ROLE OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NEPAL IN PROMOTION AND HARMONIZATION OF ACCOUNTING STANDARDS OF COMMERCIAL BANKS

By

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VIVA-VOCE SHEET

We have conducted the VIVA-VOCE examination of the thesis

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And found thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for the degree of Masters of Business Studies (MBS).

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This is to certify that the Thesis

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

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DECLARATION

I hereby declare that the work in this thesis entitled **ROLE OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NEPAL IN PROMOTION AND HARMONIZATION OF ACCOUNTING STANDARDS OF COMMERCIAL BANKS** submitted to Research Department, Bhairahawa Multiple Campus is my original work. It is in the form of partial fulfillment of the requirements for Masters of Business Studies (M.B.S.) under the supervision of Assistant lecturer Mr. Dhanishor Timalsina, Bhairahawa Multiple Campus.

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Jay Prakash Gupta

Researcher

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ABBREVIATIONS

A.I.C.P.A.	American Institute of Certified Public Accountants
A.S.B.	Accounting Standard Board
E.C.	European Commission
F.I.F.O.	First in First Out
G.A.A.P.	General Accepted Accounting Principles
H.B.L.	Himalayan Bank Ltd.
I.A.S.	International Accounting Standards
I.A.S.C.	International Accounting Standards Commission
I.C.A.N.	The Institute Of Chartered Accountants of Nepal
I.F.A.S.	International Federation of Accounting
I.T.	Information Technology
J.V.Bs	Joint Venture Banks
L.I.F.O.	Last in First Out
M.N.Es	Multinational Enterprises
N.A.S.	Nepal Accounting Standards
N.B.B.L.	Nepal Bangladesh Bank Ltd.
N.I.C.	Nepal Industrial and Commercial Bank
N.R.B.	Nepal Rastra Bank
N.T.U.C.	Nepalese Trade Union Confederation
S.O.R.P.	Statements of Recommended Accounting practices
U.I.T.F.	Urgent Issue Task Force
W.L.C.	World Confederation of Labor

CHAPTER ONE

INTRODUCTION

1.1 Background

Accounting standards framwork are solid principles for financial accounting and reporting developed through a strectured standards setting process and issued by a recognized standard setting body (ASB). Accounting standards spell out how transations and other events are to be recozined, measured,presented and disclosed in financial statements. The purpose of such standards is to meet the needs of users of financial statements by providing the information considered necessary to make informed decisions and help to have a globally uniform financial reporting on the defined sectors. We define disclosure as the value added statements or additional information given to cover stratgic business areas, which are less covered in the accounts. On the other hand, harmonization reduces the differences in accounting practices across countries ultimately resulting from a set of internationalnorms to be follwed worldwide.

This "harmonization" of accounting standards will help the Nepalese economy in the following ways: by facilitating international transactions and minimizing exchange costs by providing increasingly "perfect" information; by standardizing information to world-wide economic policy-makers; by improving financial markets information; and by improving government accountability. International investment decisions and financial-based management decisions are then made with less risk

Banks and other financial institutions are business units whose spectrum of user groups is extensive. Changes in the information provided in annual reports are even more strategic as they are exposed to many business risks resulting from a high volatility of their business environment.The micro and macro economic variablessuch as interst rates, exchange rates and inflation or price changes are strategic reporting areas. By transacting in exchange traded financial instruments (such as futures and options, swaps, forwards, and other custormized instruments), market participants are able to transform their risk exposures. In anticipation of movements in interest rates, exchange rates, indices of stock price or group of produces, and the price of various specific commodities, and risk exposures are even better transformed. For instance, if derivatives are suitably employed will enhance general economic welfare thus, creating risks transformations that are pragmatic and cost-effective. Regrettably, current external reporting requirments for financial assets and liabilities, and for derevatives, are not only deficient but also in consistent. The reporting requirments often coax firms not to hedge important risks exposures and, occasionally, to hedge accounting in place of economic impacts. Despite the presence of a basic thrortical insfrastructure for uniform reporting, Nepalese banks have different reporting practices. It has been inspired by the Nepalese community "one market" philosophy, a philosophy which has several of us skeptical about its effective apliacability in the banking sectors. It is regarded this sector as special, specially as it is involved in a more exposed uncertainity. The presence of a more special character (culture) has even increased our state of bewilderment as to whether identical reporting practice would ever exist given the cultural frontier that will never end within the market area. Because it is very complex to link cultural policy with economic policy.

It has addressed the process and practice of accounting harmonisation with a focus on the Nepalese community as a whole; noting existing cultural diversity on the one hand and company goals on the other hand could influence reporting standards a great deal. The focus has been on explaining whether one Nepalese banks' reporting policies and practices made the requirement of standards, in relation to the policy and practice of other banks' within the Nepalese community. The standards constitute a benchmark in veiw of the fact that is not just a recommendation but also a law binding on all banks state membership. The dimension that we described have cultural differences in both i.e. the industry and the country.

It has adopted the investigator perspective on the effects of intra-continental accounting differences on one market philosophy and seek to provide knowledge potentially relevant to regulators and accounting standards setters who are concerned with the effects of inter-bank accounting differences on the operations of the Nepalese internal market. We recognise the importance of banks and other financial institutions, in terms of their pivotal role in money markets having overall monetary and economic systems.

1.2 Forces and Pressures for Accounting Harmonization

The subject matter “Harmonization of disclosure practices” has been discussed and will continue to be discussed by different scholars, accounting body, researchers, government, and regulatory organisation as long as the need of all parties with interests in financial statements are not fully met. In order to meet the need of all, efforts have been applied to setting standards that will be internationally/continentally recognized and applied. The subject has a long history from when it was first handled, and has been an essentially political process with a veriety of organizations, both public and private, all of the having varying objectives, scope, and powers of enforcement. Different country group practising different accounting systems have distinctive and unique patterns, depending on the history and culture. If securities market were to continue to operate in an international perspective, no matter where the parent company is based, then investors and other users would prefer accounting standards to be harmonized for easy understanding and comparability.

Just as the words connote, “harmonization of accounting standards” can be defined as the continuous process of ensuring that the Generally Accepted Accounting Principles (GAAP) are formulated, aligned and updated to international best practices (GAAPs in other countries) with suitable modifications and fine tuning considering the domestic conditions.

Academicians, regulators and governments have been constantly striving to harmonize (i.e. to bring in line or match) the local/domestic Accounting Standards (AS), also referred to as Generally Accepted Accounting Principles (GAAP), with the International Accounting

Standards (IAS) issued by the UK based International Accounting Standards Board (IASB) (formerly the International Accounting Standards Committee-IASC).

The IASB has been trying to harmonize international accounting principles since 1973. Further, the IASB and the International Organization of Securities Commissions (IOSCO) have been jointly working on harmonization since July 1995, and in May 2000 the IOSCO finished its review of the IAS and recommended usage of certain IAS, supplemented with reconciliation, disclosure and interpretations. (Samir S. Mogul, p 681).

A harmonization of accounting policy would helps to provide a "level playing field" globally. Regulators and auditors will be receiving the same information facilitating the evaluation process. In the absence of free trade, international accounting standards will allow nations' tariffs, quotas and other trade restrain mechanisms to be more accurate and less risky for those engaged in trade .Investors and managers will be able to make decisions that are more valuable .World resources will better be managed and allocated. It is possible, due to their necessity, to have international accounting standards (IAS) harmonization. The following outlines the issues surrounding the development of these standards.

Apllication of accounting standards is equally important as their development. due to the relatively smaller size of Nepalease economy, the size of the business organazations in Nepal is predomenantly smaller. Application of accounting standards set for the organazations where the large no. of public investors are intersted or have other public interst; by small and medium sized organazation can not be practically expected to be in the full form. To address this gap, the board has been working onto develop a seperate and simplified set of accounting standards for small and medium sized entities. Further, the board has been entrusted by the goverment of Nepal to develop public sector accounting standards. As a first initiative towards this, the board the board is working on to develop cash basis accounting standards for public sector.

ASB is an independent statutory body with the responsibility to set and issue accounting standards for preparation and presentation of financial statements in Neplease prospective. ASB is primarilry responsible for settting accounting and financial reporting standards for business enterprises in line with the IFRSs- international financial reporting standards. Since 2007, ASB has also been entrusted by also Nepal Goverment with the resposibility to develop accounting standards for public sector lineup with the international public sector accounting standards-IPSASs.

Financial statement are prepared and presented for external users by many types of entities. Although, such financial statements may appear. Similar from entity to entity, there are differences which have been caused by the absence of a clear conceptual framework to guide the choices made by preparers and auditors. ASB is the committee to narrowing these differences by seeking to harmonize regulations, accounting standards, and procedures relating to the preparation and presentation of financial statements. It believes that further harmonization can best be pursued by focusing on financial statements that are prepared for the pupose of providing information that is useful in making economic decisions. Standards setters are in the process of eliminating differences in accounting techniques and methodologies.

Also, since most multinational firms are in the process of globalization, and because of the free moment of securities and other forms of investments, the integration of markets has brought about some covergence of accounting practices at the level of consolidated accounts of multinational enterprises (MNEs) listed on cross boader stock exchange market. Uniform disclosure, therefore, should established the possibility for financial information to be interpreted by any stakeholder, prospective shareholders, government and all other interested parties irregardless of location, to formed decision. A wide range of organization and user group have called for additional and more comparable information. Those who have been inactive support of international standard setting are government and international inter governmental organization, trade unions and employees, investors and financial analysts, bankers, lenders, creditors, accountants and auditors, and the general public.

1.3 An Introduction of the Sample Banks

There are 31 resistered commercial banks operating currently in Nepal upto 30 August 2011. All the banks are currently operating in Nepal under Nepal Rastra Bank Act, 2012 and Commercial Bank Act, 213.These banks providing significant banking services in Neplease market and all have sufficient paid-up capital as per NRB directives and Rastra Bank Act.

1. Nepal Bank Ltd.
2. Ratriya Banijya Bank.
3. Nep Ind & Com Bank Ltd.
4. Nep Cr & com Bank Ltd.
5. Nepal SBI Bank Ltd.,
6. Glabal Bank Ltd.,
7. Everest Bank Ltd.,
8. Kumari Bank Ltd..
9. KIST Bank Ltd..
10. Laxmi Bank Ltd...
11. DCBL Bank Ltd..
12. Himalayan Bank Ltd..
13. Nabil Bank Ltd
14. Nepal Investment Bank Ltd
15. Standard Chartered Bank
16. Nepal Bangladesh Bank Ltd
17. Bank of Kathmandu Ltd
18. Lumbini Bank Ltd
19. Machhapuchhre Bank Ltd
20. Kumari Bank Ltd

21. Siddhartha Bank Ltd
22. Agriculture Devt Bank Ltd
23. Citizens Bank Int'l Ltd
24. Prime Commercil Bank Ltd
25. Sunrise Bank Ltd
26. NMB Bank Ltd
27. Janata Bank Nepal Ltd
28. Mega Bank Nepal Ltd
29. Commerz and Trust B.Nep
30. Civil Bank Ltd
31. Century Comercial Bank Ltd

Out of these banks we have taken only sample of five commercial banks for the study. The brief introductions of five sample banks are explained as below;

1.3.1 Everest Bank Ltd.

Everest bank was established in 2051 BS. It started its opreation on 1st Kartik 2051. In the beginning, it had shared with United Bank of India Limited. But in 2053BS, United Bank Handed over its proportion of equity to Punjab National Bank Regarding the composition of equity capital Nepalese promoters, General public and Pundjab National Bank share 50 percent, 30 percent and 20 percent respectively, the technical sevice agreement signed between two banks, Punjab National Bank has been providing top management service and banking expertise to Everest Bank. Punjab National Bank has helped the bank operates with the objective of providing full range of quality banking service to both the business community and general people.

The bank has thirty five branches in various parts of the country; its head office is located in Lazimpat, Kathmandu. Other branches are in Baglung, Blaju, Besisahar, Bhairahawa, Bhaktapur, Biratnagar, Birgunj, Birtamode, Butwal, Chabahil, Dhangadi, Duhabi, Golfutar, Gwarko, ICD Dryport Birgunj, Itahari, Janakpur, Kritipur, Kusma, Lagankhel, Lazimpat, Lekhnath Branch, Maitidevi, Narayangath, Nepalgunj, New Road Pokhara, Pulchowk, Satangul, Simara, Surkhet, Teku, Thamel, Tulsipur.

The bank is using computerized banking technique. The software in the use is 'Pumori Plus'. It is going to launch Anywhere Branch Banking System through Wide Area Network, in near future. The branches within the valley provide their services from Sunday to Friday i.e. Six days a week. Apart from the conventional services, attractive services made available by the bank are listed below. Apart from conventional deposit schemes, it has offered cumulative dposit scheme, unfixed deposit scheme and recurring deposit plan.

Punjab National Bank (PNB), our joint venture partner (holding 20% equity in the bank) is the largest nationalized bank in India. With its presence virtually in all the important centers at India, Punjab National Bank offers a wide variety of banking services, which include corporate and personal banking, industrial finance, agricultural finance, financing of trade and international banking. Among the clients of the Bank are Indian conglomerates, medium and small industrial units, exporters, non-resident Indians and multinational companies. The large presence and vast resource base have helped the Bank to build strong links with trade and industry.

1.3.2 Global Bank Limited

It is a national level commercial bank promoted by highly prominent business personalities/groups & reputed individuals of the country who have excelled in their field of business/profession with very good integrity & social standings.

Under the guidance of reputed Board of Director and professional and dynamic management team having extensive with proven track-record in the banking industry. Global Bank is committed to offer a wide range of banking product and services tailored with the state-of-the-art technology to meet the unique requirement of all the customers/clients and thereby delight them by exceeding their expectation.

With a shared vision of "The Bank of all". Global Bank Team is committed to providing the quality products & service to its valued customers with utmost courtesy & care. We at Global Bank believe that delivery of quality product/service designed customized to best suit the customer need through continue research/development & innovation is between the customer & the bank. Hence, Global Bank Team pledge its commitment to always endeavor for delivery of innovative product/service to all the customers to best suit their requirements thereby ensuring the optimum benefit and value addition to the customer as well as to all other stock holders.

They believe that essence of success is team work and thus achievement of VMO is possible only when every member of the team contributes to their ability. Most importantly we consider all our business partners (clients) as a part of the team with whom we share our ideas/skills, learnt from each other & take the business relations to the greater heights so as to be mutually beneficial which will ultimately lead to the successful relationship.

1.3.3 Nepal Industrial & Commercial Bank Ltd.(NIC)

NIC Bank commenced its operation on 21July 1998 from Biratnagar Some of the prominent business houses of the country promoted the Bank It is the first commercial bank in the country to be capitalized at NPR 500 million with more than 34,000 shareholders "NIC Bank has an Authorized Capital of Rs. 1,600 million with paid-up capital of Rs. 1,311.55 million. The promoter group holds 51 percent of paid-up capital amounting to Rs. 668.89 and the public holds remaining 49 percent amounting to Rs. 642.66. The shares are listed with Nepal Stock Exchange", with current market capitalization of about NPR 10,493 billion as at the fiscal year ended 15th July 2010.

The Bank expanded its branch network to 29 different locations throughout the country stretching from the far western region, as at the fiscal year ended 15 July 2010. The bank has been consistently embarking on sustainable network expansion and has successfully added several new branches every year in strategic new locations. The bank plans to continue to grow its presence in newer locations this year as well. All branches are inter-connected through V-Sat and are capable of providing real-time-on-line-transactions.

NIC Bank was the first commercial bank in Nepal to have received ISO 9001:2000 certification for its Quality Management System standard in the year 2006. The Bank has recently been certified under the upgraded ISO 9001:2008 standards for the Bank's Quality System on Commercial Banking Activities for the first time in Nepal. Furthermore, NIC Bank became the first Bank in Nepal to be provided a line of credit by International Finance Corporation (IFC), an arm of World Bank Group under its Global Trade Finance Program, enabling the Bank's Letter of Credit and Guarantee to be accepted/ confirmed by more than 200 banks worldwide.

To add to these achievements, the Bank has also been awarded the "Bank of the Year 2007-Nepal" by the world-renowned financial publication of The Financial Times, U.K.-The Banker. This is the fruit of the Bank's outstanding performance backed by belief and support of its customers. The Bank is run by professionals and believes in the highest standards of corporate governance.

The Compounded Annual Growth Rate (CAGR) of the Bank for the last five years is one of the highest in the industry. This shows that the Bank's performance has been consistent over the duration of five years. Five year CAGR of key performance, indicators of the Bank are as under.The Bank believes in continuously offering new and value added services to its customers, with commitment to quality and value to its clients at the same time. Accordingly, the Bank has been in the forefront in launching innovative and superior products having unique customer friendly features with immense success.

1.3.4 Nepal SBI Bank Ltd. (NSBL)

It is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India (SBI), Employees Provident Fund (EPF) and Agricultural Development Bank Ltd. (ADBL) through a Memorandum of Understanding signed on 17th July 1992. NSBL was incorporated as a public limited company at the Office of the Company Registrar on April 28, 1993 under Regn. No. 17-049/50 with an Authorized Capital of Rs.12 Crores and was licensed by Nepal Rastra Bank on July 6, 1993 under license No. NRB/l.Pa./7/2049/50. NSBL commenced operation with effect from July 7, 1993 with one full-fledged office at Durbar Marg, Kathmandu with 18 staff members. The staff strength has since increased to 511. Under the Banks & Financial Institutions Act, 2063, Nepal Rastra Bank granted fresh license to NSBL classifying it as an "A" class licensed institution on April 26, 2006 under license No. NRB/I.Pra.Ka.7/062/63. The Authorized, Issued and Paid-Up Capitals have been increased to Rs. 200 Crores, Rs.186.93 Crores and Rs. 186.93 Crores, respectively. In terms of the ‘Technical Services Agreement’ concluded between SBI and the Bank, SBI provides management support to the bank through its 3 expatriate officers including Managing Director who is also the CEO of the Bank. A core management team viz. Central Management Committee (CENMAC) consisting of the Managing Director, Chief Operating Officer, Chief Financial Officer and Assistant General Manager(Credit) oversees the overall banking operations in the Bank. ADBL divested its stake in the Bank by selling its entire 5% promoter shares to SBI on 14th June, 2009. Consequently,the Bank's corporate status has undergone change from its previous status as a Joint-venture Bank to a Foreign Subsidiary Bank of SBI.Presently fifty five percent of the total share capital of the Bank is held by the SBI, fifteen percent is held by the EPF and thirty percent is held by the general public

1.3.5 Nepal Credit & Commerce Bank Ltd. (NCC Bank)

It is formally registered as Nepal - Bank of Ceylon Ltd. (NBOC), commenced its operation on 14th October, 1996 as a Joint Venture with Bank of Ceylon, Sri Lanka. It was the first private sector Bank with the largest authorized capital of NRS. 1,000million. The Head Office of the Bank is located at Siddhartha Nagar, Rupandehi, the birthplace of LORD BUDDHA, while its Corporate Office is placed at Bagbazar, Kathmandu.

The name of the Bank was changed to Nepal Credit & Commerce Bank Ltd., (NCC Bank) on 10th September, 2002, due to transfer of shares and management of the Bank from Bank of Ceylon, an undertaking of Government of Sri Lanka to Nepalese Promoters.

At present, NCC Bank provides banking facilities and services to rural and urban areas of the country through its 18 branches. The Bank has developed corresponding agency relationship with more than 150 International Banks having worldwide network.

The Bank is using Pumori Plus, the most commonly used software by Nepalese Banks. The Bank offers Any Branch Banking Service (ABBS) in all 18 branches. Telex and SWIFT are other modes of communication for efficient and effective transmission of information. In order to facilitate the customers with state of art technology, Bank is providing Debit Card facilities under the SCT (Smart Choice Technology) Network jointly in consortium with 40 other member Banks. This facility enables the customers to withdraw cash from any of the 167 ATM Terminals located at different parts of the country and to purchase goods from more than 743 shopping complexes and departmental stores under POS arrangement.

NCC Bank has strategic alliance with ICICI Bank, which facilitates our customers to remit their money to more than 670 locations of India through ICICI Bank branches and their correspondent Banks in India.

1.4 Statement of the Problems..

The ICAN has been involved in the harmonization or standardization of accounting and reporting standards as far back as the 1990s, in fulfillment of the company law harmonization. The Company Law Harmonization ensures that no country will be at a competitive disadvantage as a result of legal differences between countries in order to enhance Nepalese integration. In contrast to the recommendations of UN, any agreement that takes the form of a “Directive” has the force of law through out the community’s countries as each country has the obligation to incorporate such a “Directive” into its respective naitonal law.

A good initiative of this type is not observed, as varying reporting policies and practices exist among MNEs. The quest and effort for uniform reporting of banks is ongoing. In June 2008, the ICAN had a special session in Kathmandu recommending banks and similar financial institutions to provide enhanced disclosure of theri activities in financial instruments and other similar instruments owing to the banks’significant role in the financial markets and in the overall monetary and economic system. Although the ICAN recommendation does not make it obligatory to disclose confidential or proprietary information, the commission identifed the need for banks and other financial institutions to provide the public with information that is sufficiently comparable for the smooth functioning of the internal Nepalese market. As per the ICAN’s specifications, each bank’s disclosure statement show contani a wide range of financial and other information, in relation to the bank itself and its banking group. These laws were obviously made to be followed. They were made because the parties (Standard Setters) drawing them had some objectives to attain.

a. Whether accounting standards have positive relation with uniform reporting system in Nepalese commercial Bank
b. What is the contribution of ICAN in promotion and regulation, the activities of Nepalese commercial Bank?
c. What is the trend structure of accounting standard of Nepalese commercial Bank?
d. What are the emerging problems relating to apply accounting standard to Nepalese commercial Bank?
e. Is the valuation process of ICAN is scientific in Nepalese commercial Bank?
f. Are the provision made by the ICAN are sufficient to monitor the accounting activities of Nepalese commercial Bank?
g. Is it justifiable to impose bindness of accounting standard Nepalese commercial Bank?
h. Is the ICAN provides a reasonable contribution in public service?
i. Whether ICAN is effective in promotion and harmonization of accounting standards in Nepalese commercial sectors?

j. What extent the standards are relevant so far as the present prospective is concerned?

