives. When a business is inaugurated, except for terminable ventures, it is assumed that the termination of the business is not certain. Based on this idea, this concept assumes that the business will continue in operation for as long as possible and will not be dissolved in the foreseeable future, unless we have some strong evidence to suggest that this is not the case. From the accountant's standpoint, Profit and Loss Account and Balance Sheet are drawn up on the assumption that the business unit will continue functioning in the foreseeable future. This concept can be regarded as supporting the valuation of assets at historical cost or replacement cost. If this method is not adopted, the assets of the business unit would have to be shown at the net realizable value, i.e. at the amount they would sell for in the market at the Balance sheet date. This concept is the basis of the conventional classification scheme, for instance, fixed / current assets, long term / current liabilities.

This concept assumes that the entity will continue operator under the same economic conditions and in the same general environment, but does not assume that the business will be profitable as long as it exists. This concept also relates that the business will continue forever.

This concept relates to the future, which is, by definition, uncertain. Therefore, many factors can be used to determine whether a business unit is a going concern. They include the following:

a) ***Liquidity****:* The business unit must have sufficient liquid assets (assets which can be in the form of cash or can be easily converted into cash, i.e. current assets other than stock) to pay its current liabilities at present or in the future. A shortage of liquid assets may lead to the risk of insolvency. Various ratios can be formulated and applied to ascertain the liquidity of a business unit.

b) ***Capital Structure****:* A 'going concern' business unit must have a sound capital structure (the composition of an enterprise's sources of funds, especially long-term) to overcome any short-term or long-term difficulties. Capital structure of a business unit is influenced by several factors such as cost of various sources of capital, dividend policy, the risk of insolvency, stability of earnings, and the like.

c) ***Market****:* A business enterprise cannot continue as a going concern without a continuing demand for the goods it deals in and/or the services it supplies.

d) ***Management Ability****:* A business enterprise should be managed efficiently and effectively to produce a competitive product and to see that the objectives of the enterprise are achieved. To keep the business unit going, the plans, policies, procedures and practices are to be used properly and attention concentrated on those areas that are not going according to plan.

iv) Periodicity Concept: Since the going concern concept postulates that the business will keep functioning continuously, accountants choose some convenient segment of time to ascertain income for that period. This periodicity concept requires that a profit and Loss Account and a Balance Sheet should be prepared at regular intervals to ascertain information about the business unit for all sorts of purposes-performance evaluation, tax computation, budgetary control and the like. Period-income determination leads to a comparison of the results of successive periods. In fact, periodicity is the consistency is accounting periods. For the purpose of convenient comparison of profits and losses and of other expenses, it is necessary that the periods of measurement should be accounting since the life span of the business unit is segregated into equal parts, most of the problems of accounting measurement arise out of the periodicity concept. This is because accounting periods are often out correspondence with natural cycles of business activity. The main difficulty arises in deciding what revenue and what expenses are to be taken into consideration for one accounting period. In consequence much effort is demanded to prepare the periodic accounts. A business transaction should be identified with a particular period. But, there may be transactions relating to several accounting periods. For example, if a business unit buys a plant for Rs. 1, 00,000 with a stipulated life span of 5 years, the transaction relates to five accounting periods. The transaction for one accounting period is not the cost of the asset, but the depreciation of the asset charged in one accounting period. The main implication of the periodicity concept is the application of the arbitrary allocation and apportionment of indirect costs, i.e. judgment and guessing will always be required to measure such items as depreciation, doubtful debts, and so on.

v) **Accrual Concept:** Any increase in the owner's equity is called revenue and, any decrease in it called an expense. Income is the excess of revenues over expenses. In calculating profit for any financial period, expenses and revenues are matched in a more realistic way, i.e. they concern to the same goods and the same time period. The accrual concept is an accounting system, which recognizes revenues and expenses as they are earned or incurred, respectively, without regard to the date of receipt or payment. This concept is one of the consequences of the periodicity concept. In the preparation of a Profit and Loss Account for an accounting period, revenues and expenses are recognized as they are earned or incurred respectively, and not when cash is received or paid. The earning of revenue and the expense incurred for earning it, can be accurately related to specific time periods, but the receipts and payments may not be related to the period under consideration. This concept requires proper apportionment of expenses to time periods by the inclusion of prepayments and accruals in a Balance Sheet.

This concept smoothes the time profile of periodic cash flows and, in effect, a more accurate view of the trend of periodic income can be provided. But the non-accountants feel that this concept introduces complexity into accounting numbers and renders accounting results difficult to interpret.

vi) Matching Concept: Since the matching concept is an essential part of accrual accounting, these two are often used interchangeably. Like accrual concept, the matching concept also results from periodicity concept. The matching concept requires that the expenses for an accounting period should be matched against related incomes, rather than recognizing revenues as being earned at the time when cash is received or recognizing expenses when cash is paid, and thereby, comparing cash receipts with cash payments. For ascertaining profit, a misleading impression would be given if the cash received during a particular period is simply compared with the cash paid out during the same period. This is because; the exact period in which the cash is either received or paid may bear no relationship to the period in which the business transaction took place. As most businesses keep accounts on accrual basis, i.e. on an income and expenditure basis, it is necessary that the accounting system match periodically the revenues the earned against expenses incurred. The result of this matching is, the net income or net loss. This method requires proper allocation of costs into appropriate period so that relevant incomes and expenses are matched. The profit of an accounting period is the revenues from transactions fewer expenses incurred in producing those revenues. If expenses cannot be traced to specific items of revenues, they are generally written-off in the year in which they are incurred.

vii) Realization Concept: Realization is the process of converting non-cash resources and rights into money. This concept is governed by the concept of conservatism. Revenue should only be brought into account when it is actually realized. However, it is not always easy to determine when revenue is realized. In determining profit, credit sales are taken into consideration. But, in future, customers may not pay their dues or may return the goods. In fact, the actual income may turn out to be less than what it was estimated to be. Therefore, the problem arises about recognizing and recording revenue in the books of account for a specific accounting period. Revenue can be recognized at the point of sale or when cash is collected or at any intermediate point.

In general, revenue is recognized at the point of sale or at the performance of a service. The point, at which a sale in made, depends on the terms of the contract between the buyer and the seller. But a sale in complete only when the goods are delivered by the seller and accepted by the buyer. To recognize revenue, there is no need to wait until the cash is received. When revenue is recognized, it is included in the Profit and Loss Account.

There are several exceptions to this rule:

1) Long-term contract work-in-progress----revenue is recognized before completion of the job.
2) Cash basis----where debt collection is doubtful.

3) Hire-purchase transactions---revenue is recognized in proportion to the installments over price.
4) Unrealized holding gains and losses---these may occur between the points of purchase and sale.

viii) Materiality Concept: Materiality implies significance, substance, importance and consequence. The materiality concept permits other concepts to be ignored if the effects are not considered material. The concept of materiality is the threshold for recognition of a transaction in accounting process. Since materiality is primarily related to relevance, this concept deals with the relative importance of economic data. In the accounting sense, an item is recorded only when it is considered to be useful or important to the user of a financial statement. Thus, accountants do not record those transactions, which are insignificant, and recording those would create more problems than solutions.

Again, as no benefit is gained from excessive precision, accounting statements are not made complicated by including trivial matters--- only a reasonable approximation is considered acceptable. It means, accountants take the simpler course of action, even though less exact. For example, a brand new pencil is an asset to the business unit. Whenever the pencil is used, a part of the asset is consumed. Although the pencil is still it in use at the year-end, its original cost is so insignificant that it would be a waste of time to evaluate and include it in closing stock. Instead, it is written-off as revenue in the period it was purchased. To make the figures manageable without affecting the accuracy of the accounting data, only round figures (figures to the nearest rupee) are generally shown in the financial statement of any organization.

Whether an item is material or not depends on personal judgment and common sense. There cannot be any hard and fast rule for that. What is important is that omission of information from the financial statements should not impair the decision of a user of accounting information.

ix) Consistency Concept: Consistency concept relates to the method of measurement in accounting. Accounting principles are not static or unchanging. It is possible to adopt a variety of principles and procedures for financial events. If, in treating a given event, two or more contradictory methods are used, it may yield conflicting results. Whatever accounting method a business unit decides to adopt, a consistent approach has to be followed.

It is very important that the accountant be consistent in applying principles and procedures to similar situations, because inconsistency in reporting can cause misleading interpretations and therefore, wrong conclusions. The user must be sure that the accounts for a particular business unit for successive years are comparable with each other's. Comparability does require that the entity apply the same accounting principles on a consistent basis. Therefore, consistency is essential in improving comparability across accounting periods. This concept gives confidence to the users of accounting information. Though consistency is obligatory for sound financial accounting, this does not mean that changes cannot be made in a business unit's accounts. In the event of any change (when there are good reasons for it), a note must be appended along with the statements indicating the alterations.

In accounting, whenever the question of consistency arises, it is spoken of in three different senses:

i) Vertical Consistency*:* It means the consistency within a given set of statements of a firm at a specific date and for a specific time. An example of inconsistency within a statement is the recording of an asset in the Balance Sheet at cost and charging of the related depreciation on the basis of replacement cost in the Profit and Loss Account.

ii) Horizontal Consistency: It means the intra-firm consistency between different accounting periods. There should be consistency in applying accounting methods to different accounting periods. The profit and Loss Account and the Balance Sheet of an accounting period must be made out on the basis that the figures stated are consistent with those of the earlier years.

iii) Third Dimensional Consistency: It means the inter-firm consistency between a particular organization and the other organizations in similar industry or trade. It refers to the use of similar measurement concepts and procedures for related items by different firms in the same industry.

x) Conservatism (or Prudence) Concept:

Conservatism is a prudent reaction to uncertainty to ensure that uncertainty and risks inherent in business situations are adequately considered. Where there is a reasonable choice of accounting treatments, the concept of conservatism refers to *early recognition* of unfavorable events. This concept requires an accountant to record an event in such a way as to show a weaker state of affairs than what actually exists and thereby draw attention to events that result in the lowest value of an income. Since this concept requires the accountant to underplay favorable prospects, it is often stated as follows: 'Recognize all losses and anticipate no gains'. Thus, the accountant must give the user the most pessimistic view of the firm's position. This concept requires that assets and profits should not be overstated and revenue never anticipated, being recognized only when there is a reasonable certainty about its realization. At the same time, provision must be made for all possible liabilities, whether the amount is known with certainty or is based on estimation. To illustrate, inventories are recorded at their cost or market price, whichever is less, or if there is an apprehension that a debt may not be realized, a specific amount is set aside from profit as a provision for doubtful debts.

It may be argued that conservatism must involve 'understating gains and values' and 'overstating losses and liabilities'. Accountants are in a position of trust and do not attempt to be dishonest. The concept of conservatism attempts to state the lowest likely value of profit and assets, and the highest likely amount of any losses or liabilities incurred. Therefore, the questions of either overstatement or understatement dose not arise.

This concept has the advantage that a business should be at least as favorable a position and should have performed at least as well as its books of account show.

xi) Historical Cost Concept: Historical cost refers to the cost at the time of acquisition. Since accounting is basically the recording of past happenings, accountants use the acquisition price as the most objective measurement inasmuch as the evidence of a transaction supports it, i.e. an asset is ordinarily recorded at its cost and this cost becomes the basis for subsequent accounting for the asset. If a plot of land is purchased, say for Rs. 10,000, it will appear in the books at that figure without considering the market value of the asset at any other point of time. It follows from this concept that if nothing is paid for acquiring an asset, it will *not* be recorded at all. Let us take the example of Goodwill- it should be recorded in the books only when it is purchased. This concept is modified in practice by applying the concept of conservatism (valuing closing shock at cost or market value whichever is less). Furthermore, when the real worth of an asset changes with be passage of time, for various reasons, accounting records are changed to reflect changes in market value by revaluations of assets. This concept provides uniformity in accounting records under conditions of stable prices. Historical cost values can well be retained in view of their familiarity to accountants.

The major drawback of historical cost concept stems from rapid inflation, which leads to serious distortions in the measurement of income. Since historical costs are matched against current incomes, there is an understatement of the real-value of the non-monetary assets of the business unit and an overstatement of the net income.

The reliance business of historical cost is an accident. Alternatives to it have been advanced before. But a pragmatic consideration of the possibilities has always found historical cost, in spite of its acknowledged limitations, to be superior.

b) The Theoretical Concepts of Accounting

i) Business Entity Concept: The purpose of keeping financial records of a business unit is to measure how successful or otherwise the business has been in terms of profit or loss. Accountants want that the business unit to be accounted for must be identified-they want to know exactly for whom they are accounting. A business entity is an organization of persons to accomplish an economic goal. An entity is defined as those undertakings under the control of a single management. This may include a sole-proprietor, a partnership firm, a company or a non-profit marking organization. This business entity is considered separate and distinct from the owners of the enterprise. This concept starts with the fact that the business unit is a separate entity with its own identity. We must, for the purpose of bookkeeping, keep the owner and his business quite separate. Only those economic events, which affect the business unit, are recorded. Assuming that the business units as a separate entity, accounting records are kept only from the point of view of the business unit and not the owners. For example, Mr. X starts a business, styled 'X & Co.'; accounts are to be prepared only from the point of view of 'X & Co.' - as if a different person from the owner. If the owner pays capital into the business, this is treated as if the owner is lending cash to the business. If the owner draws a part of amount, this is treated as if the owner has availed the loan. For accounting purpose, a partnership firm has a separate entity apart from its partners. Likewise, the existence of a company dose not depends on the lifespan of any of the shareholders.

The accounting equation, which captures the essence of the business entity concept, is:

LIABILITIES + CAPITAL = ASSETS

The above equation holds good only when we assume that the business unit is a separate entity and an artificial person. An artificial person cannot own any asset, nor does it have the capacity to repay any liability. For example, if a business acquires an asset, it will have to sacrifice another asset (purchased plant for cash) or, it has to incur a liability (creditors for plant). Likewise, if it discharges any liability, it will cause a reduction in an asset (creditors paid for cash) or it has to create another liability (arranging loan to pay-off creditors). Capital is the difference between assets and liabilities. It is, therefore, necessary to ensure that the financial records of the business unit are kept separate from the personal transactions that the owner of the business may make. The accountant must be careful to decide what a business transaction is and what a personal transaction is.

From a practical viewpoint, the distinction between the owner and the business can only be applied to limited companies and non-profit organizations. This is because; this concept sometimes coincides with legal fact. A limited company has a separate legal entity and can exist apart form its owners because shareholders are considered as one of the sources of capital. The entity concept can also be applied to non-business organizations because these organizations have no owners. For example, if a member or a club dies, the entrance fees previously paid by him is not refunded to his legal representative. Moreover, entrance fees once paid by a member are not transferable in favor or another person (unlike shares of a limited company).

This concept does not hold good for sole-proprietorship or partnership. In the case of sole traders and partnership, the distinction between the owners and the business is in the eyes of law an artificial one. Also, the existence of these types of businesses depends on the owners. The death of a sole proprietor may cause liquidation of the business. The entity concept is also difficult to apply when a sole trader is in his business on his own account and, in effect, no distinction is made between business transactions and private transactions. Since the owner does not have a separate bank account, he sometimes charges his household expenses to the business, and he might also use his private bank account to pay for goods and services meant for the business. It is a very common practice for a sole-trader to include both of his private and business assets when applying for a loan. Legally, a sole-proprietor is personally liable for all business liabilities. He is required to use his personal assets to satisfy the business creditors. Conversely, business assets are not generally available to meet the claims of the personal creditors of the sole-proprietor; lastly, the entity concept is difficult to apply to partnership firms. For a partnership firm, there may be a change in the constitution (old partnership is dissolved and a new partnership is formed) when the profit-sharing ratio changes or on the admission, retirement or death of a partner. Moreover, in the eyes of law, partners and the firm are not separate entities.

