ACCOUNTING PRACTICES OF COMMERCIAL BANKS IN NEPAL

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By:

Nirmala Bhandari

Central Department of Management

Campus Roll No.: 360/065

T.U. Regd. No.: 7-2-460-64-2004

Exam Roll No.: 280102/067

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RECOMMENDATION

This is to certify that the thesis

Submitted by:

Nirmala Bhandari

Entitled

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

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Mr. Achyut Gyawali	Prof. Dr. Bal Krishna Shrestha	Prof. Dr. Bal Krishna Shrestha
Lecturer, Supervisor	Chairperson, Research Committee	Head of the Department

Date: ……………

VIVA-VOCE SHEET

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

Nirmala Bhandari

Entitled

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

Master's Degree in Business Studies (M.B.S.)

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Chairperson, Research Committee	-------------------------
Member (Thesis Supervisor)	--------------------------
Member (External Expert)	--------------------------
Member (Central Department of Management)	--------------------------

Date: ---------------------

DECLARATION

I, hereby, declare that the work reported in this thesis entitled **"Accounting Practices Of Commercial Banks In Nepal"** submitted to the Central Department of Management, Tribhuvan University, is my original work. It is done in the form of partial fulfillment of the requirements for the Master of Business Studies (MBS) under the supervision and guidance of Lecturer, Mr. Achyut Gyawali.

December, 2012

Nirmala Bhandari
Researcher
T.U. Regd. No.: 7-2-460-64-2004
Central Department of Management

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Nirmala Bhandari

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ABBREVIATIONS

A.D.	Anno Domini
A/C	Account
AIS	Accounting Information System
ASB	Accounting Standard Board
B.S.	Bikram Sambat
C.V	Coefficient of Variation
CB	Commercial Banks
CDM	Central Department of Management
Co.	Company
Cr	Credit
CRR	Cash Reserve Ratio
Dr	Debit
et. al.	and others
FY	Fiscal Year
GDP	Gross Domestic Product
HRA	Human Resource Accounting
Ltd.	Limited
Mgmt.	Management
No.	Number
NRB	Nepal Rastra Bank
P	Page
Pvt.	Private
S.D.	Standard Deviation
SLR	Statutory Liquidity Ratio
TU	Tribhuvan University
Vol.	Volume
WADR	Weighted Average Deposit Rate
WALR	Weighted Average Lending Rate
$\bar{X}$	Mean
%	Percentage

CHAPTER I

INTRODUCTION

1.1 General Background

The Accounting has often been called the "language of business" because people in the business world owners, managers, bankers, salesmen, attorneys, engineer's investors use accounting terms and concepts to describe the events that make up the existence of the business of every kind. It is the art of recording and classifying business transactions and events, business transactions are analyzed in such a way that it may be possible to determine profit and loss made by the business and its financial condition on a specified date. Business transactions may relate to the receipt and payment of cash, purchase or sales of goods on credit. The transactions or events of a business must be recorded in monetary terms. So we can say it is an art of making summaries, analysis and interpretation of financial transactions. The result of such analysis must be communicated to the persons who are to make decisions or firm's judgment.

Accounting is the process by which financial information about a business is recorded, classified, summarized, interpreted and communicated to owners, managers, and other interested parties. Accurate accounting information is essential for making business decisions (Brock, and Ellis Prce et al. 2003).

Accounting is a service activity. Its function is to provide quantitative information, primarily financial in nature about economic entities that are intended to be useful in making economic decision in making reasoned choices among alternative course of actions (AICPA: 1996).

Financial information is needed by both investors and management. Financial information is required to predict, compare and evaluate the firms earning ability. It is also required aid in economic decision making investment and financial decision making (Pandey, 1999).

"Accounting and Finance for Managers" regarded accounting as an information system, and defined accounting system in the following: an accounting system consists of personnel, procedures, devices and records used by an organization which helps in development and structures of accounting information and communicating this information to decision makers. Design and capabilities of these systems vary greatly from organization to organization. He added, in business enterprises which has large business, an accounting reports provides them the backbone for controlling the daily operations of every department and the basic purpose of accounting information is provide as efficiency as possible (Balwani, 2002).

Accounting is the art of controlling a business by keeping records, measuring and interpreting the financial results of the business by using the information in their records and communicating the results to management and other interested parties. The most careful control can these enormous enterprises keep prosperous and successful, not only their prosperity, but also the prosperity of shareholders, managers, staff and even the nation itself, depend upon maintaining efficiency and competitiveness in the free enterprises.

Accounting is primarily concerned with the design of the system of records, the preparation of reports based on the recorded data, the interpretation of the reports and finally communicating the results of the interpretation to persons who are interested such results (Jain and Narang, 1996: 1-3).

The role of accounting has been changing with the economic and social developments over the past few centuries. The traditional view of accounting as being solely concerned with historical description and financial activities is no longer acceptable (Porwal, 1999).

Today the development of accounting has increased quite faster. There is not only the concept of financial accounting, cost accounting, management accounting but also strategic management accounting, responsibility accounting are also emerged. Accounting a system should provide non-financial information also. So there is the change in the scope of accounting. Accounting should assess information to the organization's internal stakeholder to make strategic decision. As the external users take their decision based on the information supplied by the accounting. Modern accounting is based on the double entry system which was developed formally in the 15th century in Italy by Luca Pascioli. The double entry system is so named since it records both the aspects of transaction and events (Pandey, 2004).

Financial activities are increasing day by day. So the important of accounting is also increasing simultaneously .For the proper management in financial activities accounting system within an organization is most. Though, this study is focusing on the accounting system that is practicing by commercial banks in Nepal. There are almost 27 commercial banks in the Nepal. Today the service sector plays a great contribution on the national employment as well as the GDP of the country. Global changing trend and service industries makes all to think carefully and make strategic decision for their prosperous future. To defeat their competitor one should record its financial as well as non-financial transactions in a systematic manner so that information on any point is relation to them may be quickly obtained.

To win the race of the banking service business, they should keep their accounting system accurate, systematic and standard manner i.e. has rightly summed up that an effective accounting system provides information for three broad purposes. Internal reporting to managers for the use in strategic planning; that is the making of special decisions and the formulating of overall policies and long range plans, and external reporting to stockholders, government and other outside parties. The study will be focusing on the accounting practices in the commercial banks. The study is trying to attempt to detect either they are keeping their accounting practices according to the accounting standard or not it practicing what type of decisions are based on the accounting system.

1.2 Statement of the Problem

The developing countries like Nepal has suffered from limited resource mobilization, capital, technical knowledge, how, poor record keeping of financial transactions in the business, unsystematic record of incomes and expenses, poor communication of results of the business to the various stakeholders, making poor decisions regarding changes in the value of assets and liabilities, centralized use of accounting system, unaware about devising remedial measures for the deviation of the actual performance from planned performance.

The success or failure of every modern organization largely depends upon the fact that how they adopt and apply effective accounting system. Accounting system are an integral part of every organization and thus with out their proper accounting system organization will not be able to run smoothly , so every modern organization should have policy to develop its effective accounting system. Every successful organization must employ proper accounting system. Accounting system ensures that everything is going on properly and according to plan. Accounting system is fundamental to the operation and evaluation of organization. In the administrative culture of developing nation Accounting system is generally upon as being of restrictive nature either as curbing and retraining for directing and commanding.

In the view of this situation following problem emerges and this study addresses the following issues.

i. Do standard accounting system exist or not in the Nepalese commercial banks?
ii. If exist, what are the problems and prospects, they are facing on the practicing standard accounting system?
iii. What is the impact of accounting system on overall performance and productivity of the commercial banks?
iv. How effective are such systems?
v. What type of accounting systems are they observing?

1.3 Objectives of the Study

The overall objective of the study is to analyze the present system of accounting practices of commercial banks in Nepal. To present the concise picture of the general objectives of the research, different tools and techniques are used to analyze the present accounting practice. The main objectives of the study are as follows:

i. To assess and examine the nature and practices of accounting systems in Nepalese commercial banks.
ii. To examine the impact of accounting system on overall performance of the banks.
iii. To analyze the problems and prospects faced by the banks in practicing accounting system.
iv. To provide the package of constructive suggestions and recommendations for improving practice system of accounting.

1.4 Significance of the Study

Commercial Bank is the backbone for the capitalization because they collect the scattered savings of the community and investment to their deposit to the production sector. Without adopting proper standard accounting system, banks would not be in sound performance position. So this study focus on the accounting practices of the commercial banks in Nepal. The significance of the study are as follows:

- It has a great important since this study focus on the overall use of accounting system and its status in the commercial banks.
- It analyses the use of accounting system for the internal reporting to managers for use in strategic planning special decisions and the formulating overall policies and language practices.
- It clearly depicts and measures the overall efficiency on financial condition, cost management, responsibility observing and making decisions.
- It will be fruitful for the internal user of the organization's shareholders, owners, management, employees as well as outsiders like civil society, government, consumers, research scholars, investors, creditors to all.
- It will be helpful to those scholars studying accounting practices of commercial banks likewise all the students who are conducting research on the accounting practice can use this study for their guidance for further fulfillment of research gap.

As we know that sound practicing accounting system help an organization to improve overall performance and productivity under the accounting system transactions are recorded with perfect accuracy and precision at quantitative and qualitative perspective. It focuses the basis for analysis and interpretation for furnishing meaningful data to the management. The control aspect is based on the accounting data and information and performance evaluation on recorded facts and figures. For managerial decision proper recorded information are essential, reliable and strategic oriented accounting information depends upon the sound practicing accounting system. So this study enhances the reliability of accounting practices in Nepalese commercial banks.

1.5 Limitations of the Study

This study attempts to evaluate the accounting practices system of Nepalese commercial banks. Although effects have been made to make the study more realistic, practicable and informational for all the related stakeholders but the present study is not free form the limitations. Some are listed below:

1. The study focuses on the few aspects of the accounting system in Nepalese commercial banks.
2. The study is based on the primary data.
3. Limited resources like time frame, availability of data, analytical power of the researcher are the limitations factors of the study.
4. This research is done as the requirement of the degree of master in business studies.

1.6 Organization of the Study

The whole study has been divided in five chapters as follows:

Chapter 1: Introduction: This chapter includes overview, statement of the problem, objectives of the study, significance of the study, limitation of the study, and organization of the study.

Chapter II: Review of literature: The chapter contains reviews of existing and availability of literature in the concerned area. It includes the reviews of published books, thesis, journals, magazines, websites, accounting standard, and research gap.

Chapter III: Research methodology: This chapter contains research methodology adopted for the study which is research design, data collection and analysis procedure, tools, population, sample and research variables etc.

Chapter IV: Analysis and interpretation of data: The chapter contains data presentation and analysis. For this purpose various statistical tools are used to analyze and interpret the results. This is the key chapter of the research because major finding are drawn according to the data presentation and analysis.

Chapter V: Summary, conclusion and recommendation: This includes summary, conclusion and recommendation.

The bibliography, appendix, statistical results and other supporting documents have also been incorporated at the end of the study.

CHAPTER II

REVIEW OF LITERATURE

2.1 Theoretical Framework

Accounting is a discipline which provides financial and other information essential to the efficient conduct and evaluation of the activities of any organization.

The information which accounting provides is essential for effective planning, control and decision making by management and discharge the accountability of an organization to investors, auditors, government agencies, tax authorities, association members, contribution to welfare estimation.

Accounting includes the development and analysis of data, the testing of its validity and relevance and its interpretation and communication of the resulting information to intended locus. The data may be expressed in monetary in other quantitative terms i.e. symbolic and label funds.

Accounting is the systematic recording providing and supplying of information for the management and operations of an entity and for the reports that have to be submitted there on.

The art of recording, classifying and summarizing in a significant manner and items of money, transactions and events which are in part at least of a financial character, and interpreting the result .

The function of accounting is to measure the resources hold by specific entities to reflect the claims against and interests in those entities; to measure the changes in those resources, claim to interests, to assign the changes to specifiable periods of time and to express the foregoing in terms of money as a common denominator Resource.

We therefore define accounting functionally, as a method of retrospective and contemporary monetary calculation the purpose of which is to provide a continuous source of financial information as a guide to future action is markets. Accounting is concerned with the communication of information with the objective of reducing entropy (Uncertainty). Accounting involves the collection, recording and reporting of economic information fee decision making purpose.

2.2 System of Bookkeeping

Every business requires accounting system. Its purposes is to ensure proper accounting records and that the systems of recording and summarizing accounting transactions will minimize errors and frauds and that the financial statements produced at the end of accounting period are accurate. There are two system of bookkeeping.

- Single entry book keeping
- Double entry book keeping.

2.2.1 Single Entry System

As the name suggests, single entry bookkeeping involves written down each transaction just once. In other words, single entry system is the record of only income and expenses. It is not the system of recording also because in some cases record may be one side and in some cases record may be out of system.

To check the arithmetical correction, every single entry has debit and credit value which affects equally but single entry system ignores the rule of double effect of every transaction and mostly maintain account relating to suppliers and customers, cash and bank, so that it is incomplete, inaccurate and unscientific system of recording business transaction. The single entry system can be defined as a procedure of recording transactions without taking double entry concept of book keeping into consideration and in which as an established, practice, records of only personal accounts and of summary of cash is maintained and the nominal accounts are completely ignored (Sharma and Pradhan: 2000). Single entry system may be classified into two groups:

a. Pure single entry
b. Quasi single entry

Pure single entry: In pure single entry, personal accounts of debtors and creditors and cash books are maintained and totally ignore all real and nominal accounts and dual aspects of every transaction.

Quasi-single entry: In this types personal accounts, cash books and a few subsidiary books are maintained, no real accounts of expenses or gains are found in the books. Thus it is a system of bookkeeping in which as a rule, only record of cash and of personal accounts are maintained, it is always incomplete double entry varying with the circumstances.

Although most of the proprietors of small scale business are untrained in accounting but succeed in making profit year after year, such small scale enterprises often deal exclusively in cash buying in wholesale produce markets and selling.

From local market stalls or door to door process such a traders has really no need for the double entry system adequate to estimate profit and to remember few transaction of the concerned debtors and creditors. They use a cash register because most of their transactions are on a cash basis. This means they don't record the income until cash is received and expenses do not record until the actual cash payout (Kandel: 2008).

2.2.2 Double Entry System of Bookkeeping

The double entry system is simply recording system which records the dual effect of business transaction. The dual effect of business transaction is recorded by means of the double entry bookkeeping system. The double entry rules states that when recording each transaction the total amount of the debit entries must be equal to the total amount of credit entries for that transaction.

The rule of double entry is that every debit should have credit and every credit should have a debit. A double entry has to be used to transfer an amount from one account to another account. The double entry system used the left hand side of an account for debit and right hand side of an account for credit. Account is used to accumulate and store the accounting information. It is a feature of double entry system that each transaction is posted twice on opposite sides of different accounts, reflecting different aspects of each transaction.

2.2.2.1 The Theory of Double entry

The double entry book keeping takes cognizance of the fact that every transaction which is capable of being recorded in terms of money involves the receiving of value by one or more persons and the giving of equivalent value by another or others. The system accordingly requires entries to be made in the books of a business to give effect to both aspects of the transaction.

In each of the forgiving transactions the debit value of each transaction is equal to the credit value. This equality of course was to be expected. Since the total of the debit side of the balance sheet is always equal to the total of the credit side and since this equality is continuous it follows that the value of the debit side of each transaction must always equal the value of the credit side. No entry for the recording of an accounting transaction is complete. Therefore the debit entry is equal in value to the credit entry. This is the rule of double entry, for every debit there must be a credit of equal value. When the accounts of a business are maintained in accordance with the rule of double entry the book keeping involved is known as "double entry bookkeeping" (Johnson, 1960).

The rule of double entry may be amplified as follows:

1. Receipts are debited; payments credited
2. Assets are debited; liabilities credited
3. Losses are debited, profits credited
4. Expenses are debited, income credited.

2.2.2.2 Advantages of Double Entry System

From the above considerations, the following advantages of the double entry system of book keeping may be deduced.

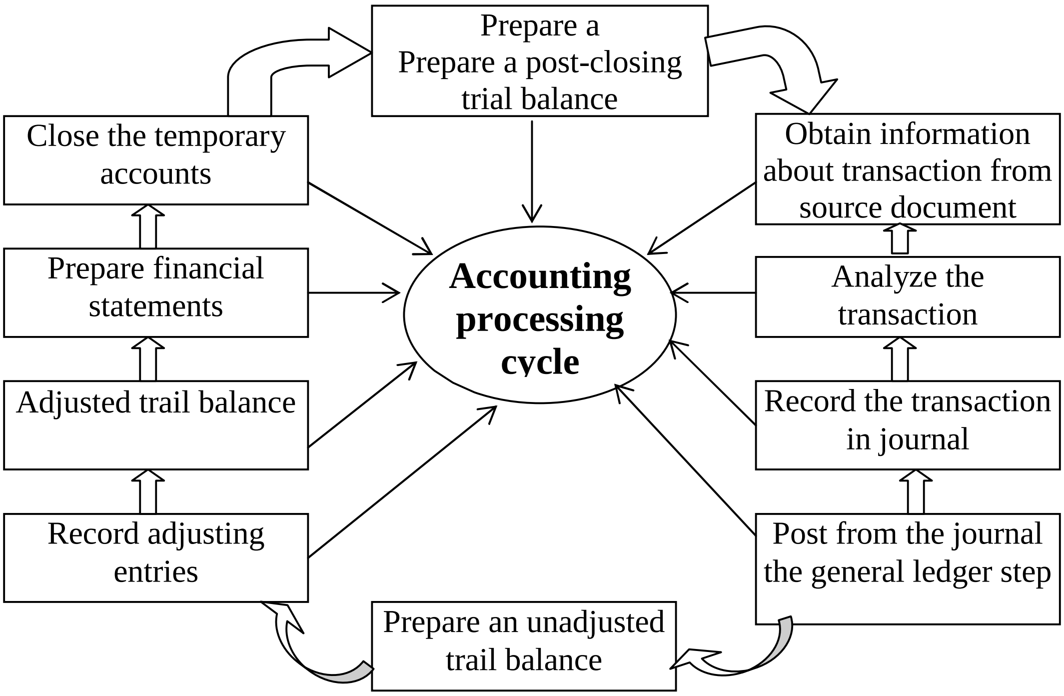
1. It provides a complete record of every transaction for both personal and impersonal aspects.
2. It provides an arithmetical check on the records, since the total of debit entries must equal to the total of the credit entries and as consequence, the total of the debit balances must equal the credit balances.
3. From the personal accounts owing to and by each person with whom the business deals can at any given time be ascertained.
4. The balances of the nominal accounts can be collected together in profit and loss account which discloses the result of operation i.e. profit and loss for any given period.
5. By means of balance sheet in which the balances of accounting represents capital and liabilities and assets are set out. The financial position of the business at any given moment can be ascertained.
6. An association with a reliable system of international organization it reduces the risk and facilities the detection of error and fraud.