1.5 Objectives of the Study:

The core objective of this study is to identify any discrepancy in financial reporting practices among Nepalese Commercial Banks, using the Nepalese Accounting Standard as a benchmark.

The study has some significant objectives as:

a) To review the role of ICAN about uniform financial reporting system within Nepalese Commercial Banks.
b) To study and evaluate the implementation of accounting process in selected commercial Banks.
c) To find the problem in implementation accounting standard of selected commercial Banks.
d) To identify the divergence existing between theory and paractice on financial reporting of the banks under study.
e) To suggest the related orgainzations on the basis of study findings

1.6 Significance of the Study

Our readers, especially standard setters, may find the results useful in formulating and adapting starategies for revising existing standards. We also intended to open some problem areas for future research in order to widen the focus of knowledge, as demonstrated in existing literature. So it is pertinent to conduct a study regarding the role of standard setters in promotion and harmonization of such standards.

1.7 Limitation of the Study

The study covers judgementally selected five small samples which is based on secondary data. Therefore, the reliability of the study depends upon the accuracy of the provided published and general report documents. Variations in the data itself are also found when comparing with different sources. It is still subject to the following limitations in brief. The main limitations are as follows,

a. This study has performed in limited time and resources.

b. Whether the primary data are sufficient and reliable, but mostly secondary data examined.

c. The selected sample from various reports and booklets are based on Nepalese context.

d. All subjects or respondents are those management graduates that are working in the banks or in the institute.

e. It focuses on theoretical aspects of accounting standard and does not cover other aspects.

1.8 Organization of the Study

The organization of the study has broadly been dividing into five chapters:

***Chapter** 1*- Introduction-It deals about focus of the study, statement of the problems, objective of the study, research hypothesis, limitations, introduction of sampled banks and chapter schemes.

Chapter 2- Review of Literature-This chapter deals about concept of banks, concept of commercial banks, concept of joint venture banks, role of joint venture banks, a profile of joint venture banks in Nepal, concept of financial analysis, financial performance analysis of bank and relevant study through. Review of relevant study will include the objectives set by different researchers in similar field of study.

Chapter 3- Research Methodology-It includes with research design, population and sample source of data, data collection procedure, data processing and method of data analysis used in the study.

Chapter 4- Data Analysis and Presentation- This chapter analyzes the accounting policies and practices by the help of available accounting policies.

Chapter 5- Summary Conclusion and Recommendation- It summarize the result of analysis and offers suggestive framework.

CHAPTER TWO

REVIEW OF LITERATURE

2.1 Background

Scientific research must be based on past knowledge. The previous studies cannot be ignored because they provide the foundation to the present study. Literature review is basically a 'stock taking' of available literature in one's field of research. In this part of the work, it has examined the meta- theoretical foundation of authors' works relevant to our topic. In the process, it is summarized the main ideas and theories discussed in contemporary literature within the world of our topic. It is also assessed its evolution by citing earlier writing using both textbooks and journals. Both sources have helped us to improve knowledge on harmonization and practices, by looking at the insights in the state of current knowledge. We have identified the gaps, contradictions, inconsistencies and relations in existing literature on harmonization and disclosure, which of course has greatly influenced our perception and work. Below is a discussion of the relevant literature.

2.2 Reporting Policies and Practices Vs Regulations

Company culture; laws and regulations; and the international business environment influence companies reporting policies and practices. The company's culture stems from the corporation's objectives, especially its reporting motives. A company that targets customers adopts a reporting sprit that fills its annual reports with customer's oriented information. A company that targets investors prepares information to meet investors' needs. The modern corporate annual report has become a major tool for promotion by large listed companies. "Poorly packaged, statute-driven accounts are increasingly being replaced by a professionally designed glossy brochure in which the financial statements seem to play only a supporting role.

Photographs, graphs and text are often prominently presented at the front, with the balance sheet, income statement and notes to the accounts being regulated to the back. The annual report has become a part of corporate public relation which gives us a clear picture. This attitude of concentrated decorative reporting impairs harmonization a great deal. Information disclosure is made available in the report where they are suitable for the interest of the company and not necessarily for those who policy that to some extent deviates from national laws. They sometimes prepare two seats of accounts, one using the national and the other in accordance with the international standards. In order to reduce the cost of capital, most firms give information even beyond the recommendation of national laws. However, many argue that the compelling evidence indicates more disclosure results to more liquid markets. The perception that the greatest disclosure leads to lower cost of capital is true only when public disclosure governed by cost of capital considerations, given that the existence of information asymmetries in securities markets may ameliorate the cost of capital during disclosure, thereby providing an economic basis for evaluations of costs and benefits of accounting information. His arguments was counteracted that public disclosure requirements tend to increase trading costs that, in turn affects listing decisions of corporate ‘insiders’ and allocation of liquidity flow.

Trading is usually concentrated on highly disclosed exchanges as exchanges try to outperform each other. Therefore, to maximize trading volume and lower trading costs, corporate ‘insiders’ give away important information to disguise their trades. Despite the above argument, it is a popular view that the issue of disclosure practice much influenced by the culture and needs of the banks, rather than the legislative requirements. This research adds to their earlier perception that the size of the business unit is another significant determinant of reporting practice. It is obvious that the size of the firm has a positive correlation with the level of disclosure.

2.3 Overview of Nepalese Accounting Standards

2.3.1 Objective of NAS

The main aim of Nepalese Accounting Standards is to have uniform reporting of the financial statements. This Standard is also to prescribe the basis of presentation of general-purpose financial statements, to ensure comparability both with the entity’s financial statements of previous periods and with the financial statements of other entities. To achieve this objective, this standards sets out overall consideration for the presentation of financial statement guidelines and their structure and minimum requirements for their contents. The recognition measurement and disclosure of specific transactions and events are dealt with in other Nepal Accounting Standards.

2.3.2 Application (Scope) of Nepalese Accounting Standards

These standards shall be applied to all general-purpose financial statements prepared and presented in accordance with Nepal Accounting Standards. General-purpose financial statements are those intended to meet the needs of users who are not in a position to demands reports tailored to meet their specific information needs. General-purpose financial statements include those that are presented separately or within another public document such as an annual report or a prospectus. This standard does not apply to the structure and content of condensed interim financial information.

This standard applies to the financial statements of individual entities and to consolidated financial statements for a group of entities. However, it does not preclude the presentation of consolidated financial statements complying with Nepal Accounting Standards and financial statements of the parent company under national requirements within the same documents, as long as the basis of preparation of each clearly disclosed in the statements of accounting policies. This standard applies to all companies including Public Sector Business Entities. This standard usages terminology that is suitable for an entity with a profit objective. Public sector business entities shall therefore apply the requirements of this standard. Non-profit, government and other public sector entities seeking to apply these standards may need to amend the descriptions used for certain line items in the financial statements and for the financial statements themselves. Such entities may also present additional components of the financial statements (NAS 01).

2.3.3 Purpose of Financial Statements

Financial statements are a structured representation of the financial position of and the transactions undertaken by an entity. The objective of general-purpose financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of management’s stewardship of the resources entrusted to it. To meet this objective, financial statements provide information about entities;

a) Flows Assets

b) Liabilities

c) Equity

d) Income and expenses, including gains and losses

e) Other changes in equity and

f) Cash.

This information, along with other information in the notes to financial statements, assists users in predicting the entity's future cash flows and in particular the timing and certainty of the generation of cash and cash equivalents.

2.3.4 Responsibility for Financial statements

The board of director and/or other governing body of an entity is responsible for the preparation and presentation of its financial statements.

2.3.5 Components of Financial statements

A complete set of financial statements includes the followings compo- nents;

a) a balance sheet;

b) an income statement;

c) a statement of changes in equity showing either:

i. all changes in equity, or

ii. changes in equity other than those arising from transactions with equity holders acting in the capacity as equity holders;

d) A cash flow statement; and

e) Notes, comprising a summary of significant accounting policies and other explanatory notes.

Entities are encouraged to present, outside the financial statements, a financial review by management, which describes and explains the main features of the entity's financial performance and financial position and the principal uncertainties it faces. Such a report may include a review of the main factors and influences determining performance, including changes in the environment in which the entity operates, the entity's response to those changes and their effects and the entity's policy for investment to maintain and enhance performance, including its dividend policy.

a) The entity's source of funding, the policy on gearing and its risk management policies; and

b) The strengths and resources of the entity whose value is not reflected in the balance sheet under Nepal Accounting Standards.

Many entities present, outside the financial statements, an additional statement such as environment repots and value added statements, particularly in industries where environment factors are significant and when employees are considered an important user group. Entities are encouraged to present such additional statement if management believes they will assist in making economic decisions.

The following terms are used in this standard with the meanings specified:

i. **Impracticable;** Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. Nepal Accounting Standards are standards adopted by the Nepal Accounting Standard Board.

ii. **Material Omission or Commission;** of items are material if they could, individually or collectively; influence the economic decisions of users taken based on the financial statements. Materiality depends on the size and nature of omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor. Notes contain information in addition to that presented in the balance sheet, income statement, statement of changes in equity and cash flow statement.

iii. **Notes;** provide narrative descriptions or desegregations of items disclosed in those statements and information about items that do not qualify for recognition in those statements. Assessing whether an omission or misstatement could influence economic decision of users and so the material, requires consideration of the characteristics of those users. The frameworks for the preparation and presentation of financial statements states that 'users are assumed to have a reasonable knowledge of business economic activities, accounting and a willingness to study the information with reasonable diligence'. Therefore, the assessment needs to take into account how users with such attitudes could reasonably be expected to be influenced in making economic decisions. Overall consideration fair presentation and compliance with Nepal Accounting Standards financial statements shall present fairly the financial position, financial performance and cash flows of the entity (NAS 01).

The appropriate application of Nepal Accounting Standards, with additional disclosure when necessary, results, in virtually all circumstances, in financial statements that achieve a fair presentation. Any entity whose financial statements comply with Nepal Accounting Standards shall disclose that fact. Financial statements shall not be describe as complying with Nepal Accounting Standards unless they comply with all the requirements of each applicable standards. Inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used or by notes or explanatory material, an entity shall disclose:

a) That management has concluded that the financial statements fairly present the entity's financial position, financial performance and cash flows.

b) That it has complied in all material respects with applicable Nepal accounting Standards, except that it has departed from a standard in order to achieve a fair presentation.

c) The standard from which the entity has departed, the nature of the departure, including the treatment that the standard would require, the reason why that treatment would be so misleading in the circumstances and the treatment adopted, and

d) The financial impact of the departure on the entity's net profit or loss, assets, liabilities, equity and cash flows for each period presented

In order to ensure that financial statements that state compliance with Nepal accounting Standards will meet the standard required by users, this standard includes an overall requirements that financial statements shall give a fair presentation, guidance on how the fair presentation requirement is met and further guidance for deterring the extremely rare circumstances when a departure is necessary. It also requires prominent disclosure of the circumstances surrounding a departure. In virtually all circumstances, a fair presentation is achieved by compliance in all material respects with applicable Nepal Accounting Standards. A fair presentation also requires,

a) Selecting and applying an accounting

b) Presenting an information, including accounting policies, in a manner which provides relevant, reliable, comparable and under stable information, and

c) Providing additional disclosures when the requirements in Nepal Accounting Standards are insufficient to enable the users to understand the impact of particular transactions or events on the entity's financial position and financial performance.

In extremely rare circumstances, application of specific requirements in a Nepal Accounting Standards might results in misleading the financial statements. This will be the case only when the treatment required by the standard is clearly inappropriate and thus a fair presentation could be achieved neither by applying the standard nor through additional disclosure alone. Departure is not appropriate simple because another treatment would also give a fair presentation. While assessing whether a departure from a specific requirement in Nepal Accounting Standards is necessary, consideration is given to;

a) The objective of the requirement and why that objective is not achieved or is not relevant in the particular circumstances, and

b) The way in which the entity's circumstances differ from those of other entities, which follow the requirements.

2.4 Accounting Policies

Management shall select and apply an entity's accounting policies so that
the financial statements comply with all the requirements of each applicable Nepal Accounting Standard. When there is not specific requirement, management shall develop policies to ensure that the financial statements provide information that is,

a) Relevant to the decision-making needs of users, and

b) Reliable in that they,

i. represent faithfully the results and financial position of the entity,

ii. reflect the economic substance of events and transactions and not merely the legal form,

iii. are neutral that is free from bias,

iv. are prudent , and

v. are complete in all material respects.

In the absence of a specific Nepal Accounting Standards, managements shall, whenever practicable, adopt the relevant international accounting standard and use its judgment in developing an accounting policy.

2.4.1 Going Concern:

When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. Financial statements shall be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessments, of material uncertainties related to events or conditions, which may cast significant doubts upon the entity's ability to continue as a going concern, those uncertainties, be disclosed. When financial statements are not prepared on a going concern basis, that fact should be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not considered as a going concern.

2.4.2 Accrual Basis of Accounting

An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting. Under the accrual basis of accounting, transaction and events are recognized when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate. Expenses are recognized in the income statements based on a direct association between the cost incurred and the earning of specific items of income (matching). However, the application of the matching concept does not allow the recognition of items in the balance sheet, which do not meet the definition of assets and liabilities.

2.4.3 Consistency of Presentation

The presentation and classification of items in the financial statements shall be retained from one period to the next unless:

a) Significant change in the nature of operations of the entity or a review of its financial statement presentation demonstrates that the change will result in a more appropriate presentation of events or transactions; or

b) Nepal Accounting Standard requires a change in presentation. A significant acquisition or disposal, or a review of the presentation of the financial statements, might suggest that the financial statements need to be presented differently.

2.4.4 Materiality and Aggregation

Each material item shall be presented in the financial statements. In material amounts shall be aggregated with amounts of a similar nature or function and need not be presented separately. Financial statement results from processing large quantities of transactions that are structured by being aggregated in groups in accordance to their nature or function. The financial stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items on the face of the financial statements or in the notes. If a line item is not individually material, it is aggregated with other items either on the face of financial statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of financial statements may nevertheless be sufficiently material that it shall be presented in the notes. Materiality provides that the specific disclosure requirements of Nepal Accounting Standards need not be met if the resulting information is not material.

2.3.5 Offsetting

Assets and liabilities, income and expenses, shall not be offset except when offsetting is required or permitted by another Nepal Accounting Standards. It is important that assets and liabilities, and income and expenses, when material, be reported separately. Offsetting in either the income statement or the balance sheet, except when offsetting reflects the substance of the transaction or events detracts from the ability of users both to understand the transactions undertaken and to assess the future cash flow of the entity. The reporting of assets net of valuation allowances, for example obsolescence allowances on inventories and doubtful debts allowances on receivables, is not offsetting.

Revenue is to be measured at the fair value of the consideration received or receivable, taking into account the amount of any trade discounts and volume rebates allowed by the entity. An entity undertakes, in the course of its ordinary activities, other transactions which do not generate revenue but which are incidental to the main revenue-generating activities. The results of such transactions are presented, when this presentation reflects the substance of the transaction or other event, by making net any income with related expenses arising on the transaction.

For example:

a) Gains and losses on the disposal of non-current assets, including investments and operating assets, are reported by deducting from the proceeds on disposal the carrying amount of the assets and related selling expenses: and

b) Expenditure that is reimbursed under a contractual arrangement with a third party (a subletting agreement; for example) is netted against the related reimbursement and in addition, gains and losses arising from a group of similar transactions are reported on a net basis, for example, foreign exchange gains and losses or gains and losses arising on financial instruments held for trading purposes. Such gains and losses are, however, reported separately if their size, nature or incidents are such that Nepalese Accounting Standard (NAS), Accounting policies, changes in Accounting Estimates and Errors, require separate disclosure.

2.4.6 Comparative Information

Except when a Nepalese Accounting Standards permits or requires otherwise, comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

In some cases, narrative information provided in the financial statements for the previous period(s) continuous to be relevant in the current period. When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified unless it is impracticable. When comparative amounts are reclassified, an entity shall disclose:

a) The nature of the reclassification;
b) The amount of each item or class of item that is reclassified; and
c) The reason for the reclassification

When it is impracticable to rectify comparative amounts, an entity shall disclose:

a. The reason for the reclassifying the amounts; and
b. The nature of the adjustments that would have been made if the amounts had been reclassified.

Circumstances may exit when it is impracticable to reclassify comparative information to achieve comparability with the current period.

2.4.7 Business Entity

For accounting purpose, a business is treated as a separate entity. It is distinct from its owners and all other economic activities. Under this concept, it is assumed that, the business enterprise exists its own rights. The affairs of the business should not be mixed up with the private affairs of owners or other persons associated with it. A true picture of the financial condition of a business enterprise can be represented with the help of this concept.

2.4.8 Money Measurement

All business transactions are expressed in terms of money. This assumption is supported because the monetary unit is relevant, simple and understandable. Those transactions that cannot be expressed in terms of money, cannot be recorded, therefore they should be ignored.

2.4.9 Accounting Period

This is also knows as periodic assumption or rime period assumption. According to this assumption, the economic life is dividing into different periods for preparing financial statements. Usually, a period of 365 days or 52 weeks is considered as the accounting period. Sometimes, half-yearly or quarterly period is also taken in to consideration. This concept is more helpful to:

a) The valuation of assets and liabilities

b) Relevant a clear demarcation of accrued or deferred items of income and expenses

c) Determine profit and loss

d) Present true and fair view of financial position.

2.4.10 Revenue Realization

This principal states that revenue is considered as earned on the date when it is realized. The revenue is realized by the amount charged for goods sold or service rendered to the customers. The revenue realized during an accounting period should only be included in Income Statement. For example, either goods sold for cash or credit to customers is taken as realizable income. Nevertheless, order received from a customer cannot be taken as realized income.

2.4.11 Cost Principal

The transactions and events of the business are to be recorded at the amounts actually received or spent. It is also called as a historical cost principle. Most assets and liabilities are recorded in the books of accounts at the cost of acquisition. These assets and liabilities are not recorded in current market price. It is reliable, verifiable and definite. It is closely related to “Going Concern concept”.

2.4.12 Matching Principle

This concept is very helpful for the correct determination of profit or income. According to this concept, only expenses incurred in generating periodic revenues should be deducted from those revenues to derive the amount of periodic income. Those expenses are to be taken only as expense, which can generate revenue in the current accounting period. The expenditure incurred for generating revenue in the future should be taken as expenses for current periods. If it is put equation, it is:

Profit for Current Year=Revenue of Current Year- Expenses Incurred for Current Year.

The relation of cost to revenue is called matching principal process. Under this principle, the cost of fixed assets should not be taken as cost. Similarly, prepaid expenses are excluded from the total cost and outstanding expenses are included in the total cost.

2.5 Structure and Contents

2.5.1 Introduction

This standard requires certain disclosure on the face of the financial statements, requires other line to be disclosed either on the face of financial statements or in the notes, and sets out recommended formats are described in the as an appendix to the Standard which an entity shall follow as appropriate in its own circumstances. NAS 03 provides a structure for the presentation of the cash flow statement. These formats show the minimum disclosure requirements. Banking and finance companies registered under Bank and Financial Institution Act, 2063; Insurance Companies registered under Insurance Board Act, 2049(second amendment 2059) and other entities registered under Company Act,2063 shall present the financial statements in accordance with the requirements prescribed by their respective regulatory authorities.

In addition to the requirements of the respective regulatory authority, all the said entities shall attach therewith a statement of changes in equity in a separate schedule as prescribed in Appendix. This standard sometimes uses the term ‘disclosure’ in a broad sense, encompassing item presented on the face of each financial statement, as well as in the notes to the financial statements. Disclosures required by other Nepal Accounting Standards are made in accordance with the requirements of those standards. Unless this or another standard specifies to the contrary, such disclosures are made either on the face of the relevant financial statement or in the notes (NAS 01).

2.5.2 Identification of the Financial Statements

The financial statements shall be clearly identified and distinguished from information in the same published document. Nepal Accounting Standards apply only to financial statements (which includes the notes thereto), and not to other information presented in an annual report or other document. Therefore, it is important that users are able to distinguish information that is prepared using Nepal Accounting Standards from other information, which may be useful to users but is not the subject of standards. Each component of the financial statements shall clearly be identified. In addition, the following information shall prominently be displayed, and repeated when it is necessary for a proper understanding of the information presented:

a) The name of the reporting entity or other means of identification, and any change in that information from the preceding balance sheet date;

b) Weather the financial statements cover the individual entity or group of entity;

c) The balance sheet date or the period covered by the financial statements, whichever is appropriate to the related component of the financial statements;

d) The reporting currency; and

e) The level of precision used in presentation of figures in the financial statements.

The requirements are normally meet by presenting page headings and abbreviated column headings on each page of the financial statements. Judgment is required in determining the best way of presenting such information. Financial statements are not often made more understandable by presenting information in thousands of units of the reporting currency. This is acceptable as long as the level of precision in presentation is disclosed and relevant information is not lost.

2.5.3 Reporting Period

Financial statements shall be presented at least annually. When, in exceptional circumstances, an entity's balance sheet date changes and the annual financial statements are presented for a period longer or shorter than one year, an entity shall disclose the following things, in addition to the period covered by the financial statements;

a) The reason for a period other than one year being used; and

b) The fact that comparative amounts for the income statement, changes in equity, cash flow and related notes are not comparable.

Normally, financial statements are consistently prepared covering a one year period. However, for practical reasons, some entities prefer to report, for example, for a 52-week period. This standard does not preclude this practice, because the resulting financial statements are unlikely to be materially different from those that would be presented for one year (NAS 01).