Nevertheless, this concept is applied to all forms of business organizations for the following reasons:

a) It gives a solution to the problem of separating out the business transactions from the personal transactions of the owner.
b) To ascertain the return on capital employed enabling us to record how successful or otherwise the business has been.
c) To ensure the proper use of funds provided by the owners.
d) To hold title to property in the name of the firm.
e) To enter into transactions with outsiders in the name of the firm.

ii) Proprietary Concept: Proprietorship is the interest of the owners in an accounting entity. Proprietary concept stresses the importance of the proprietors (owners) of an enterprise rather that the enterprise itself.

The proprietary concept emphasizes the following arrangement of the basic accounting equation:

ASSETS - LIABILITIES = PROPRIETORSHIP

The Balance Sheet of a business unit shows the wealth of some person or a group of persons. The whole purpose of business struggle is increase of wealth, that is, increase of proprietorship.

According to the proprietary concept a sole proprietor, a partnership, or a number of shareholders, who own the business, may represent the ownership interest of a business. The assets of the business belong to those owners and liabilities of the business are their obligations. Revenues received by the business unit cause an increase in proprietorship and, likewise, all expenses incurred by the business unit decrease that. The excess of revenues over expenses accrues directly to the owners and represents an increase in proprietorship.

Proprietorship is the substance of the double entry system, which is based on the idea that expense and revenue accounts have the same algebraic characteristics as 'net worth'. Accounts that cause increase in net worth are increased by credits, and, conversely, accounts tending to decrease net worth are decreased by debits.

The proprietary concept requires that all observations be made from the viewpoint of the owner by placing him in the center of the accounting system. Therefore, an accountant should see what the proprietor wants to see. He should value all the assets and liabilities of the business according to the interest of the owner.

The proprietary concept is easily accepted in sole proprietorship and partnership where the owners are the decision makers. In these types of organizations, the owner (s) makes all of the business decisions and earns all the profits. Legally, the owner (s) is responsible for all of the firm's debts and liabilities. This concept can also be applied to limited companies but sound less convincing.

iii) Fund Concept: A fund is a unit of operation, a center of interest, with a specified purpose or set of activities, consisting of assets and entities. Personality thinking does not encumber a fund. The proprietary concept takes the standpoint of the owner, while the entity concept takes the viewpoint of the entity as though it were a person. The fund concept is a theoretical view that focuses on an impersonal fund rather than a personality. The fund concept is expressed by the following equation:

ASSETS = RESTRICTIONS ON ASSETS

This concept, which explains the financial recording of an organization in terms of three features, may be defined as follows:

1) Fund-an area of attention defined by the activities and operations surrounding any one set of accounting records, and for which a self-balancing set of accounts is created.
2) Assets-economic services and potentials.
3) Restrictions-limitations on the use of assets.

According to the fund concept, each fund is aimed at fulfilling some purpose and the services embodied in the assets are the primary means to achieve that purpose. Vernon Kam says: 'Liabilities represent future payments and not present claims on the assets. Therefore, the significance of liabilities is in the restrictions they impose on the assets fund. The earmarking of a certain portion of the total assets for payment. The residual equity or owner' equity, represents a final restriction on the assets and establishes the equality of assets and equities. The expression 'restrictions on assets' creates a common term for all organizations'.

Though the fund concept has not gained general acceptance in financial accounting, it has been found useful for government and non-profit organizations, where capital expenditure is quite substantial as compared to the revenue expenses, for example in electricity corporations.

C) Accounting Bases: Accounting bases are the various methods, which have been developed for applying fundamental accounting concepts to financial transactions and to items in financial statements. Accounting bases are used for constructing accounting figures, which are available. In particular, accounting bases are the methods developed for the:

- Accounting periods in which revenues and cost should be recognized in the profit and loss account; and,
- Amounts at which material items should be stated in the Balance Sheet.

For example, a business enterprise is required to provide for depreciation of its fixed assets and also to value the stock at the end of the each accounting period, so that, following the accrual or matching concept, such stock can be set out against the sale proceeds of those items in the future accounting period and the assets can be shown at their carrying values in the Balance Sheet. There are, however, a number of alternative methods of valuing stock or of providing for depreciation and these are accounting bases.

D) Accounting Policies: Accounting policies are the specific accounting bases judged by business enterprises to be most appropriate to their circumstances and adopted by them for the purpose of preparing their financial accounts.

For example, the providing for depreciation of fixed assets depends upon the policy decided upon, for instance, straight line method or diminishing balance method, and, in effect, the rates of depreciation's valuation of closing stock and work in progress depends upon how is calculated, for example, FIFO or LIFO and the amount of overhead attributable to those.

The relationship among accounting concepts, accounting bases and the following block diagram can illustrate accounting policies.

Accounting Concept → Accounting Concept → Accounting Concept

2.1.9 Accounting Conventions

The term conventions mean "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:

a. Relevance
b. Objectivity
c. Feasibility

a. Relevance: The convention of relevance emphasizes the fact that accounting should make only such information as is relevant and useful for achieving its objectives. For example, business is interested in knowing as to what has been total labor cost? It is not interested in knowing how much employees spend and what they save.

b. Objectivity: The convention of objectivity emphasizes that accounting information should be measured and expressed by the standards which are commonly acceptable. For example, stock of goods lying unsold at the end of the year should be valued at its cost price not at a higher price even if it is likely to be sold at a higher price in future. Reason is that no one can be sure about the price, which will prevail in future.

c. Feasibility: The convention of feasibility emphasizes that the time, labor and cost of analyzing accounting information should be compared vis-à-vis benefit arising out of it. For example, the cost of oiling and greasing the machinery is so small that its break up per unit produced will be meaningless and will amount to wastage of labor and time of the accounting staff.

2.1.10 Accounting for Information

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

- Selecting out of alternate proposals.
- Controlling acquisition and maintenance of inventories (stock), cash receipts and payments.
- Planning or budgeting for the future
- Appraising the performance
- Dividing remedial measures for the deviation of the actual result form the budgeted targets.

2.1.11 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 government 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 (IASC), International Federation of Accountants (IFAC) and European Community (EU).

Similarly, the "generally accepted accounting principles" (GAAP) are a guide to the accounting profession in the choice of accounting techniques and the preparation of financial statements. The GAAP 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 socio-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 (Prowl, 1999:332).

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 description 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.

Until recently accounting was regarded as an art as will be clear from the following definition of accounting given by the American Institute of certified public accountants (AICPA) in its accounting terminology bulletin No.1. "Accounting is an art of recording, classifying and summarizing in a significant manner and in terms of money; transactions and events which are, in part at least of financial character & interpreting the results there of."

Later on, accounting was regarded as it the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information. Accounting is now regarded as a service activity a descriptive, analytical discipline and an information system. As a service activity, accounting provides interested parties with quantitative financial information that helps them to make decision about the deployment and use of resources in business and non-business entities and in the economy. As a descriptive/analytical discipline, it defines the great mass of events & transaction. That characterizes economic activity and through measurement; 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 a specific economic activity. As an information system, it collects and communicates economic activity to a wide variety of persons whose decision & actions are related to the activity (Bhattacharya et al., 1999:219).

2.1.12 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." (Prowl, 1999:335)

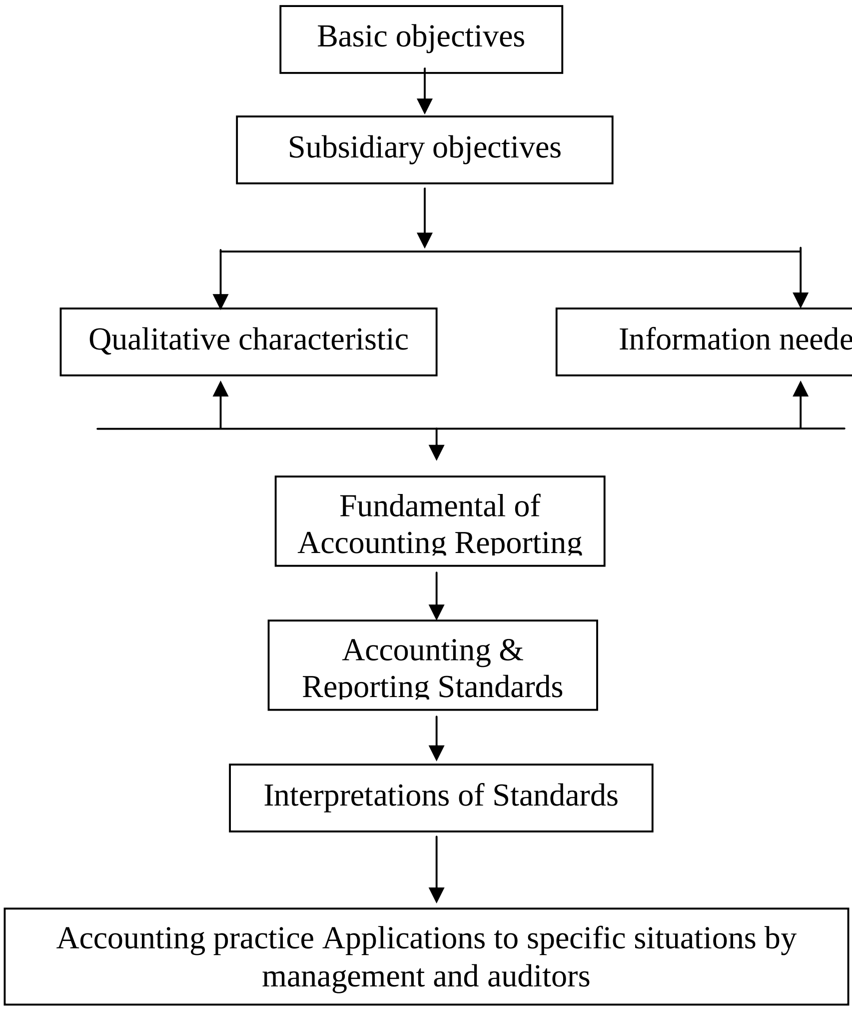
Accounting theory methodology and practice are influenced strongly by requirement in the company's acts or in legal and tax decrees and other regulatory measures, such as Monopolies and Restrictive Trade Practices Acts; Foreign Exchange Regulation Act etc. This neither increases the comparability and usefulness of accounting information in 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. The statements of concepts and standards issued from time to time by FASB and the regulatory guidelines issued by the AICPA, NAA and other have a self-regulating mechanism (Niswongel et al.1965: 123)

2.1.13 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 the information need in term of number format and content of financial statement. On the fourth level of the hierarchy, we find the fundamental of accounting and reporting. By this we mean the definition of assets, liabilities, capital, earning, revenue and expenses and valuation bases in accounting.

Next- at the fifth and sixth levels accounting and reporting standards and interpretations of standards serve as a guide to accounting practice.

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 Statements." 1974)*

2.1.14 Fundamental 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 (Hendrickson, 1964:57). Even if different approaches and methodologies are used for the based and a set of elements and relationships that govern the development of accounting techniques. The elements are:

1) A statement of the objectives of financial statements.
2) A statement of the postulates and theoretical concepts of accounting. These are derived from 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, basic principle and modifying principle are together called operating guidelines.

2.1.15 The Accounting Postulates

The accounting postulates are basic assumptions of fundamental propositions concerning the economic, political and sociological, environment in which accounting most operate **(**Hendrickson, 1964:155**)**. Basic assumptions are;

a) The Entity Postulate : The specific entity or separate entity basic assumption "holds that for accounting measurement purposes, the particular entity being accounted for is carefully distinguished from all other similar & related entities and persons. Under this assumption an accounting entity is help to be separate & distinct from its owner**."** (Welsch and Anthony, 1977:4**)**. There can be two approaches to the definition of am accounting entity.

i) The firm oriented approach, ii) the user oriented approach.

Under the former approach, an accounting entity is defined as "the economic unit responsible for the economic activities and administrative control of the unit under the letter approach" the interest of the users rather than the economic activities and administrative control of the business unit are considered. This approach is oriented to the boundaries of the economic entity to include information on corporate social performance (environmental pollution, human resource measurement, community development, etc) reporting accounting policies and financial forecasts. The new scope of accounting attempts to meet the informational needs of the potential and present users of accounting information (Prowl, 1999:338).

b) The Going Concern Postulate: In accounting the business is always assumed to be going concern i.e. to operate of an indefinite period of time (Li & et al. 1998: 2). Vetter (1963) states that "the continuity concept is not an assumption but a condition one that is at least to large extent a continuing enterprise, i.e. it is a going concern.

An illustrative concept given by A.K. chatterjee (1982): We can consider purchase of a machine to produce goods for sale. Usually the total cost of the machine has to be paid on delivery. Should the entire cost be charge to the trading account? The answer is no, since we are assuming in definite existences of the firm. The firm for the production of goods for sale will utilize the machine over its useful life. Therefore, at the end of each accounting period, the firm would have derived benefit equal to a portion of the total cost of the machine. This portion of the cost price of the machine is called depreciation. The un-expired cost is shown in the balance sheet as the net-value of the machine. In a similar manner, heavy initial costs incurred tin advertisement and publicity of a new product (or firm) may be amortized over a period of time rather than be charged all at once to the profit and loss account.

c) Accounting Period Postulate: The life of a business entity is divided into specified period of time for the purpose of preparing financial reports (Li & etal, 1998: 1). As the accounting cycle is completed in one year many laws of the land require that financial statement be prepared and presented annually to the owners and other interested parties. Various companies adopt a different accounting year based on specific consideration. Some adopt the calendar year, other adopt the financial year, while some prefer to adopt the "natural business year" The management at intervals also prepares accounts less than a year for internal decision making process.

d) The Monetary Unit Postulate: Accounting focuses on the measurement and reporting in monetary terms of the resources controlled into and out of an organization. Of the resources controlled by the organization, there exist claims against those resources. The monetary unit was chosen in accounting as a common denominator to accounting for the transactions of firms in a uniform manner. It ensured comparability in view of the general stability of money. This unit of measurement postulate was regarded as a stable monetary unit over a period of time or the purchasing power of money either remains stable or changes insignificantly. The traditional (historical cost) accounting therefore, continued to be useful for purpose of measurement & reporting of information to users (Chatterjee, 1982:214).

During the past two decades, however, due to high rates of inflation in many countries, the purchasing power of money has fallen considerably. This postulate is no longer in a position to play the role of a stable monitory unit. There is considerable thinking in academic & professional circles to find out alternatives to this unit of measurement all over the world.

2.1.16 Books of Account and Principle of Accounting

Financial statements are generated by a company's financial accounting system. Accounting system not only generates financial statements but also provides additional information about the companies' financial success. To obtain these statements, accounting records an organization's transaction as any event that effects 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 (Horngren, et al., 1999:32).

A pre-requisite for the preparation of financial statement is a set of books of account properly maintained and balanced. After all adjustments and reconciliation 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.

2.1.17 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 the mechanism of accounting may be summarized as follows:

1) A business transaction takes places.
2) The transaction is recorded in a document usually called a voucher providing all the necessary details of the transaction.
3) 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.
4) The transaction is then recorded in either one of the special journal like the cash book for cash transaction the sales daybook for credit sales transaction and the purchase daybook or in the journal proper.
5) Depending on the volume of transactions and particular needs of the business certain other special journal like bills payments books, bills, receivable books etc.

6) From the book of original entry or the journal the relative Accounts are posted to the debit credit sides of the relative Accounts in the ledger.

2.1.18 Rules for Recording Business Transaction

According 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.