(Bigg, Wilson and Langton, 1959).

2.3 The Accounting Processing Cycle

There are different sequential steps that are followed by accounting processing cycle. The cycle consists of identifying, analyzing, recording and summarizing transactions and prepares financial statements. Before analyzing the transaction, one should obtain the information about external transaction form source documents and then record the transaction in a journal, posting in to ledger, preparation of adjusting entries, adjusted trial balance, preparation of financial statements, preparing a post closing trial balance etc. are main steps of accounting cycle. There are almost ten steps in accounting processing cycle are listed in graphic.

Figure 2.1: The Accounting Processing Cycle



Source: Spiceland and Sepe, et al. 2004.

The above figure emphasis on the accounting processing cycle that involves the above components of accounts cycle which helps to the manager for better performance.

2.4 Accounting Principles

There are four important broad accounting principles that provide significant guidance for accounting practice.

i Historical cost principle.

ii The realization principle (also known as the revenue reorganization principle).

iii The matching principle.

iv The full disclosure principle.

The principles deal with the critical issues of recognition and measurement. The accrual accounting model is embodied in each of principles.

1. Historical cost principles: According to this principle measurement of assets and liabilities are based on their original transaction value that is their historical costs for an asset this is the fair value of what is given in exchange (usually cash for the asset at its initial acquisition. For liabilities it is the current cash equivalent received in exchange for assuming the liability why base measurement on historical cost. After all the current value of company's manufacturing plant might seem more relevant that its original cost. First historical cost provides important cash flow information as it represents the cash or cash equivalent paid for an asset or received in exchange for the assumption of liability. Second because historical cost valuation is the result of an exchange transaction between two independent parties; the agreed on exchange value is objective and highly verifiable.

2. Realization Principle: Determining accounting income by the accrual accounting model is a challenging task. When to recognize revenue is critical to this determination. Revenues are inflows of assets resulting form providing a product or service to a customer. At what point is this event recognized by an increase in assets? The realization principle requires that two criteria be satisfied before revenue can be recognized.

i. The earning process is judged to be complete or virtually complete.

ii. There is reasonable certainty as to the collectibles of an asset to be received (Usually cash).

3. Matching principle: When are expenses recognized? The matching principle states that expenses are recognized in the same period as the related revenues. There is a cause and effect relationship between revenue and expenses.. In a given period revenue is recognized according to the realization principle. The matching principle requires that all the expenses incurred in generating that same revenue also be recognized. The net result is a measurable – net income that matches current period accomplishments and sacrifices. This account-based measure provides a good indicator of future cash generating ability.

4. The full disclosure principle: The full disclosure principle is a useful principle for accounting practice. The purpose of accounting is to provide information that is useful to decision maker. So naturally if there is accounting information not included in the primary financial statements that wouldn't benefit users that information should be provided too? The full disclosure principle means that the financial report should include any information that could affect the decisions made by external users (Spiceland, Sepe & et al., 2004).

2.5 Accounting Concepts

The affairs of a firm are generally well reflected in the two statements "profit and loss account" or income statement and balance sheet. Here it is said that accounting is the language of the business. To make the language convey the same meaning to all the people as far as practicable and to make full of meaning, accountants have agreed on a number of concepts which they try to follow.

1. **Business entity concept**: Accountants treat a business as distinct form the persons who own it, it then becomes possible to record transactions of the business with the proprietor also. Without such a distinction, the affairs of the firm will be all mixed up with the

private affairs of the proprietor and the true picture of the firm will not be available (Sharma and Vithal, 1991).

2. **Money measurement concept**: Accounting records only that transaction which is being expressed in monetary terms though quantitative records are also kept. The transactions which can't be expressed in money will not be recorded in accounting. Thus Labour management relations, sales policy, Labour unrest, quarrels between the production and sales manager will not be recorded though they plays important role in decision making (Jain and narang,1991).
3. **Cost concept**: Transactions are entered in the books of account at the amounts actually involved. This is one of the most important concepts it prevents arbitrary values being put on transactions, chiefly these resulting in acquisition of assets. The amount to be recorded is objectively arrived at as a result of the mutual agreement of the two parties involved. If the business pays nothing for and items is acquired, than this will not appear in the accounting records (Sharam,1992).
4. **Going concern concept**: It is assumed that the business will exist for the foreseen able future and truncations are recorded from this point of view. It is this that necessitates distinction between expenditure that will render benefit over a long period and that whose benefit will be exhausted quickly, say within the year a firm is said to be a going concern when there is neither the intention nor the necessity to wind up its affairs or curtail substantially the scale of its operation.
5. **Dual-aspect concept:** Each transaction has two aspects of a business has acquired an asset, it must have resulted in one of the following: (1) some other asset has been given up (2) the obligation

to pay for it has arisen (3) there has been a profit, leading to an increase in the amount that the business owes to the proprietor or (4) the proprietor has contributed money for the acquisition of the assets. The revenue is also true if, for instance, there is an increase in the amount owed to others there must have been an increase in assets or loss.

6. **Realization concept:** Accounting is a historical record of transaction; it records what has happened. It does not anticipate events, though anticipated adverse effects of events that have already occurred are usually recorded. Unless money has been realized either cash has been received or a legal obligation to pay has been assumed by the customer-no sale can be said to have taken place and no profit or income can be said to have arisen.
7. **Accrual concept:** When an event takes place or a transaction is entered in to, its consequences are bound to follow. The accrual concept or principle requires that all transactions or events, not yet settled in cash must be taken into account.

2.6 Accounting Conventions

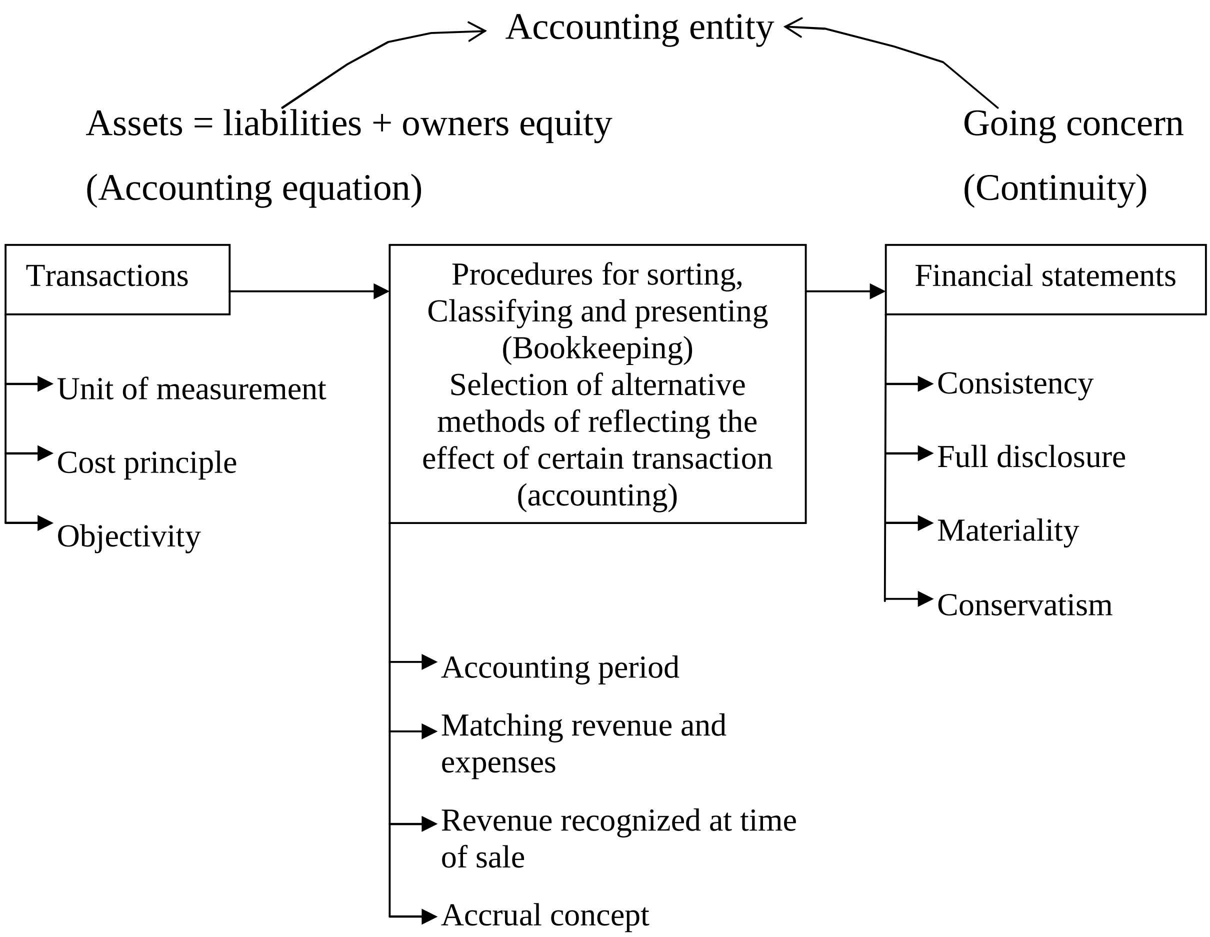
Maintaining accounts uniformity, accounting researcher has developed different accounting conventions which are listed below:

1. **Conservatism:** Conservatism is often substituted for the more praiseworthy goal of accuracy. Conservatism usually, means recording assets owned at as low a value as possible. While this may seems to be conservative, the end result may be anything except conservative. The next period's income may be overstated or worse yet. The return on investment (income/total assets) may be greatly overstated because of the low recorded value of assets.

2. **Consistency:** the accountant seeks consistency when reporting in successive periods, and this is generally desirable. Corporations can't be allowed at will to change accounting procedures form one period to the next, thus manipulating the end result. On the other hand, if a mistake has been made, it may be better to correct it than to continue to mistake for the sake of consistency.
3. **Materiality:** Materiality is a significance of an item of relation to a particular situation the accounting treatment depends on whether or not the item is considered material. For e.g. long lived assets, such as buildings, are treated as assets throughout their useful life. An item below a certain cost will be charged as expenses in the period of purchase even though it may have life in excess of one year. The justification of the treatment is the criterion of materiality (Juneja et al. 1991).

These concepts and principles can be related to the basic model of the flow of data form transactions to financial statements as shown below:

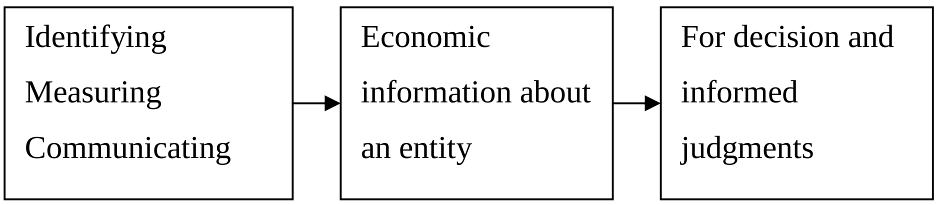
Figure 2.2: Accounting concepts and principles



Source: Marshall and Favide, 2004.

The above figure shows the relation between concepts and principles. The cycle starts form transactions. All the transaction's are sorted, classified and presented in systematic manner which means the cycle follow bookkeeping, when book keeping process is completed then accounting cycle started. At the end, all the process is completed and financial statements are prepared.

Accounting is the process of:



In a broad sense, accounting is the process of identifying, measuring and communicating economic information about an organization for the purpose of making decision and judgments.

2.7 Accounting process

The whole accounting process starts from recording transaction i.e. journal and mainly ends by preparing financial statements.

2.7.1 Journals

The journal or day book was originally daily recorded into which all transactions were entered classified into debits and credits and then posted or entered in the ledger accounts. Today the journal is used for the following transactions.

1. The purchase and sale of assets on credit.
2. Opening and closing entries.
3. The correction of errors.
4. Transfer between accounts.
5. Any other items not recorded in another book of original entry.

The method of entering every transaction into the journal is soon found to be cumbersome and tedious and also to lack facilities for ready reference (Goodman, 1955). The following format will illustrate the form. Generally the journal includes five columns. Format of journal is shown below:

Model of Journal

……………….company

Journals

Date	Particular	L/F	Debit (Rs.)	Credit (Rs.)
1	2	3	4	5
Total				

The vast majority of transactions are capable of being assigned to one or other of the day books or special journals, the use of journal (or journal proper). There should be appended to each entry in the journal, an explanation of transaction or narration without which the origin of and reason for, the entry might not be apparent. The narration should contain full information as to the nature of the transaction and the date of contracts, minutes, resolutions etc. giving rise to it, so that the authority fee transactions as well as the origin of the entry will be shown (Bigg, Wilson and Ngton, 1961).

2.7.2 Ledger

Journal does provide a complete record of company transactions. A journal does not show in one place all the debits and credits applicable to a specific account. The process of transferring the debits and credits form the journal to the proper ledger accounts is called posting. Thus posting consists of transferring each amount in the debit column of the journal to the debit side of the appropriate ledger account and transferring each amount in the credit column of the journal to the credit side of the appropriate ledger account. Posting classifies and summarizes transactions individual accounts, making in a simple and quick procedure to determine the balance of any ledger account. The procedure to determine the balances of any ledger account, the procedure to be followed in the process of manually posting entries from the journal to the ledger accounts can be outlined as follows:

1. Locate in the ledger, the first account listed in the journal entry.
2. Enter the account of the debit as shown in the journal in the debit column of the ledger account.

3. Enter the date of the transaction in the date column on the debit side of the account. The day of the month should be entered for each transaction.
4. Enter in the posting reference column of the ledger account the letter 'J' to indicate "journal" and the number of the journal page from which the entry is being posted.
5. The debit entry is now recorded in the ledger, to conform the posting return to the journal and in the post of the reference column enter the number of the ledger account to which the debit was posted.
6. Locate in the ledger, the next account listed in the journal entry. If the next entry is debit, repeat the same procedure, if credits apply the procedure described above for the credit side of the journal entry.

2.7.3 The Trial Balance

Before using the account balance to prepare financial statements we may want to make certain that the total accounts with debit balances is equal to the total accounts with credit balances. This proof of the equality of debit and credit balances is obtained by preparing a trial balance.

A trial balance is a two-column schedule which lists the title and balance of each ledger account at a particular date. It also indicates whether an account has a debit as a credit balance by listing the debit balances in the left hand column and credit balances in the right hand column. One reason for preparing a trial balance is to prove that the total amount of recorded debits is equal to the amount of recorded credits. A trial balance can show whether the debits in the ledger accounts are equal to the credits but it can't prove that all transactions have been properly analyzed or that all amounts have been entered in the proper accounts. However it is useful.

1. Periodically determining whether equal amounts of debit and credits have been recorded for all completed transactions. That is to make a mathematical check of the ledger.
2. Facilitating the preparation of financial statements.

For proper accounting, we have been developing a system for recording, classifying and summarizing the effect of completed business transactions. The system requires that each transaction be analyzed to determine its effect on a company's accounts. After we determined which accounts were affected we entered the accounts as debits and credits directly to ledger accounts.

In short a two column schedule used to list the title and balance of each ledger account at a specific date. Accounts that have debited balances have their accounts listed in the left hand column and accounts that have credit balances have their amounts listed in the right hand column. Here is the schedule of trial balance presented below:

…………. company
Trial balance
Date………..

Transactions	Debit (Rs.)	Credit (Rs.)
Total	=	=

2.7.4 Preparing Financial Statements

The purpose of accounting processing cycle to this point is to provide information for preparation of the financial statements. The adjusted trial balance contains the necessary information. After all, the financial statements are the primary means of communication financial information to external parties. In order to find out profit earned or loss suffered by the business organization, three statements were income statement, profit and loss a/c and balance sheet is prepared i.e. known as financial statements.

2.7.4.1 The Income Statement

The purpose of income statement is to summarize the profit generating activities of a company that occurred during a particular period of time. It is a change statement in that, it reports the changes in shareholders' equity (retained earnings) that occurred during the period as a result of revenues, expanses, gains, and losses. The components of the income statement usually are classified, that is grouped according to common characteristics. A common classification scheme is to separate operating items form non-operating items. Operating items include revenues and expenses directly related to the principle revenue generating activities of the company. The example, operating items for manufacturing companies include sales revenue form the sale of products and all the expenses related to this activity, non-operating items include gains and losses and revenues and expenses from peripheral activities. Income statement may be prepared in to two manners: (a) variable income statement (b) absorption costing income statement. The difference between two income amounts reflects the amount of fixed overhead that is either attached to or released form inventory in absorption costing as opposed to being immediately expensed in variable costing.

The income statement may be prepared separately. It is not necessary to prepare income statement by using both approach but for decision making approach it is better to prepare by using both methods.

2.7.4.2 Profit and Loss A/C

Profit and loss account is prepared after the completion of trading account. Through the trading account, we just found the gross profit and gross made during the given period. The next step is the preparation of the profit and loss account to ascertain net profit earned and loss suffered during the given period of time.

The end users of accounting statements are interested not only in knowing the financial condition of a business enterprise at a particular point of time but also in finding out whether the enterprise has earned profits or incurred losses during a particular period. The profit and loss account or income statement is the report which is a greatest interest and importance to end users of accounting statement (Bhattarcharya and John, 1977).

2.7.4.3 Cashflow Statement

The purpose of the statement of cash flows is to summarize the transactions that caused cash to change during the period. The statement classifies all transactions affecting cash into one of three categories.