2.6 Balance Sheet

2.6.1 The Current/Non-current Distinction

An entity shall determine, based on the nature of its operations, whether or not to present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its balance sheet. This standard is applied when distinction is made. When an entity chooses not to make this classification, assets and liabilities shall be presented broadly in order of their liquidity.

Whichever method of presentation is adopted, an entity shall disclose, for each assets and liability line item that combines amounts expected to be recovered or settled both before and after twelve months from the balance sheet date, the amount expected to be recovered or settled after more than twelve months. When an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities on the face of the balance sheet provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long- term operations. It also highlights assets that are expected to be realized within the current operating cycle, and liabilities that are due for settlement within the same period. In applying Accounting Standards, an entity is permitted to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when this provides information that is reliable and is more relevant.

2.6.2 Current Assets

Assets are classified as current assets when it satisfies any of the following criteria:

a) It is a expected to be realized in or is held for sale or consumption in the normal course of the entity's operating cycle; or

b) It is held primarily for the trading purposes of for the short – term and expected to be realized within twelve months of the balance sheet date; or

c) Is cash or a cash equivalent asset which is not restricted in its use for at least twelve months after the balance sheet date? All Other Assets shall be classified as Non - Assets

2.6.3 Current Liabilities

A liability shall be classified as a current liability when it satisfies any of the following criteria;

a) It is expected to be settled in the normal course of entity's operating cycle; or

b) It is held primarily for the purpose of being trade.

c) It is due to be settled within twelve months of the balance sheet date or

d) The entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date. All Other Liabilities shall be classified as Non-Current Liabilities

2.6.4 Information to be presented on the Face of the Balance Sheet

As a minimum, the face of the balance sheet shall include line items, which present the following amounts:

a) Property, plant and equipment

b) Intangible assets

c) Financial assets (excluding amounts shown under (d) , (f) and (g)

d) Investments

e) Inventories

f) Trade and other receivables

g) cash and cash equivalents

h) Trade and other payables

i) Tax liabilities

j) Provisions

k) Non - current interest -bearing liabilities and other long-term liabilities

l) Where consolidated financial statements are prepared, minority interest and

m) Issued capital and reserves.

Additional line items, headings and subtotals shall be presented on the face of the balance sheet when a Nepal Accounting Standard or the format prescribed by regulatory authority requires it, or when such presentation is necessary to present fairly the entity's financial position. This standard prescribes the order or format in which items are to be presented.

In addition to this, line items are added when another Nepal Accounting Standards or prevailing laws requires separate presentation on the face of the balance sheet, or when the size, nature or function of an item is such that separate presentation would assist in presenting fairly the entity's financial position; and the descriptions used and the ordering of items may be amended according to the nature of the entity and its transactions, to provide information that is necessary for an understanding of the entity's financial position. Bank and financial institution amends the above descriptions in order to apply more specific description as required (Nepal Rastra Bank's Directives, July 2011).

The line items are broad in nature and need not be limited to items falling within the scope of other standards. For example, the line item intangible assets include goodwill and assets arising from development expenditure. The judgments on weather additional items are separately presented based on an assessment of:

a) The nature and liquidity of assets

b) Their function within the entity, and

c) The amount, nature and timing of liabilities

2.6.5 Information to be presented either on the Face of the Balance Sheet or in the Notes

An entity shall disclose, either on the balance sheet or in the notes to the balance sheet, further sub-classifications of the line presented, classified in all manner appropriate to the entity's operations. Each item shall be sub-classified, when appropriate, by its nature and, amounts payable to and receivable from the parent entity, fellow subsidiaries and associations and other related parties shall be disclosed separately. The details provided in sub-classifications, either on the face of the balance sheet or in the notes depend on the requirements of Nepal Accounting Standards and on the size, nature and function of the amounts involved. The factors set out are also used to decide the basis of sub-classification. The disclosures vary for each item, for example, Class usually classifies tangible assets. Receivables are analyzed between amounts receivable from trade customers, other members of the group, receivables from related parties, prepayments and other amounts. Inventories are sub-classified into classifications such as merchandise, production supplies, materials, work in progress and finished goods; provisions are analyzed showing separately provisions for employee benefits costs and any other items classified in a manner appropriate to the entity's operations; equity capital and reserves are analyzed showing separately the various classes of paid in capital, share premium and reserves. An entity shall disclosure the following, either on the face of the balance sheet or in the notes (NAS 01):

A. For each class of share capital;

a) The number of shares authorized

b) The number of shares issued and fully paid, and issued but not fully paid

c) Par value per share

d) A reconciliation of the number of shares outstanding at the beginning and at the end of the distribution of dividends and the repayment of capital

e) The rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital

f) Shares in the equity held by the entity itself or by subsidiaries or associates of the entity: and

g) Shares reserved for issuance under options and sales contracts, including the terms and amounts

B. Description of the nature and purpose of each reserve within owner's equity.

An entity without share capital, such as a partnership or public corporation, shall disclose information equivalent to that required above, showing movements during the period in each category of equity inter interest, and the rights, preferences and restrictions attaching to each category of equity interest.

2.7 Income Statement

2.7.1 Introduction to be presented on the Face of the Income Statement

As a minimum, the face of the income statement shall include line items which present the following amounts:

a) Revenue

b) The result of operating activities

c) Finance costs

d) Share of the profit or loss of associates and joint ventures accounted focusing the equity method

e) Tax expenses

f) Profit or loss from or ordinary activities

g) Where consolidated financial statements are prepared, minority interest; and

h) Net profit or loss for the period.

Additional line items, heading and subtotals shall be presented on the face of the income statement when required by a Nepal Accounting Standard, or when such presentation necessary to present fairly the entity's financial performance. The effects of an entity's various activities, transaction and other events differ in stability, risk and predictability, and the disclosure of the elements of performance assists in an understanding of the financial performance achieved and in assessing future results.

Additional line items are included on the face of the income statement, and the descriptions used and the ordering of items are amended when this is necessary to explain the elements of the financial performance. Factors to be taken into consideration include materiality and the nature and function of the various components of income and expenses. For example, a bank amends the description in order to apply the more specific requirements of Nepal Accounting Standards. Income and expenses item are offset only when the criteria in are cleared. An entity shall not present any items of income and expenses as extraordinary items, either on the face of the income statement or in the notes.

2.7.2 Information to be presented either on the Face of the Income Statement or in the Notes

When items of income and expenses are material, their nature and amount shall be disclosed separately. Circumstances that would give rise to the separate disclosure of items of income and expenses include;

a) Write-downs of inventories to net realizable value or the property, plant and equipments to recoverable amount, as well as reversals of such write-down

b) Restructuring of the activities of an entity and reversals of any provisions for the cost of restructuring

c) Disposals of items of property, plant and equipments

d) Discontinued operations

e) Disposal of investment

f) Litigation settlement and

g) Other reversal of provisions.

An entity shall present, either on the face of the income statement or in the notes to the income statement, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity. Entities are encouraged to present are also analyzed on the face of the income statement. Expenses items are further sub-classified in order to highlight a range of components of financial performance, which may differ in terms of stability, potential for gain or loss and predictability.

This information is provided in one of two ways. The first analysis is reflected to as the nature of expense method. Expenses are aggregated in the income statement according to their nature, (for example depreciation, purchase of materials, transport costs, wages and salaries, advertising costs), and are not reallocated amongst various functions within the entity. This method is simple to apply in many smaller entities because no allocation of operating expenses between functional classifications is necessary. An example of a classification using the nature of expenses method is as follows:

a) Revenue
b) Other income
c) Changes in inventories of finished goods
d) Work in progress
e) Raw materials and consumables used
f) Staff costs
g) Depreciation and amortization expenses
h) Other expenses
i) Profit

The second analysis is referred to as the function of expense or 'cost of sales' method and classifies expenses according to their function as part of sales or, distribution or administrative activities. This presentation often provides information that is more relevant to users than the classification of expense by nature, but the allocation of costs to functions can be arbitrary and involves considerable judgment. An example of a classification using the function of expense method is as follows:

a) Revenue
b) Costs of sales
c) Gross profit
d) Other income
e) Distribution costs
f) Administrative expenses
g) Other expenses
h) Profit

Entities classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortization expenses and staff costs. The choice of analysis between the function of expense method and the nature of expense method depends on both historical, industry factors, and the nature of organization. Both methods provide an indication of those costs, which might be expected to vary, directly or indirectly, with the level of sales or production of the entity. Because each method of presentation has a merit for different types of entity, this standard requires a choice between classifications based on that which most fairly presents the elements of the entity's performance. However, because information on the nature of expenses is useful in predicting future cash flows, additional disclosure is required when the costs of sales classification is used. An entity shall disclose, either on the face of the income statement or in the notes, the amount of dividends per share, declared or proposed, for the period covered by the financial statements **(**NAS 01).

2.7.3 Statement of Change in Equity

An entity shall present a statement of changes in equity showing on the face of the statement:

a) Profit or loss for the period ;

b) Each item of income and expenses for the period, which, as required by other Standards, is recognized directly in equity, and the total of these items; and

c) Total income and expense for the period (calculated as the sum of (a) and (b) Showing separately the total amounts attributable to equity holders of the parent and to minority interest; and

d) The cumulative effect of changes in accounting policy and the correction of fundamental errors dealt with under the Benchmark treatments in NAS 02 Accounting Policies, Changes in Accounting Estimates and Errors.

In addition, an entity shall present, either within this statement or in the notes:

e) Capital transactions with owners and distributions to owners;

f) The balance of accumulated profit or loss at the beginning of the period and at the balance sheet date, and the movements for the period; and

g) A reconciliation between the carrying amount of each class of equity, capital, share premium and each reserve at the beginning and the end of the period, separately disclosing each movement.

Changes in an entity's equity between two balance sheet dates reflect the increase or decrease in its net assets or wealth during the period, under the particular measurement principles adopted and disclosed in the financial statements. Except for changes resulting from transactions with shareholders, such a capital contributions and dividends, the overall all change in equity represents the total gains and losses generated by the entities activities during the period**.** NAS 02 Accounting Policies, Changes in Accounting Estimates and Errors requires all items of income and expenses recognized in a period to be included in the determination of net profit and loss for the period unless a Nepal Accounting Standard requires or permits otherwise.

2.7 Notes to the Financial Statements

2.7.1 Structure

The notes to the financial statements of an entity shall:

a) Present information about the basis of preparation of the financial statements and the specific accounting policies selected and applied for significant transactions and events;

b) Disclose the information required by Nepal Accounting Standards that is not presented elsewhere in the financial statements; and

c) Provide additional information which is not presented on the face of the financial statements but that is necessary for a fair presentation.

Notes to the financial statements shall, as far as practicable, be presented in a systematic manner. Each item on the face of the balance sheet, income statement, statement of changes in equity and cash flow statement shall be cross-referenced to any related information in the notes. Notes to the financial statements include narrative descriptions or more detailed analysis of the amounts shown on the face of the balance sheet, income statement, cash flow statement and statement of changes in equity, as well as additional information such as contingent liabilities and commitments. They include information required and encouraged to be disclosed by Nepal Accounting Standards, and other disclosures necessary to achieve a fair presentation.

Notes are normally presented in the following order, which assists users in understanding the financial states and comparing them with financial statements of other entities.

a) Statements of compliance with NAS.

b) Statement of the measurement basis(bases) and accounting policies applied;

c) Supporting information for items presented on the face of the financial statement in order which each line item & each financial statement is presented;

d) Other disclosures, including:
i) Contingencies, commitments and other financial disclosures; and
ii) Non-financial disclosures.

In some circumstances, it may be necessary or desirable to vary the ordering of specific items within the notes. For example, information on the interest rate and fair value adjustments may be combined with information on maturities of financial instruments, although the former are income statement and the latter relate to the balance sheet. Nevertheless, a systematic structure for the notes is retained as far as practicable. Information about the basis of preparation of the financial statements and specific accounting policies may be presented as a separate component of the financial statements.

2.7.2 Disclosure of Accounting Policies

An entity shall disclose in the summary of significant accounting policies based on NAS 01:

a) The measurement basis used in preparing the financial statements; and
b) The other accounting policies used that are relevant to an understanding of the financial statements.

In addition to the specific accounting policies used in the financial statements, it is important for users to be aware of the measurement basis (bases) used (historical cost, current costs, realizable cost, fair value or present value) because they form the basis on which the whole of the financial stalemates are prepared.

When more than one measurement basis is used in the financial statements, for example when certain non-current assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied. In deciding whether a particular accounting policy shall be disclosed, management considers weather disclosure would assist users in understanding the way in which transactions and events are reflected in the reported financial performance and financial position. The accounting policies that an entity might consider presenting include, but are not restricted to the following;

a) Revenue reorganization
b) Consolidation principles, including subsidiaries and associates
c) Business combination

d) Joint ventures

e) Reorganization and depreciation/amortization of tangible and intangible assets

f) Capitalization of borrowing costs and other expenditure

g) Construction contract

h) Investment properties

i) Financial instruments and investments

j) Leases

k) Research and development costs

l) Inventories

m) Taxes

n) Provisions

o) Employee benefits costs

p) Definition of business and geographical segments and the basis for allocation of costs between segments

q) Definition of business and geographical segments and the basis for allocation of costs between segments

r) Definition of cash and cash equivalent; and

s) Government grant.

Other Nepal Accounting Standards specifically require disclosure of accounting policies in many of these areas.

Each entity considers the nature of its operations and the policies, which the users of its financial statements would expect to be disclosed for that type of entity. When an entity had significant foreign operations or transactions in foreign currencies, disclosure of accounting policies for the reorganization of foreign exchange gains and losses and the hedging of such gains and losses would be expected. In consolidated financial statements, the policy used determining goodwill and minority interest is disclosed.

An accounting policy may be significant even if the amounts shown for current and prior period are not material. It is also appropriate to disclose the accounting policy for each policy not covered by existing Nepal Accounting Standards, but selected and applied in accordance with NAS 02 Accounting Policies, Changes in

Accounting Estimates and Errors. An entity shall disclosed, in the summary of significant accounting policies and other notes, the judgments, apart from those involving estimations that management has made in the process of applying entity's Accounting Policies and that have the most significant effect on the amounts recognized in the financial statements.

2.7.3 Key Sources of Estimation Uncertainty

An entity shall disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of;

a) Their nature

b) Their carrying amounts as at the balance sheet date.

Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the balance sheet date. For example: In the absence of recently observed marked prices used to measure the following assets and liabilities, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant and equipment, the effect of technological obsolescence on inventories, provisions subject to the future outcome of litigation in the progress and long –term employee benefit liabilities such as pension obligations.

The disclosures are not required for assets and liabilities with a significant risk that their carrying amount might change materially within the next financial year if at the balance sheet date they are measured at fair value based on recently observed market prices (their fair value might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty the balance sheet date). The disclosures are presented in a manner that helps users of the financial statements to understand the judgments management makes about the future and about other key sources of estimation uncertainty. The nature and extent of information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures made are;

a) The nature of the assumption or other estimation uncertainty;

b) The sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;

c) The expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts for the assets and liabilities affected; and

d) An explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved. It is not necessary to disclose budget information or forecasts in making the disclosure.

When it is impracticable to disclose the extent of the possible effects for a key assumption or another key sources of estimation uncertainty at the balance sheet date, the entity discloses that it is reasonably possible, based on existing knowledge, that are different from assumptions could require a material adjustment to the carrying amount of the assets or liability affected. In all cases, the entity discloses the nature and carrying amount of the specific assets or liability (or class of assets or liabilities) affected by the assumption.

2.7.3.1 Capital

An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital. To comply with the entity discloses the following:

A. Qualitative information about its objectives, policies and procedures for managing capital, including (but not limited to);

I. Description of what it manages as capital

II. When an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and

III. How it is meeting its objectives for managing capital.

B. Summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (e.g., some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (e.g., components arising from cash flow hedges)

C. Any changes in (a) and (b) from the previous period

D. Weather during the period it complied with any externally imposed capital requirements to which it is subject

E. When the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliances.

These disclosures shall be based on the information provided internally to the entity's key management personnel. An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities and those entities may also operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement user's understanding of an entity's capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.

2.7.3.1 Other Disclosures

An entity shall disclose in the notes:

A. The amount of dividends proposed or declared before the financial statements were authorized for issue but not recognized as a distribution to equity holders during the period, and the related amount per share; and

B. The amount of any cumulative preference dividends not recognized. An entity shall disclose the following if not disclosed elsewhere in information published with the financial statements

C. The domicile and legal form of the entity , its country of incorporation and the address of the registered office (or principal place of business if different from the registered office)

D. A description of the nature of entity's operations and its principal activities;

E. Where consolidated financial statements are prepared, name of the parent entity and the ultimate parent entity of the group; and Compliance with the International Accounting Standards Compliance with this NAS ensures compliance in all material respects with IAS 01 Presentation of Financial Statements.

The Standards sets out the components of financial statements and minimum requirements of disclosure on the face of the balance sheet and the income statements as well as for the presentation of changes in equity. It also establishes further items that may be presented on the face of either the relevant financial statement or the notes. The purpose of the Appendix is to provide example in which the requirements for the changes in equity might be presented in the primary financial statements. The order of the presentation and the descriptions used for the line item shall be changed where necessary in order to achieve a fair presentation in each entity's particular circumstances. The approach to presenting changes in equity is illustrated (NAS 03-Cash Flow Statements).

2.9 Harmonization of International Accounting Standard

2.8.1 What is Accounting Harmonization?

Different authors have defined accounting harmonization in different ways. It is presumably not an easy word to define, as neither the ICAN accounting harmonization. Some have even complicated the whole concept, by attempting to substitute harmonization with standardization, implying making the process the same rather than making it process of increasing the compatibility of accounting practices by setting bounds for the degree of variations. This is an opinion which presumed to be the most appropriate definition of the concept.

2.9.2 Accounting Areas with Differing Accounting Policies

Though analysis sometimes argue that it is necessary to provide disaggregated information in all financial reporting, some are been of the view that is necessary to concentrate on such accounting areas where users need such disaggregated information. Companies are exposed to different accounting policies in the preparation of their financial statements. In this section, we try to highlight some accounting areas where different accounting policies used may have an impact on the financial results.

According to the Statement of Accounting Standards published by the institute of charted accountants of India, the following are accounting areas where different accounting policies can be applied by different enterprises, depletion and amortization.

a) Methods of depreciation, depletion and amortization
b) Conversion of translation of foreign currency
c) Valuation of inventories
d) Treatment of goodwill
e) Valuation of investments

f) Treatment of retirement benefits

g) Recognition of profits on long-term contracts

h) Valuation of fixed assets

i) Treatment of contingent liabilities

Another significant area that has been left out is the treatment of cash flow. Cash flow statements have been one of the areas of accounting with significant differences in reporting practices. It recognized as an important and integral part of the funds from various items. Analysis have argued that the statement merely provides an insight into the financial position stability and the liquidity prospects of multinationals, it is necessary to know the geographical location of the sources and uses of funds.

Standards proposed by certain bodies have shown significant differences and variations in regulatory postures on almost every aspect of cash flow. Wallace, el al (1997) argue that the quest for international harmonization of reporting practices cannot be as easy looking at a cash flow statement, where you identify different ways of categorizing cash flows, alternative formats of presenting cash flows from operating activities and just many other differences. In addition, several issues such as; the bad debts provision; valuing marketing securities; and the treatment of long-term contracts, can be considered specific and given particular treatment.

2.9.3 Practical Differences in Accounting Development and Annual Accounts-Nepalese Perspective

Different Asian countries have diverse influential factors in their accounting development process. While in some countries, legal and tax considerations, or traditions may be significant contributors; in others the stock and capital markets are of significant influence. The reasons for this may be diverse, but in some cases are meaningful. For example, in some countries where the users of accounting information are significantly large corporations exposed to disclosure pressures from international capital markets, the capital market is of utmost importance for them, thus the disclosure need must be fully satisfied and bearing information for the financial statements.

We have chosen banks from different accounting areas with different accounting background to show how such differences in accounting backgrounds may influence information presented in the financial statements. The banks chosen are

NIC bank and Everest Bank, having the Nepalese accounting background. Nepal's annual reports and accounts consist of consolidated profit and loss accounts, a balance sheet and a cash flow statement.

To assess a review of operations on a yearly basis, a director's report is necessary always included. In consolidation practices, the purchase method is usually followed through in some cases, and merger accounting or pooling method may be required. Concerning their measurement practices, Nepal applies a conservative approach than most Anglo Saxon countries where there is a constant revaluation of assets like land and buildings to market values. Inventory cost is also determined using the First-in-First-Out method (FIFO) permitted for tax purposes, while the Last-in-First-Out (LIFO) method is not allowed.

The parent company financial statement is also always provided. Valuations are sometimes based on historical cost, although revaluations are sometimes permitted, especially in circumstances where valuations are materially in excess of book values. Depreciation is mostly on a straight-line basis. Inventory cost is determined using the FIFO method. Research and development expenses are frequently capitalized and amortized over a period of five years, although in practice most companies charge research and development as an expense.

The purchase method used in consolidation practice is consistent with Nepal's Directives. Goodwill is written off immediately against reserve and amortized over its useful life. Foreign currency translation follows the closing rate method with the temporal method used in highly inflationary economies. Interpreting the Nepalese Directives concept of true and fair view as carrying just that meaning. Tax rules dominate legal decisions on accounting issues and the development of accounting principles.