An account is a record of the day-to-day changes to a specific item. There is an account for each item and it is here that changes to a particular item are recorded or kept account of (Li, et al., 1998: 25)

The types of account that a firm maintains can be broadly classified into three categories.

I) A firm deals with other firms and person when it buys or sells goods. While cash transactions are properly recorded in the cash account, credit transactions require the creation of separate accounts for each debtor and creditor. There Accounts of creditors & debtors are known as personal Accounts.

II) A firm owns, acquires or deals in several types of assets or properly, for example cash, stocks, land and building, plants & machinery etc. The firm maintains an account of each asset owned or acquired or sold. These Accounts are called Assets (or Real) Accounts.

III) A firm incurs expenses and earns income in the course of its business dealing. Each item of expense or income is recorded under a separate head. Accounts of this type are called Nominal (or Fictitious) Accounts. Thus, all Accounts will either be a personal (P) Accounts, an Assets (A) Account or Nominal (N) P-A-N categories of Accounts are made on the basic of three fundamental rules.

i) Personal Accounts: A firm will be a debtor (when it buys goods on credit) or a creditor (when it sells goods on credit). As a rule the debtor (that is the receiver or the party which receive the benefit) is debited while the creditor (that is the giver or the party which supplies the benefit) is credited.

Rules: Credit the giver (Creditor)
Debit the receiver (Debtor)

ii) Assets Accounts: Whenever an asset is acquired or received, the particular assets account is debited. When an asset is sold or given away the particular assets account is credited.

Rules: Credit monetary value of assets sold.
Debit monetary value of assets purchased.

iii) Nominal Accounts: These Accounts relate to the various heads of income and expenditures. Expenses & losses are debited and incomes are credited.

Rules: Credit all incomes & profits
Debit all expenses & losses

Here, introduction of accounting equation/equivalence concept would be relevant. Accounting of all business transaction must follow the basic accounting equation.

Assets = Owner's Equity + Liabilities

The rules of debits to credits may be listed as

Debit Signifies	**Credit Signifies**
Increase in Assets Accounts	Decrease in Assets Accounts
Decrease in Liabilities Account	Increase in Liability Accounts
Decrease in Owner's Equity	Increase in Owner's Equity

According to dual effect concept each transaction will lead to a combination of the following effects.

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 equity
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

This means that two aspects of each transaction have to be recorded so that their effects balance each other. Again it is an accounting convention that the debit side of Assets Accounts is used for recording increases and the credit is used for recording decreases. By a similar convention the debit side of Owner equity and Liabilities Account is used for recording decrease in the account and the credit is used for recording increase in it. Since it would be impossible for a business enterprise to handle every revenue or expenses transaction through the owner equity account the net increase or decrease in owner equity is derived by preparing a separate profit and loss account which records all earning or revenues as credit and all expenses as debit. This gives rise to the general proposition that when expenses are incurred the expenses account is debited while whenever expenses are recovered the expenses account is credited (Collin, 1999: 44).

2.1.19 Books of Account

A business maintains seven books of prime entry, that is, the 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. Some times, the cash book may be maintained in the form of a ledger account in which case there 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.

2.1.20 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 from one account to another.

2.1.21 Subsidiary Books

Subsidiary books are the sales books, purchase (or bought) book and two books for return inward and returns outward. In addition two books, bills payable and’ receivable books are maintained to record bill transaction.

The sales book and the purchases book are maintained to record daily sales on credit and the daily purchases 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.

On the date of posting the ledger, the purchase from and sales to various parties on credit basis are recorded under each personal account opened in the ledger. The totals of the sales and purchases books on the date of posting are posted in the debit of the Goods Account while the total of the sales books will be credited to the Goods Account.

The two returns books (Inward and outward) are maintained on the same lines as the sales and purchases books. The returns books record the goods returned by the firm (Returns outwards) and goods returned to the firm (Return inward).

2.1.22 Cash Book

The cashbook 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 as 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.

Large firms find it simpler to route their entire cash transactions through banking Accounts (current Accounts maintained with banks). In these cases cash books 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 book with cash bank columns.

According to the rule for Assets Accounts, all cash receipts are posted on the left-hand (debit) side of the cashbook while cash payments are posted on the right hand (credit) side of the book. It is obvious that the cash book will usually show either a nil balance or a debit balance. A nil balance indicates that total receipts equal total payments. A debit balance shows that the firm's cash receipts have exceeded cash payments, while credit balance reveals that payments are more than receipts that is the firm has either inadvertently overdrawn its bank account or has arrange for an overdraft in its bank account.

2.1.23 Ledger

The ledger contains the three types of Accounts. The 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 that are, cash, goods and capital goods. However, if the firm maintains a separate cash book as a ledger, a separate cash account need not be opened in the ledger. If transactions in the personal Accounts are heavy, the firm may maintain separate ledgers 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 the ledger record the entries under the various heads of expenses and incomes, profit & losses. The ledger contains two more Accounts that are Capital Accounts and Drawings Accounts (usually only in the case of partnership firms). These two Accounts show 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 called ledger, there are two ways or presenting account: (i) T account format, (ii) Columnar account format (et al., 1998:125)

Format of T ledgers Account

Dr Title of Account Cr

Date	Particular	Folio	Amount	Date	Particular	Folio	Amount

Title of Account

Date	Particular	Folio	Debit	Credit	Dr/Cr	Balance

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

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

2.1.24 Trial Balance

According to The trial balance is extracted from the ledger in 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 the balances have been struck correctly. We therefore say a trial balance especially proves the arithmetical accuracy of the books of account kept in institutions (Bhattacharya and Darden, 1999:45).

A Trial Balance is the lists of ledger balances do not prove that all the transaction has been recorded or that the ledger is correct. This is because numerous mistakes may exist even though the trial balance totals are in agreement. According to Jersey Li (1998) the following errors do not affect the equality of the trial balance.

1) Errors of omission: A transaction if omitted completely from the book so that there is no debit and credit entry of transaction
2) Errors of commission: An entry is posted to the correct side of the ledger but to the wrong accounts.
3) Errors of principle: An entry is made in the wrong class of account.
4) Complete reversal of entry
5) Compensating errors: Errors on one side of ledger are compensating by errors of the same amount on the other side.
6) 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 an analysis from which, subject to adjustment, the final accounts can be prepared.

2.1.25 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. Through Profit and loss account, a firm can ascertain whether it is a profit making concern or a losing venture.

Revenue and expenses are shown in the income statement, which measures the performance of an organization by matching its accomplishment and its efforts. Measurements of income and financial position are anchored as per the accrual basis of accounting. It recognizes the impact of transaction on the financial statements in the periods when revenues and expenses occur instead of when cash is received or disbursed. To measure income under the accrual basis accountants use adjustments at the end of each reporting period.

2.1.26 Balance Sheet

The statement, which sets out the financial condition of a business enterprise, is known as the Balance Sheet. It includes information as to the assets, liabilities and equities of the business as of a given date (Benjamin, Francia, and Strawser 1975:234)

The technical name "Balance sheet" is derived fro the earlier practice of tabulating in a sheet the debit and credit balances, which were to be carried forward after the books of accounts had been closed after a specific period of business operations (usually a year). However, currently what is emphasized is that such a summary statement of debit and a credit balance to be carried forward reflects the financial condition of an enterprise at that posit of time. It is therefore not unusual to find in recent year, that "Statement of Financial Condition or Financial Position has replaced the term "Balance Sheet"". It is a fundamental accounting report as it reflects the changes arising from every transaction (Bhattacharya and Dearden, 1999:12)

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 remaining 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 (Chatterjee, 1982: 18). 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 outsides, known as liabilities and funds provided by owner, known as owner's equity. This relationship can be expressed in the following accounting equation (Pandey, 1994:1.30)

$$TA = TL + OE \qquad ......(2.1)$$

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

$$TA - TL = OE \qquad ......(2.2.)$$

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

2.1.27 Accounting System Used in Both Service Motive and Business Motive Organization

There are mainly two types of system of accounting, which can be applied by the various institutions as per their nature of business, investments made in the business and the number of transactions to be performed. They are discussed below:

A. Single entry system

B. Double entry system

A) Single entry book keeping system

Single entry system is the incomplete, unscientific system of book keeping in which dual aspects of all transactions are not shown. Under this system, all transactions are not recorded in the books of accounts, using the dual system. However, the expression single entry does not mean that there is only one entry for all transactions or events. Under this system, both aspects of some transactions are recorded. For example, both aspects of cash received from debtor are recorded. Here, cash account is debited and debtor’s account is credited. Some transactions are partially (i.e. only one aspect) recorded. For example, payment of salary is recorded only in cashbook. Some other transactions are not recorded at all. In other words, under this system, usually personal account and cash book are maintained. Transactions relating to real accounts and nominal accounts are not recorded in the books of accounts. Therefore, this system is also known as incomplete recording system.

Unlike in double entry system, under single entry system, trial balance cannot be prepared and arithmetical accuracy cannot be checked. Due to incomplete records, under single entry system, neither true profit (nor loss) can be determined nor can true financial position of the business firm be depicted. Single entry system, however, is popular in small businesses because of its simplicity. This system is economical as expert accountant or bookkeeper is not required to record the transactions.

Single entry system has two different forms: one is ***pure single entry system*** and the second is ***quasi single entry system***. Under pure ***single entry system***, only personal accounts are maintained and real accounts and nominal accounts are ignored. Under ***quasi single entry system*** personal account, cashbook and some other subsidiary books are maintained. Under quasi single entry system, cash received form debtors or cash paid to creditors are recorded in dual place. Similarly some transactions such as purchase of fixed assets, payment of expenses etc are recorded in only one place. No entries are, made for the transactions such as bad debts; depreciation, loss of stock by fire etc are not recorded at all.

I) Calculation of Profit And Loss under Single Entry System

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

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

a) Statement of affairs method

b) Conversion method

a) Statement of Affairs Method

Statement of affairs is prepared by an organization at a particular date listing its assets and liabilities and capital. Like balance sheet, the statement of affairs has two sides. The right hand side shows various assets and the left hand side shows the amount of liabilities. The difference of the two sides represents capital of the owner, which is also known as ***net worth***.

A statement of affairs is prepared for three basic purposes: (1) to list the various assets and liabilities of a business, (2) to find out capital and eventually (3) to help us to calculate the profit or loss of the firm. The opening and closing statement of affairs are prepared to find out the amount of net worth. A comparison of the net worth in the beginning of the year and at the year-end is done to calculate the profit. Any increase in net worth is profit and decrease is a loss. Although we can calculate profit using a statement of affairs but it is less reliable because it is prepared from incomplete and unsystematic records.

i) Opening Statement of Affairs ; The statement of affairs that is prepared at the beginning of the period is called the opening statement of affairs. An opening statement of affairs, like opening balance sheet, has two sides. On the right hand side, the assets ns properties belonging to the trader or the firm are recorded and on the left hand side the amount owed by the business are shown. The difference between the right hand side and left hand side is represented by owner’s capital. For a continuing business, the ending statement of affairs of last year is the opening one for the present year.

ii) Closing Statement of Affairs: Closing statement of affairs is prepared at the end of period. To prepare statement of affairs, details of assets and liabilities as on the date must be obtained. Cash balance can be computed either from cashbook maintained under single entry system or by physical counting. Similarly, bank balance or overdraft can be ascertained from bank passbook or statement of accounts supplied by the bank. Stock should be valued at cost price or market price whichever is less based on physical stock taking. Debtors and creditors can be ascertained from the personal ledgers. If possible, amounts of prepaid expenses, accrued income, outstanding expenses, and advance income should be determined by discussing the transactions with the owner. Amount of bills receivable and bills payable cab be determined by analyzing the debtors and creditors accounts, if opened.

iii) Ascertainment of Profit & Loss Using Statement of Affairs Method: Under the single entry system of book keeping, in order to ascertain the profit or loss of the business, firstly, an opening statement of affairs is prepared to calculate the opening capital of the organization. After the preparation of opening statement of affairs, closing statement of affairs is prepared at the end of the period to calculate the total closing capital. After the preparation of the two statements of affairs, the total drawing during the accounting period is ascertained. Amount of drawing should be added to closing capital. During the preparation of statement of profit and loss, the additional capital introduced during the year should be deducted from closing capital to get net value of closing capital or adjusted capital. Finally, amount of opening capital is deducted from adjusted capital to ascertain amount of profit or loss.

iv) Ruling of statement of affairs

Statement of Affairs

Liabilities	Amount	Assets	Amount
▪ Bills payable	xxx	Cash	xxx
▪ Sundry creditors	xxx	Bank	xxx
▪ Loan	xxx	Bills receivable	xxx
▪ Bank overdraft	xxx	Furniture	xxx
▪ Outstanding expenses	xxx	Machinery	xxx
▪ Advance income	xxx	Delivery van	xxx
▪ Other liabilities	xxx	Advance expenses	xxx
▪ Capital (bal. figure)	xxx	Outstanding income	xxx

Statement of profit and loss account

Particulars	Amount
⎠ Closing capital	xxx
Add: Drawing made during he year.	xxx
Less: Capital introduced during the year	(xxx)
Less: Opening capital	(xxx)
⎠ Net profit or loss	xxx or (xxx)

II) Conversion Method of Calculation Profit and Loss

Under single entry system, adequate accounting information is not available and the profit disclosed by that the revenue authority does not accept system gladly. For better management of the business, avoiding harassment by the revenue authority, and facing challenge of the competitors in a scientific manner, sometimes a trader may adopt the double entry system by giving up the single entry system.

Using the net worth method, only an estimated profit can be calculated, as many of the figures used in its calculation are estimate. Hence in order to increase the reliability and to make accounts more scientific and accurate, we can convert the single entry system into double entry system.

To start with, we have to find out hidden information, which is not readily available. One has to prepare opening statement of affairs, cash book, account receivable, bills receivable, accounts payable etc. to calculate the missing figures. Generally, following steps are followed to convert the records maintained under single entry system into double entry system:

Step –1: preparation of opening statement of affairs

Step –2: preparation of cash books.

Step –3: preparation of total debtors and bills receivable account

Step –4: pass the appropriate opening entry in the journal in respect of the assets and liabilities included in the opening statement of affairs.

Step –5: preparation of real and nominal accounts form the information contained in the cashbook and other accounts. Necessary adjustment for outstanding expenses and prepaid expenses, income received in advance, depreciation on fixed assets should be made.

Step-6: preparation of the Trial balance in the usual way.

Step-7: preparation of Trading account, profit and loss account and Balance Sheet in the usual way

2.1.28 Double Entry Book Keeping System

The term double entry book keeping system refers to the system of recording the financial transactions showing the dual aspect of each transaction. The double entry concept stems from the reality that there cannot be a transaction unless there are two parties to it. Every transaction involving the transaction of money, goods or services must have at least two parties one the receiver, another given. The set of records based on this duality is called double entry system of book for a business the wealth owned (assets) and rights of the owner (capital) and the rights of outsiders (liabilities) against these assets should be equal. This can be expressed in the form of an accounting equation.

Assets = Liabilities + owner's equity.

It means that the system of double entry is based on the concept of cause and effect. When a transaction takes place it affects two accounts simultaneously, one account being debited and another account being credited with equal amounts.

In the words of William Pickels, "The double entry system seeks to record every transactions in money or money's worth in its double aspects-the receipt of a benefit by one account and the surrender of a benefit by another account, the former entry being made to the debit of the account that receiver it and the latter to the credit of the account that surrenders it."