1. Operating activities
2. Investing activities
3. Financing activities

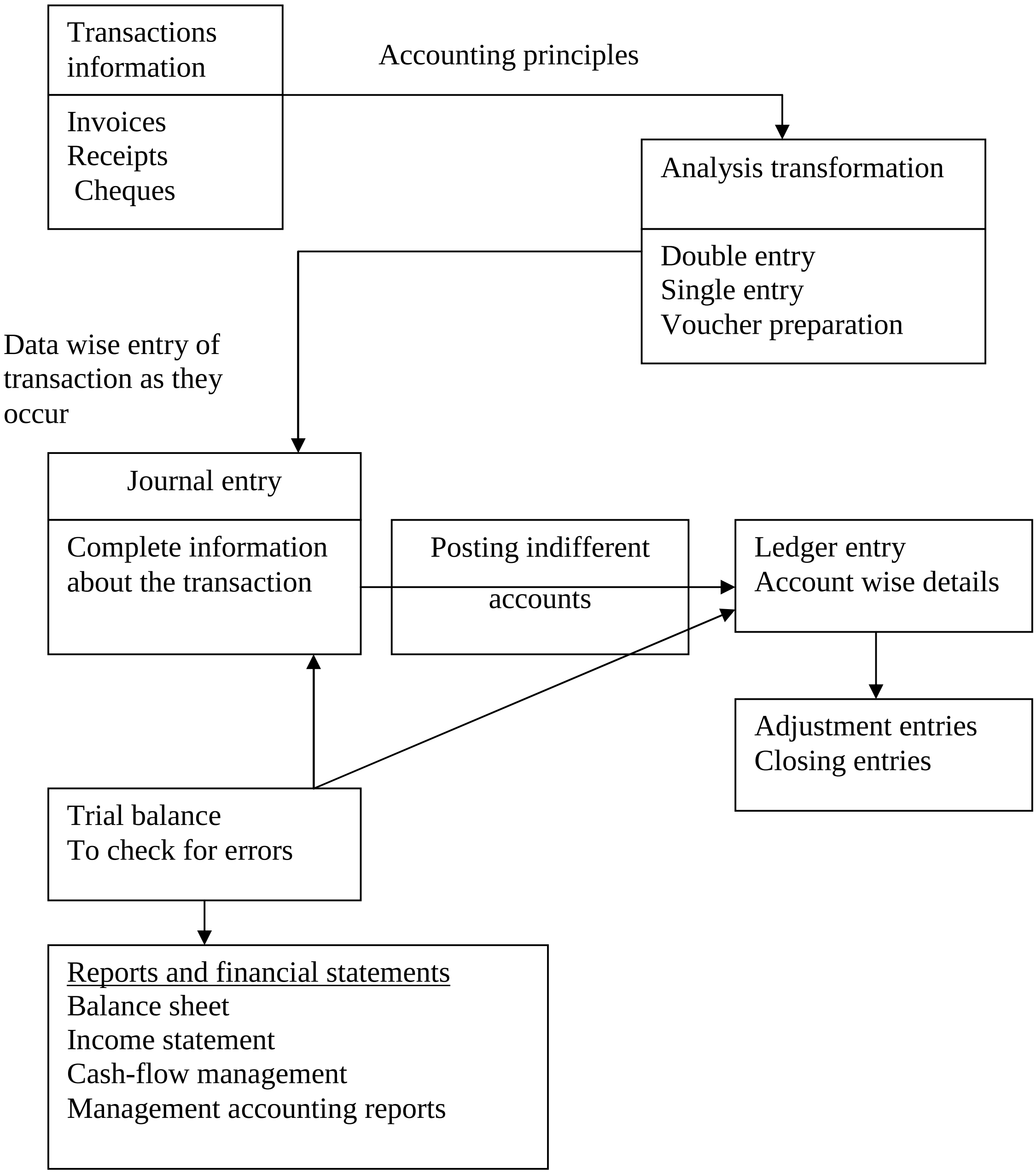
Operating activities are inflows and outflows of cash related to transactions entering into the determination of net income. Investing activities involve the acquisition and sale of (1) long-term assets used in the business and (2) non-operating investment assets. Financing activities involves cash inflows and outflows form transaction with creditors and owners.

2.7.4.4 Balance Sheet

The purpose of balance sheet is to present the financial position of the company on a particular date. Unlike the income statement, which is a change statement reporting events that occurred during a period of time, the balance sheet is a statement that presents or organized list of assets, liabilities and shareholder's equity at a point in a time. The balance sheet along with accompanying disclosures provides a wealth of information to external decision makers. The information provided is useful not only in the prediction of future cash flow but also in the related assessments of liquidity and long-term solvency. The balance sheet does have significant value. An important feature of the statement is that it describes many of the resources a company has available for generating future cash flows. Another way the statements content is informative in combination with income statement.

The balance sheet does not simply list assets and liabilities. Instead assets and liabilities are classified (grouped) according to common characteristic. These are classifications which help the balance sheet to provide additional important information about liquidity and long-term solvency. Liquidity refers to the period of time before an asset is converted to cash or until a liability is paid.

Figure 2.3: Accounting Process



Source: Balwani, 2002, p 26.

2.8 Difference between Bookkeeping and Accounting

There is some confusion over the distinction between bookkeeping and accounting. In general bookkeeping is the recording of business data in a prescribed manner. A bookkeeper may be responsible for keeping all of the records of a business or only a small segment such as a portion of customer's accounts in a departmental store much of the work of the book keeper clerical in nature.

Accounting is primarily concerned with the design of the system of records, the preparation of reports based on the recorded data and the interpretation of the reports. Accounts often direct and review. . The work of accountants at the beginning levels may include some book keeping. In any event, it is apparent that the accountant must possess a much higher level of knowledge and analytical skill than is required of the book keeper (Niswonger and Fess 1965).

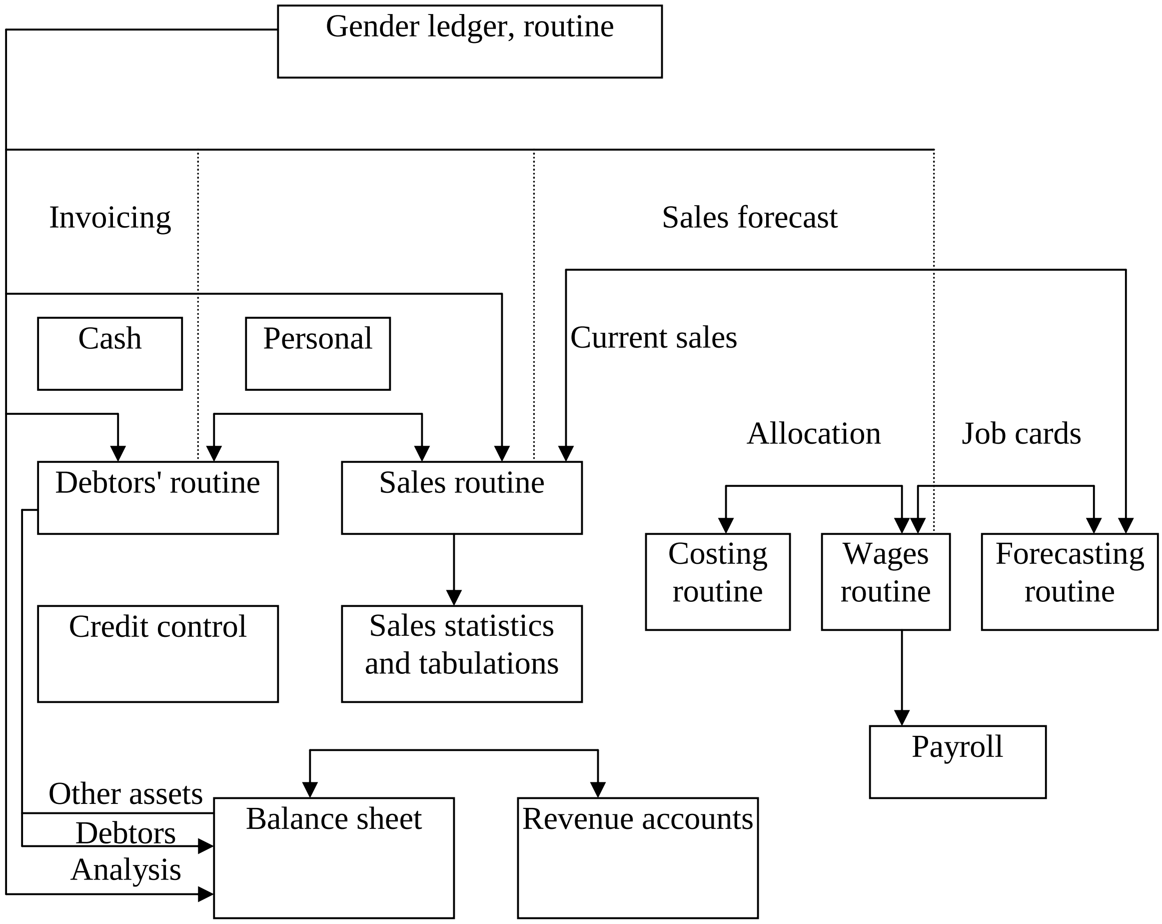
2.9 Principle Books of Accounting and Construction of Overall Plan for Accounting

The book utilized for bookkeeping fall naturally into two division:

a. **Principal books and subsidiary books**: Principal books namely ledger and cash book. These are the main books and those in which the double entry system of accounts is kept. The cash book contains the cash and bank accounts. All other accounts are in the ledger, subsidiary books or books of first or original entry such as journal, purchase book, sales book etc. many details are recorded in these books before the amount's concerned are entered in ledger accounts. The journal was only subsidiary book at first and others were split off from it later.

b. **Statistical or memorandum books**: These are books in which are entered the numerous details connected with the business operations which cannot conveniently be recorded in the other books. Practicing double entry book keeping, it follows a overall plan or an approach to system design which is presented below:

Figure 2.4: Principal Books of Accounting



Source: Mitchall, 1967.

The overall picture starts form general ledger routine. The routine allows for sales forecast. To forecast future sales current sales should be analyzed, for forecasting sales forecasting routine and model's are developed. And all the debtors and cash received from invoicing are recorded to their respective ledgers. At the end all the assets, debtors and financial analysis is presented in balance sheet.

2.10 Basis of Accounting: Cash vs. Accrual Basis of Accounting

A company may choose to maintain its accounts records either cash or accrual basis. The choice will have an effect on when financial information will be entered into the records and this, of course, will have an effect on the information reported in its financial statements.

When a cash basis of accounting is used, revenues cannot recorded until the cash is received and expenses are not recorded until a cash payment is made. As on the cash basis revenues are recognized only in the period when the cash is received and expenses are recognized only in the period when cash is paid out as a result, the net income reported for an accounting period under cash basis accounting is the difference between the revenue receipts and expenses payments.

An alternative to the cash basis of accounting is the accrual basis. Under the accrual basis of accounting, revenues are recorded in the period in which they are earned with no consideration given to when the cash is received and the expenses in current to generate those revenues are recorded in that same accounting period. With no consideration given to when payment is made. On the accrual basis, the income statement shows full amount.

The cash basis accounting does simplify record keeping and may be used with reasonably acceptable results by some smaller business where receives, payables and inventories are not a factor in the determination of net income. However for most business, the accrual basis accounting offers results that are more useful and provides a better approach for determining net income. Consequently the accrual basis of accounting is used almost in large business.

2.11 The Accounting Model

Accounting rests on a system of rules for interpreting, recording, classifying and reporting event data relating to the business firm. These rules derive from the concepts (particularly assets, liabilities, owner's equity, revenue and expenses). Accounts are able to step up a classification scheme consisting of a language of accounting titles. The general accounting equations are:

A. Financial position:

1. Assets (At) = Equities (Et)

Where 't' indicates amount of time.

Interpret and record all events in such a way that the total assets and equities of the firm are equal. Expanding the equities side of equation (1) gives us assets (At) = Liabilities (Lt) t+ owners equity (OEt). Interpret and record all the transaction and events such a way that the total assets equal to the sum of the totals of liabilities and owners equity.

2. At – Lt = OEt

Interpret and record all events such a way that the result of the liabilities form assets is equal to owner's equity. It intends with the facts that earning measurement is a focal point of much accounting activity and that periodic earnings is a major source of change in owners equity or net assets. It is useful to refine the idea of owner's equity or net assets by writing the equation as:

3.At = Lt = CSt + REt

Where, CSt stands for contributed capital and RE for retained earning

B. Financial Position and Changes in Retained Earnings

Above model expanding the accounting model, it is to analyze the effect of time on retained earning (RE).

1. At = Lt + CSt + REt-1 + Y-D

This equation shows that retained earning at time 't', the end of accounting period is the algebraic sum of retained earnings at the end of the previous period (REt-1), the earnings for the period (y) and the dividend ends declared during the period (D).

Since the financial position statement is solely a statement of the firms assets and equities at any time (t) changes in retained earnings for a period form (t-1) to't' must be expressed in a separate statement usually called the statement of retained earnings. This is presented in this model.

2. REt = REt-1 + y-D

Where t –1 is the moment in time at which the period began y is the earnings for the period and 'D' is the dividends declared during the period.

c. Financial position, retained earnings and earnings

Finally we will substitute revenues (R) – expenses (E) for earnings (y) in equation (4) to get equation (6). This is consistent wit the definition of periodic earnings. In accounting model, revenues and expenses are simply sub-divisions of the retained earnings as expressed in this equation of financial position at a time 't'.

1. At = Lt + CSt + REt-1 + (R-E) - D

Interpret and record all events in such aw ay that the total of assets equals the sum of total liabilities, owners, contributed, capital and retained earnings (Fertic and Estvan et al. 1971).

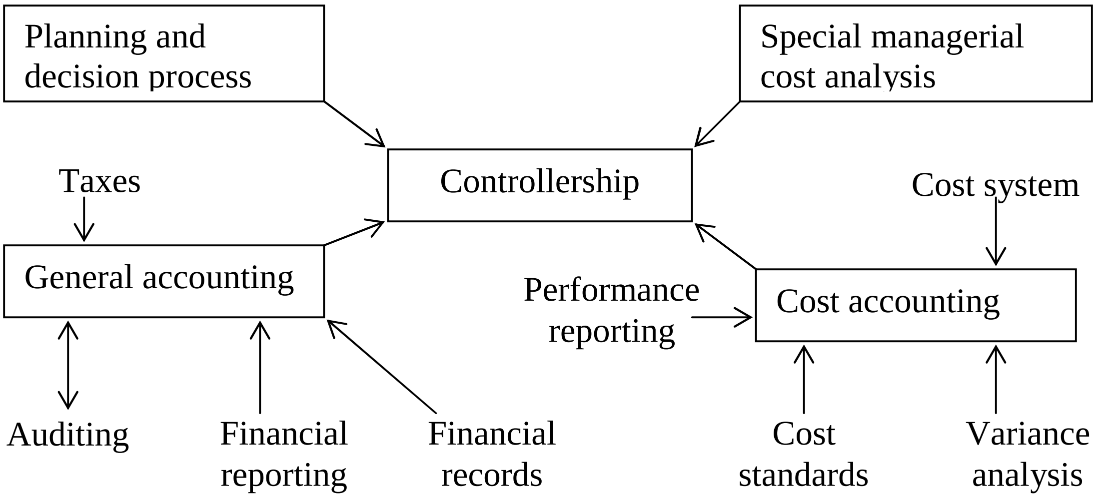
2.12 Branches of Accounting

Accounting has different branches. Some of them are discussed below.

2.12.1 Cost Accounting

Cost accounting should be considered the key managers partner in the planning and controlling activities, finishing management with the necessary accounting tools to plan, control and valuate the operation. In the planning phase, cost accounting deals with the future. It helps management to budget the future or predetermined to material costs, wages and salaries, other costs of manufacturing and marketing products. In the control phase cost accounting deals with the present comparing current result with pre-determined standards and budgets. Cost control to be effective depends upon the proper cost planning for each activity, function and condition. So cost accountancy as the application of costing and cost accounting principles, methods and techniques to the science, art and practice and cost control and the ascertainment of profitability. It includes the presentation of information derived there form for the purpose of managerial decision making (Sukla and Grewal, 1970).

Figure 2.5: Uses of Cost Accounting



Source: Drury, 2000.

Moreover cost accounting is charged with the tasks of aiding and participating in the creation of plans and budgets providing management with information in connection with problems that involve choice from among two or more alternative course of decision making. Determining cost and profit for an accounting period.

2.12.1.1 Some Tools Used in Cost Accounting

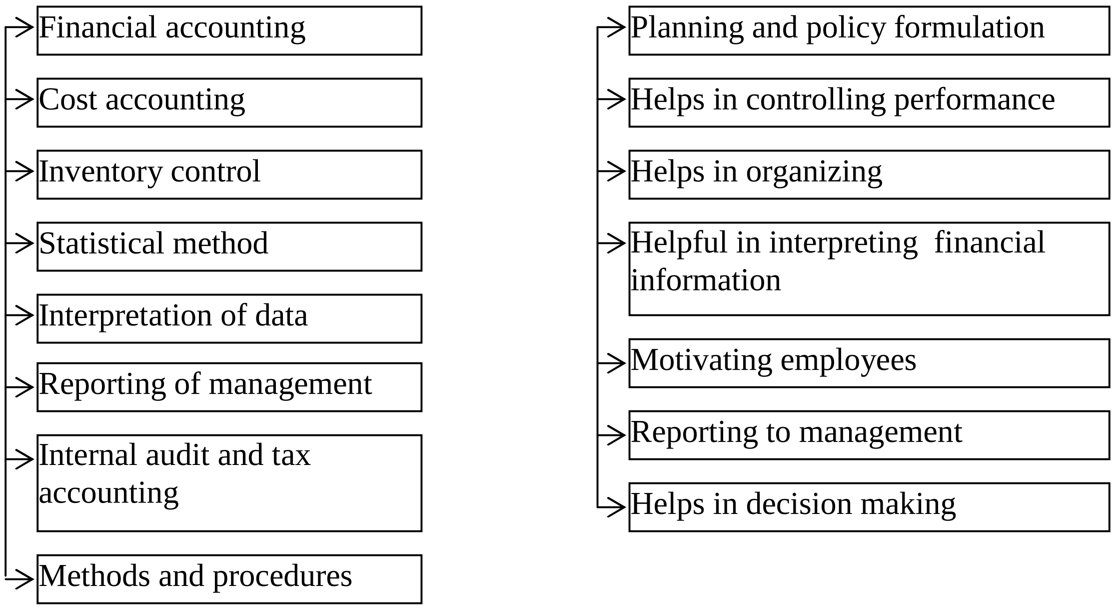
▪ Job order and process costing	▪ Liner programme for planning and decision making	▪ By product and joint product cost for profit analysis
▪ Cost volume profit analysis	▪ Profit performance measurements	▪ Break-even and cost volume profit analysis
▪ Standard cost	▪ Intra company transfer pricing and the product pricing method	▪ Standard costing
▪ Capital budget	▪ Capital structure planning,	▪ The budget
▪ Allocation of joint costs	▪ Evaluating and control	▪ Accounting for labour related costs
▪ Accounting for distribution cost	▪ Differential and comparative cost analysis	▪ Factory overhead
▪ Cost reports	▪ Cost accounting information system	▪ Price changes

2.12.2 Management Accounting

Management accounting involves forecasting and planning future operations of the business considering the past as well as present achievement. It is concluded with the allocation and fixation of responsibilities the evaluation of future development and the analysis and interpretation of data that provide a vista to the management. It establishes standards of performance in different form of activities. The scope of field of management accounting is very wide and broad based and it includes a variety and aspects of business operations. The main aim of management accounting is to help management in its function of planning, directing, controlling and areas of specialization included within the bounds of management accounting.