In Nepal, reference is usually made to the concept of prudence. As far as the issue of fairness in financial information is concerned, corporate laws in Nepal, India, and Pakistan are the only ones in Asian countries requiring fairness in audited financial statement. This was incorporated in the forth directives as a' true and fair view'. In Asian financial statements, there is still little preference for fairness. Financial reporting as still an exercise of accurate bookkeeping, which has to satisfy detailed rules and scrutiny of the tax inspector (Nopes, 1992). Unlike Radebaugh and Grey, Nopes identifies principle differences among EC countries in what he calls a two-group classification. He identified specific features in their background, general accounting features, specific accounting features and examples of EC countries that follows this system.

2.9.3.1 General Accounting Features

a. Fair legal

b. Shareholders orientation Creditors orientation

c. Disclosure secrecy

d. Tax rules separate tax dominated

e. Substance over form over substance

f. Professional standards government rules

2.9.3.2 Specific Accounting Features

a. Percentage of completion method completed contract method

b. Depreciation over useful lives depreciation by tax rules

c. No legal reserves legal reserves

d. Financial leases capitalized no lease capitalization

e. Funds or cash statements no funds flow statements

f. Earnings per share disclosed no earning per share disclosed

g. No secrete reserves secret reserves

h. No tax induced provision tax induced provisions

i. Preliminary expenses expensed Preliminary expenses capitalized.

It is important to mention the fact that in choosing of our case study, we have used Radebaugh and Gray's analysis, by sub-classifying countries, cultural groups. They based their differentiation on several values that influenced accounting development and differences. Values looked upon in detail included twenty a country's culture, capital markets and the stock exchange development, the influences of taxation, the accounting profession and others.

2.9.4 The Role of Different Pressure Groups on Accounting Harmonization among Asian Countries

Several pressure groups have had great influence on the entire process of accounting harmonization, both directly and indirectly. Though the various groups have diverse intentions, it has, however, been assumed that their main intension is to get information that will help them formulate policy towards large corporations, such as the multinational firms. It is important to mention that in identifying the various pressure groups, one sees the benefits the assumed pressure groups will get from accounting harmonization.

The institutional environment has had a meaningful influence on the financial environment. The extent of government involvement has been very high in countries with a tradition of detailed prescriptive legislation. According to Saudagaran and Diga (2000), legislation plays two important roles in shaping the intuitional environment.

Firstly, laws often specify the main criteria for preparing financial reports, to enhance the true and fair view. Secondly, legislation delegate's responsibility to a government agency empowered to diverse rules it considers appropriate for achieving the objectives of such legislation. Depending on the regulatory intent, different governmental agencies may take charge of the formulation of specific financial reporting requirements; for instance, company registrars for corporate governance aims; securities regulators for capital markets; and taxation authorities for tax objectives. The information governments require of corporations varies and is influenced by, among other things, the extent of government planning and regulation.

Governments assume taxation requirements have a significant impact on accounting and, as such, need to get involved in accounting harmonization in order to fulfill such requirements. Revenue authorities, for example, have their work complicated when dealing with companies that have foreign branches or subsidiaries.

2.9.5 International Quasi-Governmental Bodies

Not only the Nepalese commission has been actively involved in accounting harmonization in international quasi-governmental bodies have taken part in the quest for uniform reporting. The history of these inter-quasi-governmental bodies is so long. The Nepal's history can be traced as far back as 1976 when groups of experts were appointed through the activities of the commission on transnational basis.

Following consultation with business and trade unions issued a set of "guidelines for multinational enterprises" in 1996. The Nepalese union has been involved in the issue of accounting harmonization since the middle of the sixties. The first and second directives were concerned with basic issues such as the publication of accounts, and minimum capital, while the fourth and seventh directives have been drawn to lay down rules on preparation and publication of accounts.

2.9.6 Investors, Analyst and the Stock Markets

Investors have access to corporate reports and other public available information and use them to make investments and other decisions. Sample additional information disclosure (especially information about the future prospects of multinational) on a worldwide basis. Investors and analysts are concerned with the lack of comparability of much of the information that is currently provided (Redbug and Oray, 1992). Individual private investors may be of the opinion that if differences in reporting are so large and ill defined and reliability of reports is doubtful, direct investments in foreign shares need to accountants to explain differences or certify certain ambiguous balance before taking a decision.

2.9.7 Employees and Trade Union

Some trade unions participate at intergovernmental levels; and examples: include the Nepalese Trade Union Confederation (NTUC); The World Confederation of Labor (WLC); and many others. Their interest centers on information relating to subsidiary activities and employees satisfaction. Information concerning the terms, conditions, scale, securities and location of employment are of special concern to them (Radebaugh and Gray, 1992). However, Christopher Nobes (1992) argues that trade unions and other employees groups connected with multinational may have al desire to understand and compare financial statements involving companies from several countries.

2.9.8 Credit Institutions

International credit institutions will constantly be examining, and by implication comparing, the financial statements from different countries. Bankers and lenders may sometimes require borrowers to submit particular accounting informational for appraisal and such information needs to be uniform.

2.9.9 Accountants, Auditors and the General Public Rule

Their role becomes very important especially when looking at the technical skills and other skills they have in accounting related issues. It is, however, at the level of the international professional organization that most of the developments are taking palace in accounting harmonization. Examples of international professional accounting organizations include the International Accounting Standards Committee

(IASC), International Federation of Accountants (IFAC); the American Institute of certified Public Accountants (AICPA); and many others.

2.10 The Issue of Transparency in Accounting Information

It has always been argued by members of the accounting world that efficient disclosure of accounting information in an accurate, timely and reliable way will help influence an accurate assessment of a company's financial performance at a particular point in time. As the internal market commissioner for the ICAN puts it, adequate disclosure serves to improve the transparency of financial information published by banks and other financial institutions.

The market is an important user of financial information and an effective assessment of a company's financial situation cannot be done if there is not adequate disclosure. Nevertheless, the question arises, how can financial information be clear when languages and meanings may differ from one country to another? Translation and other problems may hinder transparency and fairness in accounting information, especially when they are not prepared using a particular reporting standard.

Users of accounting and other financial information have always been emphasizing the need for the world to have a common accounting language to facilitate an understanding of the information. Country specifies accounting principles are so varied that the aspirations for a globally integrated capital market can be fulfilled only through a uniform financial reporting code (Ghosh, 2001).

2.11 Review of Previous Thesis

Various thesis work have been done in different aspects of commercial banks such as lending policy, investment policy, financial performance analysis, resource ,mobilization and capital structure. The review of some previous study, which is relating to the Nepalese banking sectors, is the most relevant sources and assistants for this research.

Mr.Regmi,through his thesis on the role of ICAN in promotion and harmonization accounting standards, policies and practices of Nepalese commercial banks (Joint-Venture Banks) concludes that the standards have brought about uniform reporting within the Nepalese banking sector is untrue. However, he writes that the ICAN has significant role in harmonization of the standards in practice (Regmi, 2010).

Mr. Joshi, through thesis, “A study on financial performance of commercial banks” concluded that the liquidity position of commercial bank is satisfactory. Local commercial banks have been found relatively highly leveraged compared to the joint venture banks. Loans and advances have been their main form of the investment. Two third assets have been used for earning purpose. Profitability position of NABIL bank is stronger than others (Joshi, 1989, p.10).

Mr. Pradhan has done a research for what he carried out a survey of 78 enterprises. According to him, “The most finance function appeared to be working capital management while the least important one appeared to be maintaining good relation with stockholder (Pradhan, 1994, p.16).

The findings reveals that banks and retained earnings are two most widely used financing sources. Most enterprises do not borrow from a single bank only and they do switch between banks to banks, which offer best interest rates. Mostly, enterprises find that banks are flexible in interest rates. Further, he said that among the bank loans, bank loan of less than one year are more popular in public sectors whereas bank loan of 1-5 year are more popular in private sectors enterprises. In the period of tight money, the majority of private sectors enterprises fell that bank will treat all firms equally while public sector does not fell so. Similarly, he concluded that the banks interest rate is just right while the majority of non-trade sector find that the same is on higher side.

Mrs. Bhattarai, in her thesis paper entitled “Lending Policy of Commercial Banks in Nepal”, has tried to examine the lending policy of the commercial banks and she has concluded that efficient utilization of resources is more important than the collection of same lower investment (lower capital formation). Such a lower capital formation hampers economic development of banks. Therefore, emphasis on efficient utilization of resources is given (Bhattarai, 2033 B.S.P.19)

Mr. Acharya’s study entitled “A comparative study of financial performance of VJBs in Nepal especially on NABIL and NIBL banks concludes that the liquidity position of the JVBs banks is below normal standard of 2:1(i.e. unsatisfied), comparatively this ratio of NABIL is better on an average. Both the banks are found to be efficient in utilized of most of their total assets.

Based on the analytical findings, the research suggests in finding out the root cause of weak liquidity position so that improvement steps could be implemented on the ground of liquidity of both banks. Similarly, both the banks are suggested to maintain improved capital structure in increasing equity base to the extent of loans and advances to utilize more of the total deposits to minimize operational expenses or to mobilize resources efficiently to extend their banking facilities even in rural areas.

Mr. Regmi's thesis "A comparative study of the financial performance of HBL and NBBL" 30, he suggested NBBL to increase its current assets because the bank is not maintaining adequate liquidity position in comparison with HBL. As the capital structure of both the banks is highly levered, both the banks are recommended to maintain and improve mix at debt and owner's equity by increasing equity share. He further suggests to HBL to improve the efficiency in utilizing the deposits in loan and advance for generating the profit; NBBL should try to maintain present position to this regards. Profitability position of HBL is comparatively better than the same of the NBBL. So, NBBL is recommended to utilize its recourses more efficiently for generating more profit margins. If resources held idle, the bank faces high cost and causes the low profit margin. An idle dividend payout ratio is based upon shareholders expectations and the growth requirement of the banks. NBBL is suggested to increase its dividend payout ratio (Regmi, 2001, p.29).

Mentioned two banks should extend their resources to rural areas and employ for the development of poor and backward groups. In order to do so banks should open their branches in the remote areas with objectives of providing cheaper banking services especially HBL should be initiated in this regard because it has fewer branches in comparison to NBBL.

Because of the start competition between banking sectors; both the banks are suggested to formulate and implement some sound and effective financial and non-financial strategies to minimize the operational expenses to meet required level of profitability. The banks are further suggested to adopt modern banking technologies to enhance their better and wide market. The review of the above mention bunch of research writes have definitely enriched my vision to elaborate analysis to come to the meaningful conclusion in realistic term and thereby come with some conclusion, few key suggestions that help in improvement of commercial banks.

Previous researchers based on financial performance of commercial banks in Nepal. Nevertheless, this research is about both the joint venture and non-joint venture banks of Nepal with sample of NIC Bank limited, Nepal Credit &Commerce Bank Limited, Global Bank Limited, Nepal SBI Bank Limited and Everest Bank limited. This research is about the financial performance of selected five banks. The research can help the people who wanted to know about the overall financial performance of selected commercial banks in Nepal. There are five-selected bank to find out the comparative financial position of selected banks. Therefore, this topic may not new but the researches efforts of researcher may be appreciable.

2.12 Research Gap

In this study, the major areas are to disclose the Accounting Standards relates to policies and practices involve in Nepalese commercial banks. This study shows that the unique feature of Findings, Harmonization of Accounting Standards, Promoting Accounting Standards, Role of ICAN and Policy and Practices of Nepalese Commercial Banks are the major research areas. Previous researches based on financial performance of commercial banks in Nepal.

Nevertheless, this research is about commercial banks of Nepal with sample of Nepal Industrial & Commercial (NIC) Bank limited, Nepal Credit &Commerce (NCC) Bank Limited, Global Bank Limited, Nepal SBI Bank Limited and Everest Bank Limited. This research is about the Accounting Standards of selected banks. In the previous research, there is no clear-cut accounting and financial performance of commercial banks. The research can help the people who wanted to know about the overall Accounting standards and Harmonization of accounting standards of commercial banks in Nepal. There are five-selected banks to find out the problems and prospects of the study.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Research Design

Research is a systematic method of finding right solution for the problem where as research methodology refers to the various steps under taken a researcher to find the optimum solution. Research has important place in management. There can be many objectives of research. Research can be for theoretical and conceptual building. Alternatively, it can be pragmatic and problem-solution oriented. Management needs effective and quick decision. This cannot be achieved at once and through a single person. It need systematic study to back-up our decisions on which performance of the organization as a whole is based sometime we need research work for better understanding of phenomenon or concepts. Some enthusiasts would even want to explore into the subjects that attract their personal choice or interest.

Research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Calorie et.al.1962).

The Research design is the conceptual structure within which Research is conducted; it constitutes the blueprint for the collection measurement and analysis of data. As such, the design includes an outline of what the researcher will do from writing the hypothesis and its operational implications to the final analysis of data (Kothari 1998, p.39).

Since we are doing comparative studies across national boundaries in order to obtain a broad based coverage of the Nepalese community, In the Nepalese group, we have chosen two banks from Nepal. Research design is the framework of Research. Its decisions happen to be in respect of;

1 What the study is about?

2 Why the study is being made?

3 Where the study will be carried out?

4 What type of data is required?

5 Where the required data can found?

6 What periods will the study include?

7 What will be the sample design?

8 How will the data be analyzed?

9 What techniques of data collection shall be used?

10 In what style will the report be prepared?

In this way, Research design is a pattern of Research work, from which researcher can solve his research problem more effectively and efficiently. It is a predetermined framework of Research work made by researcher. There are different types of research design; descriptive, analytical, experimental also. The strategy one uses when doing a study depends on how much knowledge he has about the problem area and how well the problem is structured and formulated. The strategy approach we deem appropriate is the descriptive approach, within which we have made some analysis. We have used the annual reports of five Nepalese commercial banks to describe the divergence in reporting practices existing among the Nepalese banks.

3.2 Population and Sample

Commercial banks; two joint venture and three of them non-joint venture are taking as a population sample for the purpose of our study. All of these banks perform the function of commercial banks under rule, regulations and directives of Nepal Rastra Bank. The sample consist of five judgmentally selected banks- NIC Bank Nepal Industrial and Commercial Bank Ltd. (NIC)., Nepal Credit and commerce Bank Ltd.(NCC)., Nepal SBI Bank Ltd., Glabal Bank Ltd., & Everest Bank Ltd.

3.2.1 Choice of Countries

In this Research, being students of masters of business studies of Tribhuvan University; Nepal as representative of the Nepalese model has been taken into account. We believe that to assure validity. We have also considered its industrial nature and its international attachments. In addition, another reason for choice is that the research has been conducted in Nepal.

3.2.2 Choice of case Study and Scope of Survey

To make our conclusion more reliable, we have chosen banks in the Nepalese community with different cultural backgrounds. Banks, in our case studies is from Nepal. Although our sample is small for the population within which we are working, our intention is just to illustrate the problems. Our results aim to give a picture of the situation, and probably promoting further Research.

3.2.3 Choice of Banks

We resolved to choose banks whose financial statements are available in the net, and which are published in English. These banks should also be large in their respective countries. Three factors have been used to measure size and these are; the no. of employees, turnover, and income. It is not necessary to discuss size in detail. The banks below in the figure meet these criteria. It is worth mentioning that some banks of comparable size have left out of the study not because they fail to meet the criteria, but because we intended to reduce the sample size, consequently, the population of banks with comparable size.

3.3 Sources of Data

In this study, primary as well as secondary data are used. Primary data are used to analyze the accounting procedure and secondary data are used to examine the historical background of ICAN and to analyze the accounting procedure and harmonization.

3.3.1 Primary Source;

The source of collecting primary data is the means of various informations received directly through the different personnel working in that company. Primary data are raw, we should purify for utilize in research work so it is very important in work. We have to use the primary data, especially interview to illustrate further analysis and Research findings for furthermore. Reliable data represents the key features in research work especially acquire for the primary data, researcher made some other visit in the bank due to the increasing transactions and business of the employees in the banks; they could not afford time to the researcher whenever the researcher needed. After same efforts, they could manage some time and hence, the researcher got the information through direct interview with them.

3.3.2 Secondary Source;

Secondary data are collected from the following organs;

1 Data, information, and materials available from ICAN

2 Other related records and data relevant to the study

3 Published and unpublished articles, newspapers, books, website and other sources

Although the present study is based on secondary data, necessary suggestions are also taken from various experts; both inside and outside the banks. Whenever the required, the necessary data is obtained from the head office of the banks such as, published balance sheet, profit and loss a/c ,and other related statements of accounts as well as the annual reports of the respectively banks. Necessary information are also obtained from the publication of security exchange centre, Nepal Rastra Bank and other publications used for the purpose are book and booklets , magazines, articles, journals, newspapers, school of thought, etc.

3.3.3 Data collection procedure

In this study, we have used secondary data as the only source of information. We would have used the primary data, especially interview to illustrate further. The existence of time and cost has limited our findings to the use of secondary data. However, this have not very much, affected our results. Our secondary data has been collected from annual reports, journals and magazines, as well as textbooks.

The problem of the study lies on the issues related to the comparative strengths and weakness of the banks. Because of liberal policy adopted by the government, financial institution has been emerging in the country. The sample banks have been facing threats from such institutions. Therefore, the study has been ducted the financial performance of the sampled units. This study is also intended to find the weakness and strengths so that appropriate suggestions can be provided to enhance the performance of the banks in coming days.

For the purpose, various data are required. With the view of obtaining data, researcher made several visits of the sample banks, in first visit, the researcher consulted the concerned authority of the bank and explained about the above stated problems and objectives of the study. Researcher also explained the interest in these two banks and wishes to analyze after keeping forth the view of researcher.

The authorities got convinced and appraised the effort. They assured that they would have far as possible. Regarding the information needed, they said that they would make them available up to the extended that does not affect the privacy and secrecy of the bank. Researcher got pleased with the response shown by them arises when started the work.

Similarly, researcher obtained economic surveys, annual and periodic reports and banking directive from Nepal Rastra Bank. There, he visited library and banking operation department. In the department, he explained why he needed such reports and hence he becomes able to get those reports. For the reference materials, the researcher visited Bhairahawa Multiple campus, Lumbini Commerce campus, and central department of management T.U

3.3.4 Data processing

Data obtained from the various sources cannot be directly used in their original form for the need to be verified and simplified for the purpose of analysis. Data information, figure, and facts so obtained need to be checked, rechecked, edited and tabulated form computation. According to the nature of data, they have been inserted in meaningful table, which have been shown in annexes. Homogeneous data have been sorted in one table and similarly various tables have been prepared in understandable manner odd data excluded from the table. Using financial and statistical tool data have been analyzed and interpreted.

3.3.5 Method of Data Analysis

Financial statement can provide information useful for the parties directly or indirectly involved in the business. For the purpose of study, the data collected and obtained are scanner and tabulated under various heads. The researcher has used two sorts of tools has been used to achieve the results. Here is the brief discussion of both tools, which are used to analyze and interpret the financial performance of five banks i.e. NIC Bank limited, Nepal Credit & Commerce Bank Limited, Global Bank Limited, Nepal SBI Bank Limited and Everest Bank limited.

3.3.6 Validity

Validity tells us whether an item measures what it is supposed to measure or describe. Historically, countries with different culture have often had different approaches to accounting standards preparation. To make our study valid, we have chosen case studies from different cultural backgrounds in order to be able to make an effective comparative analysis. For an illustration of differences in international accounting practices, secondary data (especially information from annual reports) constitutes a more appropriate data sources. Validity could be calculated only when the secondary data is analyzed. We havenot seen that the primary data would be useless, rather than use of secondary data.

However, it is important to note that interviews give room for normative information, which is not significant in this economic situation. If we had used primary data, instead of getting information on what comprises actually do (as published in annual reports), we would have received information on what companies ought to be or are supposed to be doing. Interviews could have been indispensible only in the case of explaining what may turn out to be ambiguous or difficult information to understand in the financial statements. Since ambiguity is minimal, we are very convinced that the secondary data used provides us with enough of a basis to accomplish the purpose of the research.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 The Nepalese Accounting

In the case study, this section deals with the practical aspects of disclosures by the selected banks: NIC Bank limited, Nepal Credit &Commerce Bank Limited, Global Bank Limited, Nepal SBI Bank Limited and Everest Bank limited based with Nepalese tradition, we have painted a descriptive picture on the reporting practices in these banks, looking at three core areas: namely; presentation of financial statements, measurement practice, and consolidation accounting. The analysis and presentation of data for the research study have been presented in the following aspects.

1) Annual report published by the relevant banks.
2) Opinion of employees through which it is able to collect the relevant data.

4.1.1 Financial Statement

Traditionally, ICAN prepares its financial statements in accordance with the Annual Accounting Act for Credit Institution and Securities Companies, and regulations and general advice of the Nepal Rastra Bank regulations. However, as of the financial year 2010/11 the group applied the recommendations of the NRB, on income taxes and the reporting of associated companies.

4.1.1.1 Presentation of financial statements

ICAN annual report and accounts comprise an overall presentation of the company's present and future surroundings, the board of director's report, the consolidated profit and loss accounts and balance sheet, notes to financial statements and the proposed disposition of profit. Financial statements for both the group and the banks are provided.

4.1.1.2 Measurement practice

As usual, valuation took the form of the historic form approach. Their building was revalued and added to the balances brought forward as the beginning of the year. The straight-line method was used to depreciate equipment at 20 percent of acquisition value. Real estate, with the exception of properties taken over to protect claims, was depreciated at the highest amount allowable for tax purposes. Financial fixed assets, consisting of interest-yielding securities, were valued at their accrued acquisition value (historic cost). Financial current assets, which consist of transferable securities and derivatives in the trading operations, were valued at fair value. There was no fixed basis for goodwill amortization. Goodwill was amortized based on an item's economic life. While other research and development activities may be capitalized, it is worth nothing that the company has a tradition of not capitalizing information technology (IT) systems. The tax on profit for the financial year was calculated by adding deferred tax from previous years to current year tax.