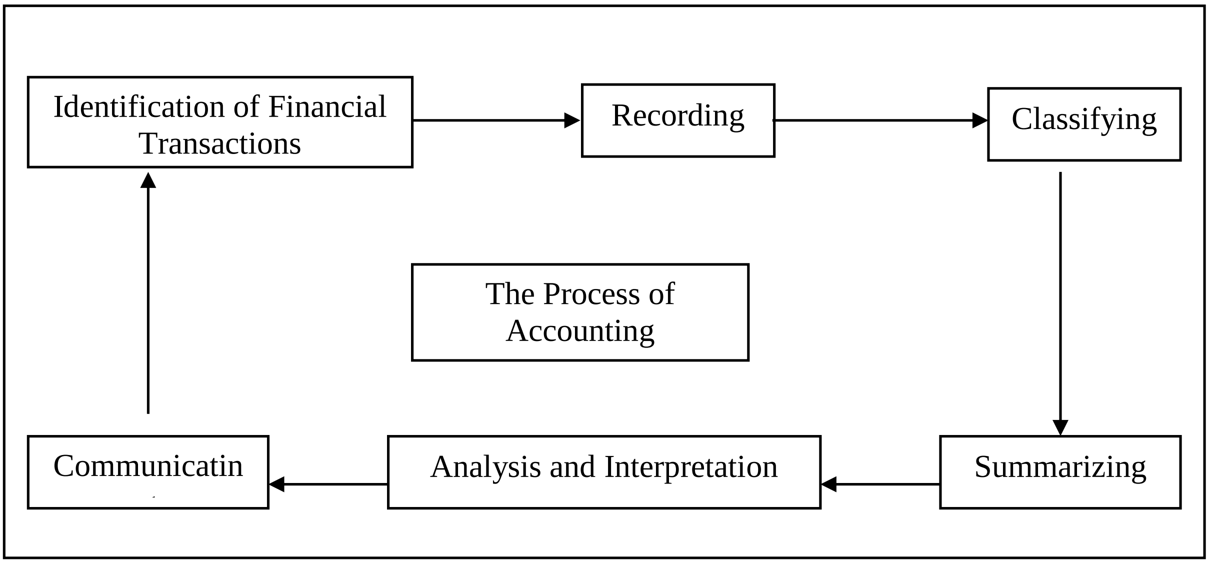
In this way the double entry bookkeeping system is a technique or a method of book keeping which recognizes the fact that every financial transaction has two aspects. Every transaction resulting in transfer if money goods or service must imply existence of at least two parties- one the receiver another the given. The set of records based on this duality is known as double entry book keeping system.

2.1.29 The Accounting Process under Double Entry System

The complete sequence of accounting activities that begin with the primary entry of financial transactions and end with preparation of final account is known as accounting process. The different phases of accounting will be repeated in cyclic order. For this reason the accounting process is also termed as accounting cycle. The accounting process generally has six phases as follows:

1) Identification of financial transactions.
2) Recording in financial transactions.
3) Classifying them (Posting into ledger accounts)
4) Summarizing them (Preparation of final accounts)
5) Analysis and interpretation
6) Communicating

The above-mentioned phases are shown in the form of diagram.



1) Identification of Financial Transactions: The transactions that are of financial nature are taken into consideration for recording by accounting. If a transaction has no financial character, such transaction cannot be measured in terms of money and no record is made. Hence, the primary process of accounting is to identify transactions, which are of financial nature.

2) Recording: It is the second phase of accounting process at which recording of transaction in a book called 'Journal' is made. This book is sub divided into various subsidiary books such as cashbook, purchase book, sales book etc.

3) Classifying: In this phase of accounting; the recorded data are sorted so that the can be meaningful to users. This sorting of data is known as classifying. To foster an easy location, transactions of same nature are grouped into one place. This process is achieved by opening accounts in a book called 'Ledger'.

4) Summarizing: After classifying the data based on their nature, they need to be summarized. This involves preparation of final accounts that include Profit and Loss A/C and Balance Sheet. In the same organizations such as school, the receipt & payment account, income and expenditures account and balance sheet is prepared.

5) Analysis and Interpretation: In order to provide meaningful information, the summarized data are analyzed and interpreted so that judgment about profitability liquidity, solvency, efficiency and growth potential of the business may be made.

6) Communicating: The communication of financial information is one of the most important functions of accounting that is possible through an Annual Report. Unless and until the recorded, classified, summarized and interpreted financial data are communicated to those who have to make use of them, the data will have no value.

2.1.30 Accounting Books Maintained by the Schools (Both Government and Private Schools)

There are different books of accounts that are maintained by the both government and private schools. Different schools use different books of accounts as pre their nature, capacity and financial resources. So the books of accounts may vary from one school to another school. Basically private schools are established for profit motive where as government schools are established for the service motives. So, the accounting books maintained by them are also different to some extent. But the schools prepare some common books of accounts that are needed in the auditing process. Some common books of account are explained below:

I. Accounting Books Maintained in the Private Schools: There are different books of account s maintained by the private schools. The books maintained by the one private school to another school are not the same due their resources, size, nature of transactions, number of students etc. But some common books of account that are maintained by them are explained below:

a) Day Book : The book, which is prepared for recording the daily transactions, is known as day book. In the private schools, it is prepared to record the daily expenses and daily incomes. Generally it is based on cash basis. It helps to remind the transactions in future. It helps to prepare the journal voucher and ledger. In the day book, there are two sides in each side. At the left hand side, the expenses are recorded and the right hand side the incomes are recorded. The opening balance of cash is written at the beginning of expense side page and closing balance of cash is recorded at the end of income side page. The closing balance will be the opening balance of cash for next day.

b) Journal : As we know that journal is the primary book in which the transactions are firstly recorded for the future reference. Similarly all the transactions, which are occurred in the schools, should be recorded in the journal. So this is the book, which should be maintained by both the government and private schools. Generally the journal book can be purchased in its printed form from the market. But some schools can print the journal keeping their school's name .It Consists all the financial transactions which have been made in the schools such as receiving fees, purchasing stationery, paying salary to the teachers and staffs, depositing cash into the bank, withdrawing money, donations received etc. Generally the specimen of journal goes like this:

Journal

...… School

Journal Voucher

J.V.No :

Date :

Code No./Ref No.	Particulars	Dr. amount	Cr. amount

Amount in words:…………………………………..

c) Ledger: Ledger is the secondary book in which transactions are recorded from the journal with the view to provide detail information about the particular account within the stipulated time frame. Journal does not provide the detail information about particular account at a glance. Basically school has to open the ledger account of student with the view t o get the information about fees received and fees to be received. Besides this, school also opens cash account, assets account, expenses account and other all accounts. Thus ledger is the book of all the accounts, which helps to classify the accounts into different heads, and helps to find out the detail information about the particular account at a glance. The format of ledger commonly used in schools is g given:

Account of ………………………

Date 1	Particulars 2	J.F.No. 3	Dr. amount 4	Cr.amount 5	Dr./Cr. 6	Balance 7

On the above figure, there we can see the seven columns. The descriptions of the parts of ledger are given below:

- The name of the account should be given at the upper part
- The date on which the transactions take place should be mentioned in column no. 1
- The accounts to be debited and credited are mentioned in second column.
- The page number of journal from which the posting has been made is mentioned in third column
- The amount debited is to be written in fourth column.
- The amount credited is to be mentioned in fifth column.
- If the account is having debit balance then Dr is written in sixth column and if the account is having credit balance then there is written Cr.
- The balance amount is recorded in seventh column.

d) Fees Register Book: In the schools, there are many students. Fees are collected time and again. Generally fees are collected on a monthly basis.

Sometimes fees are not collected on time. Sometimes fees may be received in advance. So fees register book is prepared for recording all the detail about the fees. It is prepared on a class wise basis. The specimen of fees register book is given below:

Fees registration book

Name of the school:
Address:
Class:
Year………………..Month

Roll. No.	Name of the student	Bai	Jes.	Ash.	Shr.	Bha.	Asw	Kar.	Mar.	Pou.	Mag	Fal.	Cha	Advance fees	outstanding fees
Total															

e) Cash Book : The book, which is prepared to know about the cash and bank transactions at a glance, is known as cashbook. In the school, receiving cash from students, depositing the cash into the bank and making expenses occur frequently occurred. So, it is impracticable to make journal entries for such repetitive nature of transactions. If journal entries are made for such repetitive nature of transactions then it will consume more time. So the separate book is maintained to record the cash transactions, which is known as cash book. When the cash book is prepared, then there is no need of preparing separate journal entries for the transactions relating to cash. So this cash book saves the time.

Cash books are primary accounting records since cash and bank transactions are straightway recorded in the cash book and, on the other basis of such records, ledger accounts are prepared. Therefore, the cash book is a subsidiary book as it is a book of original entry; cash receipts and payments are not normally entered in any other books.

At the same time cash book also serves as the cash account and the bank account, and consequently, is part of the ledger. Hence, it is also a principal book. The cash book is, thus, both a subsidiary book and a principal book as it fulfils the functions of both a ledger and a journal. Generally the schools are using two types of cash book. They are

i) Single column cash book

ii) Double column cash book

i) Single Column Cash Book : The cash book, which is prepared to record either the cash or bank, is known as single column cash book. This type of cash book is prepared for recording the cash transactions or for showing the bank position. But it does not show the both cash and bank position once at a time. The cash book generally maintained in the schools is given below:

Cash Book

Receipts					Payments				
Date	Particulars	RV No.	LF	Amount	Date	Particulars	PV No	LF	Amount

Bank Account

Receipts					Payments				
Date	Particulars	RV No	LF	Amount	Date	Particulars	PV No	LF	Amount

ii) Double Column Cash Book : The cash book having the place for recording two-amount column on each side is known as double column cash book. There is the cash and bank column in each side of it. All the cash receipts and cash deposited into the bank are recorded it its receipts side. Likewise all the cash; payments for various purposes and cash withdrawn from the bank are recorded it its payments side. Generally the big schools, which have a large number of cash transactions, prepare it. It helps to provide the knowledge about the bank and cash position at a glance. So, it is commonly used in the schools. The specimen of double column cash is given below:

Double Column Cash Book

Receipts						Payments					
Date	Particulars	RV No	LF	Cash	Bank	Date	Particulars	PV No	LF	Cash	Bank

Explanation of the layout:

- ❖ The debit side is used for receipts
- ❖ The credit side is used for payments.
- ❖ On both sides, there are money columns for cash and cheque
- ❖ There are also columns for receipt voucher number and payment voucher number.

The columns are described below:

a. **Date:** Dates of the transactions on which they take place are written in the date column. It means the corresponding date of the transactions are recorded in this column

b. **Particulars**: The account heads involved in the transactions are recorded here along with the short description.

c. **RV No**. (Receipt voucher no.): A receipt voucher as discussed under the source documents needs to be prepared for all receipts of cash and cheques. All the receipt vouchers are serially numbered and the receipt number is recorded in the RV number column against the corresponding entry. All supporting documents are to be attached with these vouchers.

d. **L.F. (Ledger folio**): In this column, the page number of the ledger to which the entry is posted will be recorded.

e. **Amount:** The amount corresponding to each entry is recorded in these columns.

f. **PV No. (Payment voucher number):** For each payment a voucher is made. This is commonly called a payment voucher. Along with it all the relevant documents pertaining to the payment are attached. Vouchers are either serially numbered or space to enter the number is provided. This number will be recorded in this column of the cashbook.

f) Final Accounts of Private Schools: Generally schools are established to provide services. But they can be registered under the company act 2063 .So they are the business organization. The following books of accounts have been prepared by the private schools as their final accounts:

a) Receipt and payment account
b) Profit and loss Account
c) Balance Sheet

i) Receipt and Payment Account: Most of the schools prepare the receipt and payment account. It shows the details of receipts and payments and the cash position of the organization. It gives the summarized picture of the various receipts and payments during a particular period. All receipts, irrespective of the period to which they relate (previous year, current year or future year) are shown on the debit side and payments on the credit side. It starts with opening balance of cash and bank and ends with closing balance of bank and cash. It ignores the nature of receipts, whether capital or revenue. It does not record non-cash items. It is a real account. However it has some demerits. It does not show incomes and expenditure of school on accrual basis. It does not show whether the organization is able to meet its day-to-day expenses out of its income. It is not a trial balance but a summary of cash receipts and payments. The specimen along with items of Receipt and Payment of school is given below:

Specimen of
Receipt and Payment Account
For the period ended…………….

Receipts	Amt.	**Payments**	Amt.
To opening balance:		By salary to staffs	xxx
Cash balance xxx		By wages to labors	xxx
Bank balance xxx	xxx	By stationery	xxx
To fees received	xxx	By books for the library	xxx
To commission received	xxx	By furniture purchased	xxx
(Books, dress, tie, belt stationery etc)		By rent paid	xxx
To donation received	xxx	By telephone charge	xxx
To loan obtained	xxx	By email charge	xxx
To loan from relatives, friends	xxx	By purchase of computers	xxx
To other receipts	xxx	By purchase of other machinery	xxx
		By interest paid	xxx
		By loan repayment	xxx
		By staff provident fund	xxx
		By donation given	xxx
		By prize distribution	xxx
		By Uniform, books, tie, belt purchased	xxx
		By advertisement for the session	xxx
		By Tax payment	xxx
		By miscellaneous payments	xxx
		By closing balance:	xxx
		Cash balance xxx	
		Bank balance xxx	

ii) Profit and Loss Account of School: We know that most of the private schools are established under the company act –2063.So they are treated as private co. and also treated as business organization .So they have to prepared profit and loss account for the accounting year. It is prepared to know the actual profit or loss made by the school in one accounting year. The specimen of profit and loss account of school is given below:

Profit and loss account
For the year ended…..

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To salary	xxx	By fees received	xxx
To wages	xxx	By donation received	xxx
To Tax	xxx	By commission received	xxx
To other expenses	xxx	By interest on bank deposit	xxx
To net profit	xxx	By other receipts	xxx
		By net loss	xxx

iii) Balance Sheet

Balance sheet is the position statement of the private schools, which helps to show the real picture of the schools. It helps to find out the exact financial position of the schools. It is prepared at the end day of accounting period. The specimen balance sheet is given below:

Balance Sheet of School

For the year ended…………

Liabilities and capital	Amt.	Assets	Amt.
Capital of Mr………………. xx		Fixed Assets less dep.:	
Capital of Mr. …………….. xx		Land and building	xx
xx		Furniture	xx
Add or less: profit or (Loss) xx		Office equipment	xx
Less: drawing of Mr. ………. (xx)	xx	Vehicles	xx
Outstanding salary	xx	Fax machines	xx
Advance fees	xx	Telephones	xx
Reserves (contingent)	xx	Current assets:	
Loan (secured)	xx	Fees receivable	xx
Loan (unsecured)	xx	Interest receivable	xx
Other payables	xx	Other receivable	xx
	xxx		xxx

II. Books of Account Kept in the Government Schools: There are some common books that are kept by both the government schools and private schools such as journal voucher, ledger, balance sheet etc. But the government has prescribed some books that are to be followed by all the government schools. According to the Education Act-2059, the followings books are to be kept by the government schools:

Name of the form: Specified form no.

1. Budget Sheet of School — Form no.1
2. Income Sheet (Amdani Hisab Khata) — Form no.2
3. Expenditure Sheet (kharcha ko hisab khata) — Form no.3
4. Cash Account (Nagad Khata) — From no.4
5. Bank Account — Form no.5
6. Advance Account (Peski Khata) — From no.6
7. Assets Account (Jinsi Khata) — Form no.7
8. Monthly Income and Expenditure Account — From.no.8
9. Fees Registration Book (Sulka Darta Kitab) — From no.9
10. Balance Sheet (Waslat) — From no.10

The forms are described below:

1. The Budget Sheet of Schools: It is the account in which the yearly incomes and expenditures are estimated. It is prepared to forecast the annual expenses and income of the school. It is prepared on the basis of past year's academic session's expenses and incomes. Every government school has to prepare it so as to run the school within the budgetary limits. This account also helps to control the misuse of funds and helps to make the expenses on various budget heads within the budgetary limits. The prescribed form no of budget sheet of school is 1.The specimen of budget sheet is given below:

Budget Sheet of School

Name of the school: Form No.1

Address:

Budget of academic session………………………..