2.12.2.1 Scope of Management Accounting and Objectives of Management Accounting

Figure 2.6: Scope and Objectives of Management Accounting



Source: Munankarmi, 2003.

2.12.2.2 Some Tools and Techniques for Managerial Planning

1. Income recognition, measurement and reporting.
2. Cost accumulation, estimation and allocation.
3. Cost volume profit analysis.
4. Budgeting and profit planning: master budget.
5. Standard costing.
6. Flexible budget and overhead cost control.
7. Decision making: Decision regarding alternative choices.
8. Pricing decision .
9. Transfer pricing in decentralized condition.
10. Financial statement analysis.
11. Cash flows statement.
12. Capital budgeting.
13. Foreign investment analysis.

2.12.3 Financial Accounting

Financial account concerns with the recording of financial transactions of the business and it provides information in financial terms to practices or people wanting information about the state of the business. It is that part of accounting which is employed to communicate the financial information of a business unit.

2.12.3.1 Function of Financial Accounting

- Recording of information, i.e. financial transaction.
- Classification of data.
- Preparation of financial statements.
- Interpreting financial information.
- Communicating results.
- Making information more reliable by using gaps

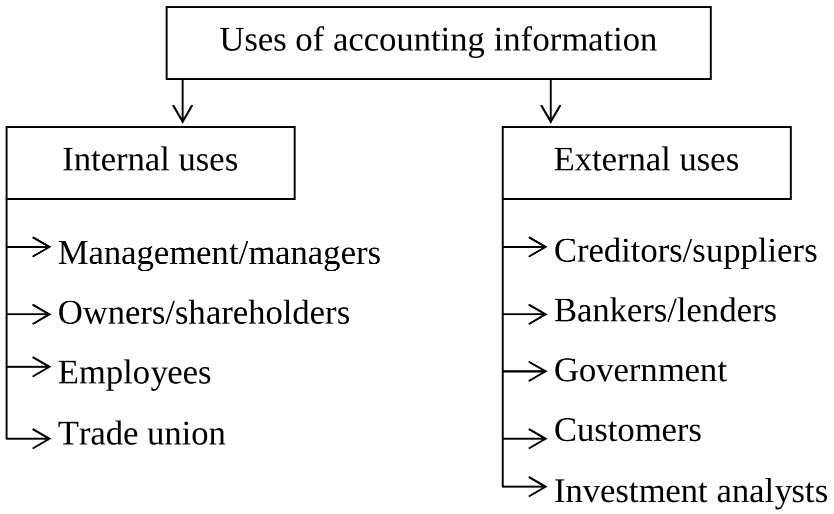
2.12.3.2 Limitation of Financial Account

Management needs information for planning, controlling, and coordinating business activities. But information provided by financial around is not sufficient in meeting informational need of the management because of some limitations that are:

a. Historical value
b. Not helpful in price fixation.
c. Cost control is not possible
d. Appraisal of policies is not possible
e. Record only actual costs
f. Not helpful in taking strategic decision.
g. Provide information about the concern as a whole, not product wise, department-wise.
h. Provide quantitative information not qualitative.

2.12.3.3 Users of Accounting Information

Figure 2.7: Uses of Accounting Information



2.13 Emerging Trends in Accounting

2.13.1 Human Resource Accounting

There appear to be two major reasons why human resource accounting has been receiving so much attention in recent years. First development in modern organization theory have made it apparent that there is a genuine need for reliable and complete information, which can be used in improving and evaluating the management of human resources seemed the traditional framework of accounting is in the process of being expanded to include a much broader set of measurement that was thought possible or desirable in the past we can say that human resource accounting is the measurement and quantification of human organizational inputs, such as recruiting, training, experience and commitment.

The objective of HRA is not just the recognition of the value of all resources used or controlled by a firm, but it also includes the improvement of the management of human resources. So that the quantity and quality of goods and services are increased (RCHA ,1974).

2.13.1.1 Measurement of Human Resource and Their Appraisal

The commentary on human resource accounting has focused on two basic issues:

1. How human resource assets should be valued i.e. should historical cost or replacement value or present value methods be used.
2. The implication of capitalized human resources, once they are recorded i.e. should human resources be amortized? What are the tax implications of human resource amortization? What are the implications of human resource accounting on internal and external auditing?

2.13.1.2 Approaches and for Human Resource Accounting

1. **The historical cost approach:** In this approach, the actual cost of recruiting, selecting, hiring, training, placing and developing the employees of an organization are capitalized and amortized over the expected useful life of the asset concerned. If the asset is liquidated prematurely, losses are recorded and if an asset has a longer life than estimated revisions one made is amortization schedule.

2. **The replacement cost approach:** This method consists of estimating the costs of replacing a firm's existing human resources. These will include the cost of recruiting, selecting, hiring training, placing and developing new employees to reach the level of competence of the existing employees. This approach incorporates the current value of the company's human resource.
3. **The Opportunity cost:** The human resource values are measured through a competitive bidding process within the firm, based on the concepts of opportunity cost. The investment center managers will bid for the same employees they need a recruit. In other words, employees not considered 'scare' are not included in the human asset base of the organization.

2.13.1.3 Human Resource Accounting in companies

Increasing trend towards the measurement and reporting of human assets, particularly in the public sectors of public service commission. But now is private sector as well as public sector also are failed to practice human resolve accounting. Here is the novel of practicing human resource accounting in some Indian companies presented below:

………. company
Value of human resources
Following the less and Schwartz model

	Year	Year	Year	Year
Executives				
Supervisors				
Skilled workers				
Semi-skilled workers				
Clerical other staff				
Unskilled worker				
Ratio of:				
Turnover/total resource				
Value added/human resources				
Value added/total resources				
Turnover/human resources				

Source: Porwal, 1999.

$$Vx = \sum_{t=x}^{T} \frac{I(t)}{(1+r)^{t-x}}$$

Where, Vx = the human capital value of a person x year old

F(t) = the persons annual teaching upto retired

r = a discount rate specific to the person and

T = retired age

2.13.2 Socio-economic Accounting

The essential accounting theory is limited to the reorganization of the unchanged of goods and services between two or more economic entities. It has still recently ignored the social effect. Socio-economic accounting aims at measurement and reporting "the impact of exchanges between a pros and its environment.

Social accounting refers as "the identification, measurement, monitoring and reporting of the social and economic effects of an institution on society. It is intended for both internal managerial and external accountability purpose and is an outgrowth of changing values that have led society to redefine its notion of a corporation's committee on accounting for social performance (1975) state and included:

1. Accounting for and evaluating of the impact of corporate social responsibility programs.
2. Human resource accounting.
3. Measurement of selected social costs.
4. Measuring the full impact of an entity on society.
5. Social reporting.
6. Accounting the puller programs.

In the literature he tells "social accounting" and social auditing have often been used interchangeably which creates confirm social accountings concern with the development of measurement system to as monitor social performance and social monitoring is often equated with the use of independent auditing firms to verify records social performance.

2.13.3 Practicing Social Accounting in Organization

It is observed that the form of social accounting reporting and various components of social accounting and reporting cannot in the practicing. They are unknown about the model suggested by the writer. The future value concept, opportunity cost and shadow concepts are not incorporated and investment in the area of pollution control washingly efficient in all the units Field survey, 2008). There is the model of social and financial balance sheet suggested for Nepalese organization.

………… company
Journal of social financial balance sheet
……… year

Assets	Year
1. Staff assets	xxx
2. Organizational assets	xxx
3. Use of public goods	xxx
4. Financial assets	xxx
5. Physical assets (net)	xxx
Total assets	xxx
Liabilities	
1. Staff liabilities	xxx
2. Organizational liabilities	xxx
3. Public liabilities	xxx
4. Financial liabilities	xxx
5. Stockholders equity	xxx
6. Society equity	xxx
Total liabilities equity	**xxx**

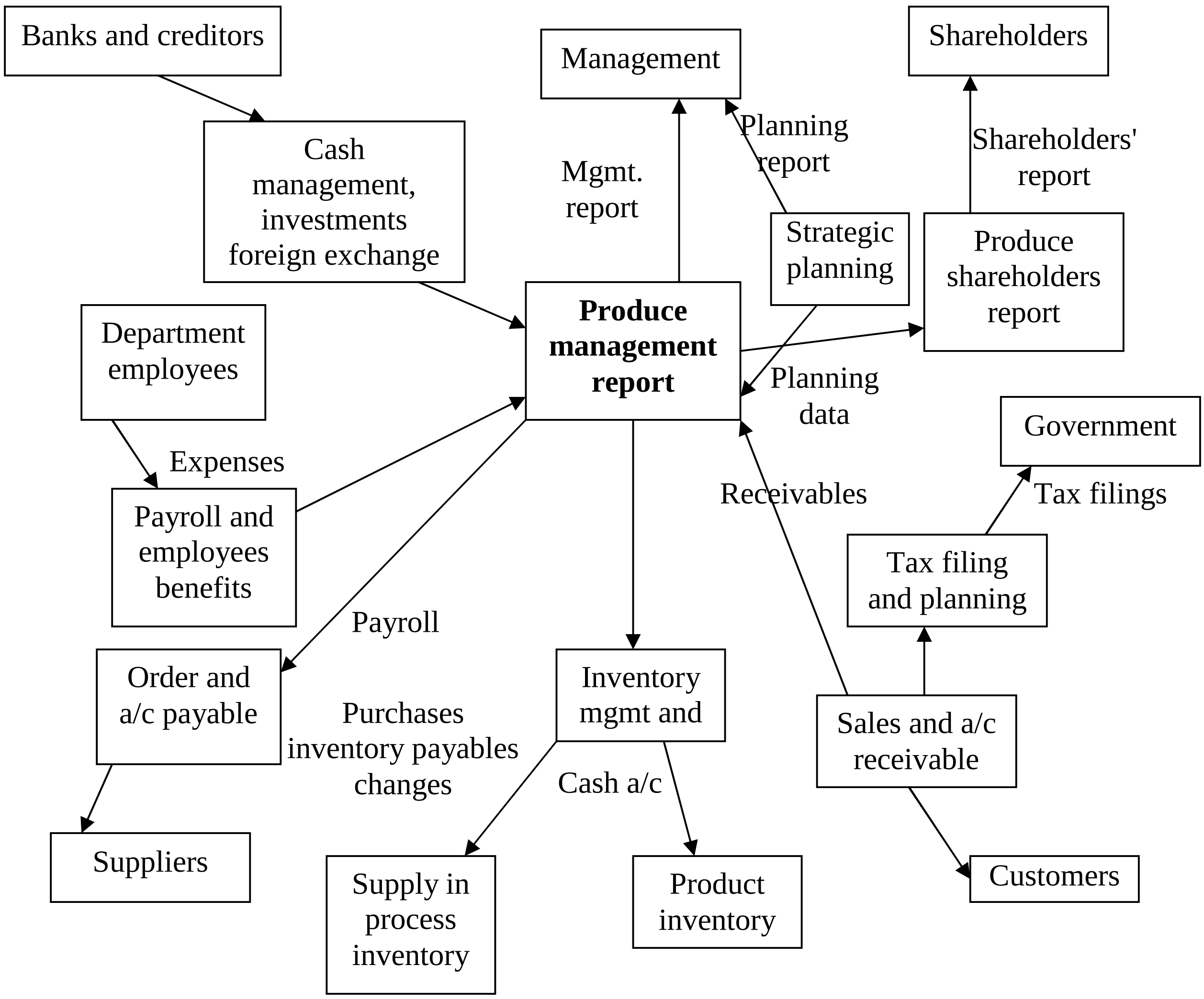
Source: Porwal, 1999.

2.14 Accounting System

2.14.1 The Role of Accounting System

Accounting system provides controls over the data to ensure accuracy and to prevent fraud. The primary purpose of accounting is to collect the financial data of the firm ensures that it is accurate and create standard reports. It is hard to capture all of the elements of an accounting system in one figure but below figure summarizes the essential components of an accounting system. The accounting transaction system can be examined in terms of inputs, outputs and process.

Figure 2.8: The Accounting System



Source: Post and Anderson, 2003.

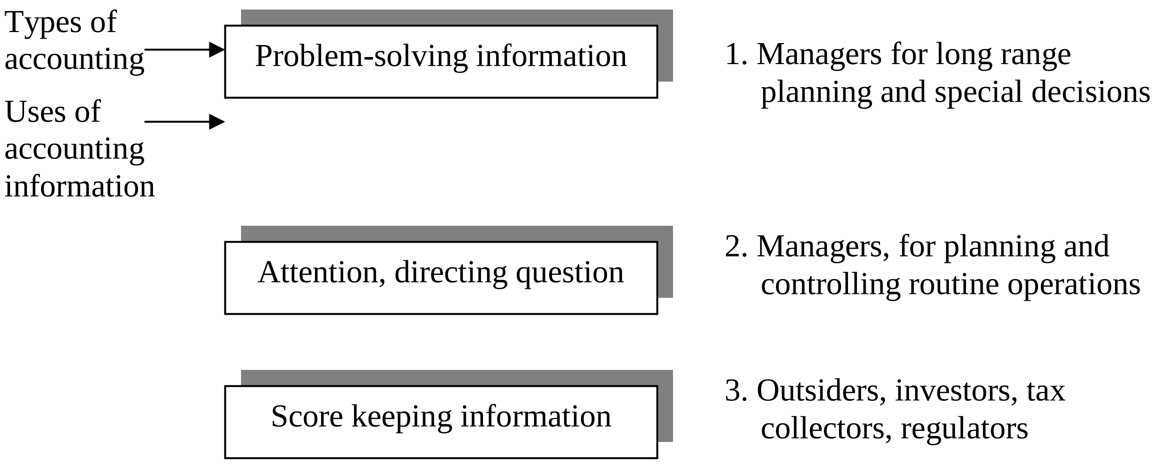
Transactions processing is a major function of the accounting system. The accounting system collects data throughout the company and produces consolidated (centralized reports that are used for planning and management). The whole system operated successfully and finally-produce management reports.

2.14.2 The Need of General Accounting System

An accounting system is a format mechanism system for gathering, organizing, and communicative information about organizations' activities. A good accounting system helps an organization achieve in goals and objectives by helping to answer three types of questions.

1. **Score card questions:** Am I doing well or poorly? Score keeping is the accumulation and classification of data. This aspect of accounting enables both internal and external parties to evaluate organizational performance. The collection classification and reporting of score keeping information is the task that dominates day to day accounting.
2. **Attention directing questions**: Which problem should I look into? Attention directing means reporting and interpreting information that helps managers to focus on operating problems, imperfections, inefficiencies and opportunities. This aspect of accounting helps managers to concentrate on important areas of operations promptly enough for effective action. Attention directing is commonly associated with current planning and control and with the analysis and investigation of recurring routine internal accounting reports.
3. **Problem solving question**: If the several ways of doing the job which is the best. The problem solving aspect of accounting qualities the likely results, possible courses of action and recommends the best course to follow.

Figure 2.9: Need of accounting system major uses helping decision



Source: Horngren and Sunders, 1995.

2.15 Distinctive Purposes of Accounting for Planning and Control

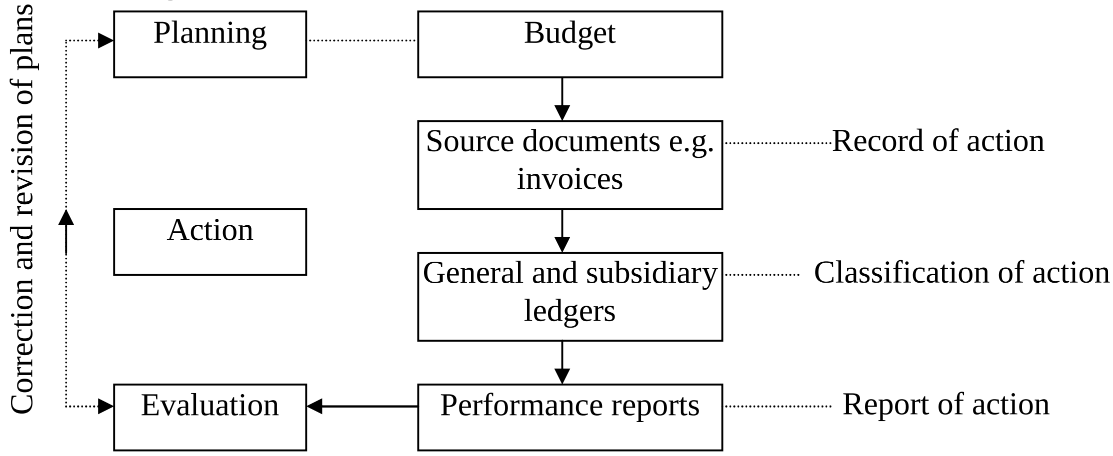
The accounting system is the major quantitative information system in almost every organization. An effective accounting system provides information for three broad purposes.

1. Internal reporting to managers for use in planning and controlling current operations.
2. Internal reporting to managers for use in strategic planning that is the making of special decisions and in the formulating of overall policies and long range plans.
3. External reporting to stockholders, government and other outside parties.

An accounting system should help executives to select short-run and long-run goals, formulate plans for attaining those goals, investigate reasons for deviations from those goals, and reselect goals. Internal accounting is concerned with the accumulation, classifying and interpretation of information which assist individual executives to fulfill organizational objectives as revealed explicitly or implicitly by top management. The accounting framework for planning and control can be presented below:

Figure 2.10: Accounting for Planning and Control

Line Management



Source: Horngreen, 1970.

The above figure shows the accounting framework for planning and control cycle of current operations. An accounting system can be the principle means for facilitating the management process of planning and controlling. An accounting system records activities as they occur and provides feedback that is to essential to any information system.

2.16 The Accounting Information System

The accounting information system forms part the larger business information system; other might include the management, production and marketing information system. Accounting information systematic the design of system to obtain accounting information quality and accurately. Accounting in the broad sense of term can and should rise to the challenge and opportunities of the developing information technologies and take the lead in information management.

The accounting information system is introduced in term of its functions and its components. The need for integration of the components is emphasized and it is that array of sub-systems such as accounts receivables, purchasing and inventory control.