4.1.1.3 Consolidation Accounting

The consolidated accounts were prepared in accordance with recommendation of NRB. The consolidated accounts comprise ICAN, and those companies in which the bank directly or indirectly holds more than 50 percent of the voting rights of the shares. These companies reported in the consolidated accounts using the Purchase Accounting Methods. For associated companies (i.e. companies in which the bank directly or indirectly holds more than 20 percent of the voting right, and where the ownership interest is an element in a long-term affiliation between the bank and the company) the bank use the equity method. In addition, the bank uses the proportional method to consolidate for an associated company. It should be noted that figures for the latter were entered on a separate line on the balance sheet. Amortization of goodwill was deducted from the Group's share of each associated company's profit.

Shares in the foreign subsidiaries and associated companies that were refinanced in the same currency were valued at their acquisition price in the parent company. Subsidiaries and associated companies were translated in accordance to the current method. This means that the assets and liabilities were translated to Swedish kroner at the closing day rate, while the profit and loss account is translated at the average rate for the financial year. Translation differences that arose from the use of the current method are entered in the shareholders' equity. This practice is in accordance with recommendation of the NRB.

4.1.2 ICAN Accounting Rules

Financial statements are prepared and presented for external users by many entities. Although such financial statements may appear similar from entity to entity, there are differences, which have been caused by the absence of a clear conceptual framework to guide the choices made by preparers and auditors.

These differences have led to the use of a variety of definitions of the elements of financial statements; that is, for example, assets, liabilities, equity, income and expenses. They have also 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. Accounting Standard Board is committed to narrowing these differences by seeking to harmonize regulations, accounting standards and procedures relating to the preparation and presentation of financial statements.

It believes that further harmonization can best be focusing on financial statements that are prepared for providing information that is useful in making economic decisions. The ASB believes that the financial statements prepared for this purpose must meet the common needs of most users. This is because nearly all users are making economic decisions, for example;

a) Decide when to buy, hold or sell an equity investment
b) Assess the stewardship or accountability of management
c) Assess the ability of the equity to pay and provide other benefits to its employees
d) Assess the security for amounts lent to the entity
e) Determine taxation policies
f) Determine distributable profits and dividends
g) Prepare and use national income statistics
h) Regulate the activities of entities.

The board recognizes, however, that government and regulators, in particular, may specify different additional requirements for their own purposes. These requirements should not, however, affect the financial statements published for the benefit of other users unless they also meet the needs of those other users. Financial statements are most commonly prepared in accordance with an accounting model based on recoverable historical cost and the nominal financial capital maintenance concept. Other models and concepts may be more appreciate in order to meet the objective of providing information that is useful for making economic decisions although there is presently no consensus for change. This framework has been developed so that it is applicable to a range of accounting models and concepts of capital and capital maintenance.

4.1.3 Purpose and Status

This framework sets out the concepts that underlying the preparation and presentation of financial statements for external users. The purpose of the framework is to:

A. Assist the ASB in the development of future Nepal Accounting Standards and in its review of those International Accounting Standards that may become the subject of ICAN

B. Assist the ASB in promoting harmonization of regulations, accounting standards and procedures relating to the presentation of financial statements by providing a basis for reducing the number of alternative accounting treatments permitted by Nepal Accounting Standards

C. Assist preparers of financial statements in applying Nepal Accounting Standards and in dealing with topics that have yet to form the subject of ICAN

D. Assist auditors in forming an opinion as to whether financial statements conform to ICAN

E. Assist users of financial statements in interpreting the information contained in financial statements prepared in conformity with ICAN and

F. Provide those who are interested with ASB with the information about its approach.

The ASB recognizes that in a limited number of causes there may be a conflict between the Framework and a Nepal Accounting Standard. In those cases where there is a conflict, the requirements of the Nepal Accounting Standard prevail over those of the Framework. As, however, the ASB will be guided by the Framework in the development of future standards and in its review of existing standards, the number of cases of conflict between the Framework and ICAN will determine through time.

The Framework will be revised from time to time based on the ASB's experience of working with it.

4.1.4 Scope

The Framework deals with:

a) The objective of financial statements

b) The qualitative characteristics that determine the usefulness of information in financial statements

c) The definition, recognition and measurement of the elements from which financial statements are constructed; and

d) Concepts of capital and capital maintenance.

The Framework is concerned with general-purpose financial statements (hereafter referred to as "Financial Statements") including consolidated financial statements. Such financial statements are prepared and presented at least annually and directed toward the common information needs of a wide range of users. Some of these users may require, and have the power to obtain information in addition to that contained in the financial statements.

Many users, however, have no rely on the financial statements as their major source of financial information and such financial statements should, therefore, be prepared and presented with their needs in view. Special purpose financial reports, for example, prospectuses and computations prepared for taxation purposes are outside the scope of this Framework. Nevertheless, the Framework may be applied in the preparation of such special purpose reports where their requirements permit.

Financial statements form part of the process of financial reporting. A complete set of financial statements normally includes a balance sheet, an income statement, a statement of changes in financial position(which may be presented in a variety of ways, for example, as a statement of cash flows or a statement of funds flows), and those notes, other statements, explanatory material that are an integral part of the financial statements.

They may also include supplementary schedules and information based on or derived from, and expected to be red with, such statements. Such schedules and supplementary information may deal, for example, with financial information about industrial and geographical segments and disclosures about the effects of changing prices. Financial statements do not, however, include such items as reports by directors, statements by the chairperson, discussion and analysis by management and similar items that may be included in a financial or annual report. The Framework applies to the financial statements of all commercial, industrial and business reporting entities, weather in the public or private sectors. A reporting entity is an entity for which there are users who rely on the financial statements as their major source of financial information about the entity.

4.1.5 Users and their Information Needs

The users of financial statements include present and potential investors, employees, lenders, suppliers and other trade creditors, customers, the government and its agencies, the public and donors. They use financial statements in order to satisfy some of their different needs for information. These needs include the following:

A. Investors: The providers of risk capital and their advices are concerned with the risk inherent in, and return provided by, their investment. They need information to help them determine whether they should buy, hold or sell. Shareholders are also interested in information, which enables them to assess the ability of the entity to pay dividends.

B. Employees: Employees and their representative groups are interested in information about the stability and profitability of their employers. They are also interested in information, which enables them to assess the ability of the entity to provide remuneration, retirement benefits and employment opportunities.

C. Lenders: Lenders are interested in information that enables them to determine whether their loans, and the interest attaching to them, will be paid when due.

D. Suppliers and Other Trade Creditors: Suppliers and other trade creditors are interested in information that enables them to determine whether amounts owing to them will be paid when due. Trade creditors are likely to be interested in an entity over a shorter period than lenders unless they are dependent upon the contribution of an entity as a major customer.

E. Customers: Customers have an interest in information about the continuance of an entity, especially when they have a long-term involvement with, or are dependent on, the entity.

F. The Government and its Agencies: The Government and its agencies are interested in the allocation of the resources and, therefore, the activities of entities. They also require information in order to regulate the activities of entities, determine taxation policies and as the basis for national income and similar statistics.

G. Public: Entities affect numbers of the public in a variety of ways. For example, entities may make a substantial contribution to the local economy in many ways including the number of people they employ and their local suppliers. Financial statements may assist the public by providing information about the trends and recent developments in the prosperity of the entity and the range of its activities.

H. Donors: Donors of aid are interested in information that enables them to ensure that they can assess the need for, and effects of, aid upon recipient entities, and of the financial position and performance of entities carrying out work on their behalf.

While financial statements cannot meet all of the information needs of these users, there are needs, which are common to all users. As investors are the providers of risk capital to the entity, the provision of financial statements that meet their needs will also meet most of the needs of other users that financial statements can satisfy. The management of an entity has the primary responsibility for the preparation and presentation of the financial statements of the entity.

Management also interested in the information contained in the financial statements even through it has access to additional management and financial information that helps it carry out it’s planning, decision-making and control responsibilities. Management has the ability to determine the form and content of such additional information in order to meet its own needs. The reporting of such information, however, is beyond the scope of this Framework. Nevertheless, published financial statements are based on the information used by management about the financial position, performance and changes in financial position of the entity.

4.1.6 The Objective of Financial Statements

The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is a wide range of users in making economic decisions. Financial statements prepared for this purpose meet the common need of most users. However, financial statements does not provide all the information that users may need to make economic decisions since they largely portray the financial effects of past events and do not necessarily provide non-financial information. Financial statements also show the results of stewardship of management, or the accountability of management for the resources entrusted to it. Those users who wish to assess the stewardship or accountability of management do so in order that they may make economic decisions; these decisions may include, for example, weather to hold or sell their investment in the entity or weather to reappoint or replace the management.

4.1.7 Financial Position, Performance and Changes in Financial Position

The economic decisions taken by users of financial statements require an evaluation of the ability of an entity to generate cash and cash equivalent and of the timing and certainty of their generation. The ability ultimately determines, for example, the capacity of an entity to pay its employees and suppliers, meet interest payments, repay loans and make distributions to its owners. Users are better able to evaluate this ability to generate cash and cash equivalent if they are provided with information that focuses on the financial position, performance and changes in financial position of an entity.

The economic resources it controls, its financial structure, its liquidity and solvency, and its capacity to adopt to changes in the environment in which it operates, affect the financial position of entity. Information about the economic resources controlled by the entity and its capacity in the past to modify these resources is useful in predicting the ability of the entity to generate cash and cash equivalents in the future. Information about financial structure is useful in predicting future borrowing needs and how future profits and cash flows will be distributed among those with an interest in the entity; it is also useful in predicting how successful the entities is likely to be in raising further finace.

Information about liquidity and solvency is useful in predicting the ability of the entity to meet its financial commitments as they fall due. Information about the performance of an entity, in particular its profitability, is required in order to assess potential changes in the economic resources that it is likely to control in the future. Information about variability of performance is important in this respect. Information about performance is useful in predicting the capacity of the entity to generate cash flows from its existing resource base. It is also useful in forming judgments about the effectiveness with which the entity might employ additional resources. Information concerning changes in the financial position of an entity is useful in order to assess its investing, financing and operating activities during the reporting period. This information is useful in providing the user with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilize those cash flows. In constructing a statement of changes in financial position, funds can be defined in various ways, such as all financial resources, working capital, liquid assets or cash. No attempt is made in this Framework to specify a definition of funds.

Information about financial position is primarily provided in a balance sheet. Information about performance is primarily provided in an income statement. Information about changes in financial position is provided in the financial statements by means of a separate statement. The component parts of the financial statements interrelate because they reflect different aspects of the same transactions or other events.

Although each statement provides information that is different from the others, none is likely to serve only a single purpose or provide all the information necessary for particular needs of users. For example, an income statement provides an incomplete picture of performance unless it is used in conjunction with the balance sheet and the statement of changes in financial position.

4.1.8 Notes and Supplementary Schedules

The financial statements also contain notes, supplementary schedules, and other information. For example, they may contain additional information that is relevant to the needs of users about the items in the balance sheet and income statement. They may include disclosures about the risks and uncertainties affecting the entity and any resources and obligations not recognized in the balance sheet (such as mineral reserves). Also, provide information about geographical and industry segments and the effects on the entity of changing prices in the form of supplementary information.

4.2 Underlying Assumption

NAS has underlined the following list of the accounting assumptions to make work more competent:

4.2.1 Accrual Basis

In order to meet their objectives, financial statements are prepared on the accrual basis of accounting. Under this basis, the effects of transactions and other events are recognized when they occur (and not as cash or its equivalent are received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate. Financial statements prepared on the accrual basis inform users not only of past transactions involving the payment and receipt of cash but also of obligations to pay cash in the future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions.

4.2.2 Going concern

The financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

4.2.3 Qualitative Characteristics of Financial Statements

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. The four principal qualitative characteristics are understandability, relevance, reliability and comparability (NAS 01).

4.2.4 Understandability

An essential quality of the information provided in financial statements is that it is readily understandable by users. For this purpose, users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence. However, information about complex matters that should be included in the financial statements because of its relevance to the economic decision-making needs of users should not be excluded merely on the grounds that it may be too difficult for certain users to understand.

4.2.5 Relevance

To be useful, information must be relevant to the decision-making needs of users. Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations. The predictive and confirmatory roles of information are interrelated. For example, information about the current level and structure of asset holdings has value to users when they endeavor to predict the ability of the entity to take advantage of opportunities and its ability to react to adverse situations. The same information plays a confirmatory role in respect of past predictions about, for example, the way in which the entity would be structured or the outcome of planned operations. Information about financial position & past performance is frequently used as the basis for predicting future financial position and performance and other matters in which users are directly interested, such as dividend and wage payments, security price movements and the ability of the entity to meet its commitments as they fall due. To have predictive value, information need not be in the form of an explicit forecast. The ability to make predictions from financial statements is enhanced, however, by the manner in which information on past transactions and events is displayed. For example, the predictive value of the income statement is enhanced if unusual, abnormal and infrequent items of income or expense are separately disclosed.

4.2.6 Materiality

The relevance of information is affected by its nature and materiality. In some cases, the nature of information alone is sufficient to determine its relevance. For example, the reporting of a new segment may affect the assessment of the risks and opportunities facing the entity irrespective of the materiality of the results achieved by the new segment in the reporting period. In other cases, both the nature and materiality are important, for example, the amounts of inventories held in each of the main categories that are appropriate to the business. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.

4.2.7 Reliability

To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent. Information may be relevant but so unreliable in nature or representation that its recognition may be potentially misleading. For example, if the validity and amount of a claim for damages under a legal action are disputed, it may be inappropriate for the entity to recognize the full amount of the claim in the balance sheet, although it may be appropriate to disclose the amount and circumstances of the claim.

4.2.8 Faithful Representation

To be reliable, information either must represent faithfully the transactions and other events it purports to represent or could reasonably be expected to represent. Thus, for example, a balance sheet should represent faithfully the transactions and other events that result in assets, liabilities and equity of the entity at the reporting date which meet the recognition criteria. Most financial information is subject to some risk of being less than a faithful representation of that which it purports to portray.

Either this is not due to bias, but rather to inherent difficulties in identifying the transactions and other events to be measured or in devising and applying measurement and presentation techniques that can convey messages that correspond with those transactions and events. In certain cases, the measurement of the financial effects of items could be so uncertain that entities generally would not recognize them in the financial statements; for example, although most entities generate goodwill internally over time, it is usually difficult to identify or measure that goodwill reliably. In other cases, however, it may be relevant to recognize items and to disclose the risk of error surrounding their recognition and measurement.

4.2.9 Substance over form

If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. The substance of transactions or other events is not always consistent with that which is apparent from their legal or contrived form. For example, an entity may dispose of an asset to another party in such a way that the documentation purports to pass legal ownership to that party; nevertheless, agreements may exist that ensure that the entity continues to enjoy the future economic benefits embodied in the asset. In such circumstances, the reporting of a sale would not represent faithfully the transaction entered into (if indeed there was a transaction).

4.2.10 Neutrality

To be reliable, the information contained in financial statements must be neutral, that is, free from bias. Financial statements are not neutral if, by the selection or presentation of information, they influence the making of a decision or judgment in order to achieve a predetermined result or outcome.

4.2.11 Prudence

The preparers of financial statements do, however, have to contend with the uncertainties that inevitably surround many events and circumstances, such as the collectability of doubtful receivables, the probable useful life of plant and equipment and the number of warranty claims that may occur. Such uncertainties are recognized by the disclosure of their nature and extent and by the exercise of prudence in the preparation of the financial statements.

Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow, for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or income, or the deliberate over statement of liabilities or expenses, because the financial statements would not be neutral and , therefore, not have the quality of reliability.

4.2.12 Completeness

To be reliable, the information in financial statements must be complete within the bounds of materiality and cost. An omission can cause information to be false or misleading and thus unreliable and deficient in terms of its relevance.

4.2.13 Comparability

Users must be able to compare the financial statements of an entity through time in order to identify trends in its financial position and performance. Users must also be able to compare the financial statements of different entities in order to evaluate their relative financial position, performance and changes in financial position. Hence, the measurement and display of the financial effect of like transactions and other events must be carried out in a consistent way throughout an entity and over time for that entity and in a consistent way for different entities.

An important implication of the qualitative characteristic of comparability is that users be informed of the accounting policies employed in the preparation of the financial statements, any changes in those policies and the effects of such changes. Users need to be able to identify differences between the accounting policies for like transactions and other events used by the same entity from period to period and by different entities. Compliance with Nepal Accounting Standards, including the disclosure of the accounting policies used by the entity, helps to achieve comparability.

4.3 Constraints on Relevant and Reliable Information

If there is, undue delay in the reporting of information it may lose its relevance. Management may need to balance the relative merits of timely reporting and the provision of reliable information. To provide information on a timely basis it may often be necessary to report before all aspects of a transaction or other event are known, thus impairing reliability Conversely, if reporting is delayed until all aspects are known, the information may be highly reliable but of little use to users who have had to make decisions in the interim. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the economic decision making needs of users.

4.4 Balance between Benefit and Cost

The balance between benefit and cost is a pervasive constraint rather than a qualitative characteristic. The benefits derived from information should exceed the cost of providing it. The evaluation of benefits and costs is, however, substantially a judgmental process. Furthermore, the costs do not necessarily fall on those users who enjoy the benefits. Users other than those for whom the information is prepared may also enjoy benefits; For Example, the provision of further information to lenders may reduce the borrowing costs of an entity. For these reasons, it is difficult to apply a cost-benefit test in any particular case Nevertheless, Standard-setters in particular, as well as the preparers and users of financial statements should be aware of this constraint.

4.4.1 Balance between Qualitative Characteristics

In practice a balancing, or trade-off, between qualitative characteristics is often necessary. Generally, the aim is to achieve an appropriate balance among the characteristics in order to meet the objective of financial statements. The relative importance of the characteristics in a different case is a matter of professional judgment.

4.4.2 True and Fair View/Fair Presentation

Financial statements are frequently described as showing a true and fair view of, or as presenting fairly, the financial position, performance and changes in financial position of an entity. Although this Framework does not deal directly with such concepts, the application of the principal qualitative characteristics and of appropriate accounting Standards normally results in financial statements that convey what is generally understood as a true and fair view of, or as presenting fairly such information.

4.4.3 The Elements of Financial Statements

Financial statements portray the financial effects of transactions and other events by grouping them into broad classes according to their economic characteristics. These broad classes are termed the elements of financial statements. The elements directly related to the measurement of financial position in the balance sheet are assets, liabilities and equity. The elements directly related to the measurement of performance in the income statement are income and expenses.

The statement of changes in financial position usually reflects income statement elements and changes in balance sheet elements; accordingly, this Framework identifies no elements that are unique to this statement. The presentation of these elements in the balance sheet and the income statement involves a process of sub-classification. For example, assets and liabilities may be classified by their nature or function in the business of the entity in order to display information in the manner most useful to users for purposes of making economic decisions.

4.5 Financial Position

The elements directly related to the measurement of financial position are assets, liabilities and equity. These are defined as follows:

a) An asset is a resource controlled by the entity because of past events and from which future economic benefits are expected to flow to the entity

b) A liability is a present obligation of the entity arising from past events; the settlement of this is expected to result in an outflow from the entity of resources embodying economic benefits

c) Equity is the residual interest in the assets of the entity after deducting all its liabilities.

The definitions of an asset and a liability identify their essential features but do not attempt to specify the criteria that need to be met before they are recognized in the balance sheet. Thus, the definitions embrace items that are not recognized as assets or liabilities in the balance sheet because they do not satisfy the criteria for recognition discussed in paragraphs 82 to 98. In particular, the expectation that future economic benefits will flow to or from an entity must be sufficiently certain to meet the probability criterion in paragraph 83 before an asset or liability is recognized.

In assessing whether an item meets the definition of an asset, liability or equity, attention needs to be given to its underlying substance and economic reality not merely its legal form. Thus, for example: in the case of finance leases, the substance and economic reality are that the lessee acquires the economic benefits for the use of the leased asset for the major part of its useful life in return for entering into an obligation to pay for that, right amount approximating to the fair value of the asset and the related finance a charge.

Hence, the finance lease gives rise to items that satisfy the definition of an asset and a liability and are recognized as such in the lessee's balance sheet. Balance sheets drawn up in accordance with current Nepal Accounting Standards may include items that do not satisfy the definitions of an asset or liability and are not shown as part of equity. However, underline future reviews of existing Nepal Accounting Standards and the formulation of further Standards.

4.5.1 Assets

The future economic benefit embodied in an asset is the potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity. The potential may be a productive one that is part of the operating activities of the entity. It may also take the form of convertibility into cash or cash equivalents or a capability to reduce cash outflows, such as when an alternative manufacturing process lowers the costs of production. An entity usually employs its assets to produce goods or services capable of satisfying the wants or needs of customers; because these goods or services can satisfy these wants or needs, customers are prepared to pay for them and hence contribute to the cash flow of the entity. Cash itself renders a service to the entity because of its command over other resources. The future economic benefits embodied in an asset may flow to the entity in a number of ways. For example, an asset may be:

a) Used singly or in combination with other assets in the production of goods or services to be sold by the entity;

b) Exchanged for other assets;

c) Used to settle a liability; or

d) Distributed to the owners of the entity.

Many assets, for example, property, plant and equipment, have a physical form. However, physical form is not essential to the existence of an asset; hence, patents and copyrights, for example, are assets if future economic benefits are expected to flow from them to the entity and if they are controlled by the entity. Many assets, for example, receivables and property, are associated with legal rights, including the right of ownership. In determining the existence of an asset, the right of ownership is not essential; thus, for example, property held on a lease is an asset if the entity controls the benefits, which are expected to flow from the property.

Although the capacity of an entity to control benefits is usually the result of legal rights, an item may nonetheless satisfy the definition of an asset even when there is no legal control. For example, know-how obtained from a development activity may meet the definition of an asset when, by keeping that know-how secret, an entity controls the benefits that are expected to flow from it.