Expenses					Incomes					
S.N.	Account heads	Expenses of previous year's session	Estimated expenses of this session	Approved amount	S. N.	Account heads	Incomes of last year's session	Estimated incomes of this session	Approved amount.	Remarks

Signature of Principal Sign. Of chairman of management committee

The explanation of above specimen is given below:

Expenses side:

1) The serial number of expenses should be mentioned in the 1st column.

2) The name of the accounts of expenses such as salary, stationery, and furniture etc.should be mentioned in this column.

3) The expenses of previous year's academic session corresponding to the account head no 2 should be mentioned.

4) The estimated expenses on various account heads such as salary, stationery, and furniture etc.should be mentioned in this column.

5) The annual approved budget on various heads by the management committee of the schools should be mentioned.

Incomes sides:

6) The serial number of incomes should be mentioned in the 1st column

7) The name of the accounts of incomes such as government donation, fees received and other incomes should be mentioned.

8) The incomes of previous year's academic session corresponding to the account head no 6 should be mentioned

9) The estimated incomes on various account heads such as donation, fees and other income etc should be mentioned in this column

10) The annual approved budget on various heads of incomes of the schools should be mentioned.

11) If any other information to be written, it is used.

2) Income Account/ Sheet (Amdani Hisab Khata): The account which is prepared by the government schools to record the incomes from various sources such as fees from student, donation received, government contribution etc. is known as income account. It is prepared in the prescribed form no.2.It is also said as monthly income sheet because it is prepared monthly. It helps to control over the misuse of incomes. It also helps to know the total income received from various sources during the month. The specimen of it is given below:

Income Account

Name of the school: Form No.2
Address:
Year……….Month……………….

Date (1)	Particular (2)	Receipt No. (3)	Income heads (4)				Total (5)	Bank entry (6)	Remark (7)
			Govt. funds	Fees	Donation				
Total of this month									

Signature of principal Sign of accountant

Explanation of above specimen:

1) The date on which the incomes received is mentioned on the 1st column.
2) The source of income i.e. from where it is received should be mentioned in the 2nd column.
3) The income receipt no. should be mentioned here
4) The amount corresponding to the income head are posted to their respective column. If necessary the incomes head columns can be increased.
5) The total amount should be written in this column.
6) The amount deposited into the bank out of the total income should be mentioned in this column.
7) If any other information to be written, then it is used.

3. **Expenses Account/Sheet**: This is the account prepared by the government school to record the monthly expenses made on various expenses heads. It helps to control the unnecessary expenses by comparing the current month's expenses with that of previous month's expenses. It has to be prepared monthly. So it is also known as monthly expenses sheet. It is to be submitted to the district education office. It is prepared under the form no 3.The specimen of it is given below:

Expenses Account/Sheet

Name of the school Form No.3

Address:

Year…………….Month……………….

Date (1)	Particular (2)	Voucher no. (3)	Salary/allowance			Other expenses head (7)	Total (8)	Remarks (9)
			Quota fixed by govt. (4)	Permanent Staffs (5)	Staffs appointed by the private source of school (6)			

Signature of Principal Signature of Accountant

Explanation of above specimen:

1. The date of transaction occurred should be mentioned.
2. The name of the expenses should be recorded in it.
3. The voucher no of expenses should be mentioned in it.
4. The expenses that are made to the teacher who are working under the quota fixed by the district education office should be mentioned.
5. The expenses such as salary and allowance made to the permanent teacher and staffs of the school are recorded in it.
6. The expenses made to those staffs who are appointed by the school from its private source are to be recorded in it.
7. The other expenses such as stationery, printing, traveling and daily allowance, etc. should be recorded in it.
8. This column is used for writing the total of the expenses of column no 4,5,6 and 7.
9. If any other information to be written, then this column is used.

4. Cash Account: This is the account, which is prepared by the every school to record the monthly cash receipts and payments. This helps to know the total amount remained in the office and amount deposited into the bank. This helps to control over the misuse of cash. Cash is very liquid and may be misused .So it should be recorded systematically. So cash account is prepared for proper controlling the cash. It is prepared under the form no. 4.The specimen of it is given below:

Cash Account

Name of the school: Form No.4

Address:

Year………………..Month……………

Date 1	Particulars 2	Voucher no. 3	Debit (Rs.) 4	Credit (Rs.) 5	Dr./Cr. 6	Balance 7	Remarks 8

Signature of Principal Signature of Accountant

Explanation of above specimen is given below:

1. Date of cash receipt and payment should be mentioned in 1st column.
2. The brief description of incomes and expenses are recorded in this column.
3. The voucher no of cash receipt or expenses should be mentioned in this column.
4. If the cash receipt, then it should be recorded here.
5. If the cash is deposited into the bank or paid for expenses, then this column is used for recording.
6. The balance of cash is recorded here.
7. If any other information is to be recorded then this column is used.

5. Bank Account: The account which is prepared by the government school in order to show the bank balance up to the month and the amount deposited and withdrawn by the school is known as bank account of school. We know that cash is very liquid and may be misused or stolen or lost .So the cash remained in the office is deposited into the bank. So, it helps to control over the misuse of cash .It is prepared in the form no.5.It has the same specimen like cash account which is given below:

Bank Account

Name of the school: Form No.5

Address:

Year………………..Month……………

Date 1	Particulars 2	Voucher no. 3	Debit (Rs.) 4	Credit (Rs.) 5	Dr./Cr. 6	Balance 7	Remarks 8

Signature of Principal Signature of accountant

The explanation of specimen of bank account:

1. The date on which the cash is deposited into the bank and withdrawn from the bank is recorded here.
2. The brief description of cash deposited and cash withdrawn is recorded here.
3. The voucher no. of cash deposited and money withdrawn from bank is mentioned here.
4. The amount deposited into the bank should be mentioned here.
5. The amount withdrawn from the bank is recorded here.
6. This columns shows the debit balance or credit balance of column no .7.If the column no 7 has debit balance then Dr. should be written in this column otherwise Cr. Should be mentioned
7. The amount of bank balance is recorded here.
8. If any other information is to be recorded then this column is used.

6. Advance Account: It is the account, which is prepared to record the amount of prepaid expenses on various account heads. Advance is the amount, which is paid to the staff before receiving the goods, or services. The advance given to the staffs should be recorded till the clearance of advance. It may be given to the staff for purchasing some thing needed for the school and payment the advance salary to the staffs. It helps to provide the knowledge about the total advance given during the month, the unclear amount of advance, the amount of advance cleared and the balance of advance to be cleared. It is prepared in the designed form no. 6.It has the specimen as follows:

Advance Account

Name of the school: Form No. 6
Address:
Year………………..Month……………

Date 1	Particulars 2	Voucher no. 3	Debit (Rs.) 4	Credit (Rs.) 5	Dr./Cr. 6	Balance 7	Remarks 8

Signature of Principal Signature of Accountant

The explanation of above specimen is given below:

1. The date on which advance given or cleared is to record here.
2. The advance given or cleared whatever, should be mentioned here.
3. The voucher no. should be recorded here.
4. The amount of advance given is to be recorded here.
5. The amount of advance cleared should be mentioned here.
6. If the balance of advance has the debit balance then we have to write Dr. otherwise we have to write Cr. in this column.
7. The amount of advance to be cleared is recorded here.
8. If any other information to be recorded, then it is used.

7. Assets /Goods Account (Jinsi Khata): This is the account, which is prepared to record the different goods and assets purchased during the month. There are different goods to be purchased such as furniture, computers, chalk, stationery, and books for the library etc .So these goods are not used once at a time .So they should be recorded systematically. It helps to know the total goods received, consumed during the month and balance of goods at the school. It is prepared in the designed from no.7.The specimen of it is given below:

Assets /Goods Account (Jinsi Khata)

Name of the School: Form No. 7

Address:

Year………………..Month……………

Date (1)	Particulars (2)	Price (3)	Receipt (4)	Expenses (5)	Balance (6)	Remarks (7)
		Per unit	Total			

The explanation of above specimen is given below:

1. Date of goods purchased or consumed is to be recorded here.
2. The brief description of goods received or consumed is to be recorded here.
3. The per unit price of goods should be mentioned here.
4. The total qty. of goods should be mentioned here.
5. The quantity of consumed goods should be recorded here.
6. The qty. of balance of goods should be mentioned here.
7. If any other information to be recorded then this column is used.

8. Monthly Income and Expenditure Account: This is the account, which is to be prepared by each government school in order to record the total expenses up to this month and expenses of this month. It also records the incomes up to the previous month and income of this month. It is designed under the prescribed form no.8.The specimen of it is given below:

Income and Expenditure Account

Name of the school: Form No.8

Address:

Year………………..Month……………

Expenditures						Incomes					
Account no of exp. (1)	Name of account head (2)	Annual appropriation (3)	Exp. up to the previous month (4)	Exp. of this month (5)	Total expenses (6)	Head no of incomes (7)	Name of the heads of income (8)	Annual appropriation (9)	Incomes up to the previous month (10)	Incomes of this month (11)	Total incomes (12)
Total											

Balance

Amount:

Cash:

Bank Balance:

The explanation of above specimen is given below:

Expenses side:

1. The accounts no of expenses, which are recorded in form no. 1, are recorded here.
2. The names of the account head of expenses are recorded here.
3. The annual appropriation fund approved by district education office should be recorded here.
4. The total expenses up to the previous month should be recorded here.
5. The expenses of this month made on various heads should be recorded here.
6. The total up to now is recorded here. It means the total of column no 4 and 5 should be recorded here.

Incomes side:

7. The incomes head are recorded here.
8. The names of the incomes head are recorded here.
9. The annual approved fund of incomes is recorded here.
10. The incomes up to the previous month are recorded here.
11. The incomes of this month are to be recorded here.
12. The Total incomes up to now are recorded.

Under the table there we can see the balance part. There is written the difference between incomes and expenses .The balance fund may be in the office and the bank. So, the amount remained in bank and office is recorded in the respective columns.

9. Fees Registration Book (Form no.9): This is the book, which is prepared to record the fees received from students of the school. When the fees are received from the students then the fees of the respective month are recorded in the respective month column. The specimen of this is given below:

Fees Registration Book (Form no.9)

Name of the school:
Address:
Class:
Year………………..Month

Roll. No.	Name of the student	Bai.	Jes.	Ash.	Shra.	Bhad	Asw	Kart	Mar	Pou	Mag	Falg	Cha
Total													

10. Balance Sheet (Waslat) (Form No.10) : Balance sheet is the statement, which is prepared by every school at the end of the financial year in order to show the real financial position of the business. So it is also said the position statement of the school. It is the statement of assets, liabilities and capital. It shows the overall financial position of the school. The specimen of it is given below:

Balance Sheet

Name of the School:

Address:

Year…………at the end of the……day……….month

Liabilities and capital (1)	Amount (2)	Assets (3)	Amount (4)

Principal: Accountant:

Auditor:

The explanation of above specimen is given below:

1. All the liabilities are recorded here.
2. Amount of liabilities are recorded here.
3. All the assets are recorded here.
4. Amount of assets are recorded here.

2.2 Review of Related Literature

No more previous studies have been conducted to explore the accounting system of schools. However the similar type of thesis on the topic “A study on Accounting being practiced by small scale industries in Nepal” has been submitted on 2005 by Bhim Prasad Acharya .He has concluded in his thesis is that account keeping system depends of academic background of the entrepreneurs .He has concluded that the system maintained by the trainee is better than the non trainee.

Objective of his study were:

1. To examine the existing accounting system used by small –scale industries.
2. To identify the major accounting problems faced by them in practice.
3. To evaluate the efficiency and sufficiency of accounting system to present or display their transactions and able to provide the necessary information to the management for decision-making.

4. To identify, how the supporting institutions have been providing the accounting training to the small scale industries and also examine the effectiveness of such training.
5. To identify of business, appropriateness model of accounting system which can display the transactions of business, appropriateness in term of cost simplicity and applicably and in generating sufficient information to the management for decision-making.

Conclusion of his study:

1. Many small businesses however not always use the complete book keeping system and use a single entry book keeping system instead of the double entry system of journals and ledgers.
2. They use a cash register because most of their transactions are recorded on cash basis, this means, they don't record the income and expensed until the cash is actually received or paid respectively.
3. Many small businesses don't prepare profit and loss account and balance sheet because the records are incomplete and contain less detailed information.
4. Most of the small firms lack basic concept of accounting.
5. Government has not launched an extensive training program for improving accounting system in small firms.
6. Training and education are the fundamental to the success of maintaining accounts.
7. Most of the small firms have been facing the accounting problems. So, it is necessary to provide the detail accounts training to them.
8. Majority of firms are interested to undergo account training program and are interested to change their existing accounting system into a systematic records with usage of accounting information on decision making process.

His recommendations:

1. From the studies he has found that most of the small firms are prepared non-detailed accounts due to the lack of knowledge to maintain

account. The government should launch special program about the accounting principle and methods. They should try to create the account base market economy.

2. The reasons not to; maintain accounts are lack of accounting knowledge lack of specific rules lack of time, cost involvement and lack of prescribed act. Government and the responsible authority should emphasis about the accounting principles and try to provide sufficient knowledge, prescribed act to maintain the accounts.

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

Sharma, in his study report, states that various management accounting tools, which were taught in colleges, were not found applied by the listed companies of Nepal. He further stated that tools like capital budgeting, budget, ratio analysis and cash flow were in practice but application of new tools like zero base budgeting, activity base costing, target costing, value engineering etc. were almost nil in the listed company of the Nepal. In those companies, practice of hiring outside experts for carrying out different activities was almost nil. Thus, it w as concluded that Nepalese companies were in infant stage in practicing management t accounting tools.

Sharma added that lack of information, extra cost burden and cognizances about management accounting tools were the main factors causing problems in the application of such tools. In his recommendation, he suggested to use accounting tools in order to strengthen the competitiveness of Nepalese listed companies.

2.3 Research Gap

As the accounting is the language of business, it is required to be uniform through out the business world. There are different types of organization, which must need accounting system. There are different researches conducted on the topic ‘accounting system in bank, cottage and small industries, commercial banks etc. But there is not research conducted on the topic ‘**accounting system in schools.**’ yet. So there is a massive research gap on the topic. This research is a completely new research topic in the field of researches in Nepal. The study has aimed at exploring the practice, problems of accounting system of schools and also helping in designing appropriate models of accounting for the schools. The study complements to this need. This study has made an effort to raise general awareness of accounting among schools of Nepal. It will be very fruitful for the government to design the appropriate accounting system for the schools. Similarly it will be helpful for the schools to find out the weakness of present accounting system and limitations of existing accounting system.

CHAPTER-THREE

RESEARCH METHODOLOGY

Research methodology is a way to systematically solve the research questions. It refers to the various segmental steps to be adopted by a researcher in studying a problem with certain objectives in view. It is significant to have appropriate choice of research methodology that helps to make the research study meaningful and more scientific. Therefore, here upon appropriate research methodology or research strategy has been followed to meet the proposed objectives of the study& to achieve the goals setout. The methodology of this research includes the research design, the population and sample, sampling procedure, sources of data, data collection procedure, method of data presentation and analysis, tools and techniques of analysis and respondents profile.