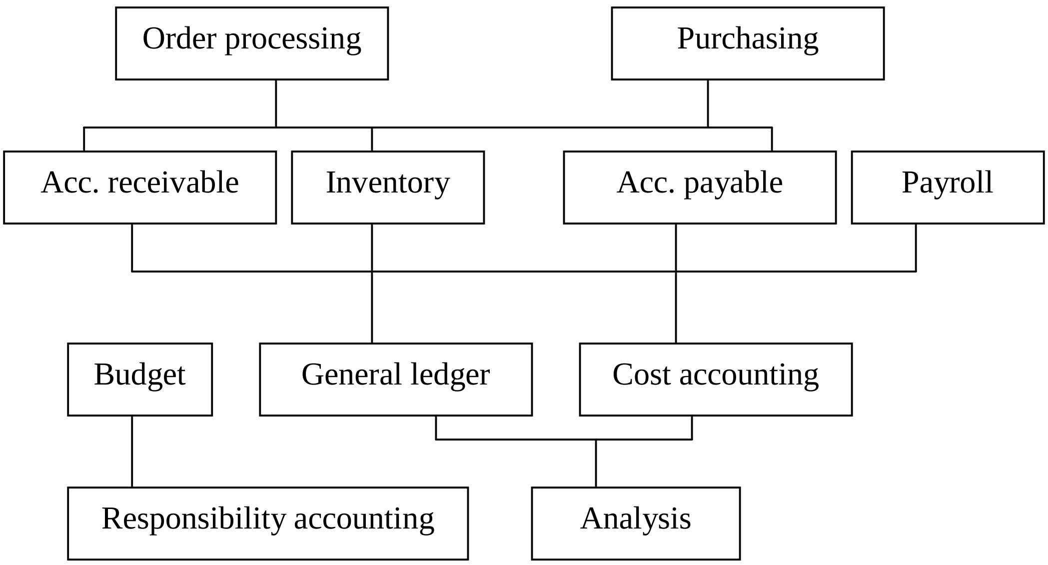
2.16.1 Function and Component

The accounting information system is typically broken down in to component "subsystems". The principal ones are:

- Purchasing
- Sales order processing
- General ledger and financial statements
- Budgeting
- Sales analysis
- Account receivable
- Inventory control
- Payroll
- Cost accounting
- Responsibility accounting

All the components are designed in the integration of information system, are presented below:

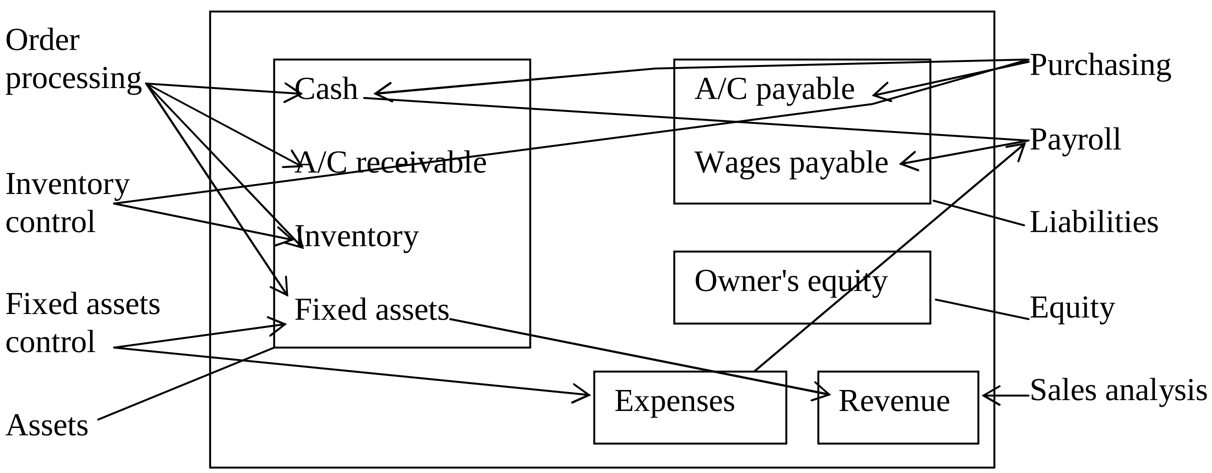
Figure 2.11: Components of Accounting Information system



Source: John F. Nash and Roberts, 1984.

Here in the figure the purchasing sales system relates to the issuance of purchase order for the procurements of raw materials or merchandize inventory. Amount receivable involves the preparation of customer invoices and periodic, usually monthly statements for goods and services sold on account accounts payable involves the processing of invoices received from vendors and preparation of payment vouches for the subsequent disbursement of cash for goods and services purchased. Inventory control's purchase is to monitor stock levels, payroll relates to the payment of wages and salaries and other. The general ledger involves the maintenance of journals and ledgers for recording and classifying the traditional financial transaction. The cost a/c deals with the accumulation of product cost data, budget relates to the tracking of the budget. The responsibility accounting sub-system an extension of the budget, subsystem provides for reporting and operating data and budget comparisons to the individuals and groups who have the organizational responsibility for controlling sales analysis involves sales data analysis. Whole information is integrated and accounting information system is developed and they are related with sub-systems.

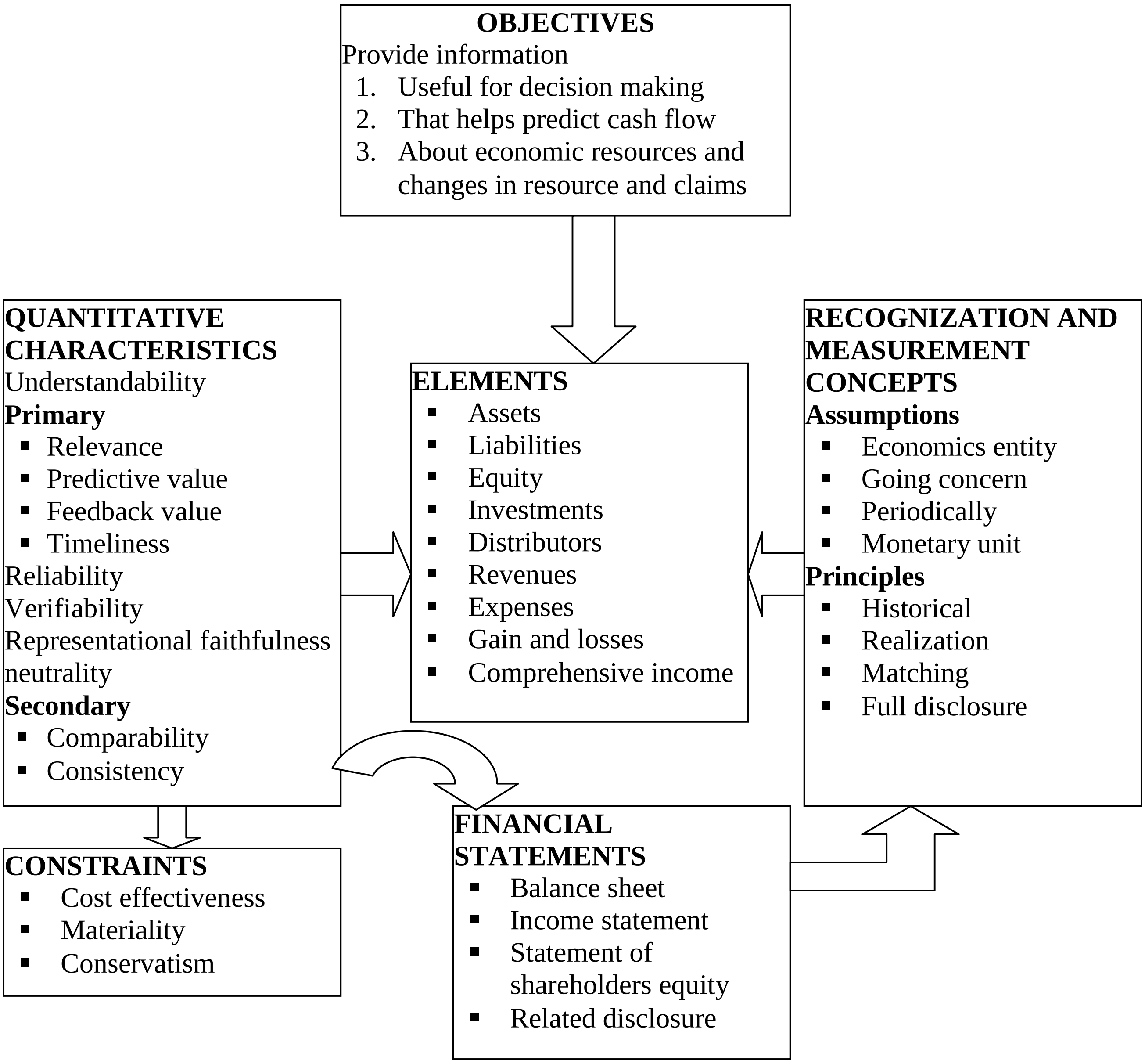
Figure 2.12: The Major Subsystems and Their Relationship with the General Ledger



2.17 Model of Financial Reporting for Accounting Practice

The increasing complexity of our business would create growing pressure on the statement of financial accounting standards to delicately balance the many continents of the accounting standard setting process. To practice accounting, properly, financial reporting is also essential. Financial reporting should provide information that is useful to present and potential investors and the other users in making rational investment, credit and similar decision. The information should be comprehensible to those who have a reasonable understanding of business and economics activities and are willing to study the information with reasonable diligence. It should provide information to help present and potential investors and creditors and other users to assess the amounts, timing and uncertainty of prospective cash flows. It claims to those resources (obligation) and effect of transactions, events, and circumstances that cause changes in resources and claims to those resources. These are sources, direct or indirect of future cash inflows and cash outflows we can present the general model of financial reporting as the conceptual framework.

Figure 2.13: The General Model of Financial Report



Source: Spiceland and Sepe et al. 2004.

2.18 Legislation and Regulation Guiding Accounting Activities

NRB act 2012 B.S. [Data of Royal assets2012/07/18] BS (4th Nov. 1995) Data published in the gazette: 2012/08/20 empowered the central bank of a accounting to regulate, supervise and monitor the banking sector . Nepal's central bank, Nepal Rastra Bank was setup on 14 Baishak 1012 Bs under this Act. Until then there was no special legislation to regular banking companies. NRB act 2058 BS has now replaced NRB

Act 2012. This act has vested various powers in order to regulate banking sector of the country . Special Legislation for the commercial Banks come in existent commercial Bank Act 2031 Bs (Royal assent and published in the gazette 2031/07/05 Bs . commercial Bank Act has been amended 6 times. Banks are also subject to the companies Act 2053 and foreign Exchange regulation Act 2019 Bs They are also subject to other Act, laws and strictly the directive issued by NRB. The following provisions have directly and indirectly affect the accounting practice of commercial Bank in Nepal. Accounting of commercial Bank should be under the following legal framework .

1. Restriction:

Commercial Banks Act restricts the following function and activities:

- purchase and sale of goods with transaction motives (sec.13.1)
- purchase of fixed assets not for own use (sec.13.2)
- Advance loans against the security of its own use (sec.13.3)
- Supply loans of any kind to company where director or the member of his undivided having 10% stake, or function as director or managing agent. (sec. 13.5)
- Declaration or distribution of dividend to shareholders before complete amortization of preliminary expenses accumulated loss and before appropriation of fund for capital adequacy, reserves and provisions (sec.18)
- Acting as the managing agent (sec.17)
- Extending business credit facilities to the employees and their undivided family.
- Expenditure of unpaid capital to be prohibited (sec.16)

2. Minimum Capital and Reserve

Commercial Bank 2031 stated that commercial bank should maintain minimum capital ‘the paid up capital should not be less than half of the issued capital and issued capital not the less than half of the authorized capital . This act has provided the authority to NRB regarding to prescribe the amount of capital in order to establish commercial Banks. The bank should increase its authorized, Issued capital and paid up capital if so directed by the NRB . It has sit following minimum paid up capital requirement for the new commercial bank.

- Rs 250 million to operate all over Nepal except Kathmandu valley .
- Re 1000 million to operate all over Nepal

All existing commercial banks are required to raise their capital base to RS 1000 million by mid July 2009 through minimum 10 % paid up capital increment every year. The bank cannot incur expenditure based on its capital which has not been paid up and the bank cannot pay a commission exceeding 3 % of nominal value in consideration of the sale of share. The bank have to maintain a capital fund accounting to the percentage prescribed by the NRB on the basis of its total assets or risky assets and of balance sheets operation for detail regarding capital adequacy norms and accounting of bank capital).

3. Reserve

- The bank should maintain the general reserve fund. At least 20 % of the annual net profit should be credited it the fund every year until the amount of such fund reach an amount double the paid up capital (commercial Bank Act, 1974, sec. 19)
- Sec. 19 in case it became necessary to withdraw or invest the amount allocated as reserve General Reserve Fund. This should

be done only with the prior approved of the NRB, or investment can be made only in sectors designed by the NRB (Commercial Bank Act 1974, sec. 19.2.1)

The commercial Banks are required to transfer 25 percentage of exchange fluctuation gain to exchange fluctuation Reserve.

Capita assets received in the form of gift donation should be capital Reserve.

Interest spread reserve should credit to deposit interest income in excess of 5 percent spread (this has been scrapped since 25th July 2002)

If there is any gain for revaluation of assets, the same should be transferred to Assets Revaluation Reserve.

The bank should maintain a risk fund in the proportion prescribed by NRB in such a way that it can beat the risks relating to banks liabilities relation to assets and off balance sheet operations.

4. Cash Reserve Ration and Statutory Liquidity Ration (CRR and SLR)

Banks maintain liquidity in the form of cash and bank balance (primary reserve) placement, money at call or short notice (secondary reserve and investment in government securities and their securities readily convertible in to cash (secondary reserve). CB, Act 2031 has defined liquid assets to include cash in vault , balance held with NRB and other as specified by NRB. For the purpose of SLR , NRB had included governments bonds , Treasury bill , NRB bonds and cash at vault and balance with NRB as bank liquidity . NRB as the central bank of Nepal had in the past made it mandatory of commercial bank to maintain liquidity as under:

1. Four percent in vault and eight percent in account with NRB (CRR) primary reserve.
2. Twenty four percentage of total deposit in government bonds, treasury bills and NRB bonds secondary reserve

Such liquidity requirement also called statutory Liquidity Ratio (SLR) requirement. Primary reserve also known as cash Reserve Ratio requirement.

However, NRB has scrapped the provision of secondary reserve , current requirement effective from 22 july,2002 are:

a) Balance at NRB - 7 % current and saving deposit liabilities.

- 4.5 % of fixed deposit liabilities

b) cash in vault - 2 % of total deposit liabilities

CRR is not mandatory for marginal deposit and foreign currency deposit. In case of not maintaining minimum cash reserve as above bank are penalized.

5) Interest Spread

Weighted interest spread between lending rate and deposit rate should not exceed 5 % such a rate is calculated as under :

Weighted Average lending rate (WALR):

WARL + interest income for six months/ average interest earning assets outstanding on the month – end of 6 month end of 6 month.

Weighted Average Deposit Rate (WADR) :

WADR + interest expensed for six months/ Average Deposit

Outstanding on the month- end of six months

Interest Spread + WALR – WADR

Interest income in excess of 5 % spread in bi annual basis should be retained in the bank as interest spread reserve and no dividend can be given out to this fund . However this fund is treated as supplementary capital .

6) Interest Rate

Banks are free to fix interest rate on deposits and loans. Interest rate on all types of deposits and should be published in the local newspaper and communicated to NRB minimum on a quarterly basis and immediately when revised. Deviation of all types of loans and deposits (NRB Directive)

7) Single Borrower's Limit

Single borrower's limit refers to the maximum credits that can be extended to a customer firm, company or companies of the same group . such al limit is currently as under

Single Borrower Limit

Types of Credit	Maximum Limit
a) Funded	25% of core capital
b) non funded (off balance sheet)	50% of core capital

The bank where a single borrower enjoys credit limits (exposure) more than above should bring it within the limit by mid July 21003. If above limit is not observe by a bank 30% additional risk weight assigned to such credit portfolio warranting additional capital (NRB'S Directive no.3)

8) Directed Credit

However, monetary policy of F/Y 2059/060 Bs announced by NRB has pledged to phase put priority sector credit programmed in next five years but to continue with deprived sector credit programmed. Banks have to extend a certain percentage loan and advances in to deprive and priority sector at least 0.25 % to 3 % deprived sector lending and priority sector lending at least 12 % inclusive of deprived sector lending to their total credit portfolio depending n the banks. In case of shortfall in any sector the concerned bank has to pay penalty at the highest lending rate of the bank during the shortfall period which so monitored quarterly basis . The priority sector is agriculture, cottage industry services energy and export base industrial import on machinery and raw material and the deprived sector is agriculture, cottage and service industries .

9) Sectored Credit Limit

Credits follow to one sector of the economy increase the concentration risk of a bank thus the bank are required have sound credit portfolio and NRB requires banks to send the details of sectoral credit and advance in the form (NRB B.A.3) prescribed by it in the monthly basis. NRB requires banks to monitor its credit portfolio in following ways .

a) Level 1: Sector where credit of a bank ranges from 50-100% of core capital . Bank has to devise proper credit information system to monitor such credit at least quarterly.

b) Level II: sector-wise credit of a bank is above 100% of core capital

Banks Board of Directors should decide annually where it wants or does not want to have credit exposure more than 100% in any sector. Decision of the Board should be notified banking operation Department, Supervision and Inspection Department of NRB .

10) Loan classification and provisioning

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

Loan Classification and provisioning

Classification

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

Source : NRB

Pass loan is called performing and other are called non performing Assets. Provision requirement in case of loan given against personal guarantee only is additional 20% for pass, substandard ad doubtful loans, provision for restructured, rescheduled and swapped loan is 12.5 % only. The provision for the performing is said to be General loss loan provision and for the non performing loan the provision is said to be specific loan loss provision. Loan advances and bills purchases are classified and after providing the provision net outstanding amount is shown in the Balance sheet.

11) Accounting Year

Every commercial bank is required to follow the Fiscal Year as an accounting year. The Fiscal year in Nepal generally begins on July 16 and ends on July 15.

12) Significant Accounting Policies and Disclosure Requirements

There is following provision regarding Accounting policies of commercial banks :

I) Disclosure of Accounting Policy : profit and balance sheet should be prepared base on general accounting principle and prevalent accounting policy of banking and international accounting standards . Major significant accounting policies those have been applied in preparation of those statements by management should be disclosed along with Annual Accountings.

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

III) Major Accounting policy: Depreciation policy: Accounting of investment on shares, debentures and bonds should be valued on the cost price or the market price whichever is less. It should be disclose in accounting policy. Listed security in the stock exchange can have fluctuation on their price, Thus making balance sheet more true and fair bank has to make adequate for the contingent loss, this provision should be deducted from the investment, unlisted securities are disclosed on the cost price .