The assets of an entity result from past transactions or other past events. Entities normally obtain assets by purchasing or producing them, but other transactions or events may generate assets; examples include property received by an entity from government as part of a program to encourage economic growth in an area and the discovery of mineral deposits. Transactions or events expected to occur in the future do not in themselves give rise to assets; hence, for example, an intention to purchase inventory does not, of itself, meet the definition of an asset.

There is a close association between incurring expenditure and generating assets but the two do not necessarily coincide. Hence, when an entity incurs expenditure, this may provide evidence that future economic benefits were sought but is not conclusive proof that an item satisfying the definition of an asset has been obtained. Similarly, the absence of a related expenditure does not preclude an item from satisfying the definition of an asset and thus becoming a candidate for recognition in the balance sheet; for example, items that have been donated to the entity may satisfy the definition of an asset.

4.5.2 Liabilities

An essential characteristic of a liability is that the entity has a present obligation. An obligation is a duty or responsibility to act or perform in a certain way. Obligations may be legally enforceable because of a binding contract or statutory requirement. This is normally the case, for example, with amounts payable for goods and services received.

Obligations also arise, however, from normal business practice, custom and a desire to maintain good business relations or act in an equitable manner. If, for example, an entity decides as a matter of policy to rectify faults in its products even when these become apparent after the warranty period has expired, the amounts that are expected to be expended in respect of goods already sold are liabilities. A distinction needs to be drawn between a present obligation and a future commitment. A decision by the management of an entity to acquire assets in the future does not, of itself, give rise to a present obligation. An obligation normally arises only when the asset is delivered or the entity enters into an irrevocable agreement to acquire the assets.

In the latter case, the irrevocable nature of the agreement means that the economic consequences of failing to honor the obligation, for example, because of the existence of a substantial penalty, leave the entity with little, if any, discretion to avoid the outflow of resources to another party. The settlement of a present obligation usually involves the entity giving up resources embodying economic benefits in order to satisfy the claim of the other party. Settlement of a present obligation may occur in a number of ways, for example, by:

a) Payment of cash

b) Transfer of other assets

c) Provision of services

d) Replacement of that obligation with another obligation; or

e) Conversion of the obligation to equity.

An obligation may also be extinguished by other means, such as a creditor waiving or forfeiting its rights. Liabilities result from past transactions or other past events. Thus, for example, the acquisition of goods and the use of services give rise to trade payables (unless paid for in advance or on delivery) and the receipt of a bank loan results in an obligation to repay the loan. An entity may also recognize future rebates based on annual purchases by customers as liabilities; in this case, the sale of the goods in the past is the transaction that gives rise to the liability.

Some liabilities can be measured only by using a substantial degree of estimation. Some entities describe these liabilities as provisions. The definition of a liability follows a broader approach. Thus, when a provision involves a present obligation and satisfies the rest of the definition, it is a liability even if the amount has to be estimated. Examples include provisions for payments to be made under existing warranties and provisions to cover pension obligations.

4.5.3 Equity

Although equity is defined in paragraph 49 as a residual, it may be sub classified in the balance sheet. For example, in a corporate entity, funds contributed by shareholders, retained earnings, reserves representing appropriations of retained earnings and reserves representing capital maintenance adjustments may be shown separately. Such classifications can be relevant to the decision-making needs of the users of financial statements when they indicate legal or other restrictions on the ability of the entity to distribute or otherwise apply its equity. They may also reflect the fact that parties with ownership interests in an entity have differing rights in relation to the receipt of dividends or the repayment of capital.

The creation of reserves is sometimes required by statute or other law in order to give the entity and its creditors an added measure of protection from the effects of losses. Other reserves may be established if existing tax law grants exemptions from, or reductions in, taxation liabilities when transfers to such reserves are made. The existence and size of these legal, statutory and tax reserves is information that can be relevant to the decision-making needs of users. Transfers to such reserves are appropriations of retained earnings rather than expenses. The amount at which equity is shown in the balance sheet is dependent on the measurement of assets and liabilities. Normally, the aggregate amount of equity only by coincidence corresponds with the aggregate market value of the shares of the entity or the sum that could be raised by disposing of the net assets on a piecemeal basis or the entity as a whole on a going concern basis.

Commercial, industrial and business activities are often undertaken by means of entities such as sole proprietorships, partnerships and trusts and various types of government business undertakings. The legal and regulatory framework for such entities is often different from that applying to corporate entities. For example, there may be few, if any, restrictions on the distribution to owners or other beneficiaries of amounts included in equity. Nevertheless, the definition of equity and the other aspects of this Framework that deal with equity are appropriate for such entities.

4.5.4 Performance

Profit is frequently used as a measure of performance or as the basis for other measures, such as return on investment or earnings per share. The elements directly related to the measurement of profit are income and expenses. The recognition and measurement of income and expenses, and hence profit, depends in part on the concepts of capital and capital maintenance used by the entity in preparing its financial statements and these concepts are discussed. The elements of income and expenses are defined as follows;

a) Income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants

b) Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

The definitions of income and expenses identify their essential features but do not attempt to specify the criteria that would need to be met before they are recognized in the income statement. Criteria for the recognition of income and expenses are discussed. Income and expenses may be presented in the income statement in different ways to provide information that is relevant for economic decision-making. For example, it is common practice to distinguish between those items of income and expenses that arise in the course of the ordinary activities of the entity and those that do not.

This distinction is made on the basis that the source of an item is relevant in evaluating the ability of the entity to generate cash and cash equivalents in the future; for example, incidental activities such as the disposal of a long-term investment are unlikely to recur on a regular basis. When distinguishing between items in this way consideration needs to be given to the nature of the entity and its operations. Items that arise from the ordinary activities of one entity may be unusual in respect of another.

Distinguishing between items of income and expense and combining them in different ways also permits several measures of entity performance to be displayed. These have differing degrees of inclusiveness. For example, the income statement could display gross margin, profit from ordinary activities before taxation, profit from ordinary activities after taxation, and net profit.

4.5.5 Income

The definition of income encompasses both revenue and gains. Revenue arises in the course of the ordinary activities of an entity and is referred to by a variety of different names including sales, fees, interest, dividends, royalties and rent.

Gains represent other items that meet the definition of income and may, or may not, arise in the course of the ordinary activities of an entity. Gains represent increases in economic benefits and as such are no different in nature from revenue. Hence, they are not regarded as constituting a separate element in this Framework.

Gains include, for example, those arising on the disposal of non current assets. The definition of income also includes unrealized gains; for example, those arising on the revaluation of marketable securities and those resulting from increases in the carrying amount of long-term assets. When gains are recognized in the income statement, they are usually displayed separately because knowledge of them is useful for making economic decisions. Gains are often reported net of related expenses.

Various kinds of assets may be received or enhanced by income; examples include cash, receivables, goods, services received in exchange for goods, and services supplied. Income may also result from the settlement of liabilities. For example, an entity may provide goods and services to a lender in settlement of an obligation to repay an outstanding loan.

4.5.6 Expenses

The definition of expenses encompasses losses as well as those expenses that arise in the course of the ordinary activities of the entity. Expenses that arise in the course of the ordinary activities of the entity include, for example, cost of sales, wages and depreciation. They usually take the form of an outflow or depletion of assets such as cash and cash equivalents, inventory, property, plant and equipment.

Losses represent other items that meet the definition of expenses and may or may not, arise in the course of the ordinary activities of the entity. Losses represent decreases in economic benefits and as such, they are no different in nature from other expenses. Hence, they are not regarded as a separate element in this Framework.

Losses include, for example, those resulting from disasters such as fire and flood, as well as those arising on the disposal of non-current assets. The definition of expenses also includes unrealized losses; for example, losses arising from the effects of increases in the rate of exchange for a foreign currency in respect of the borrowings of an entity in that currency. When losses are recognized in the income statement, they are usually displayed separately because knowledge of them is useful for the purpose of making economic decisions. Losses are often reported net of related income.

4.6 Capital Maintenance Adjustments

The revaluation or restatement of assets and liabilities gives rise to increases or decreases in equity. While these increases or decreases meet the definition of income and expenses, they are not included in the income statement under certain concepts of capital maintenance. Instead, these items are included in equity as capital maintenance adjustments or revaluation reserves. These concepts of capital maintenance are discussed in this Framework.

4.6.1 Recognition of the elements of Financial Statements

Recognition is the process of incorporating in the balance sheet or income statement an item that meets the definition of an element and satisfies the criteria for recognition set out. It involves the depiction of the item in words and by a monetary amount and the inclusion of that amount in the balance sheet or income statement totals. Items that satisfy the recognition criteria should be recognized in the balance sheet or income statement. The failure to recognize such items is not rectified by disclosure of the accounting policies used nor by notes or explanatory material. An item that meets the definition of an element should be recognized if;

a) It is probable that any future economic benefit associated with the item will flow to or from the entity; and

b) The item has a cost or value that can be measured with reliability.

In assessing whether an item meets these criteria and therefore qualifies for recognition in the financial statements, regard needs to be given to the materiality considerations discussed. The interrelationship between the elements means that an item that meets the definition and recognition criteria for a particular element, for example, an asset, automatically requires the recognition of another element, for example, income or a liability.

4.6.2 The Probability of Future Economic Benefit

The concept of probability is used in the recognition criteria to refer to the degree of uncertainty that the future economic benefits associated with the item will flow to or from the entity. The concept is in keeping with the uncertainty that characterizes the environment in which an entity operates. Assessments of the degree of uncertainty attaching to the flow of future economic benefits are made based on the evidence available when the financial statements are prepared. For example, when it is probable that a receivable owed by an entity will be paid, it is then justifiable, in the absence of any evidence to the contrary, to recognize the receivable as an asset. For a large population of receivables, however, some degree of non-payment is normally considered probable; hence, an expense representing the expected reduction in economic benefits is recognized.

4.6.3 Reliability of Measurement

The second criterion for the recognition of an item is that it possesses a cost or value that can be measured with reliability as discussed in paragraphs 31 to 38 of this Framework. In many cases, cost or value must be estimated; the use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability. When, however, a reasonable estimate cannot be made the item is not recognized in the balance sheet or income statement. For example, the expected proceeds from a lawsuit may meet the definitions of both an asset and income as well as the probability criterion for recognition; however, if it is not possible for the claim to be measured reliably, it should not be recognized as an assets or as income; the existence of the claim, however, would be disclosed in the notes, explanatory material or supplementary schedules.

An item that, at a particular point of time, fails to meet the recognition criteria it may qualify for recognition at a later date as a result of subsequent circumstances or events. An item that possesses the essential characteristics of an element but fails to meet the criteria for recognition may nonetheless warrant disclosure in the notes, explanatory material or in supplementary schedules. This is appropriate when the users of financial statements consider knowledge of the item relevant to the evaluation of the financial position, performance and changes in financial position of an entity by the users of financial statements.

4.6.4 Recognition of Assets

An asset is recognized in the balance sheet when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably. An asset is not recognized in the balance sheet when expenditure has been incurred for which it is considered improbable that economic benefits will flow to the entity beyond the current accounting period.

Instead, such a transaction results in the recognition of an expense in the income statement. This treatment does not imply either that the intention of management in incurring expenditure was other than to generate future economic benefits for the entity or that management was misguided. The only implication is that the degree of certainty that economic benefits will flow to the entity beyond the current accounting period is insufficient to warrant the recognition of an asset.

4.6.5 Recognition of liabilities

A liability is recognized in the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably. In practice, obligations under contracts that are equally proportionately unperformed (for example, liabilities for inventory ordered but not received) are generally not recognized as liabilities in the financial statements. However, such obligations may meet the definition of liabilities and, provided the recognition criteria are met in the particular circumstances, may qualify for recognition. In such circumstances, recognition of liabilities entails recognition of related assets or expenses.

4.6.6 Recognition of Income

Income is recognized in the income statement when an increase in future economic benefit related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably. This means, in effect, that recognition of income occurs simultaneously with the recognition of increases in assets or decreases in liabilities (for example, the net increase in assets arising on a sale of goods or services or the decrease in liabilities arising from the waiver of a debt payable). The procedure normally adopted in practice for recognizing income, for example, the requirement that revenue should be earned, are applications of the recognition criteria in this Framework. Such procedures are generally directed at restricting the recognition as income to those items that can be measured reliably and have a sufficient degree of certainty.

4.6.7 Recognition of Expenses

Expenses are recognized in the income statement when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. This means, in effect, that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets (for example, the accrual of employee entitlements or the depreciation of equipment). Expenses are recognized in the income statement based on a direct association between the costs incurred and the earning of specific items of income. This process commonly referred to as the matching of costs with revenues involving the simultaneous or combined recognition of revenues and expenses that result directly and jointly from the same transactions or other events; for example: the various components of expense making up the cost of goods sold are recognized at the same time as the income derived from the sale of the goods. However, the application of the matching concept under this Framework does not allow the recognition of items in the balance sheet, which do not meet the definition of assets or liabilities.

When economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined, expenses are recognized in the income statement based on systematic and rational allocation procedures. This is often necessary in recognizing the expenses associated with the using up of assets such as property, plant, equipment, goodwill, patents and trademarks; in such cases the expense is referred to as depreciation or amortization. These allocation procedures are intended to recognize expenses in the accounting periods in which the economic benefits associated with these items are consumed or expire.

An expense is recognized immediately in the income statement when expenditure produces no future economic benefits or when, and to the extent that; future economic benefits do not qualify, or cease to qualify, for recognition in the balance sheet as an asset. An expense is also recognized in the income statement in those cases when a liability is incurred without the recognition of an asset, as when a liability under a product warranty arises.

4.6.8 Measurement of the Elements of Financial Statements

Measurement is the process of determining the monetary amounts at which the elements of the financial statements are to be recognized and carried in the balance sheet and income statement. This involves the selection of the particular basis of measurement. A number of different measurement bases are employed to different degrees and in varying combinations in financial statements. They include the following:

A. *Historical cost*. Assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation, or in some circumstances (for example, income taxes), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

B. *Current cost*; Assets are carried at the amount of cash or cash equivalents that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.

C. *Realizable (settlement) value*; Assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the asset in an orderly disposal. Liabilities are carried at their settlement values; that is, the undiscounted amounts of cash or cash equivalents expected to be paid to satisfy the liabilities in the normal course of business.

D. *Present value*; Assets are carried at the present discounted value of the future net cash inflows that the item is expected to generate in the normal course of business. Liabilities are carried at the present discounted value of the future net cash outflows that are expected to be required to settle the liabilities in the normal course of business. The measurement basis most commonly adopted by entities in preparing their financial statements is historical cost.

This is usually combined with other measurement bases. For example, inventories are usually carried at the lower of cost and net realizable value, marketable securities may be carried at market value and pension liabilities are carried at their present value. Furthermore, some entities use the current cost basis as a response to the inability of the historical cost accounting model to deal with the effects of changing prices of non-monetary assets.

4.7 Concepts of capital and capital maintenance

4.7.1 Concepts of capital

A financial concept of capital is adopted by most entities in preparing their financial statements. Under a financial concept of capital, such as invested money or invested purchasing power, capital is synonymous with the net assets or equity of the entity. Under a physical concept of capital, such as operating capability, capital is regarded as the productive capacity of the entity based on, for example, units of output per day. The selection of the appropriate concept of capital by an entity should be based on the needs of the users of its financial statements.

4.7.2 Concepts of Capital Maintenance and the Determination of Profit

The concepts of capital in paragraph 102 give rise to the following concepts of capital maintenance:

A. Financial capital maintenance. Under this concept a profit is earned only if the financial (or money) amount of the net assets at the end of the period exceeds the financial (or money) amount of net assets at the beginning of the period, after excluding any distributions to, and contributions from, owners during the period. Financial capital maintenance can be measured in either nominal monetary units or units of constant purchasing power.

B. Physical capital maintenance. Under this concept a profit is earned only if the physical productive capacity (or operating capability) of the entity (or the resources or funds needed to achieve that capacity) at the end of the period exceeds the physical productive capacity at the beginning of the period, after excluding any distributions to, and contributions from, owners during the period.

The concept of capital maintenance is concerned with how an entity defines the capital that it seeks to maintain. It provides the linkage between the concepts of capital and the concepts of profit because it provides the point of reference by which profit is measured. It is a prerequisite for distinguishing between an entity's return on capital and its return of capital; only inflows of assets in excess of amounts needed to maintain capital may be regarded as profit and therefore, as a return on capital. Hence, profit is the residual part that remains after expenses (including capital maintenance adjustments, where appropriate) have been deducted from income.

If expenses exceed income, the residual amount is a net loss. The physical capital maintenance concept requires the adoption of the current cost basis of measurement. The financial capital maintenance concept, however, does not require the use of a particular basis of measurement. Selection of the basis under this concept is dependent on the type of financial capital that the entity is seeking to maintain. The principal difference between the two concepts of capital maintenance is the treatment of the effects of changes in the prices of assets and liabilities of the entity. In general terms, an entity has maintained its capital if it has as much capital at the end of the period as it had at the beginning of the period.

Any amount over and above that required to maintain the capital at the beginning of the period is profit. Under the concept of financial capital maintenance where capital is defined in terms of nominal monetary units, profit represents the increase in nominal money capital over the period.

Thus, increases in the prices of assets held over the period, conventionally referred to as holding gains are, conceptually, profits. They may not be recognized as such, however, until the assets are disposed of in an exchange transaction. When the concept of financial capital maintenance is defined in terms of constant purchasing power units, profit represents the increase in invested purchasing power over the period. Thus, only that part of the increase in the prices of assets that exceeds the increase in the general level of prices is regarded as profit. The rest of the increase is treated as a capital maintenance adjustment and, hence, as part of equity.

Under the concept of physical capital maintenance when capital is defined in terms of the physical productive capacity, profit represents the increase in that capital over the period. All price changes affecting the assets and liabilities of the entity are viewed as changes in the measurement of the physical productive capacity of the entity; hence, they are treated as capital maintenance adjustments that are part of equity and not as profit. The selection of the measurement bases and concept of capital maintenance will determine the accounting model used in the preparation of the financial statements.

Different accounting models exhibit different degrees of relevance and reliability and, as in other areas; management must seek a balance between relevance and reliability. This Framework is applicable to a range of accounting models and provides guidance on preparing and presenting the financial statements constructed under the chosen model. Now, it is not the intention of the ASB to prescribe a particular model other than in exceptional circumstances, such as for those entities reporting in the currency of a hyperinflationary economy. This intention will, however, be reviewed in the light of development of accountancy profession in the country.

4.8 An Empirical Analysis

Empirical analysis assures or falsifies theories. If theory is assured, it is more reliable; if theory is falsified it should be discarded.

4.8.1 Introduction

An empirical investigation has been conducted in order to find out various aspects of role of ICAN from the experience of real life situation. The major tool used for this purpose is an opinion questionnaire, which was dispatched to 30 persons representing CA/Auditors, Account officers and Assistant accountants. The format of questionnaire and the list of respondents are in appendix.

The questionnaire were either asked for a yes/no response or asked form ranking of choices according to number of alternatives where first choices most preference and last choose was least preference. For analysis purpose, choices were assigned weight according to the number of alternatives. If the number of alternatives were four, then the first preferred choice got four points and the last preferred choice got one point. Any alternative, which was not ranked didn't get any point. The total points available to each choice were converted into percentages in reference to the total points available for all choices. The choice with the highest score of percent was ranked as the most important choice and one with the lowest percent being ranked as last choice. The following table shows the groups of respondents and code used to represent them.

Table 4.1: Groups of Respondents and Codes used

S.N.	Group of Respondents	Sample Size	Code Used
1	CA/Auditors	10	A
2	Account officers	10	B
3	Assistant Accountants	10	C
	Total	30	

Source: Opinion Survey 2068

4.8.2 The role of ICAN for maintaining accounting standard

In order to know the respondents opinion on the suitability of the role of ICAN for maintaining accounting standard, a question was asked, "In your opinion, is the role of ICAN for maintaining accounting standard is suitable or appropriate?" The responses received from the respondents are tabulated as follow:-

Table 4.2: The role of ICAN is Suitable

Response / Respondents	Yes		No		Total	
	Number	**%**	**Number**	**%**	**Number**	**%**
A	10	100	-	-	10	100
B	10	100	-	-	10	100
C	10	100	-	-	10	100
Total	30	100	-	-	30	100

Source: Opinion Survey 2068

The cent percent of respondents approved the role of ICAN for maintaining accounting standard is suitable or appropriate. Hence, it can be concluded that there is no doubt in the suitability of the role of ICAN.

4.8.3 Suitability of the ICAN

In order to know the reasons for the ICAN play the vital role in maintaining the accounting standard of commercial banks, the next question was asked. "If yes, why it is suitable and has such significance?" The respondents were requested to rank their responses from 1 (Most important) to 4 (least Important). The responses have been tabulated below.

Table 4.3: Reasons for the Suitability of the ICAN

S.N	Reasons	Group			Total	%	Rank
		A	**B**	**C**			
1	Make the system is more systematic	57	61	52	170	42.82	1
2	Give rules and regulations	22	17	29	68	17.13	3
3	Best way for pro-motion/regulation	36	34	27	97	24.43	2
4	Seems to be the most viable	12	18	17	47	11.84	4

5	Other any(specify)	7	5	3	15	3.78	5
	Total	134	135	128	397	100	

Source: Opinion Survey 2068

In the above table, percent was calculated according to the total points obtained by each reason. For ranking purpose, percent of each reason was matched with each other and assigned 1st rank to the highest percent. Besides the above given reason respondents proposed following reasons for the suitability of the role of ICAN. Thus, it is concluded that the role of ICAN is suitable means for make the system is more systematic.