The basic objective of the study is to identify the accounting problems faced by schools and to give appropriate accounting model for them. The research methodology used for this study is as follows:

3.1 Research Design

The research design is the task of defining a research problem. It is a plan, structure and strategy of investigation conceived so as to obtain answer to research questions and control variance (Cited in Wolf and Pant, 2003: 74). In fact, the research design is the conceptual structure within which the research is conducted .It constitutes the blueprint for the collection, measurement and analysis of data (Kothari, 1990:39). It is the overall plan of a proposed study to specify the appropriate research methods and procedures for obtaining specific findings with validity, objectivity, and accuracy and economically as possible. The research design followed in this study is descriptive and analytical research design. It is based on descriptive survey study.

3.2 Population and Samples

This research work is related with the accounting systems being practiced by the schools of Parsa District. The total present number of schools of Parsa district is considered as total population of this study. The total number of government and private schools registered up to the academic session 2067/68 in Parsa district are given below:

Types of Schools	No. of Schools
Government Schools	310 (including primary, lower sec. Sec and higher Sec Schools)
Private Schools	82 (including primary, lower sec. Sec and higher Sec Schools)

Source : DEO, 2068

It is difficult to study all the schools of the Parsa district. So I have taken random sampling from the total population. This study is only based on the 60 sampled schools including 30 government schools and 30 private schools.

3.3 Sampling Method

The process of learning about population on the basis of a sample drawn from the universe is known as sampling. Under this method a small group of the universe is taken as the representative of the whole mass and the results are drawn. Different types of sampling method are used for drawing the sample plan. Among them, stratified sampling has been chosen for this study.

When the population characteristics are heterogeneous, then this sampling is used. Under this method the total population is divided into different groups that a representative sample can be chosen. Under this method, the sampling method may be either proportionate or disproportionate. In a proportionate stratified sampling, the number of items drawn from each stratum is proportional to the size of the strata. On the other hand, if an equal number of units are drawn from each stratum regardless of how the stratum represented in the universe, it is called disproportionate sampling.

Under this study, I have divided the total schools into two groups into government and private schools. I have chosen disproportionate sampling method for this study. I have randomly chosen 30 government schools and 30 private schools from each group.

3.4 Sources of Data

According to the nature of this study, only the primary source of information has been used. Primary data are collected through a schedule of self-structured questionnaires, informal and formal dialogues, discussions, and interviews with concerned persons and observations. One set of questionnaire had been prepared and distributed to the principal of schools so as to collect true information. Close observation of the firms and interview to the concerned persons were also made while visiting them.

3.5 Tools and Techniques of Data Analysis

Analysis is the careful study of available facts so that one can understand and draw conclusion from them on the basis of established principles and sound logic. This is an important part in research work. Therefore, collected data from primary source were presented in appropriate and suitable forms like tables, diagrams and figures.

In this study, mostly percentage method has been used for the purpose of data analysis and interpretation. Except this, chi square test has also been used to test the hypothesis.

CHAPTER-FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

Data presentation and analysis is an important appearance of the research study. Collecting data is the connecting link to the world of reality for the researcher. The data collection activity consists of taking ordered information from reality and transferring it into some recording system so that it can later be examined and analyzed for the purpose. Research as a media can be interpreted as having a content of data and process of methodology. Without the data, methodology cannot be utilized to bring us to the conclusion.

The presentation of data is the basis of organization and classification of the data for analysis. After data collection is completed, the data will be the raw data. The data will still be on questionnaires, data collection forms and note cards. It is necessary to arrange the data so that it makes some sense to the researcher and so that it can later be presented to the readers of thesis. Different types of data require different methods, which can be used to simplify the data .The easiest way to understand data is by examining it in charts, graphs, and tables. But even before one can arrange data in tables, it is necessary to rearrange the raw data.

The main of purpose of analyzing the data is to change it from an unprocessed form to an understandable presentation. The analysis of data consists of organizing, tabulating and performing statistical analysis

This chapter especially focuses on data relating to the accounting practices, problems, training, provided by supporting institutions. Various tables are presented on the basis of questionnaires used for the study and have been presented below:

4.2 Maintenance of Proper Accounting Record in the Schools

Table No. 4.1: Maintenance of Proper Accounting Record in the Schools

Results	Govt. schools	Private schools	Total	%
Yes	11	13	24	40.0
No	19	17	36	60.0
Total	30	30	60	100.0

From the above data, we can see that out of the 30 government schools, 11 (36.67%) schools have been maintaining proper accounting system. And only 19(63.33%) government schools have not been maintaining proper accounting system. Where as out of 30 private schools, 13(43.33%) schools have been using proper accounting systems and remaining 17(56.67%) schools have not been using proper accounting systems. It is noted that above figures included systematic and non-systematic record, both single entry and double entry system. Out of the total samples of 60 schools, most of the schools have not kept proper accounting system i.e. 36(60%) schools. And only 24(40%) schools have been kept proper accounting system. Lack of accounting knowledge, having minimum education, lack of computerized accounting system and lack of accounting training etc are some major reasons due to which they are not able to keep good accounting system.

Above table represents that government schools have been maintaining books of account more systematically in comparison to that of the private schools.

4.3 Accounting Systems Maintained by Schools

Table No.4.2: Accounting Systems Maintained By Schools

Types of schools	Types of accounting systems	No of schools	%
a) Private school	Single entry system Double entry system No maintained	19 11 -	63.33 36.67 -
Total		30	100
b) Government school	Single entry system Double entry system No maintained	5 25 -	16.66 83.34 -
Total		30	100

From the above table, out of which 30 are private and 30 are government schools. Out of the 30 private schools, 19(63.33%) schools and 11(36.67%) schools have been using single entry system and double entry system respectively. It shows that there is not systematic record made in most of the schools, as they are not following double entry system.

Similarly, out of 30 government schools, only 5(16.66%) schools have been using single entry system and other 25(83.34) schools have been using double entry system. This shows that the government schools have been using double entry system more often in comparison to private schools.

Those private schools, which have provided accounting training to the accountings staffs and have a capacity of hiring the accountant having high degree of education, have been maintaining double entry system. Though the staff is highly qualified, if he is not from the accounting background or not received accounting training cannot maintain the double entry system. The private schools in which owner have been keeping records, such schools have not been using double entry system.

Most of the government schools have been maintaining double entry system because most of the formats are prepared by the government to fill the incomes and expenses. So most of the govt. schools have been following the double entry system. But in some rural areas, due to lack of the expert accounting staff, some schools have been maintaining single entry system.

4.4 Book Keeping Personal

Table no. 4.3: Book Keeping Personal

Types of school	Classification	No of schools	%
Private	Owner/Partner/Principal One accountant Separate account department More than one accountant No book keeping	15 9 3 3 -	50 30 10 10
Total		30	100
Government	Owner/Partner/Principal One accountant Separate account department More than one accountant No book keeping	- - 30 - -	- - 100 - -
		30	100

Above table shows that out of 30 private schools, 15(50%) book keeping personal are owner or principal, 9(30%) book keeping personal are accountant of the schools, 3(10%) of the schools have their own separate account department and 3(10%) schools have more than one accountant maintaining the books of accounts. All schools have kept the book keeping. The schools, which have a large number of students and have to deal with a large number of transactions, have set up separate account department and they have also appointed more than one accountant in the account section.

Similarly the above table shows that there is separate account department in each of the government schools out of the sampled 30 schools. It shows that 100% of schools have been set up for recording the financial transactions of the schools. The one of the reason to set up the separate account department in the government is that there are comparatively more students and therefore government schools have to deal with the more financial transactions. Another reason to set up account section in the government schools is that all they are responsible towards the government in terms of financial transactions they performed. So to maintain record systematically, they set up separate account department.

4.5 Educational Degree of Book Keeping Personnel in the School

Table no.4.4 : Educational Degree of Book Keeping Personnel in the School

Level of education	Govt. schools		Private schools		Total no. Schools	Total %
	No	%	No	%		
Normal	-		-	-	-	
SLC	7	23.33	2	6.67	9	15.00
Intermediate	11	36.67	9	30.00	20	33.33
Bachelor	7	23.33	12	40.00	19	31.67
Masters	5	16.67	7	23.33	12	20.00
Total	30	100	30	100	60	

From the above table, we can clearly see that there have not been any book-keeping personnel having less than SLC for maintaining books of account in the private schools. Out of the 30 samples of private schools, 2(6.67%) accounting staffs have the SLC academic background, 9(50%) of personnel have the intermediate degree, 12(40%) personnel have the bachelor degree and very fewer personnel have the master degree i.e. 7(23.33%) And there has not been seen any accounting personnel who have got PhD degree. Those private schools, which have the very strong financial capacity and large number of students, have been appointing the accounting personnel having high educational background.

Similarly, out of 30 sampled government schools, we can see in the government schools that there has not seen any accounting personnel having normal education. Out of 30 samples of 30 government schools, 7(23.33%) schools have the accounting staffs having SLC. Similarly we can see that there are 11(36.67%) accounting staffs having intermediate degree, 7(23.33%) having bachelor degree and the 5(16.67%) having the master degree.

Likewise when we see them in total then we can find that out of 60 sampled schools, there has been 9(15%) accounting staffs having SLC education. Similarly 20(33.33%) accounting staffs have got only intermediate degree, 19(31.67%) accounting staffs have got bachelor degree and 12(20%) accounting staffs have got masters degree. When we compare both types of schools then there are more accounting staffs having high educational degree in private schools. .

4.6 Means of Maintaining Account

Table no.4.5: Means of maintaining account

Types	Private school	Govt. school	Total	%
Manually Computerized	25 5	30 -	55 5	91.66 8.34
Total	30	30	60	100

From the above table, it is clear that most of the schools have been using manual accounting system. The number out of the samples is 25(91.66%). Only the fewer schools have been using computerized accounting i.e. 5(8.34%). The reason is that most of the schools do not have sufficient fund for installing accounting software. Some schools do need feel to adopt it though they have a strong financial situation. Some schools don't use the computerized system due to lack of knowledge.

4.7 Basis of Maintaining Account

Table no.4.6: Basis of preparing account

Basis	Private school	Govt. school	Total	%
Accrual	20	8	28	46.66
Cash	10	22	32	53.34
No any idea	-	-	-	-
Total	30	30	60	100

From the above table, out of the 60 schools including both government and private schools, 28(46.66%) schools have been using the accrual basis of accounting system where as 32(53.34%) schools have been using cash basis of accounting system. And none of the schools have not found used any system.

4.8 Account Closing Period

Table no.4.7 : Account closing period

Period	Private school	Govt. school	Total	%
Monthly	7	-	7	11.66
Quarterly	4	8	12	20.00
Semi annually	6	5	11	18.34
Annually	13	17	30	50.0
Total	30	30	60	100.0

From the above table, out of observed 60 schools, 7(11.66) schools close their account monthly, 12(20%) schools have closed their accounts quarterly. Likewise 11 (18.34%) schools closed their accounts semi annually. And most of the schools closed their accounts annually which in number are 30(50%).

4.9 Method of Charging Depreciation

Table no.4.8 :Method of charging depreciation

Methods	Private school	Govt. school	Total	%
Fixed installment	-	-	-	-
Diminishing balance	30	30	60	100
Others	-	-	-	-
Total	30	30	60	100

From the above table, it is clear that all the schools have been using diminishing balance method of depreciation. Other methods of depreciation have not been used in schools.

4.10 Modes of Operating Financial Transactions

Table no.4.9: Modes of operating financial transactions

Modes	Govt. schools	Private schools	Total	%
Through bank	23	12	35	58.33
In cash	-	7	7	11.66
Through bank& cash	7	11	18	30
Total	30	30	60	100

From the above table, it is clearly seen that most of the schools have performed their financial transactions through bank i.e. 35(58.33%) schools.7 (11.66%) schools have performed their transactions through cash because they feel difficulty to perform all financial transactions through bank. And remaining 18(30%) schools have performed their transactions through both cash and bank. Partnership schools and government schools have been using bank for performing transactions so as to control and misuse of cash.

4.11 Satisfaction from Present Accounting System

Table no.4.10: Satisfaction from present accounting system

Satisfaction	Govt. school	Private school	Total	%
Yes	8	7	15	25.00
No.	12	13	25	41.67
Partly	10	10	20	33.33
Total	30	30	60	100.00

According to above table, 15(25%) schools are satisfied from the present accounting system.25 (41.657%) schools are not satisfied from the present accounting system. And 20(33.33%) schools are partly satisfied .It means they desire to improve or change their present account keeping system. It also proves that present accounting system has some drawback to keep record systematically.

4.12 Effectiveness of Present Accounting System of Schools

Table no.4.11: Effectiveness of accounting system

Effectiveness	Govt. school	Private schools	Total	%
Yes	8	7	15	25
No	12	13	25	41.67
Partly	10	10	20	33.33
Total	30	30	60	100

Above table shows that the existing accounting system of 15(25%) schools only display their transactions sufficiently and effectively. But existing accounting system of 25(41.67) schools cannot display their transactions. Similarly, existing accounting system of 20(33.33%) schools can partly display their transactions.

4.13 Audit of Accounts of School

Table no. 4.12: Audit of accounts

Audit	Govt. schools	Private schools	Total	%
Yes	25	18	43	61.67
No	5	12	17	38.33
Total	30	30	60	100.00

The above table shows that the majority of schools have their books of accounts audited. The number of schools, which has got books of accounts audited, is 43(61.67%). 17(38.33%) schools have not audited their books of accounts. It is found that most of the sole proprietorship private schools have not audited their books of accounts. It is found that only the partnership schools and the most of the government schools audit their books of accounts. Some government schools, which are registered under the trust, have not audited their books of accounts.

4.14 Audited Accounts are Different than Internal Unaudited Accounts

Table no.4.13: Audited Accounts are Different than Internal Unaudited Accounts

Different	Govt. schools	Private schools	Total	%
Yes	7	25	32	53.33
No	23	5	28	46.67
Total	30	30	60	100.00

The above table shows that most of the schools prepare two types of reports one is for internal and another is for auditing. According to above table, 32(53.33%) schools have prepared two different reports. They prepare two different reports so as to reduce the tax amount in case of private schools. And some government schools have also prepared the fake books of accounts with the aim of mis-utilizing the government fund. Similarly 28(46.67%) schools have been preparing the same books of account for internal and external purposes.

4.15 Availability of Information to Management

Table no.4.14: Availability of Information to Management

Information to management	Govt. schools	Private schools	Total	%
Yes	8	7	15	25
No	12	13	25	41.67
Partly	10	10	20	33.33
Total	30	30	60	100

From the above table it is seen that only 25(25%) schools feel that they have got the information from the present accounting system. Likewise most of schools i.e.25 (41.67%) schools feel that present accounting system is not enough to provide the information to management. Likewise 20(33.33%) schools feel that the existing accounting system only provides partly information to the management.

4.16 Purpose of Keeping Accounting

Table no.4.15: Purpose of accounting

Purposes	Govt. School	Private school	Total	%
To know about surplus and deficit	3	-	3	5.00
To know about the profit and loss amount	4	5	9	15.00
To know about he exact financial position	9	7	16	26.67
To know about the cash and bank balance after making payment.	3	8	11	18.33
To use it for multi purpose	11	10	21	35.00
	30	30	60	100.00

From the above table, we can see that out of 60 schools, 3 (5%) schools use the accounting records to know the result of surplus or deficit. Similarly, 9(15%) schools use the accounting records to know about the profit and loss amount. Likewise, 16(26.67%)schools use the accounting records to know the exact financial position of the school.11 (18.33%)schools use the accounting records to know the cash and bank balance after making payment for various purposes.21 (35%) schools use the accounting records to use it for multipurpose.