Exchange fluctuation adjustment policy: Bank is also required to disclose their accounting policy regarding foreign exchange/currency related assets, liabilities and exchange fluctuation income and expenditure (loss). That bank has to separately account the revaluation gain and loss on foreign currency and the income/ losses from trading the foreign currency. The bank has to adjust the ‘Exchange Fluctuation

Account "Based on changes in foreign currency exchange rate the end to the month and at the end of the year and it has to determine net adjustment revaluation profit and loss . At the year end, revaluation loss should be deducted at first from exchange equalizations Reserve if it exceeds the Reserve then remaining loss can transferred to profit and loss account. 25% of the Revaluation profit should be transferred to exchange equalization Reserve from the profit and loss appropriation account in case of profit on revaluation of the foreign exchange.

Accounting policy of Non Banking Assets

Bank can collect the principle and interest of its uncollected loan through the sale of collateral pledged to the bank. But in case of failure to dispose the collateral pledge to it in a satisfactory pledge to it in a satisfactory price, no one offers a bid in a auction held by a bank, can take over the ownership of such assets. Bank should dispose these assets with in seven years under commercial Act 2031 (with amendments) section 13.1 Thus there should clear accounting policy of management for at what price these title acquired assets are valued .

2.19 Review of Related Studies

Review of related studies is the most important part of research to gain wide knowledge in the field of topic we are going to conduct a research. It helps the researcher what others researcher in the area of the study has unable to cover. The following some researches tries to present the most important research works that have been conducted out in the area of accounting (Kandel, 2011) had conducted a research in the topic of "Accounting practices in Nepalese enterprises, a case study of small business enterprises in Kathmandu valley." It is an analytical and descriptive survey study concentrated on financial accounting practices only and identifying the only short listed area's where financial accounting is used. The research was concerned with financial accounting only. It did not consider the modern use of accounting in the area of responsibility, strategic management, test accounting.

Kandel, in his study, states these major findings which are as follows:

1. It was found that only 97% of the small business enterprise found keeping the records and almost 45% of small business enterprise recording their business transactions as per required by the government and 45% of small enterprise recording their business as per memorandum book. Only 10% business enterprise were found practicing accounting keeping as per required by commercial business.
2. More than 74% of small business enterprises mostly practiced manual accounting system and only 18% enterprises managed their account records both manually and computerized.
3. Most of the enterprises little to keep accounts themselves, almost 60% are practicing are practicing themselves and only 27% are appointing part time accountant, 18% appointing accountant as a full time.
4. Regarding the use of accounting records by small enterprises, it was found that majority of enterprise practiced the record maintained by them to know the result of operation and identify credit transaction.
5. Almost 44% of small business enterprises audited their records and rest didn't audit their records yearly.
6. It was found that almost 95% of small business paid tax liability to the government yearly and 5% of business are out of tax circumstances.

7. Only some sort of organization are following budgeting system, written down value method of depreciation and use the complete book keeping cycle.

Kandel, in his study reports, added that lack of proper knowledge of accounting principle, extra-cost and cognizance about accounting tools was main factors causing problem in the application of accounting practices in Nepal. In his recommendations, he has suggested to apply some accounting tools like budgetary control, control reports, internal auditing and personal visits. Furthermore, He added that accounting training to the entrepreneur in fruitful for standard account keeping.

An Accounting practice was conducted on "Accounting practices in Nepalese small industries" by Adhikari (1995), A case study of Chitwan and Nawalparasi districts with references to industrial enterprises development institute. The study was focused on the examining the existing accounting system used by small entrepreneur and identify what kind of cost information is typically provided to the manager of small industries. He concluded that many small business however not always use the complete books keeping cycle and use of single entry book keeping system instead of the double entry systems of journals and ledgers and most of the entrepreneurs prefer to keep the accounts themselves and he recommend on his study that the government should launch special program about the accounting principle and methods. He noted that the main causes of such practices are lack of knowledge on proper accounting.

Another study conducted by Visokarma (1999) “The problem faced by small business community to adopt Double entry system of Book keeping " tried to examine the problem facing by small business community to adopt double entry system of book keeping. The study was based on the analysis of the responses of small business concern from Katmandu valley. The study focused on the following findings.

- Most of the business Firms weren’t practicing double entry book keeping system
- most of the small business firm were facing difficulties on auding and practicing Double entry system due to lack of knowledge and information technology.
- Most of the respondents had suggested indifferent ways for the improvement for existing accounting system.
- As per the respondents opinions the government should launch a training program to the small entrepreneurs for improvement of their accounting system.

Sharma, (2005), had conducted the research in the topic "management accounting practices in the listed commercial Banks. It is a survey study concerned on examining the present practice of management accounting tools in listed commercial Bank in Nepal and identifying the areas where management accounting tools could be applied to strengthen the companies. The research was concerned with management accounting only. It did not consider the overall accounting practice of company.

Sharma in his study found that many of the tools which were taught in the college accounting weren't found in practicing. He further more added that some tools like capital budgeting, shareholders account, cash flow statement income statement and balance sheet are in the practice but major tools like cost volume profit analysis, activity base costing, and zero based budgeting are out of practicing.

His study found some major problems in practicing management accounting were lack of information, extra cost burden & cognizance about management accounting tools. In his study recommendation He suggested to use management accounting Tools in order to strengthen the competitiveness of Nepalese listed Banks.

Gautam(2012) had conducted the research in the topic " Nepal Accounting Standard : practices , problem and Issues " . It is a survey type research design was followed with prescriptive and analytical approach with the basis objectives to explore the practical problems in implementation of Nepalese accounting standards in listed companies in Nepal stock exchange.

2.20 Research Gap

The research studies about "accounting practices in Nepalese commercial banks is one of the important topics in Nepal. However other several research studies are available in Nepal but they are not sufficient to provide proper system of accounting practices in financial sector. The entire related theses have pointed out in this study and there are not proper accounting practices system analysis and recommendations for the effective implementation of accounting practices in the selected organization. The findings of the previous researches were mostly based on secondary data. In some researches primary data were also used but they are insufficient to provide information up to the responsibility accounting and strategic accounting. Most of the dissertations were investigating only record of cash, sales and other transactions profit and loss but they failed to assess the impact of accounting practices on overall performance as well as the prospects of accounting practices in Nepalese organization.

This research work is quite different from the other research in commercial banks. The method of analysis is fully different because most of the research is based on primary data. Basic research tools are used in this study as graphic to selected method, pie-chart, hypothesis testing, graphs, mean, coefficient of variation etc. This study is fruitful to government, commercial banks, scholars, students, teachers, organization, research, businessman, personal etc. for academically as well as policy perspectives.

Thus to fill up these gap, the current research is conducted. This research is a survey type of research. It is mostly based on primary source data. It examines the current practices system of accounting of Nepalese commercial banks.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

Research is defined as the systematic design, collection, analysis and reporting of data and findings relevant to a specific marketing situation facing the company (Kotler, 2000: 290) Research is any systematic attempt to get information useful is solving certain problems and is making certain decisions. The basic objectives of the present studies are to highlight the current practice of accounting practices in Nepalese commercial banks. To assess the objective of the study needs to follow up an appropriate research methodology. This chapter deals with sampling techniques, data analysis tools; research instruments, research question etc. are analyzed.

3.2 Research Design

The research design implies procedure, techniques and task which guide to evaluate the objective of the study and propound way for research visibility. Research design is the conceptual structure with in research is performance. Research design constitutes regarding what, where, when, how much, by what means concerning an inquiry on a research studies. Research design is the conceptual structure within which research is conducted; it constitutes the blue print for the collection, measurement and analysis of the data.

This is the descriptive and analytical research design. It is based on discipline survey.

3.3 Data Collection Procedure and Sources of Data

This study is mostly based on primary source of primary data. However all the launched primary data and information are collected through questionnaire? With the help of the staffs of the commercial Banks. The data used in this study in some extend used secondary in nature. Currently available literature, research reports, textbooks, booklets, statistical books, article of newspaper, current journals, internet, websites that are related to the subject is considered as main sources of secondary data some important sources of data: (a) departmental small and cottage industry (b) chamber of commerce (c) T.U. central library (d) British council Nepal (e) Nepal Rastra Bank, etc.

3.4 Population and Sample

There are 32 commercial banks 'A grade' operated in Nepal(www.nrb.org.np). They are the population of the study. To fulfill the study, only 10 commercial banks i.e. SCBNL, NABIL, EBL, HBL, BOK, RBB, NBL, NSBIL, NIBL and NIC banks are taken as the sample using judgmental sampling method has been adopted to conduct this research study.

The study has focused on the topic of accounting practice of commercial banks.

3.5 Tools and Techniques

This study aims is to examine assess the accounting system and its position of selected organizations. The data has been collected from official records the researcher has visited to the office and got it form the records of primary data with a view to collection the additional required information and informal interview has been applied. All the data obtained from questionnaires and observational carefully edited and then coded in the standard code sheet. The tabulated data is made as per the need. Mostly percentage method is used. All the data has been used according to the requirement of the study. The collected data has been managed, analyzed and presented in suitable formats, tables, pie-charts, tools and percentage, times.

CHAPTER IV

PRESENTATIONS AND ANALYSIS OF DATA

The overall background, basic objectives and significance of the study have been already mentioned in first chapter 'Introduction'. In second chapter, various related books, journals:, other related as well as unpublished sources have been reviewed . In third chapter comprehensive analysis of relevant variables has been undertaken. As such several learnt including this and other techniques employed for analysis and presentation of data have been just defined.

In this chapter, the collected data have been tabulated, presented analyzed and interpreted using a appropriate tools i.e. table mean, standard deviation , co- variation , percentage etc. The available data have been presented using those tools followed by necessary interpretation. It has been necessary to find out the position of financial control system in the both organization.

4.1 Presentation and Analysis of Primary Data of Commercial Banks

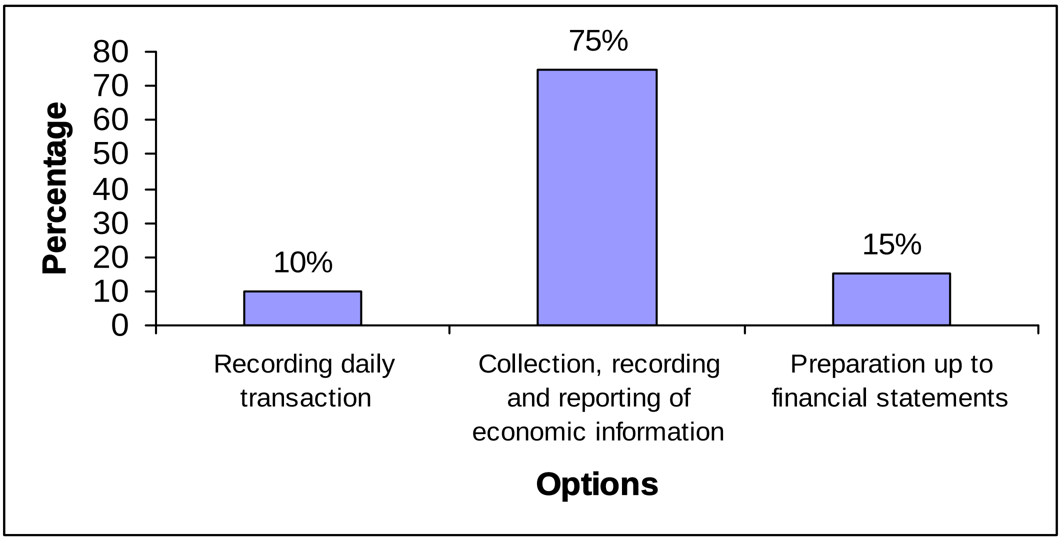
Table No. 4.1

Understand of Accounting

S.N.	Options	Number	Percent
a	Recording daily transaction	2	10
b	Collection, recording and reporting of economic information	15	75
c	Preparation up to financial statements	3	15
Total		20	100

Source: Field survey, 2012.

Figure 4.1: Understand of Accounting



The above table and pie-chart 4.1 shows, how they understand the meaning of accounting. From this table it is obvious that 75% of the banks understand the accounting as the tool of collection, recording and reporting of economic information. It means that they are not only practicing accounting as a tool of reporting also. In response to the question concerning the meaning of accounting 10% of total respondents felt accounting as recording daily transaction and 15% of respondents understand accounting as preparation up to financial statements.

It can be concluded that the accounting is the process of collection, recording and reporting economic information in Nepalese commercial banks.

Table No. 4.2

Maintaining of Accounting System

S.N.	Options	Number	Percent
a	Yes	20	100
b	No	-	-
Total		20	100

Source: Field survey, 2012.

Using the field survey, 100% of the respondents were found to have adopted accounting system in Nepalese commercial banks. Among the survey samples all banks, were adopting accounting system in their business organization.

It can be concluded that there were highly adoption of accounting system in Nepalese commercial banks.

Table No. 4.3

Maintaining of Accounting System

S.N.	Types of accounting system	Number	Percent
a.	Single entry system	-	-
b.	Double entry system	20	100
Total		20	100

Source: Field survey, 2012.

The above table as well as the figure shows the types of accounting system adopted by Nepalese commercial banks in Kathmandu valley. Accounting system used by different banks has been expressed in percentage and number also. From the above table it is obvious that 100% of the banks were found practicing the double entry accounting system. They record their business transaction in a very specific way without following single entry system rules. The above pie-chart also shows the proportion of using single entry system and double entry system of accounting.

It can be concluded that all the commercial banks were found using the double entry system rather than single entry system.

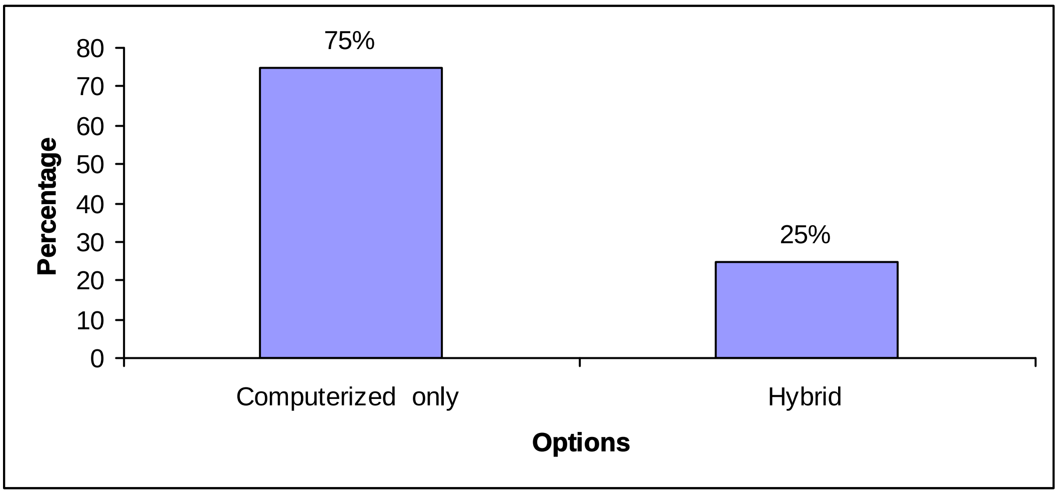
Table No. 4.4

Account Maintained by Commercial Banks

S.N.	Particular	Number	Percent
1	Manual only	-	-
2	Computerized only	15	75
3	Hybrid	5	25
Total		20	100

Source: Field survey, 2012.

Figure 4.2: Account Maintained by Commercial Banks



The above table 4.4 shows how commercial banks record book keeping in Kathmandu valley. From the above table it is obvious that 75% of the commercial banks were found recording or maintaining accounts in computerized system. In the case of some commercial banks newly developing in Kathmandu valley used both manual and computerized record keeping and their easy convenience. Almost 25% of the commercial banks were found using both manual and computerized system. In record keeping, mostly joint venture banks were using computerized record keeping only. And there were no banks using manual record keeping.

It can be concluded that most of the commercial banks were found practicing computerized system of record keeping.

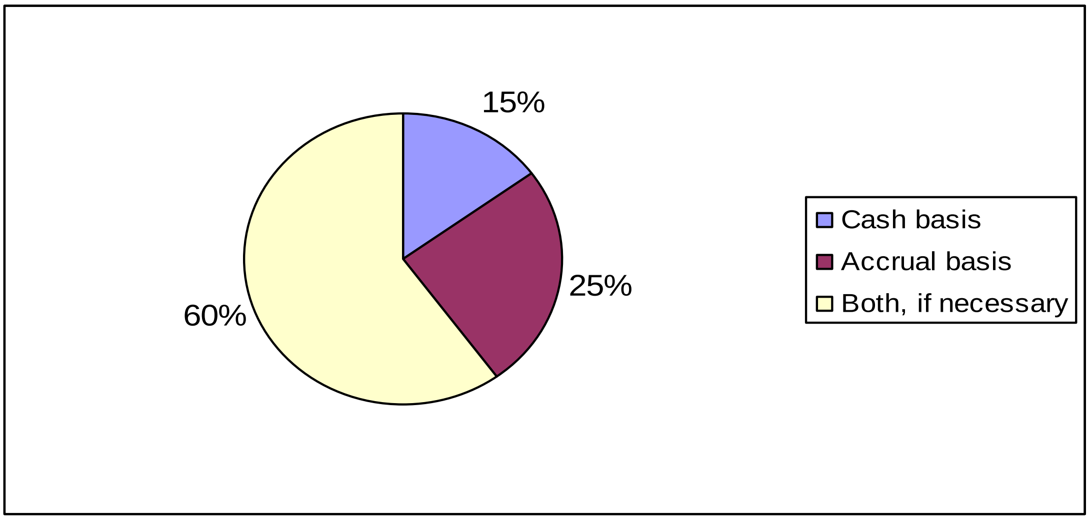
Table No. 4.5

Basis of Accounting Used in Commercial Banks

S.N.	Particular	Number	Percent
a	Cash basis	3	15
b	Accrual basis	5	25
c	Both, if necessary	12	60
Total		20	100

Source: Field survey, 2012.

Figure 4.3: Basis of Accounting Used in Commercial Banks



According to the respondents, organizations or commercial banks were found practicing cash basis, accrual basis, and both if necessary. The above table 4.5 shows the basis of accounting used in commercial banks.

According to the respondents, 15% of the commercial banks were practicing cash basis accounting, and 25% were found practicing accrual basis accounting and 60% of the total banks were using both cash basis and accrual basis of accounting for collection, recording and reporting of economic information.

It can be concluded that both accrual basis and cash basis were used as recording economic transaction in Nepalese commercial banks.

Table 4.6

Time Frame of Accounts Closing

S.N.	Particular	Number	Percent
a	Monthly	-	-
b	Quarterly	8	40
c	Semi-quarterly	-	-
d	Yearly	12	60
Total		20	100

Source: Field survey 2012.