4.8.4 ICAN effectiveness in promotion and harmonization of accounting standards in Nepalese commercial sectors

To know the respondent's view about the current exemption limit, a question was asked, "Do you think ICAN is effective in promotion and harmonization of accounting standards in Nepalese commercial sectors?" The responses were as follows:

Table 4.4: ICAN effectiveness in Nepalese commercial sectors

Response / Respondent	A	B	C	Total	%
Very High	5	4	3	12	40
High	3	2	4	9	30
Moderate	1	2	3	6	20
Low	1	2	-	3	10
Very Low	-	-	-	-	-
Total	10	10	10	30	100

Source: Opinion Survey 2068

From the above table, it is clear that the 40 percent of the respondents were highly in favor of statement as well as 30 percent of them agree with that ICAN is effective in promotion and harmonization of accounting standards in Nepalese commercial sectors.

4.8.5 Relatedness with present context

In order to know the respondents view about the present prospective, a question was asked, "To what extent the standards are relevant so far as present prospective is concerned?" The responses were as follows:-

Table 4.5: **Relatedness with present context**

Response / Respondents	A	B	C	Total	%
Very High	1	2	3	6	20
High	4	6	5	15	50
Moderate	4	-	2	6	20
Low	1	2	-	3	10
Very Low	-	-	-	-	-
Total	10	10	10	30	100

Source: Opinion Survey 2068

From the above table, it is clear that the present perspective of accounting procedure or system is 20 percent responses are highly related to the accounting standard. 50 percent think high relationship and 20 percent of them agree with the moderately related with present perspective.

4.8.6 Relatedness with future perspective

To know the respondent's view about the context in future, a questions was asked, "To what extent the standards will relevant (in your experience and perception) in future days?" The responses were as follows:

Table 4.6: **Relatedness with future perspective**

Response / Respondents	A	B	C	Total	%
Very High	2	2	2	6	20
High	1	-	2	3	10
Moderate	8	6	4	18	60
Low	-	2	1	3	10
Very Low	-	-	-	-	-
Total				30	100

Source: Opinion Survey 2068

In the above table, maximum respondents i.e. 60 percent agree that may be relevant in future days because future is uncertain due to principle of accounting are changing day by day and it makes obsolete of present techniques.

4.8.7 Structure of work to be designed

To know the design of assigned work done by the respondents which is to understand about the operation of accounting activities, a question was asked, "how is your present work to be?" the responses are as follows;

Table 4.7: structure of work to be designed

Respondents \ Response	A	B	C	Total	%
Structured	1	3	2	6	20
Unstructured	7	6	5	18	60
Sensitive	2	1	2	5	16.67
Other if any	-	-	1	1	3.33
Total	10	10	10	30	100

Source: Opinion Survey 2068

From the above table it is clear that 60 percent respondents' work is designed so as to against the standard made by the ICAN. It shows the responsibilities, authorities, duties, liabilities and performances are not confirmed. Only 20 percent of them have structural work.

4.8.8 Useful parts of standards

To know the usefulness of parts of standards of ICAN, a question was asked, "What part of standards you find more useful?" The responses are as below;

Table 4.8: Useful parts of standards

Respondents \ Response	A	B	C	Total	%
Policies	4	4	7	15	50
Methods	3	4	2	9	30
Practices	3	2	1	6	20

Any other (if)	-	-	-	-	-
Total	10	10	10	30	100

Source: Opinion Survey 2068

From this table it is concluded that the useful part of standard prepared by the ICAN is its policies that is maximum respondents agree with the statement and then only support its methods and practices.

4.8.9 Reason for standards are given more relevant

In order to know the opinion of respondents that the reasons for what the stand- ard are given more relevant, a question was asked, "Why the standards are given more relevant? Please rank them (I stand for the most important and so on)"

Table 4.9: Reason for standards are given more relevant

S.N	Methods	Group			Total	%	Rank
		A	B	C			
1	Make system more systematic	59	48	61	168	46.03	1
2	Support in the performance	15	33	22	70	19.18	3
3	Broadens Knowledge about business Adm.	31	28	26	85	23.29	2
4	Help in promotion	9	13	7	29	7.94	4
5	Others, if any	6	5	2	13	3.56	5
Total		120	127	118	365	100	

Source: Opinion Survey 2068

From the above table, 46.03 percent of respondents suggest for make the system is more systematic. So it is the 1st position. 19.18 percent of respondents agree with it support in job performance. 23.29 percent of respondents agree that it broadens the knowledge about business administration. Only 7.94 percent agree that it helps in promotion.

4.8.10 Use of ICAN standards

In order to know the opinion of respondent's about the use of the knowledge gained through the ICAN standards, a question was asked, "What is your opinion regarding the use of the knowledge gained through the ICAN standards?" Their responses were as follows:

Table 4.10: Use of ICAN standard

Response / Respondents	A	B	C	Total	Percent-age
It is useful immediately	3	2	3	8	26.67
It is useful in future	2	3	1	6	20
It is useful both immediately as well as future	5	4	6	15	50
It is no useful	-	1	-	1	3.33
Total	10	10	10	30	100.00

Source: Opinion Survey 2068

In above table, 50 percent of responses have agreed that the use of knowledge gained through the ICAN standards is useful immediately as well as for future. But 26.67 percent of respondents replied it is useful only immediately. 20 percent suggest it will be useful in future.

4.8.11 Necessity of improvement

The ICAN standards for making to promote and harmonize the accounting standard of commercial banks are adequate. To know whether the need of improvement, a question was asked, "Do you feel for improvement of accounting standards of ICAN?" The responses are as follows;

Table 4.11: Need for improvement

Response / Respondents	A	B	C	Total	Percent-age
Yes	5	4	2	11	36.67
No	5	6	7	18	60
No idea	-	-	1	1	3.33
Total	10	10	10	30	100

Source: Opinion Survey 2068

A major portion 60 percent of respondents replied that it need not for improvement of accounting standard of ICAN. Out of them 36.67 states that improvement is needed. Only one of respondents opined that he have no idea. In order to know the reason for not need for improvement, the next question was asked, "Why is it not necessary?" Then the reasons are as follows.

Table 4.12: Reason of not need for improvement

Reasons \ Response	A	B	C	Total	Percent-age
It can't be improved	3	4	2	9	50
It has no future scope	2	1	1	4	22.22
It is not necessary to promote by ICAN	1	1	2	4	22.22
Other, if any	-	1	-	1	5.56
Total	5	6	7	18	100

Source: Opinion Survey 2068

From above table, reasons for improvement a major portion 50 percent of respondents replied that it can't be improved the accounting standards of ICAN. 22.22 of respondents opined that it has no future scope and equal percent of them replied that it is not necessary to promote. Again to know the reason of need for improvement from remaining respondents, the next question was asked, "Why is it needed to improve?" Then the reasons are as follows.

Table 4.13: Reasons of need for improvement

Reasons \ Response	A	B	C	Total	Percent-age
To make the accounting promotion more relevant	2	2	1	5	45.45
To make the standards globally recognized	1	1	-	2	18.18
Both of them	2	1	1	4	36.36
Other, if any	-	-	-	-	-
Total	5	4	2	11	100

Source: Opinion Survey 2068

A major portion 45.45 percent of respondents replied that it needs to improve due to make the accounting promotion more relevant. 18.18 percent of them agree to make the standards globally recognized. And only 36.36 percent of respondents opined that due to both the reason it needs for improvement.

4.8.12 Aspects to be improved

In order to know the different aspects to be improved the next question was asked, "What are the different aspects to be improved? (Please rank them as I for the most important so on" Then the reasons are as follows.

Table 4.14: Improvement factors

S.N	Reasons	Group			Total	%	Rank
		A	B	C			
1	Examination procedure	3	2	2	69	22.33	2
2	Methods for implementation	4	2	1	56	18.12	4
3	Pattern of stand-ards as a whole	15	15	6	62	20.06	3
4	Rules regarding particular fields	2	1	1	74	23.95	1
5	Other if any (specify the rank)	1	-	-	48	15.33	5
	Total	25	20	10	55	100	

Source: Opinion Survey 2068

From above table, among different aspects of improvement, factors were ranked in according to the preference of the respondents. From the above ranking, it is concluded that the main factor of improvement

4.8.13 Appropriate to usefulness

In order to know the opinion of respondent's about the standards are appropriate in terms of its usefulness, a question was asked, "Do you think that the course contents in standards are appropriate in terms of its usefulness for both the expansion of knowledge as well as business?" Their responses were as follows:

Table 4.15: standard usefulness

Response / Respondents	A	B	C	Total	Percent-age
Yes	8	7	6	21	70
No	2	3	2	7	23.33
No idea	-	-	2	2	6.67
Total	10	10	10	30	100.00

Source: Opinion Survey 2068

From the above table, 70 percent respondents felt that it is appropriate the course contents of accounting standard in terms of its usefulness for both the expansion of knowledge as well as business. But 23.33 percent of respondents reply that it is not appropriate. Then another question arises why it is so, a question was asked, “If no what parts needs to be improved?” The responses are as bellow;

Table 4.16: Needs to be improved

Response / Respondents	A	B	C	Total	Percent-age
Policies	1	1	1	3	28.57
Methods	-	-	1	1	7.14
Procedures	1	2	1	4	57
Total	2	3	2	7	100.00

Source: Opinion Survey 2068

It is observed that 36.41 percent respondents indicated that the procedure as a whole should be improved. Similarly 28.57 percent agree that the policies of the standard should be changed and only 9.24 percent agree that methods have to be amended.

4.8.14 Technique to improvement

To know the solution that the way of improvement, the next question was asked, “How can it be improved?” The respondents’ replies were as follows:

Table 4.17: Suggestions of improvement

Response / Respondents	A	B	C	Total	Percent-age
By making more practical	2	2	2	6	70
By making more theoretical	-	-	-	-	23.33
By modifying contents	-	1	-	1	6.67
Total	2	3	2	7	100.00

Source: Opinion Survey 2068

It is found that 70 percent of the respondents suggest that by making the standard more practical it can make fruitful or applicable in the present context of accounting of commercial banks. Similarly 23.33 percent agree that theoretical framework should be changed and only 6.67 percent think that it should be improved through modifying contents.

4.8.15 Present system of application

In order to know the present system of application of accounting standards appropriateness, a question was asked, "Do you think the present system of application is appropriate?" The responses are categorized into as follows;

Table 4.18: Application appropriateness

Response / Respondents	A	B	C	Total	Percent-age
Yes	2	4	3	9	30
No	6	5	7	18	60
I Don't Know	2	1	-	3	10
Total	10	10	10	30	100

Source: Opinion Survey 2068

From the above table, it is clear that 60 percent respondents replied that the present system of application is not appropriate. 30 percent of them agree that it is appropriate for present context of accounting standard of commercial banks. Again to know that what should be there in the accounting standard system? The next question was asked, "If not, what do you think it to be?" The responses are as below;

Table 4.19: System of application

Respondents \ Response	A	B	C	Total	%
Half year evaluation	2	1	2	5	27.78
Half year evaluation following by practicality of evaluation	1	3	2	6	33.33
Annual evaluation followed by practicality of evaluation	3	1	2	6	33.33
Others, if any (please specify)	-	-	1	1	5.56
Total	6	5	7	18	100

Source: Opinion Survey 2068

As shown in the table, it is clears that the respondents who don't think that the present system of application is appropriate, 27.78 percent responses are about half year evaluation, 33.33 percent respondents replies that the evaluation should be half yearly following by practicality of evaluation as well as 33.33 percent replies annual evaluation followed by practicality of evaluation.

4.4.16 Conduction the standards

To know the opinion of respondents about the present method of conducting the standards, a question was asked, "How do you think the present method of conducting the standards?" The responses are as follows;

Table 4.19: Reasons of need for improvement

Reasons \ Response	A	B	C	Total	Percent-age
Highly fruitful	1	-	1	2	6.67
Fruitful	3	2	1	6	20
Moderate	6	7	5	18	60
Little	-	1	2	3	10
Very little	-	-	1	1	3.33
Total	5	4	2	11	100

Source: Opinion Survey 2068

As above mention in the table, 60 percent of the respondents think that the current method of conducting the standard is moderately fruitful, 20 percent think fruitful and only 6.67 percent of them think that it is highly fruitful. It shows that it requires more practical base with nowadays contexts.

4.8.17 Role for improvement

To know the opinion of respondents that whose role is most important or keep great significance for the improvement of accounting standards system, a question was asked, “Whose role is most important for improvement?” The respondents were requested to rank their answer from 1 (most important) to 5 (least important). The responses have been tabulated as follows:

Table 4.20: Area of role for improvement

S.N	Problems	Group			Total	%	Rank
		A	B	C			
1	ICAN administration	34	28	38	100	29.07	1
2	Bank administration	20	15	26	61	17.73	3
3	Student and their association of ICAN	16	22	19	57	16.57	4
4	Government and their agencies	27	31	37	95	27.62	2
5	Others if any	8	11	12	31	9.01	5
	Total	105	107	132	344	100	

Source: Opinion Survey 2068

It is observed that the main role for improvement is ICAN administration, which occupies 1st rank with 29.07 percent, 2nd rank i.e. 27.62 percent followed by government and their agencies, 3rd rank with 17.73 percent followed by bank administration and 4th rank to 16.57 percent agree with student and their association of ICAN and only 9.01 percent thinks for others.

4.8.18 Efficiency of ICAN

To know whether the role of ICAN in promotion and harmonization of accounting standard of commercial bank in Nepal is efficient, a question was asked “Do you think is it efficient for promoting and harmonizing the accounting standard of commercial banks?” The respondent’s response has been presented as follows:

Table 4.21: Efficiency of ICAN

Respondents \ Response	A	B	C	Total	Percentage
Yes	2	4	3	9	30
No	5	5	7	17	56.67
I Don't Know	3	1	-	4	13.33
Total	10	10	10	30	100

Source: Opinion Survey 2068

In the above table 4.25 shows that 56.67 percent of responses is not efficient & 30 percent of respondents showed it is efficient. However, 13.33 percent showed their non-acquaintance on it. There should be strict rules & regulation for efficient administration.

4.9 The Overall Nepalese Commercial Banks Accounting

4.9.1 Presentation of Financial Statements

Nepalese Commercial Bank prepared its consolidated financial statements in accordance with the International Accounting Standards (IASs) of the International Accounting Standard Committee (IASC). The statements were prepared under the historic cost convention except for valuation. Nepalese accounting principles were used within the group to facilitate comparability of statements prepared by subsidiaries and those of the parent.

The parent company's financial statements were initially prepared in accordance with the Nepalese Commercial bank and the Nepalese Accounting Directives for Banks, which also complied with the provisions of the Nepal Stock Exchange Act. Like others, the annual report started with a highlight of the group's present and future environments, followed by the Audit Committee and Directors' report.

4.9.2 Measurement Practice/Basis of Preparation

It is the group's policy to report trading assets at market value. Investment securities were valued at cost. Property and equipments were recorded at historic purchase or production cost. Depreciation took the form of straight-line method, with, building being depreciated over a period of between 25 and 50 years. Office furniture and equipments were assigned an estimated life span between 4 to 10 years.

4.9.3 Consolidation Accounting

The consolidated financial statements were made up of results from the parent and subsidiaries for which the bank owns either more than 50% of the voting rights or, otherwise, has control over its operation. The purchase method was used when accounting for acquisitions. Any investments in associated companies and joint ventures were accounted for using the equity method.

4.10 Joint-venture Bank (SBI, Everest)

4.10.1 Presentation of Financial Statements

These Bank's annual reports and accounts contain the presentation of both qualitative and quantitative information concerning the overall operational and other performance evaluations for the business. The company has prepared its consolidated financial statements for all its business operations for the whole of the year 2010/11. Its consolidated financial statements comprise financial statements of these Banks and its subsidiaries.

4.10.2 Measurement Practice

Several items in the financial statements have been valued using different valuation methods but, generally, the financial statements have been prepared under the historical cost convention. Tangible fixed assets, land and building have been valued using the valuation and historic cost (less depreciation), which is calculated to write off the assets over their estimated useful life. Equipment, fixtures and fittings are also stated at cost, less depreciation, and are depreciated using their estimated useful life.

4.10.3 Consolidated Accounting

The banks consolidated financial statements has been prepared in accordance with the special provisions of the Nepalese Company's Act (2063) relating to banking groups. The consolidated financial statements comply with schedule 9 and the financial statements of holding (the 40 parent) comply with schedule 4 of the Act. As permitted by section 230 of the Act, no profit and loss account of the holding is presented. Capitalized goodwill is amortized its estimated useful life on a straight-line basis.

4.11 Non Joint-venture Bank (NIC, NCC, Global)

4.11.1 Presentation of Financial Statements

These Bank's annual reports and accounts are composed of the traditional consolidated profit and losses account, a statement of total recognized gains and losses for the financial year, consolidated balance sheets, consolidated statement of change in reserves, consolidated cash flow statements, director's reports and notes to the accounts. The parents company's account is also provided.

4.11.2 Measurement Practices/ Basis of Preparation

During the year 2010/11, accounts are presented in Nepalese rupees (NPR) and are prepared on historical cost convention applying accrual basis of accounting except otherwise stated and prepared in accordance with the Nepal Accounting Standards (NAS), Generally Accepted Accounting Principles (GAAP), Banks and Financial Institution Act (BFIA) 2063, Nepal Rastra Bank (NRB) directives and the Company Act 2063. The bank also uses the pronouncements of its Urgent Issues Task Force (UITF), and the statements of Recommended Accounting Practices (SORP) issued by the Nepalese banks association.

Fixed assets are stated at cost less accumulated depreciation. Assets with a value less than NPR 5,000 are charged off to revenue irrespective of their useful life in the year of purchase and depreciated is charged to Profit and Loss Account on Written-Down-value method over the estimated useful life of the relevant assets. Goodwill arising from the acquisition of subsidiaries and associated undertakings has been capitalized as intangible assets and amortized against profit over its estimated useful life normally 20 years.

4.11.3 Consolidation Accounting

The consolidation accounts have been prepared in compliance with sections the Company's Act of 2063. The profit and loss accounts and the balance sheets have been prepared in compliance with section 226 of schedule 4 in the Company Act of 2063. The consolidation accounts included the accounts of these banks and its subsidiaries up to 31 December. Interest in subsidiaries is included in the consolidated balance sheets at the group's share of book values of the net intangible assets.

4.12 Uniformity

These financial statements have been prepared in accordance with the Nepal Accounting Standards (NAS) as well as International Financial Reporting Standards (IFRS)/International Accounting Standards (IAS with the exception of the following: Standards partly complied (pending certain improvements and refinements given hereinafter under respective parts):

NAS 03 Cash Flow Statements

NAS 14 Employee Benefits

NAS 16 Related Party Disclosures – partly complied as practicable

IAS 32 Financial Instruments: Disclosure and Presentation

IAS 39 Financial Instruments: Recognition and Measurement

4.13 Major Findings

a) Home based investment or non joint-venture Banks annual reports and accounts are composed of the traditional consolidated profit and loss account.

b) During the year 2009/10, these (NIC, NNC, Global) Banks prepared accounts under the historical cost convention applying accrual basis of accounting except otherwise stated and presented in Nepalese Rs. (NRS).

c) Financial statements are prepared in accordance with the Nepal Accounting Standards (NAS), Generally Accepted Accounting Principles (GAAP), Banks and Financial Institution Act (BFIA) 2063, Nepal Rastra Bank (NRB) directives and the Company Act 2063.

d) Bank also follows the pronouncements of its Urgent Issue Task Force (UITF), and the Statements of Recommended Accounting Practice (SORP) issued by the Nepalese Bankers Association.

e) Goodwill arising from the acquisition of subsidiaries and associated undertakings has been capitalized as an intangible asset and amortized against profit over its estimated useful life normally 20 years.

f) The bank has prepared its consolidated financial statement for all its business operations for the whole of the year 2009/10.

g) In NIC, NCC & Global Bank, interests in subsidiaries are included in the consolidated balance sheets of the net tangible assets.

h) Joint-venture Bank's annual reports and accounts contain the presentation of the both qualitative and quantitative information concerning the overall operational and other performance evaluations for the business.

i) These banks have prepared its consolidated financial statement for all its business operations for the whole of the year 2009/10.

j) These bank's consolidated financial statements comprise financial statements of these Bank and its subsidiaries.

k) These Banks provides a financial highlight of the operating performance of the firm for a particular period.

l) These Banks prepares financial statements in accordance with Nepalese GAAP and where deviations exist to the Nepalese GAAP, a reconciliatory note is explained in the notes for the financial statements.

m) Several items in the financial statements have been valued using different valuation methods but, generally, the financial statements have been prepared under the historical cost convention.

n) These Bank's consolidated financial statement has been prepared in accordance with the special provisions of the Nepalese Company's Act (2063) relating to banking groups.

o) The consolidated financial statements include the financial statements of joint-venture holdings and its subsidiaries. Investments in subsidiary undertakings were stated at net asset values, including attributable goodwill.

p) Interest in joint ventures is shared as the investment share of gross assets. Goodwill is included in balance sheet as intangible fixed assets. Capitalized goodwill is amortized over its estimated useful life on a straight-line basis.

q) As stated in the Auditors report; the said financial statements of the both type of banks read together with the Significant Accounting Policies (schedule 32) and notes thereon (schedule 33), gives a true and fair view in accordance with Nepal Accounting Standards or Relevant Practices, the directives from Nepal Rastra Bank, Bank and Financial Institution Act, 2063 and Company Act, 2063. The accounts have been maintained as per the laws and practices as required by law.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Concerning the measurement practices, all banks use the historic cost as a basis for valuation of fixed assets. Tangible fixed assets are also depreciated following either straight-line basis or written-down-value method in the banks, although the number of years may differ among different banks. Most of the banks used the fair values to value financial current assets, in the banks, transferable derivatives were either valued at fair or market values. Goodwill was frequently amortized with variations based mostly on the number of years in which they were amortized. Frequently, the period used is between 10 to 20 years, however, it specified to basis for reporting goodwill. Research and development costs have been addressed in most banks.