4.17 Educational Background of Accounting Staffs and their Contribution in Accounting System of the School

Table no. 4.16: Educational Background of Accounting Staffs and Their Contribution in Accounting System of the School

Accounting knowledge / Level of education.	Poor	Satisfactory	Good	Total
SLC	9	-	-	9
Intermediate	4	12	4	20
Bachelor	-	9	10	19
Masters	-	5	7	12
Total	13	26	21	60

From the above table, it shows that the higher the educational degree the accounting staffs have, the better they can keep the accounting system in the schools.

4.18 Training Received From Supportive Institutions

From the above table, it is clearly seen that out of the 60 schools, only 29 schools have approached by the supportive institutions. It means 48.33% schools have only been approached to the institutions from where their accounting staffs have taken accounting training. The majority of the schools have not taken the accounting training from the supportive institutions. It is clearly seen that 31(51.67%) schools are out of the training approach.

Table no.4.17: Training received from supportive institutions

Training received	Govt. schools	Private schools	Total	%
Yes	12	17	29	48.33
No	18	13	31	51.67
	30	30	60	100

It is found that most of the schools have taken accounting training from the private institutions such as computer training centers. But some schools have taken accounting training from the donor institutions such as training organized by NGO and INGO.

4.19 Method of Training

Table no. 4.18 : Method of training

Method of training	No. Of Trainee		Total Trainee	%
	Government schools	Private schools		
On the job	-	-	-	-
Off the job	12	17	29	100
Both	-	-	-	-
Total	12	17	29	100

We see that 29 participated in training. All of them are trained under off the job training. It means 100% are trained under off the job training.

4.20 Duration of Training

Table no. 4.19; Duration of training

Duration of training	No. of trainee		Total no of trainee	%
	Government school	Private schools		
One month	5	8	13	44.82
Three month	4	4	8	27.59
Six months	3	5	8	27.59
More than six months	-	-	-	-
Total	12	17	29	100

From the above table, out of the 29 trainees from both government and private schools, 13(44.82%) have taken short period training. Likewise 8(27.59%) trainee have taken three months training and similarly 8(27.59%0 trainee have taken six months training. So it shows that majority of participants has taken only short period training.

4.21 Educational Background of Accounting Trainees

Table no.4.20: Educational background of trainees

Level of education	No. of trainees		Total trainees	%
	Govt. schools	Private schools.		
SLC	2	1	3	10.34
Intermediate	8	5	13	44.82
Bachelor	2	8	10	34.48
Masters	2	1	3	10.34
Total	12	17	29	100

From the above table, it shows that the no of trainees and their educational background. Out of the accounting trainees, 3(10.34%) trainees have only

SLC, 13(44.82%) trainees have got intermediate level, 10(34.48%) trainees have got bachelor degree and 3(10.34%) trainees have got masters degree.

4.22 Accounting Knowledge Before Training

Table no.4.21: Accounting knowledge before training

Result	No of Trainee		Total no of Trainee	%
	Government School	Private Schools		
Yes	5	2	7	24.13
No	4	5	9	31.03
Partly	4	9	13	44.84
Total	13	16	29	100

From the above table, it is clearly seen that 9(31.03%) trainees did not have good accounting knowledge before taking the training program. And minorities of the trainees i.e. 7(24.13%) trainees have had good accounting knowledge before taking training. And 13(44.84%) trainees have got only partial accounting knowledge before accounting training. Some trainees have had good accounting knowledge just because of their higher education degree and their experience.

4.23 Changes in Accounting Pattern After Training

Table no.4.22 : Change in knowledge after training

Change occurs	No of trainee		Total no. of trainees	%
	Govt. schools	Private schools		
Yes	10	16	26	89.66
No	2	1	3	10.34
Total	12	17	29	100

From the above table, it is clearly seen that majorities of trainees' i.e.26 (89.66%) have improved their account keeping method after receiving training. And only the minorities of trainees i.e. 3(10.34%) have not changed their account keeping method. Those who have less educational background have not changed themselves in account keeping system due to lack of conceptual things related to subject matter.

4.24 Evaluation of Training

Table no.4.23: Evaluation of training

Classification	No of trainee		Total no of trainees	%
	Govt. schools	Private schools		
Very useful	6	11	17	58.62
Useful	4	5	9	31.03
Less useful	2	1	3	10.35
Total	12	17	29	100

From the above table, out of the total trainees, 17(58.62%) trainees said that training was very useful, 9(31.03%) trainees said that training was useful and 3(10.35%) trainees said that training was less useful. It is clearly seen that majority of the trainees said that training was useful.

4.25 Accounting Trainees, their Educational Background and their Efficiency in Account Keeping System before Training

Table no. 4.24: Before Training

Efficiency in accounting	Poor	Satisfactory	Good	Total
Level of accounting				
SLC	3	-	-	3
Intermediate	7	3	3	13
Bachelor	2	5	3	10
Masters	-	2	1	3
Total mixture	12	10	7	29
Their %	41.38	34.48	24.14	100

From the above table it is clearly seen that 12(41.37%) accountants have not maintained books of account of the schools properly. It means they do not have sufficient knowledge in book keeping. They are preparing it an inadequate form. Similarly 10(34.48%) accounting staffs have maintained books of accounts in satisfactory level before getting training. Likewise very fewer accounting staffs have maintained books of account properly before training. The trainees having high level of education have maintained it in good form.

4.26 Accounting Trainees, their Educational Background and their Efficiency in Account Keeping System after Training

Table no. 4.25 : After training

Efficiency in accounting / Level of accounting	Poor	Satisfactory	Good	Total
SLC	1	2	-	3
Intermediate	2	9	2	13
Bachelor	-	3	7	10
Masters	-	-	3	3
Total mixture	3	14	12	29
Their %	10.34	48.27	41.38	100

From the above table, we can see that after training, there has been occurred drastic change in accounting staffs upon their book keeping system. It is clearer from the given comparative table:

4.27 Comparative Study Before and After Getting Accounting Training

Table no.4.26: Comparative Study Before and After Getting Accounting Training

Accounting trainee	Poor	Satisfactory	Good	Total
Before training	12	10	7	29
After training	3	14	12	29
Before %	41.38	34.48	24.14	100
After %	10.34	48.27	41.38	100

From the above table, it shows that drastic change has occurred on the accounting staffs upon their book keeping system in the schools after training. 12 (41.38%) accounting staffs have had poor accounting skill before training, which is reduced to 3(10.34%) numbers after receiving training. Similarly there were 10(34.48%) accounting trainee who used to keep accounting in satisfactory level before training but they have increased their level up to 14(48.27%). 7(24.14%) accounting staffs have good accounting knowledge before training. And this level has been increased up to 12(41.38%). Due to the training, the accounting staffs having poor accounting skills have been able to shift themselves in upper level of accounting skills. It proves that the accountants who have higher educational background and received account training can keep accounting properly than those who have not high educational background and not received account training

4.28 Efficiency on Account Keeping System in the Schools

Table no.4.27: Trainee and non-trainee accounting staffs and their efficiency on account keeping system:

Types of accounting staffs	Good	Satisfactory	Poor	Total (Row)
Accounting trainee staffs	12	14	3	29
Non-trainee staffs	4	10	17	31
Total (Column)	16	24	20	60

From the above table, we can clearly see that the accounting staffs who have taken accounting training, have kept accounting better in comparison to those staffs who have not taken accounting training.

4.29 Conclusion Drawn with the Test of Hypothesis

This research has developed and tested the following three hypotheses. Let us check all of them one by one:

I. Hypothesis Test No.1

Table no.4.28: The necessary table for this hypothesis test is given below:

Accounting knowledge	Poor	Satisfactory	Good	Total
Level of education.				
SLC	9	-	-	9
Intermediate	4	12	4	20
Bachelor	-	9	10	19
Masters	-	5	7	12
Total	13	26	21	60

Null hypothesis (H_o): The account keeping system does not depend on the educational background (degree) of the accountants of the schools. In other words, there is no significance difference in account keeping system by level of education of accountants of the schools.

Alternative hypothesis (H_1): There is significant difference in account keeping system by the level of education of accountants. In other words the account keeping system depends on the educational background of the accountants.

Test Statistics:

Under H_0, the test statistic is,

[For calculation please see appendix no.1]

ℜ2= $[(0\text{-}E)^2/E]$=39.58[where O=observed frequency=Expected frequency]

Degree of freedom (d.f.)= (r-1)(c-1)=(4-1)(3-1)=3*2=6

Level of significance (~)=5a=0.05

Tabulated value of ℜ2 at 0.05 level of significance for 6 d.f. =12.59

Conclusion: Since calculated value of ℜ2 (39.59) is greater than tabulated value (12.59). So, it is significant and H_0 is rejected. It means h_1 (alternative hypothesis) should be accepted i.e. the efficiency in account bleeping system depends on the educational level (background) of the accountants of the schools.

(For calculation see appendix no.1)

ii. Hypothesis Test 2:

The necessary table for testing this hypothesis is given below:

Table no. 4.29: Trainee and non-trainee accounting staffs and their efficiency on account keeping system:

Types of accounting staffs	Good	Satisfactory	Poor	Total (Row)
Accounting trainee staffs	12	14	3	29
Non-trainee staffs	4	10	17	31
Total (Column)	16	24	20	60

2(a) **Null hypothesis (h_0):** There is not significant difference in accounting system maintained by accounting trainee and non –trainee staffs. In other words, the account keeping by trainees do not differed from the account keeping by non-trainee staffs.

2(b) **Alternative hypothesis (h_1):** There is significant difference in accounting system maintained by accounting trainee and non –trainee staffs. In other words, the account keeping by trainee differ from the account keeping by non-trainee staffs

Test statistic: Under H_O, the test statistic is

[For calculation please see appendix no.2]

ℜ2= $[(O-E)^2$ /E]=15.44 [where O=observed frequency=Expected frequency]

Degree of freedom (d.f.)=(r-1)(c-1)=(3-1)(2-1)=1*2=2

Level of significance =5%=0.05

Tabulated value of ℜ2 at 0.05 level of significance for 2 d.f. =5.991

Conclusion: Since calculated value of ℜ2 (15.44) is greater than tabulated value (5.991). So, it is significant and H_0 is rejected. It means h_1

(alternative hypothesis) should be accepted i.e. the account maintained by accounting trainee staffs differs than the account maintained by non-trainee accounting staffs of the schools.

iii. Hypothesis test No. 3:

The table needed for the third test is given below:

Table no.4.30: Comparative table

Accounting trainee	Poor	Satisfactory	Good	Total
Before training	12	10	7	29
After training	3	14	12	29
Before %	41.38	34.48	24.14	100
After %	10.34	48.27	41.38	100

3(a**) Null hypothesis (H0):** There is not significant difference in the accounting efficiency after training of the accounting staffs. In other words, the accounting efficiency of accounting trainees do not increase after receiving training.

3(b) **Alternate hypothesis (H1)**: There is significant difference in the accounting efficiency after training upon the accounting trainee staffs. In other words the accounting efficiency of accounting trainee is increased after training.

Test statistic: Under H_O, the test statistic is

[For calculation please see appendix no.3]

ℜ2= $[(O-E)^2$ /E]=6.98 [where O=observed frequency=Expected frequency]

Degree of freedom (d.f.)=(r-1)(c-1)=(3-1)(2-1)=1*2=2

Level of significance =5%=0.05

Tabulated value of ℜ2 at 0.05 level of significance for 2 d.f. =5.991

Conclusion: Since calculated value of χ^2 (6.98) is greater than tabulated value (5.991). So, it is significant and H_0 is rejected. It means h_1 (alternative hypothesis) should be accepted i.e. there is significant difference in the accounting efficiency after training upon the accounting trainee staffs. In other words the accounting efficiency of accounting trainee is increased after training

4.30 Major Findings of the Study

- Out of 60 schools (30 private and 30 govt. schools), 24(40%) schools have maintained proper accounting records and majority of schools i.e. 36(60%)schools have not maintained their accounts properly. It was also found that the private schools have been maintained their accounts properly than that of government schools.
- Out of 60 schools, 24(40%) schools have maintained their books of accounts under single entry book keeping system, 36(60%) schools have been kept their records under double entry book keeping system. And it was also found most the schools have maintained their books of accounts under either single entry or double entry system.
- It was found that owner of the schools in 25% of the schools are maintaining accounts. 15% of the schools have appointed only one accountant for keeping accounts. Similarly 5% of total schools have separate account department having more than one accountant for maintaining accounts.
- It was found that a large number of accountants i.e. 33.33% of account officers of Nepalese schools are having intermediate degree. Similarly, 15% of them are of SLC, 31.67%of them have got bachelor degree and 20% of them have got master degree.
- It was found that the private schools have more highly qualified accounting staffs than those of the government schools. It was also found that 20 of government schools have got highly qualified accountant where as 63.33%

of private schools have got highly qualified accounting staffs. Here highly qualified means the staffs having at least bachelor degree.

- It was also found that there are not any hard and fixed rules for appointing accounting staffs in government schools. The person having little bit knowledge of account has maintained the books of accounts. But in the private schools with strong financial background, have been appointed accounting personnel having high educational degree.
- 91.66% of schools prefer manual accounting system and only a few schools i.e. 8.34% schools kept their accounts through computerized accounting system.
- It was found that 46.66% of the schools have been maintaining their accounts on accrual basis. Similarly 53.34% of the schools have been maintaining their accounts on cash basis.
- Most of the schools are found to close their accounts annually i.e.50%
- It was found that all the schools have used the diminishing balance method for charging the depreciation against the assets.
- Most of the schools i.e. 58.33 % of the schools have performed their financial transactions through bank, 11.66% of the schools have performed their financial transactions on cash and 30% of the schools have used both cash and bank mediums.
- Only the fewer schools i.e.25% of schools are satisfied from existing accounting system.
- Even still, it was found that 38.33% of schools have not audited their books of accounts regularly.
- It was also found that the audited accounts are fake one. It was found that most of the schools have different books to record financial transactions.
- Even still, it was found that 41.67% of the schools have not got the sufficient information for decision making from the existing accounting system.
- The main purposes of keeping accounts by the schools are:
  - To know about surplus and deficit (for govt. schools)

    - To know about profit and loss during the particular period (for private schools)
    - To know about the exact financial position
    - To know about the cash and bank balance after making payment
    - For multi purpose use
- It was found that lack of the accounting knowledge forced the accountants to face problems. Only 48.33% of the schools have got trained accountants in book keeping. Generally most of them have got short-term training.
- It was found that the schools feel that accountants properly maintain the account keeping system after training.
- Major computerized accounting problems, faced by the schools, are:
    - Lack of suitable accounting software
    - Lack of knowledge to maintain computerized accounting system
    - Lack of proper support by the management to maintain account
    - Heavy initial cost of installing
    - Problems of data security etc.
- Major accounting problems regarding manual accounting system faced by the schools, are:
    - Lack of trained and qualified accountants
    - Lack of experienced accountants
    - Additional cost for keeping accounting records as no of books are to be purchased
    - Time consuming and inaccuracy
    - Difficult for calculating depreciation amount
    - Unable to get up-date –data from manual accounting at the time of decision making
    - Chances of wrong posting, wrong totaling and one sided posting etc.
- All the accounting staffs had taken accounting trainings from the computer institute nearby their schools by paying themselves. It means the schools had not given any subsidy for them

- It is also found that especially most of the private schools have not shown all the income head in their financial statements such as commission received from book selling, commission received from tie, belt, uniforms and stationery selling etc. From this type of hiding income heading which the schools have been doing regularly, the correct amount of tax can not be calculated.
- Similarly it is also found that some government schools have land in their ownership are let out to farmers against rent, but they are not showing that income in their income statement. This shows that they are manipulating of the income.