The above table 4.6 shows the accounting time frame of closing accounts by commercial banks. The time frame is divided into four categories i.e. monthly, quarterly, semi-quarterly and yearly. Almost 40% of the commercial banks closing their accounts according to the quarterly basic and almost 6% were found closing their accounts yearly basis. Mostly subsidiary books are closing in quarterly basis and all the statements were closed on yearly basis.

It can be concluded that most of the accounts of commercial banks were found closing at the end of the year.

Table No. 4.7

Preparation of Subsidiary Books in the Commercial Banks

S.N.	Particular	Number	Percent
a	Yes	20	100
b	No	-	-
Total		20	100

Source: Field survey, 2012.

Using the questionnaire method, asked the question about the preparation of subsidiary books in the commercial banks, it was found that 100% of the respondents were found to have prepared subsidiary books according to their need. In comparison with 'yes/no' question, there were no banks which were not practicing subsidiary books.

It can be concluded that all the commercial banks were found practicing subsidiary books.

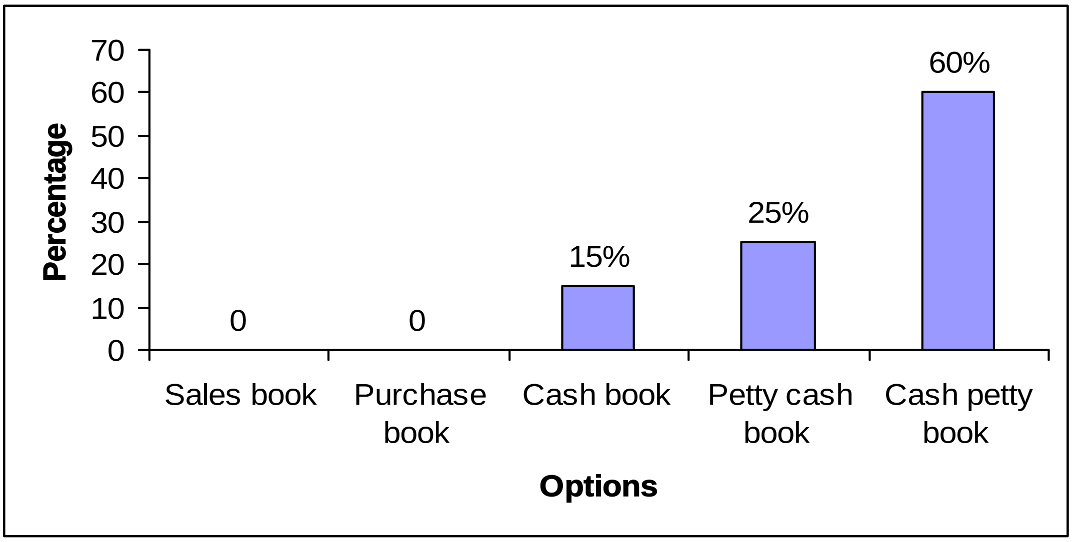
Table No. 4.8

Types of Subsidiary Books Adopted by Commercial Banks in Kathmandu Valley

S.N.	Particular	Number	Percent
a	Sales book	-	-
b	Purchase book	-	-
c	Cash book	3	15
d	Petty cash book	5	25
e	Cash petty book	12	60
Total		20	100

Source: Field survey, 2012.

Figure 4.4: Types of Subsidiary Books Adopted by Commercial Banks in Kathmandu Valley



The above table as well as the figure shows the types of subsidiary books adopted by the commercial banks in Kathmandu valley. For the easy convenience subsidiary books were divided into five categories i.e. sales book, purchase book, cashbook, petty cash book, and cash and petty cash book. Number of the respondents and percentage of the respondents showed in the above table. From the above table, it is obvious that 15% banks were found practicing the cash book only. They recorded their business transaction in a very general way in cash book, 25% of the respondents were found practicing petty cash book only. They recorded small cash transaction through petty cash book and 60% of the respondents were seen practicing both cash and petty cash book. Mostly joint venture banks were using petty and cash book both for their recording transaction.

It can be concluded that the cash book and petty cash book was found greater used in the commercial banks.

Table No. 4.9

Types of Accounting Mostly Used in the Commercial Banks

S.N.	Particular	Number	Percent
a	Financial accounting	14	70
b	Cost accounting	-	-
c	Management accounting	-	-
d	Financial accounting and management accounting	6	20
Total		20	100

Source: Field survey, 2012.

The above table 4.9 shows the types of accounting mostly used in the commercial banks in Kathmandu valley. Mostly accounting used by commercial banks was divided into four i.e. financial accounting, cost accounting, management accounting, financial and management accounting. According to the respondents, 70% of the commercial banks were using financial accounting for collection, recording and reporting of economic information. Their accounts starts with journalization and ends with preparation of financial statements, 20% of the commercial banks were found to have adopted both financial and management accounting. Only using financial accounting shows the lack of using accounting for decision making prospective. There were not proper use of cost accounting for planning and control the cost. It shows the lack of using cost analysis and cost planning. There were no commercial banks using properly cost accounting.

It can be concluded that in Nepalese commercial banks are practicing only financial accounting for the purpose of collection, recording and reporting of economic information.

Table No. 4.10

Method of Charging Depreciation in Your Organization

S.N.	Particular	Number	Percent
a	Fixed installment	-	-
b	Diminishing	20	100
c	Others	-	-
Total		20	100

Source: Field survey, 2012.

Among the question asked to the respondents about the method of charging depreciation in your organization. The response of the question was tabulated above. The above table and figure shows the methods of charging depreciation i.e. fixed installment, diminishing and others. Form the above table it is obvious that 100% of banks were using diminishing method for charging depreciation of its fixed assets. Because the income tax act has suggested adopting diminishing balance method for its tax purpose also. In the case of fixed installment method, there were no banks practicing, for charging depreciation. The above pie-chart also shows the same proportion of banks which were adopting diminishing balance method for depreciation.

It can be concluded that all the commercial banks were using diminishing balance for its charging depreciation.

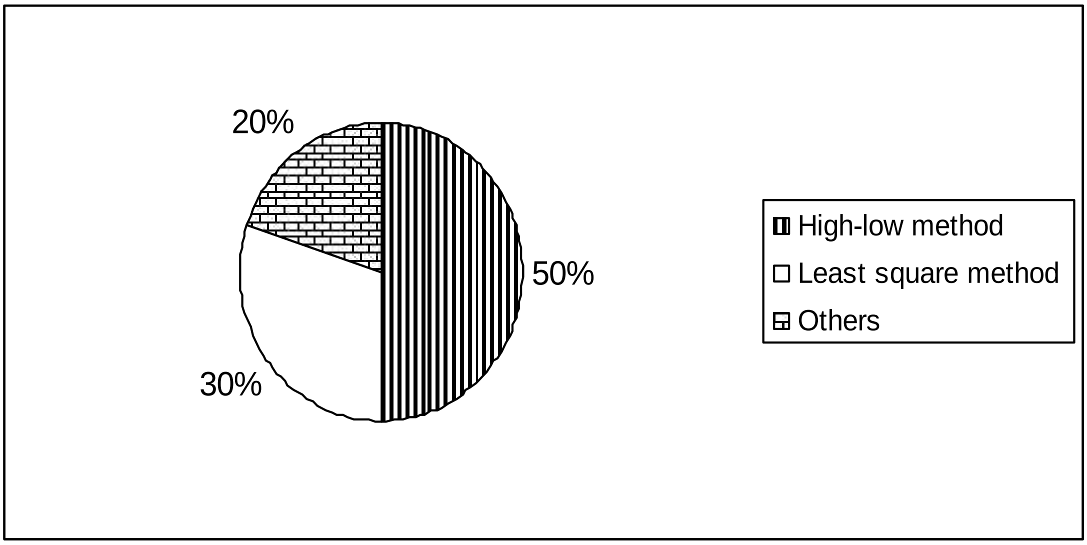
Table No. 4.11

Application of Method for Cost Estimation

S.N.	Particular	Number	Percent
a	High-low method	10	50
b	Least square method	6	30
c	Others	4	20
Total		20	100

Source: Field survey, 2012.

Figure 4.5: Application of Method for Cost Estimation



The above table shows the method of assertion of cost into fixed and variable in Nepalese commercial banks in Kathmandu valley. Methods were allocated into three categories i.e. high-low method, least square method and others. 50% of the commercial banks were found using high-low method to allocate overhead into fixed cost and variable cost. 30% were using least square method and remaining 20% were using other method like judgmental method. Especially joint venture banks were using least square method for allocating overhead into fixed and variable cost.

From the presented table and pie-chart, we can concluded that most of the commercial banks were found using high-low method for allocating overhead in to fixed and variable proportion.

Table No. 4.12

Establishment of Budgetary Control and Variance Analysis in Nepalese Commercial Banks

S.N.	Particular	Number	Percent
a	Yes	17	85
b	No	3	15
Total		20	100

Source: Field survey, 2012.

The above table 4.12 shows how the commercial banks select the system of control in Kathmandu valley. For the purpose of financial control, budgetary system and variance analysis were used. 85% of the respondents found using budgetary control and variance analysis for financial control. 154% of the respondents found no appropriate system using like budgetary system and variance analysis for control prospective. Variance analysis most of the commercial banks were using Labour variance for the control.

From the above table, it can be concluded that the budgetary system and variance analysis was found greatly used in Nepalese commercial banks for their financial control.

Table No. 4.13

Prepared Statements in Nepalese Commercial Banks

S.N.	Particular	Number	Percent
a	Income statement	-	-
b	Cash flow statement	-	-
c	Balance sheet	-	-
d	Above three all	-	-
e	Share statement & others	20	100
Total		20	100

Source: Field survey, 2012.

The above table 4.13 shows the statements prepared by Nepalese commercial banks. The statements are income statement, cash flow statement, balance sheet, share statements. From this table, it is obvious that 100% of the commercial banks were practicing all the financial statements mentioned above. There were no banks only practicing income statement or cash flow statement, balance sheet, and share statements.

From the above table we can conclude that all the Nepalese commercial banks were practicing all financial statements essential for detecting the financial position of the commercial banks.

4.2 Presentation and Analysis of Primary Data of Nepalese Commercial Banks

Group II

Group II questions are related to the impact of accounting practices on overall performance overall performance were measured by using some essential indicator like market shares, profit, cost, productivity, sales, divisional performance, organizational behaviour etc. The response of the respondents was presented on the following table:

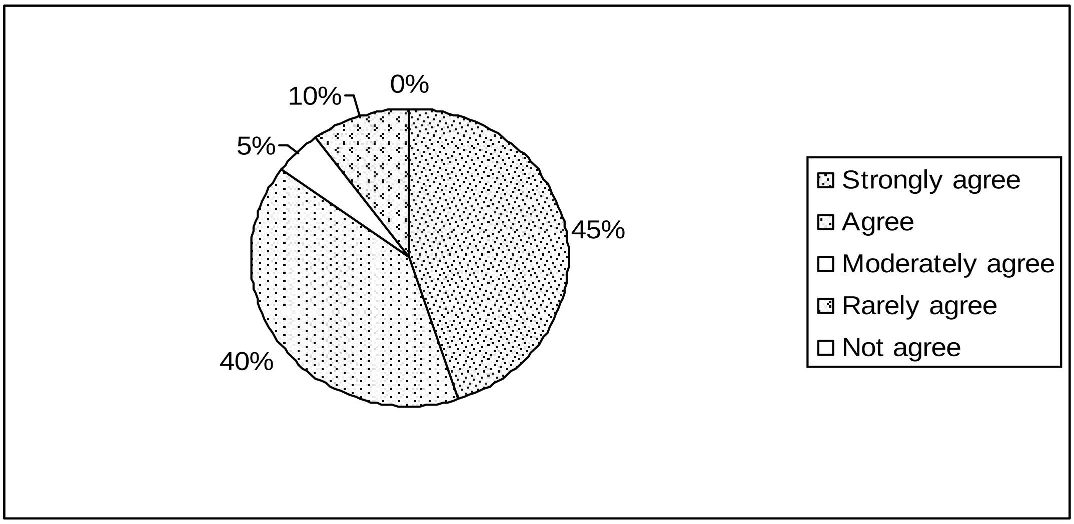
Table No. 4.14

Implementation of Accounting Information System has Helped to Increase Market Shares of the Organization

S.N.	Scale	No.	%	Mean ($\bar{x}$) 1.800	S.D. (∃) 0.95145	CV% 52.858
a	Strongly agree	9	45	-	-	-
b	Agree	8	40	-	-	-
c	Moderately agree	1	5	-	-	-
d	Rarely agree	2	10	-	-	-
e	Not agree	-	-	-	-	-
Total		20	100	-	-	-

Source: Field survey, 2012.

Figure 4.6: Implementation of Accounting Information System has Helped to Increase Market Shares of the Organization



The above table reflects that the 45% of the respondents agreed on the statement that the implementation of accounting information system has helped to increase market shares of the organization.

The lowest mean of the study is 1.80 that strongly suggests as agreement whereas the standard deviation is 0.95145 according and that also suggests the low variation and shows the lower fluctuation in their responses. Their S.D. and C.V. have 0.95146 and 52.858%. It also suggests the lower consistency and low variances of the respondents.

From the above table we can concluded that accounting information system provides a reasonable assurance of increasing market shares that are used for generating more profit in the future.

Table 4.15

Implementation of Accounting Information System has helped to Improve Profit in the Organization

S.N.	Scale	No.	%	Mean ($\bar{x}$) 2.20	S.D. (∃) 0.951	CV% 43.25
a	Strongly agree	8	40	-	-	-
b	Agree	5	25	-	-	-
c	Moderately agree	5	25	-	-	-
d	Rarely agree	2	10	-	-	-
e	Not agree	-	-	-	-	-
Total		20	100	-	-	-

Source: Field survey, 2012.

The above table 4.15 shows that 40% respondents strongly agree on the statement that implementation of accounting information system have helped to improve profit. Whereas 25% agreed on the state and 25% moderately agree upon the statement. 10% of the responses were rarely agreed.

The lowest mean 2.20 that suggest the respondents were strongly agreed and the S.D. 0.9514 suggests that the respondents were highly fluctuation in the variation. It is S.D. is 9.95145 and C.V. is 43.286% revealing the high fluctuation and low consistency of respondents.

From the above table and pie-charts we can conclude that implementation of accounting system helps to improve profit in the Nepalese commercial banks. So to achieve higher profit implementation of accounting information system is essential in Nepalese organization.

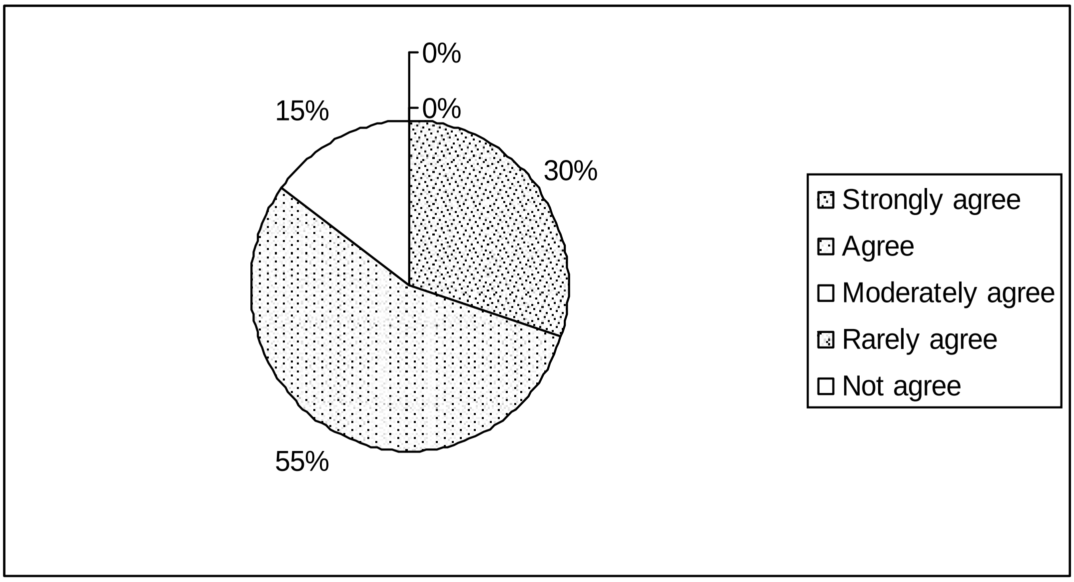
Table No. 4.16

Implementation of Accounting Information System has Helped to Reduce Cost in Your Organization

S.N.	Scale	No.	%	Mean ($\bar{x}$) 1.85	S.D. (∃) 0.670	CV% 36.26
a	Strongly agree	6	30	-	-	-
b	Agree	11	55	-	-	-
c	Moderately agree	3	15	-	-	-
d	Rarely agree	-	-	-	-	-
e	Not agree	-	-	-	-	-
Total		20	100	-	-	-

Source: Field survey, 2012.

Figure 4.7: Implementation of Accounting Information System has Helped to Reduce Cost in Your Organization



The above table 4.16 shows that 30% respondents were strongly agree on the statement: implementation of accounting information system has helped to reduce cost in their organization whereas 55% agreed and 15% moderately agree on this. The lowest mean 1.85 that suggest the respondents were agreed and the S.D. 0.670 suggests that the respondents were low fluctuation in the variation. It's S.D. 0.070 and C.V. 36.26% revealing the low fluctuation and high consistency of the respondents.

It can be concluded that efficiency and effectiveness in operation and cost system depends up on cost management and execution of operations consistently with cost plan and policies through using proper accounting system .