Nepalese Commercial Bank capitalizes research and development costs only on information technology. Looking at the all the banks consolidation policies, full consolidation is mostly carried out where the parent owns more than 50 percent or where the bank has more shareholdings and exercises significant influence on the policies of the subsidiary or associate in question. Acquisition was mostly through the purchase method of accounting. Translation of foreign currency financial statement is mostly conducted using the current rate method. The only exception is the Nepalese commercial bank, which uses the spot-mid-rate. Translation differences are carried forward either to equity, or the profit and loss accounts, or to the reserves, with each having differences are either carried forward to equity, or to the profit and loss accounts, or to the reserves, with each having different effects on the balance sheets results. Shares in associated companies are treated using the equity method in all cases.

These are significant differences with regard to the accounting policies used by the different banks. The five Nepalese Commercial Banks use the regulations and general advice of the NRB's and its recommendations. All Nepalese banks use the Company Act and the Nepalese GAAP, and the applicable accounting standards of the Accounting Standards Board.

5.1.1 Presentation of Financial Statements

This area is dealt with in Article 2.5 of the forth directive, which requires a fair application ensured by the concept of prudence. According to article of ICAN directives, the annual accounts shall give a true and fair view of the assets, liabilities, financial position and the profit and loss of the company. Where application of the provision in the directive is not sufficient to give a true and fair view, article 2.4 requires that additional information must be given. The forth directives requires Nepalese companies to separate their assets into “Current Assets” and “Fixed Assets”, but also does not disagree with the use of IAS, which states that companies can present their assets in order of liquidity. Assets of some banks are separated into current and fixed assets, and in order of liquidity. This is the case with joint-venture holdings, where assets are separated into fixed and current assets, and listed in order of liquidity.

Non-joint venture banks do not distinguish between current and fixed assets; rather they present them in order of liquidity. Although the balance sheet of joint venture banks do not separate into current and fixed assets, they are presented in order of liquidity as recommended by the directive. Nepalese commercial bank does not differentiate its assets into current and fixed assets but are presented in order of liquidity.

According to the Directives, financial statements should be composed of profit and loss accounts, balance sheet and notes to the accounts. The statement of the change in equity is not a requirement, but also does not go against the directive because the contract committee recognizes the fact that such a statement attaches more meaning to financial statements. In addition, although the directive does not expressly mention the inclusion of a cash flow statement as an item in the financial statement, the directive does not exclude their presentation. Joint-venture holdings presents the consolidated profit and loss accounts, balance sheets, statements of total consolidated recognized gains and losses, consolidated cash flow statement and noted to the accounts.

The profit and loss account and the balance sheet of non-joint venture banks are being prepared in compliance with the section 226 and schedule 4 of the company’s Act. Schedule 18 to 28, 33 and 34 are integral part of the profit and loss account. The consolidated accounts of non-joint venture banks include the consolidated profit and loss accounts, statements of total recognized gains and losses, consolidated balance sheets, consolidated statements of changes in reserves, consolidated cash flow statement, the parent company accounts and the notes to the accounts.

Joint-venture Banks have prepared the following in their consolidated financial statements: the profit and loss accounts, balance sheets, the cash flow statements and the notes to the accounts. On the other hand, disclosers on their financial statements the profit and loss accounts, the balance sheets, statements of cash flows, notes to the accounts, and proposed profit disposition. Directive requires Nepalese companies to disclose, “The average number of persons employed during the financial year, broken down by categories”. In the annual reports this information has is broken down between the parent and the group, separated, and broken down among nations, and between men and women. Further details are given concerning salaries and remuneration to employees, general administrative and other cost to staffs, loan to employees, pension staffs, and much other information concerning the employees.

Non-joint venture banks disclose the average number of employees employed during the year through group. Further explanation is given of the total administrative expenses accrued to them per category. Pension plans; profit sharing facilities and other staff costs have been explained in the company’s annual reports. All further administrative expenses have all been included. Joint-venture banks outlines the average number of person is employed during the financial year and makes a comparison with the previous years.

The specific categorization specified here is on the financial sector as a whole, no matter whether it is from either the commercial banking or the investment banking sectors. The bank further gives information on cost accrued to them for example, wages, salaries, social security cost, pension and other cost. Benefits accrued to employees upon retirement are also specified. Non-joint venture banks disclose the average number of employees employed during the year and further divides it into gender. In addition, specification is made as to the number who work part time and full time, and the number that work abroad. Further explanation is given about their provisions for pension obligations and staff cost.

5.1.2 Measurement Practice

In dealing with deprecation, the fourth directive states that the purchase price or production cost should be the basis for depreciation. As stated above, of the directive requires fixed assets to be valued at a lower figure on the balance sheet dates, if it is expected that the reduction in their values is permanent. Equipment's leased to clients is reported at acquisition value and is depreciated on an annuity basis. As with ICAN, the other banks report fixed assets using historic cost, and depreciate them on a straight-line basis.

The only exception is for leased equipments, where only Nepalese commercial bank follows the Economic Policy of using the annuity method, instead of the straight-line method as used others. However, it is possible to capitalize both the research and development costs, against the provisions of International Accounting Standards, which makes it a must for development costs to be capitalized and rejects the capitalization of research costs.

5.1.3 Consolidation Accounting

The main idea is to make sure a true and fair picture of the consolidated entity accounting for consolidation is addressed in the seventh directives. The directive requires consolidated accounts to be prepared in situations where an entity holds the majority of the voting rights in another enterprise. In this case, the parent company has the right to appoint the majority of the members of the administrative, management or supervisory body is presented. Thus, any undertakings whose inclusion would impair the true and fair view of the financial position of the group should be excluded from the consolidated account.

In Nepal, ICAN prepares its consolidated accounts with companies where they own 50 percent of the voting rights of the company. The bank does not consolidate companies it has taken over with loan foreclosures, provided they are engaging in deviating activities or are planned to be sold in the short term. Nepalese commercial bank on the other hand, consolidates only those companies in which the bank directly or indirectly owns more than 50 percent the voting rights of the shares. The consolidated accounts also include associated companies; that is those, which the bank directly or indirectly owns more than 20 percent of the voting rights of the shares. Companies in which the bank owns more than 50 percent are consolidated according to the purchase method while those where the bank owns more than 20 percent that is associated companies are Consolidated using the equity method. In the Nepalese accounting, the consolidated accounts of SBI Bank include the accounts of its subsidiary undertakings as of the 31st of the voting rights does not necessarily mean majority of share capital.

5.2 CONCLUSION

Here, it has presented the requirements of the ICAN Directives, on the areas of interest to the research; namely: the presentation of the financial statements, measurement practice and consolidation practice. These areas are the focus areas of the thesis, where who hope to test homogeneity in reporting practice. Therefore it is used the directives to assess compatibility in reporting practices within banks in the same country.

5.2.1 Banks Reporting Practices under ICAN

Here, we analyze how banks apply the standards pronounced, using the Fourth and Seventh Directives, which are financial reporting legislation for companies within the ICAN Directives.

5.2.2 Concluding Note

As a concluding note, the statement that "*standards have brought about uniform reporting within the Nepalese banking sector*" is untrue. However, standards have helped to increase harmonization and reduce divergence-reporting Policies.

Banks within one country and within one-security markets have proven to have more comparable reporting policies and practices.

5.3 RECOMMENDTIONS

It is important to note the compatibility of theory with our findings. Nepalese countries have become an example in the field of a similar reporting tradition. The findings show that it is no longer the issue of cultural groupings. Banks reporting practice is now very much influenced by the regulations of the stock markets where they seek listing or where they are listed. It is in this light that we put up the relevance of our findings, those very significant factors; namely, company culture, laws and regulations, and international business environment affect, very much, the company reporting practice.

a. Need to harmonize the practices regarding theories as well as practical work.

b. Art of reporting need be changed in practice and theory.

c. Perform services eagerly to compete for gaining in protection against the high competition within the international banking industry today.

d. All these banks need to build strong cultural background for their reporting needs.
e. Need to follow laws and regulations to hinder their cultural building.
f. Both type of the banks use the same accounting standards but in interpretation and application, many differences arise.
g. We have discovered that compatibility is not achieved when the standards give room for too many optimal principles.
h. All five banks may use the same accounting standards, many differences arise from the interpretation and application of these standards.
i. It is simply to draw a line on whether the annual accounts provided by a particular bank are the best.
j. The user who does not find the specific information of interest on the annual report considers such a report to be of low quality. There are too many variables to draw a line on this issue.
k. Transparency in accounting system may help to enhance public relation to protect high rate to goodwill in society, so both banks need to follow fair accounting system and reporting.

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Nepal Accounting Standards

As per the decision of the Council, the following Nepal Accounting Standards have been made Mandatory for Compliances. The standards in Italics are revised / new Standards which will be effective from 1st Shrawan 2065 corresponding to 16 July 2008 and those in bold are effective from the date as mentioned below.

S.No.	NASs	IASs	Name	Effective Date (Original)	Effective Date
			Framework for the Preparation and Presentation of Financial Statements		
1	1	1	Presentation of Financial Statements	1 Shrawan 2061 (16 July 2004)	1 Shrawan 2065 (16 July 2008)
2	2	8	Accounting Policies, Changes Accounting Estimates & Errors	1 Shrawan 2061 (16 July 2004)	1 Shrawan 2065 (16 July 2008)
3	3	7	Cash Flow Statements	1 Shrawan 2061 (16 July 2004)	1 Shrawan 2065 (16 July 2008)
4	4	2	Inventories	1 Shrawan 2061 (16 July 2004)	1 Shrawan 2065 (16 July 2008)

5	5	10	Events After the Balance Sheet Date	1 Shrawan 2061 (16 July 2004)	1 Shrawan 2065 (16 July 2008)
6	6	16	Property, Plant and Equipment	1 Shrawan 2061 (16 July 2004)	1 Shrawan 2065 (16 July 2008)
7	7	18	Revenue	1 Shrawan 2062 (16 July 2005)	1 Shrawan 2065 (16 July 2008)
8	8	23	Borrowing Costs	1 Shrawan 2062 (16 July 2005)	1 Shrawan 2065 (16 July 2008)
9	9	12	Income Taxes	1 Shrawan 2064 (16 July 2007)	
10	10	20	Accounting for Government Grants and Disclosure of Government Assistance	1 Shrawan 2063 (16 July 2006)	1 Shrawan 2065 (16 July 2008)
11	11	21	The Effects of Changes in Foreign Exchange Rates	1 Shrawan 2063 (16 July 2006)	1 Shrawan 2065 (16 July 2008)
12	12	37	Provisions, Contingent Liabilities and Contingent Assets	1 Shrawan 2063 (16 July 2006)	1 Shrawan 2065 (16 July 2008)

13	13	11	Construction Contract	1 Shrawan 2063 (16 July 2006)	1 Shrawan 2065 (16 July 2008)
14	15	17	Leases	1 Shrawan 2064 (17 July 2007)	1 Shrawan 2065 (16 July 2008)
15	16	24	Related Party Disclosures	1 Shrawan 2064 (17 July 2007)	1 Shrawan 2065 (16 July 2008)
16	17	34	Interim Financial Reporting	1 Shrawan 2064 (17 July 2007)	1 Shrawan 2065 (16 July 2008)
17	18	36	Impairment of Assets	1 Shrawan 2064 (17 July 2007)	6 Shrawan 2064 (22 July 2007)
18	19	40	Investment Property	1 Shrawan 2064 (17 July 2007)	6 Shrawan 2064 (22 July 2007)
19	20	IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 Shrawan 2064 (17 July 2007)	6 Shrawan 2064 (22 July 2007)

The following Nepal Accounting Standards are for voluntary compliances:

S.No.	NASs	IASs	Name	Effective Date (Original)	Effective Date
1	14	19	Employee Benefits	1 Shrawan 2064 (17 July 2007)	6 Shrawan 2064 (22 July 2007)
2	21	IFRS 3	Business Combinations	1 Shrawan 2064 (17 July 2007)	6 Shrawan 2064 (22 July 2007)
3	23	14	Segment Reporting	1 Shrawan 2064 (17 July 2007)	6 Shrawan 2064 (22 July 2007)
4	24	26	Accounting and Reporting by Retirement Benefit Plans	24 Magh, 2064 (7February 2008)	24 Magh, 2064 (7February 2008)
5	25	28	Investment in Associates	1 Shrawan 2064 (17 July 2007)	6 Shrawan 2064 (22 July 2007)
6	26	33	Earning per Share	1 Shrawan 2064 (17 July 2007)	6 Shrawan 2064 (22 July 2007)
7	27	38	Intangible Assets	1 Shrawan 2064 (17 July 2007)	6 Shrawan 2064 (22 July 2007)

Questionnaire for staff and employees from ICAN , NCC, SBI, Gobal ,NIC and Everest Bank Ltd, Nepal

Dear Sir/Madame

I am a student of Bhairahawa Multiple Campus, Siddharthanagar, Rupandehi, conducting a research on role of ICAN in promotion and harmonization of accounting standards of Nepalese commercial banks.

I request you to help me kindly by filling out and sending the attached questionnaire within 10/12 days since I am running short in time.

Any information disclosed on your part will be strictly confidential and used for the research process only and will not be shared with anyone under any circumstances.

Your sincere inputs will definitely help me to understand the role of ICAN in promotion and harmonization of accounting standards in Nepalese commercial banks in Nepalese prospective.

This thesis gives us the current role of ICAN towards promotion and harmonization of standards in Nepalese commercial sectors so that necessary steps could be taken to make it more contemporary.

Thank you for your valuable time and input

Questionnaire for staff members (ICAN and Banks)

General Background

Name (optional) ______________________________

Age ______________________________

Gender Male ☐ Female ☐

No. of years engaged there ______________________________

Current position ______________________________

No. of years spent in the current position ______________________________

Part I

1. In which department you are engaged right now?

   a) Account ☐ b) Finance ☐ c) Audit ☐

   d) Marketing ☐ e) others if any (please specify) ☐

2. Do you think ICAN is effective in promotion and harmonization of accounting standards in Nepalese commercial sectors?

   ☐ ☐

a) Very High b) High c) Moderate ☐

d) Low ☐ c) Very Low ☐

3. To what extent the standards are relevant so far as the present prospective is concerned?

a) Very High ☐ b) High ☐ c) Moderate ☐

c) Low ☐ e) Very Low ☐

4. How is your present work to be?

a) Structured ☐ b) Unstructured ☐ c) Sensitive ☐

d) Other if any ☐

5. To what extent the standards will relevant (in your experience and perception) in future days?

a) Very High ☐ b) High ☐ c) Moderate ☐

c) Low ☐ e) Very Low ☐

6. What part of standards you find more useful?

a) Policies ☐ b) Methods ☐ c) Practices ☐

d) Any other, if any (please specify) ☐

7. Why the standards are given more relevant? Please rank them (I stand for the most important and so on).

a) Make the system more systematic ☐

b) Support in the job performance ☐

c) Broadens the knowledge about business administration ☐

d) Helps in promotion ☐

e) Others, if any (please specify and rank)

8. What is your opinion regarding the use of the knowledge gained through the ICAN standards?

f) It is useful immediately

g) It is useful in future

h) It is useful both immediate as well as for future

i) It is no useful

Part II

1. Do feel the need for improvement of accounting standards of ICAN?

   a) Yes   b) No   c) No idea

2. If no, why is it not necessary?
   a) It can’t be improved
   b) It has no future scope
   c) It is not necessary to promote by ICAN
   d) Other, if any (please specify)
3. If yes, why do you feel the need for improvement?
   a) To make the accounting profession more relevant
   b) To make the standards globally recognized
   c) Both of them
   d) Other, if any (please specify)
4. What are the different aspects to be improved?
   (Please rank them as I for the most important so on)
   a) Examination procedures
   b) Methods for implementation
   c) Pattern of the standards as a whole
   d) Rules regarding any particular fields
   e) Other if any (Please specify and rank)
5. Do you think that the course contents in standards are appropriate in terms of its usefulness for both the expansion of knowledge as well as business?
   a) Yes   b) No   c) No idea

6. If no, what part needs to be improved?

   a) Methods ☐ b) policies ☐ c) procedures ☐

7. How can it be improved?

   a) By making more practical ☐

   b) By making it more theoretical ☐

   c) By modifying contents ☐

8. Do you think the present system of application is appropriate?

   a) Yes ☐ b) No ☐ c) No idea ☐

9. If not, what do you think it to be?

   a) Half year evaluation ☐

   b) Half year evaluation following by practicality evaluation ☐

   c) Annual evaluation followed by practicality of evaluation ☐

   d) Others, if any (Please specify) ☐

10. How do you think the present method of conducting the standards?

    a) Highly fruitful ☐ b) Fruitful ☐ c) Moderate ☐

    e) Little ☐ e) Very little ☐

11. Whose role is most important for improvement? (Please rank them as I for most important one and so on)

    a) ICAN administration ☐

    b) Bank administration ☐

    c) Student and their association of ICAN ☐

    d) Government and its agencies ☐

Nepal Standards on Auditing

As per the decision of the Council, the following Nepal Standards on Auditing have been made Mandatory for Compliances. The standards in Italics are revised New Standards which will be effective from 1st Shrawan 2065 corresponding to 16 July 2008 and those in bold are effective from the date as mentioned below.

Standards on Quality Control

S. No.	Existing NSAs	NSAs Revised Serial Number (Effective from 2064-2-22)	Name	Effective Date (Original)	Effective From
01	NSQC 1		Nepal Standards on Quality Control (NSQC)1: Quality control for firm's that perform audits and review of historical Financial Information and other. Assurance and related Service Engagement		1 Shrawan 2065 (16 July 2008)
02			Preface to the Nepal Standards on Quality Control, Auditing, Review, and other Assurance and related Service.		1 Shrawan 2065 (16 July 2008)
03			Nepal Framework for Assurance Engagements	1 Shrawan 2062 (16 July	1 Shrawan 2065 (16 July

				2005)	2008)
04	01	200	Objectives and General Principles Governing an Audit of Financial Statements	1 Shrawan 2060 (17 July 2003)	1 Shrawan 2065 (16 July 2008)
05	02	210	Terms of Audit Engagements	1 Shrawan 2060 (17 July 2003)	1 Shrawan 2065 (16 July 2008)
06	03	230	Audit Documentation	1 Magh 2060 (15 January 2004)	1 Shrawan 2065 (16 July 2008)
07	04	500	Audit Evidence	1 Magh 2060 (15 January 2004)	
08	05	240	The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements	1 Shrawan 2061 (16 July 2004)	1 Shrawan 2065 (16 July 2008)
09	06	320	Audit Materiality	1 Shrawan 2061 (16 July 2004)	1 Shrawan 2065 (16 July 2008)
10	07	300	Planning an Audit of Financial Statements	1 Shrawan 2061 (16 July 2004)	1 Shrawan 2065 (16 July 2008)
11	08	700	The Auditors Report of Financial Statement	1 Shrawan 2061 (16 July	

				2004)	
12	09	530	Audit Sampling and other Selective Testing Procedures	1 Shrawan 2061 (16 July 2004)	
13	10	570	Going Concern	1 Shrawan 2061 (16 July 2004)	
14	11	580	Management Representation	1 Shrawan 2061 (16 July 2004)	
15	13	260	Communication of Audit Matters with Those Charged with Governance	1 Magh 2061(14 January 2005)	1 Shrawan 2065 (16 July 2008)
16	15	250	Consideration of Laws and Regulations in an Audit of Financial Statements	1 Magh 2061(14 January 2005)	1 Shrawan 2065 (16 July 2008)
17	16	560	Subsequent Events	1 Magh 2061(14 January 2005)	
18	17	505	External Confirmations	1 Magh 2061(14 January 2005)	
19	18	600	Using the work of Another Auditor	1 Magh 2061(14 January	

				2005)
20	19	610	Considering the Work of Internal Auditor	1 Magh 2061(14 January 2005)
21	20	620	Using the Work of an Expert	1 Magh 2061(14 January 2005)
22	21	510	Initial Engagements- Opening Balances	1 Magh 2061(14 January 2005)
23	22	720	Other Information in Documents Containing Audited Financial Statements	1 Magh 2061(14 January 2005)
24	23	540	Audit of Accounting Estimates	1 Shrawan 2062 (16 July 2005
25	24	710	Comparatives	1 Shrawan 2062 (16 July 2005
26	25	550	Related Parties	1 Shrawan 2062 (16 July 2005
27	26	800	The Auditor's Report on Special Purpose Audit Engagements	1 Shrawan 2062 (16 July 2005

Nepal Standards on Related Services (NSREs):

S. No.	Existing NSAs	NSAs Revised Serial Number (Effective from 2064-2-22)	Name	Effective Date	Effective From
01	27	4400	Engagements to perform Agreed upon Procedures Regarding Financial Information	1 Shrawan 2062 (16 July 2005	
02	28	2400	Engagements to Review Financial Statements	1 Shrawan 2062 (16 July 2005	
03	29	4410	Engagements to Compile Financial Information	1 Shrawan 2062 (16 July 2005)	

Guidance Note:

S. No.	G N	Name
1	201	Guidance Notes on Independence of Auditors
2	202	Guidance Notes on Preparation of Financial Statements on Letter-Heads and Stationery of Auditors

Voluntary Compliance:

S. No.	NSAs	Name	Effective Date (Original)	Effective From
01	220	Quality Control for Audit of Historical	1 Shrawan 2066	

		Financial Information	(16 July 2009
02	315	Understanding the entity and its Environment and Assessing the Risks or Material Misstatement	1 Shrawan 2066 (16 July 2009)
03	330	The Auditor's Procedures in Response to Assessed Risks	1 Shrawan 2066 (16 July 2009)
04	520	Analytical Procedures	1 Shrawan 2066 (16 July 2009)
05	701	Modifications to the Independent Auditor's Report	1 Shrawan 2066 (16 July 2009)