CHAPTER-FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

No study has been conducted on accounting system being practiced by the schools so far. So this study lacks of previous related studies in this area. So whatever have been found from the study, they have been mentioned systematically as far as possible.

The government of Nepal has given direction that all the private schools should be registered under the company act 2053 or under the trust or under the community basis. Most of the private schools are registered under the company act. It means they are business organization and they have to pay tax on taxable income. So, proper accounting system has to be maintained by them for the easy assessment of tax. The government is silent in case of this matter regarding schools. We know that, schools are service motive business organizations. Generally now a day, private schools have played a great role to uplift the educational status of the people by providing quality education. Of course, they are earning a huge amount of income from this service. So govt. can collect a huge amount of tax from the taxable income of private schools if the proper mechanisms are to set up. But it is seen that the government is silent and inactive for making proper mechanism of accounting system in the schools.

Like wise there are lots of government schools run under community and trust system. But this study has found that there is not good account keeping maintained for recording govt. funds systematically and scientifically. So the resources of govt. schools also have been misused.

Most of the accountants of both the government schools and private schools are not having training of accounting. They do not have high educational degree as well. It is found that only 41.38% schools have qualified and trained accountants. But the training costs were borne by the accountants themselves and they received their training from the local computer institute near by the schools. It means that there is still the need for giving accounting training both computerized and manual to all the accountants for getting the better result. Majority of schools are not satisfied from their existing accounting system as it has not been providing up-to-date information to the management at the needed time. Only few schools have adopted computerized accounting system and they have felt it very good than the manual accounting system as it helps to provide up –to-date financial information to the management at the time of their necessity. It is found that most of the schools have been performing all financial transactions through bank. It is also found that especially private schools are not showing all the income sources in their audited statements with a view to evade the tax amount.

5.2 Conclusion

Following conclusions are drawn on the basis of the study:

- ❖ Most of the accountants are having low educational degree. So, they are not able to maintain book-keeping system independently.
- ❖ Most of the accountants of private schools are compelled to keep the accounting as per the direction of the owner or partner or principal of school.
- ❖ Most of the schools lack of basic concept of accounting.
- ❖ Most of the schools are not maintaining all the records like income from sale of books, tie, belts, uniforms and stationery material.
- ❖ Government has not launched an extensive training program for improving accounting system in schools.
- ❖ The school management has not launched or provided training facility regarding accounting for the accountants.
- ❖ Accounting practices are not seen uniform in both government and private schools. It is varied from one school to another school due to the unavailability of national standards for schools.

- ❖ Government authority has not come for supervision in relation to the accounting system maintained by the schools.
- ❖ Most of the schools are not using computerized accounting .So they are not able to provide adequate information to the management at the time of necessity.
- ❖ The computerized accounting system is much better than the manual accounting system as computerized accounting system helps to save time, cost and labor .It also helps to provide up-to-date data and information to the management at the time of their necessity.
- ❖ Government is silent and inactive for introducing new model of accounting for the schools.

5.3 Recommendations

It is found that accounting system being practiced by the schools is not satisfactory. The main reason is non-trained and less qualified accountants of the schools. And other reason is that there has not been made any supervision form the concerned authority and has not lunched an extensive training program to the accountants for improving account keeping. The recommendations are given below:

Recommendations for Schools:

- ❖ It is found that most of the schools have non-trained and less qualified accountants. So it is advised to the schools to appoint highly educated and trained personnel.
- ❖ If accounting personnel are not trained, then the schools should provide the training opportunity by its own cost. It helps to enhance the knowledge of accountant.
- ❖ Schools are advised to adopt computerized accounting if possible as it saves time, cost and labor and also provides reliable and up-to-date financial information to the users at the time of necessity.
- ❖ Generally it is found that the accountant of schools will have to keep records as well as to teach .It diverts the minds of the accountants. So schools are advised to set up separate accounting departments for record

keeping and schools should not give the teaching burden to the accounting personnel.

- Most of the schools do not show all the income heads in their statements such as income received form the sale of books, stationery, uniforms, tie, belt etc. They are strongly recommended not to hide these incomes.
- Schools are advised to keep the detail records by following double entry book keeping principle.

Recommendations for Schools:

- It is found that most of the schools prepare non-detailed accounts due to the lack of knowledge to maintain account. So, the government should launch special program for importing accounting training.
- Government should design the standards forms and formats for recording detailed information and it should be implemented compulsorily in the schools.
- Government should make strong rules to be compulsorily followed by the schools for appointing the accountants.
- Government authority should supervise the schools regularly to find out whether they are maintaining books of account as per the given rules or not and to find out the problems associated in book keeping process.
- Government should conduct different seminars and programs to aware the accounting system is not only for compliance with law but it is for the performance development of the schools.
- Present awareness program appears to be insufficient .It should be extended very soon and appropriate model of accounting should be designed so that all the schools will understand. Side by side training and awareness program should be organized not only in Katmandu but also all over the nation.

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APPENDIX-1

Calculation of expected frequencies (E) and [O-E)^2/E] under 1(a) null hypothesis

Row, Column	Observed frequency	Expected frequency (E)=RT*CT/N	O-E	(O-E)^2	(O-E)^2/E
(1,1)	9	9*13/60=1.95	-7.05	49.7025	25.48
(1,2)	0	9*26/60=3.9	-3.9	15.21	3.9
(1,3)	0	9*21/60=3.15	-3.15	9.9225	3.15
(2,1)	4	20*13/60=4.33	-0.33	0.1089	0.025
(2,2)	12	20*26/60=8.66	3.33	11.0889	1.280
(2,3)	4	20*21/60=7.0	-3	9	1.285
(3,1)	0	12*13/60=2.6	-2.6	6.76	2.6
(3,2)	5	12*26/60=5.2	-0.2	0.04	0.007
(3,3)	7	12*21?60=4.2	2.8	7.84	1.86
					[O-E)^2/E]=39.58

APPENDIX-2

Calculation of expected frequencies (E) and [O-E)^2/E] under 1(a) null hypothesis

Row, Column	Observed frequency	Expected frequency (E)=RT*CT/N	O-E	(O-E)^2	(O-E)^2/E
(1,1)	12	29*16/60=7.33	-2.73	7.47	1.01
(1,2)	14	29*24/60=11.6	-2.4	5.76	0.49
(1,3)	3	29*20/60=9.66	-6.66	44.44	4.60
(2,1)	4	31*16/60=8.26	4.26	18.176	2.20
(2,2)	10	31*24/60=12.4	-2.4	5.76	0.46
(2,3)	17	31*20/60=10.33	7.33	53.72	5.20
					[O-E)^2/E]=62.47

APPENDIX-3

Calculation of expected frequencies (E) and [O-E)^2/E] under 1(a) null hypothesis

Row, Column	Observed frequency	Expected frequency (E)=RT*CT/N	O-E	(O-E)^2	(O-E)^2/E
(1,1)	7	29*19/58=9.18	-2.18	4.7524	0.52
(1,2)	10	29*24/58=3.6	6.4	40.96	11.38
(1,3)	12	29*17/58=8.21	3.79	14.3641	1.75
(2,1)	12	29*19/58=9.18	2.82	7.9525	0.87
(2,2)	14	29*24/58=3.61	10.39	107.9521	7.71
(2,3)	3	29*17/58=8.21	-5.21	27.1441	3.31
					[O-E)^2/E]=25.54

APPENDIX-4

Questionnaires

I have been conducting a research entitled **"Accounting system being practiced by schools in Nepal"** for the requirement of the degree of Masters in Business Studies. I would be grateful if you supply correct informations, desired below. These informations will be used only for academic purpose. Your help will be highly appreciated. Here are some questionnaires made for collecting the correct data and figures. So, please tick mark or fill in the blanks as per requirements. If you need, you may also use separate paper.

(1) Introduction of your school:

(a) Name of your school:………………………………….
(b) Address: ………………………………………………
(c) Telephone No;
(d) Date of establishment: ……………………………….
(e) Name of proprietor (if private school) or principal…………………
(f) Sex: (i) male ( ) (ii) female ( ) (iii) Age:………( )
Education:……………..
(g) Legal status of school: (i) Private Ltd. company( ) (ii) Trust( )
(iii) Community ( )
(h) Total capital investment: (i) Fixed capital.……………………………
(ii) Working capital…………………………
Total capital: Rs.………………………..
(i) Source of capital: (a) Equity (owner's capital): Rs. …………………...
(b) Debt. /borrowing capital: Rs. …………………...
Total capital: Rs. ……………………………
(j) Number of employees: (a) Male:………….. (b) Female:………

(2) Are there accounting records maintained in your school? (a) Yes ( )
(b) No. ( )

(3) Who maintains accounting records of your school?
(a) Principal ( ) (b) partner/owner ( )
(c) Accountant ( ) (d) separate account department ( )

(4) What is the degree of education of the person who maintains books of account in your school?
……………………………………………………………..

(5) Do you think the education degree of accountant affect the accounting system of school?
(a) Yes ( ) (b) No ( )

(6) Has your school been provided any accounting training to the accounting staffs?
Yes ( ) No. ( )

(7) If yes, which are the major supporting institutions that have approached you for training? **……………………………………………………………………..**

(8) What type of training method has your school been providing?

(a) On the job ( ) (b) Off the job ( ) (c) Both ( )

(9) What was the training duration?

……………………………………

(10) What was the knowledge regarding accounting system of trainee before training?

………………………………………………………………………………

(11) What sorts of changes have you found in trainee after training regarding accounting system of your school?

……………………………………………………………………..

(12) Could trainee maintain accounting record properly before training?

(a) Yes ( ) (b) NO.( )

(13) Could trainee maintain accounting record properly after training?

(a) Yes ( ) (b) No ( )

(14) What features in an accounting system you desired most?

……………………………………………………………………………….

(15) What type of accounting system has your school been using?

(a) Single entry book keeping system ( ) (b) Double entry book keeping system ()

(16) What is the accounting basis of maintaining accounts in your school?

(a) Accrual basis ( ) (b) Cash basis ( )

(17) How is account maintained?

(a) Manually ( ) (b) Computerized accounting system ( )

(18) Which means of accounting system do you feel easy to maintain and Why?

(a) Computerized accounting system is easy method for maintaining accounts because………………………………………………………………………

(b) Manual accounting system is easy method for maintaining accounts because……………………………………………………..

(19) What are the demerits of manual accounting system?

……………………………………………………………………………………..

(20) What are the demerits of computerized accounting system?

…………………………………………………………………………

(21) How are accounts closed in your school?

(a) Monthly (b) Quarterly (c) Semi-annually (d) Annually

(22) What are the major incomes and expenditures of the school?
a)Incomes: (i)……………………… (ii) …………. & so on.
(b)Expenditures: (i) ………………………………………
(ii) …………………………………………& so on.

(23) What are the major items of fixed assets in your organization?
(a) …………….(b) …………..(c)……………………..

(24) What is the method of charging depreciation in your school against the fixed assets?
(a) Fixed installment method (b) straight line method (c) others (please specify)

(25) Please attach the major books of accounts that you have been maintaining in your school along with the items to be recorded. Please if possible attach the specimen of each of them along with items to be included.

(26) Do present accounting system able to display transactions effectively and sufficiently?
(a) Yes ( ) (b) No ( )

(27) Do present accounting system provide the necessary information to the management for decision making?

(28) Does your school use the government prescribed forms of accounting or create as per necessity?
…………………………………………………………………………………

(29) What are the major accounting problems faced by your school?
(i)………………………………………………………..
(ii)………………………………………………………

(30) Why do you maintain books of accounts?
……………………………………………………………………………………
……………………………………………………………………………………

(31) Are books of accounts audited?
(a) Yes ( ) (b) No ( )

(32) If not then how could you pay tax to the government (in case of private school)?

(33) What suggestions would you like to give to the government in order to make accounting system better and easy?
……………………………………………………………………………………

“Thank you very much for your kind support”

S.N.	Name of the Schools	Address	Accepted level from DEO
1	Gyan Jyoti H.S. School	Birgunj	H. Secondary
2	Bcon Secondary School	Birgunj	Secondary
3	Mascot Academic school	Birgunj	Secondary
4	Adharsh Secondary School	Birgunj	Secondary
5	Kanchanjungha Sec. School	Birgunj	Secondary
6	MES Secondary School	Birgunj	Secondary
7	Jeevanjyoti Secondary School	Birgunj	Secondary
8	Mountadmond Secondary School	Birgunj	Secondary
9	Radha Devi Secondary School	Birgunj	Secondary
10	Birguj Public School	Birgunj	Secondary
11	Gautam Secondary School	Birgunj	Secondary
12	Holy Land Secondary School	Birgunj	Secondary
13	Gyandeeep Secondary School	Birgunj	Secondary
14	Vidhya Sagar Secondary School	Birgunj	Secondary
15	Kadambari Secondary School	Birgunj	Secondary
16	Delhi Public H.S. School	Birgunj	H. Secondary
17	GHP Secondary School	Birgunj	Secondary
18	Merigold Secondary School	Birgunj	Secondary
19	Angel Secondary School	Birgunj	Secondary
20	Manakamana Secondary School	Birgunj	Secondary
21	Vidhya Sadan Secondary School	Birgunj	Secondary
22	South Zone Secondary School	Birgunj	Secondary
23	Grace H.S. School	Birgunj	H. Secondary
24	Moonlight Secondary School	Birgunj	Secondary
25	Sunrise Secondary School	Birgunj	Secondary
26	Devdas Secondary School	Birgunj	Secondary
27	Miniland Secondary School	Birgunj	Secondary
28	Marigold Secondary School	Birgunj	Secondary
29	GyanVatika H. S. School	Birgunj	H. Secondary
30	Mothe land Secondary School	Birgunj	Secondary

APPENDIX-5

Name of 30 sampled of Private schools:

APPENDIX-6

Name of 30 sampled of Government schools:

S.N.	Name of the Schools	Address	Accepted level from DEO
1	Trijudh H.S. School	Birgunj	
2	Tribhuvan Hanuman S. School	Birgunj	
3	Maisthan Vidhyapit S. School	Birgunj	
4	Ratri Ma.V.	Birgunj	
5	Shree N.P.V. H.S. School	Birgunj	
6	Shree Siddhartha Sec. School	Birgunj	
7	Shree Panalal Secondary School	Birgunj	
8	Shree Kanya H.S. School	Birgunj	
9	Shree Narshingh Sec. School	Birgunj	
10	Shree Surji Devi Sec. School	Birgunj	
11	Shree Deepnarayan H.S.S	Panchgawa	
12	Gila Uchangal H.S. S	Pokhariya	
13	Bhoj Bhagat H.S. Secondary	Parwanipur	
14	Shree N. R. Secondary	Sedwa	
15	Shree N.R.P.V.	Parsauni Birta	
16	Shree Mangal Secondary School	Vishwa	
17	Shree Ajit I.S. School	Dhobini	
18	Shree N.R. Ma. Vidhyalay	Baderwa	
19	Shree Bito Mahato Janta Ma.V.	Nawkatola	
20	Shree N.R. N.Ma. Vidhyalay	Belwa	
21	Shree Dwar Devi S. School	Alau	
22	Shree Sarda S. School	Bahuwari	
23	Shree Vonesawor P. School	Itiahi	
24	Shree Janjati P. School	Birgunj	
25	Shree Nepal Rastriya School	Birgunj	
26	Shree Kali Prasad I.S. School	Langadi	
27	Shree Nepal Rastriya P. School	Dhobini	
28	Shree Ramjanki P. School	Belwa	
29	Shree Nepal Rastriya P. School	Deurwana	
30	Shree Nepal Rastriya P. School	Vediyahi	