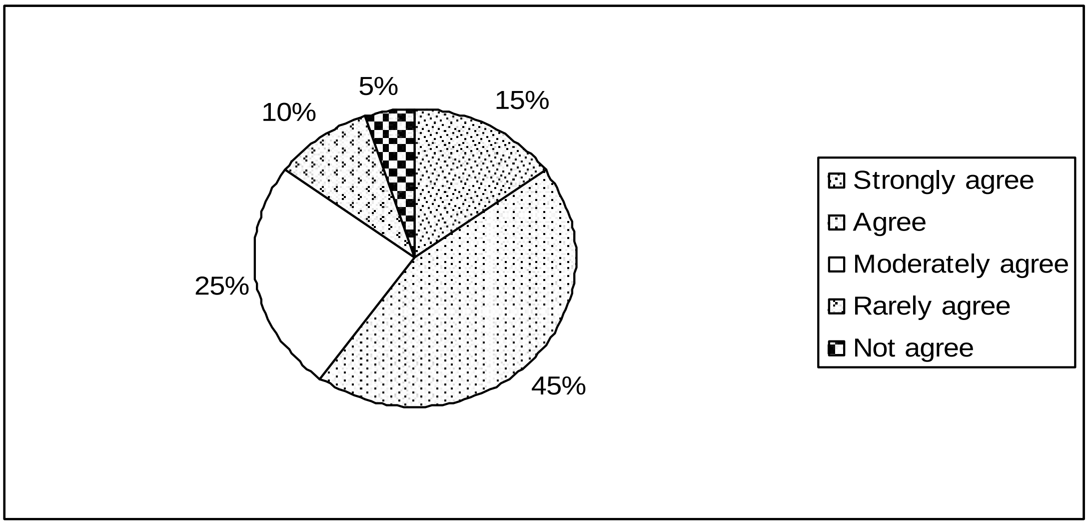
Table No. 4.17

Implementation of Accounting Information System has Helped to Increase Productivity in Your Organization

S.N.	Scale	No.	%	Mean ($\bar{x}$) 2.20	S.D. (∃) 1.005	CV% 45.69
a	Strongly agree	3	15	-	-	-
b	Agree	9	45	-	-	-
c	Moderately agree	5	25	-	-	-
d	Rarely agree	2	10	-	-	-
e	Not agree	1	5	-	-	-
Total		20	100	-	-	-

Source: Field survey, 2012.

Figure 4.8: Implementation of Accounting Information System has Helped to Increase Productivity in Your Organization



The above table shows that the 15% respondents strongly agreed whereas 45% respondents agreed on the statement. Implementation of accounting information system has helped to increase productivity in their organization. The lowest mean is 2.20 agreed strongly the S.D. 2.05006 suggests that the respondents had low fluctuation in the variation, its S.D. is 1.005 and C.V. 45.69 revealing high fluctuation and low consistency of the respondents.

It can be concluded that implementation of accounting information system help to increase productivity through protect the resources from waste, fraud and mismanagement in the organization.

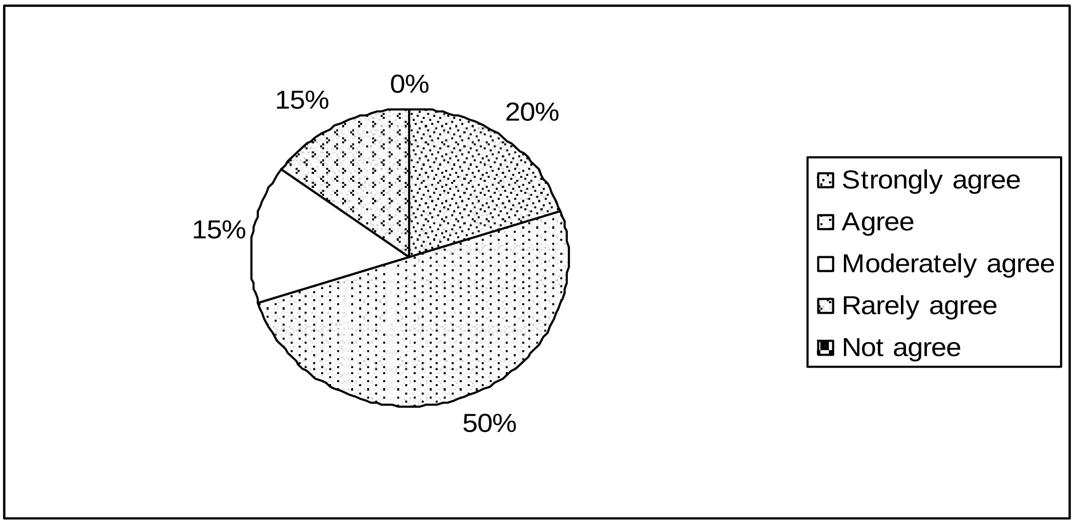
Table No. 4.18

Implementation of Accounting Information System has helped to Increase Sales (Deposit) in Your Organization

S.N.	Scale	No.	%	Mean ($\bar{x}$) 2.25	S.D. (∃) 0.966	CV% 42.96
a	Strongly agree	4	20	-	-	-
b	Agree	10	50	-	-	-
c	Moderately agree	3	15	-	-	-
d	Rarely agree	3	15	-	-	-
e	Not agree	-	-	-	-	-
Total		20	100	-	-	-

Source: Field survey, 2012.

Figure 4.9: Implementation of Accounting Information System has helped to Increase Sales (Deposit) in Your Organization



The above table reflects that 50% respondents agree on implementation of accounting information system has helped to increase deposit in their organization. The lowest mean 2.25 that suggests the agree of the respondents. S.D. 0.9665 suggests the lower fluctuation in the variation. The S.D. 0.966 and C.V. 42.96 revealed that lower fluctuation and higher consistency and low variation of the respondents.

It can be concluded that implementation of accounting information system has helped to increase sales (deposit) in their organization.

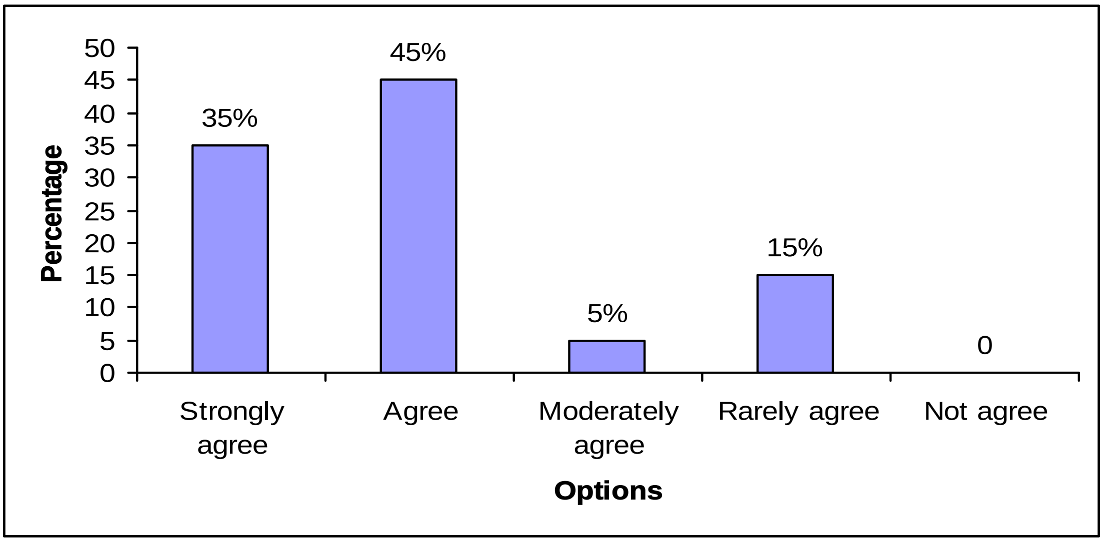
Table 4.19

There is a Mechanism of Reviewing Accounting Reports for Measuring Performance

S.N.	Scale	No.	%	Mean ($\bar{x}$) 2.00	S.D. (∃) 2.02598	CV% 51.299
a	Strongly agree	7	35	-	-	-
b	Agree	9	45	-	-	-
c	Moderately agree	1	5	-	-	-
d	Rarely agree	3	15	-	-	-
e	Not agree	-	-	-	-	-
Total		20	100	-	-	-

Source: Field survey, 2012.

Figure 4.10: There is a Mechanism of Reviewing Accounting Reports for Meaning Performance



The above table shows the establishment of proper mechanism of reviewing accounting reports for measuring divisional performance. Accounting reports are the cornerstone of measuring performance. 35% of respondents strongly agree on the mechanism of reviewing reports whereas 45% respondents agree on the mechanism of reviewing reports.

The lowest mean 200 lies in the survey which suggest that most of the respondents were agreed and S.D., 1.025 suggests that the respondents were highly fluctuation in the variation. Its SD is 1.025 and CV is 51.299 which shows high fluctuation and high consistency of the respondents.

It can be concluded that there is the mechanism of reviewing accounting reports for measuring divisional performance.

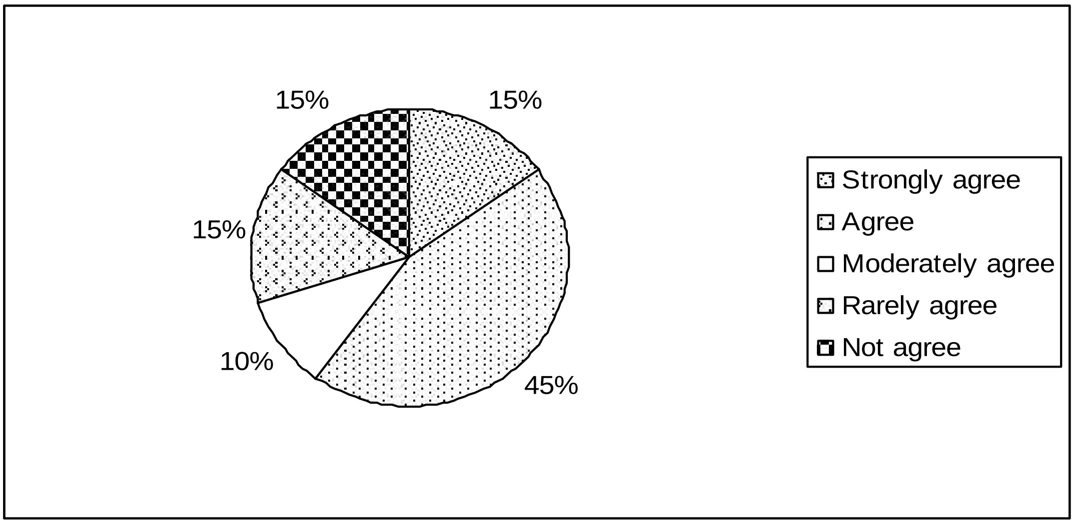
Table No. 4.20

In Your Organization, Accounting Information System Assists in Decision-making by Communicating Objectives

S.N.	Scale	No.	%	Mean ($\bar{x}$) 2.70	S.D. (∃) 1.343	CV% 49.69
a	Strongly agree	3	15	-	-	-
b	Agree	9	45	-	-	-
c	Moderately agree	2	10	-	-	-
d	Rarely agree	3	15	-	-	-
e	Not agree	3	15	-	-	-
Total		20	100	-	-	-

Source: Field survey, 2012.

Figure 4.11: In Your Organization, Accounting Information System Assists in Decision-making by Communicating Objectives



The above table reflects the relationship of accounting information system and decision making process in an organization in fee decision making, accounting information is the basic fee managers. The above table reflects 45% agree on the statement that accounting information system assists managers in decision making.

The lowest mean 2.70 suggests the respondents agree. The S.D. is 1.6341 and C.V. is 49.690 suggest low fluctuation and high consistency of the respondents.

It can be concluded that there are sufficient evidences that accounting information system assists managers in decision making.

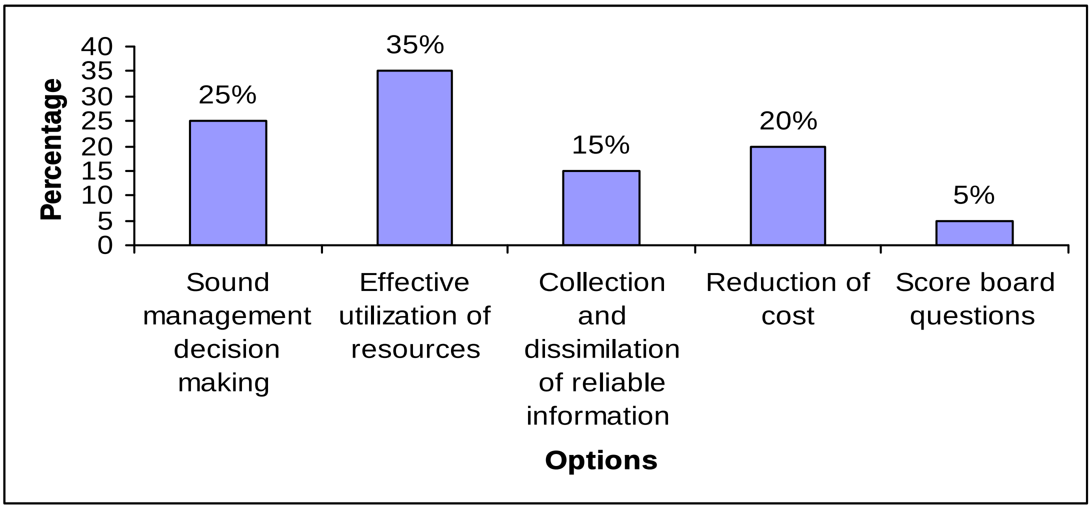
Table 4.21

Accounting Information Mostly Ensures Following Aspects Efficiently and Effectively in Your Operation

S.N.	Particulars	Number	Percent
a	Sound management decision making	5	25
b	Effective utilization of resources	7	35
c	Collection and dissimilation of reliable information	3	15
d	Reduction of cost	4	20
e	Score board questions	1	5
Total		20	100

Source: Field survey, 2012.

Figure 4.12: Accounting Information Mostly Ensures Following Aspects Efficiently and Effectively in Your Operation



The above table as well as figure shows the insurance of accounting information system. Those insurances are divided in sound management decision making, effective utilization of resources, collection and dissimilation of reliable information, reduction of cost and score board questions. The area of accounting system used by different organizations has been expressed in percentage and numbers also. From the above table it is obvious that 25% of respondents were found using accounting information for sound management decision making, 35% respondents were using accounting information system for effective utilization of resources which as 15% for collection and dissimilation of reliable information, 20% for reduction cost in the organization and 5% for score board questions.

From above table it can be concluded that there was highly utilization of accounting information system for effective utilization of resources in their organization.

Group III (Problem and Prospects)

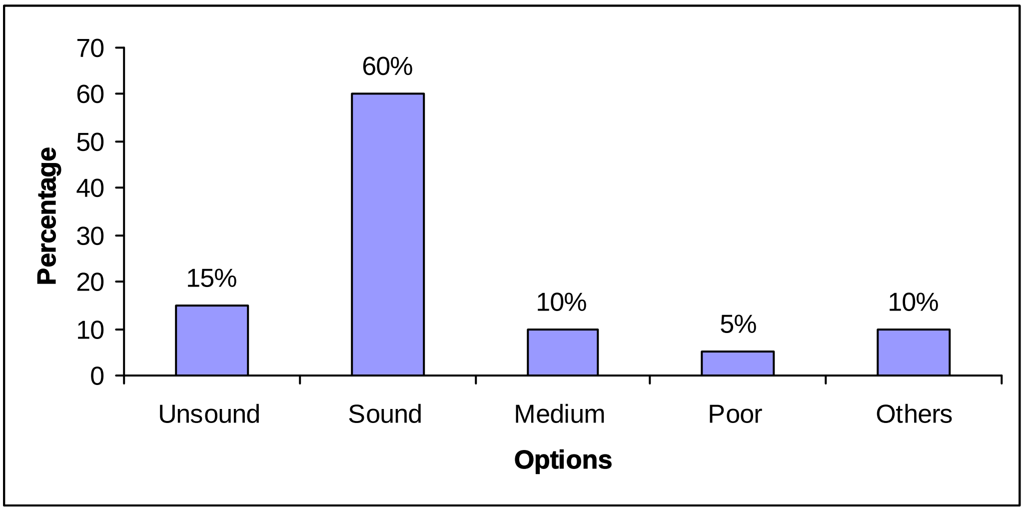
Table No. 4.23

Implementation Scenario of Accounting Practices in Nepalese Organization

S.N.	Particulars	Number	Percent
a	Unsound	3	15
b	Sound	12	60
c	Medium	2	10
d	Poor	1	5
e	Others	2	10
Total		20	100

Source: Field survey, 2012.

Figure 4.13: Implementation Scenario of Accounting Practices in Nepalese Organization



The above table 4.23 shows the implementation scenario of accounting practices in Nepalese organization. The scenario is divided into five categories i.e. unsound, sound, medium, poor, and others. 15% of the respondents answered the unsound scenario and practicing accounting in Nepalese organization. 60% of the respondents agreed upon the sound system and practicing, 10% of respondents saw the scenario of accounting medium and 5% despondences concluded that there were poor systems of accounting in Nepalese organization.

Above result presented by table and pie-chart we can conclude that the implementation scenario of accounting practices is sound in Nepalese commercial banks.

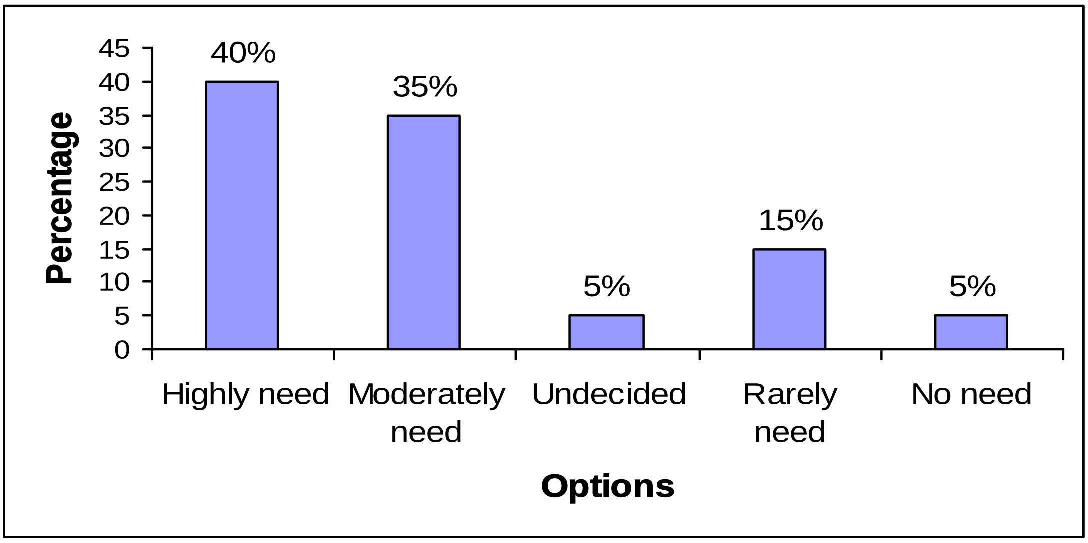
Table No. 4.24

Need and Applying International Standard Accounting in Nepalese Perspective

S.N.	Particulars	Number	Percentage
a	Highly need	8	40
b	Moderately need	7	35
c	Undecided	1	5
d	Rarely need	3	15
e	No need	1	5
Total		20	100

Source: Field survey, 2012.

Figure 4.14: Need and Applying International Standard Accounting in Nepalese Perspective



The above table 4.24 shows the need of applying international standard accounting in Nepalese prospective. The above figure pie-chart shows the proportion of need of applying international standard accounting. The need of applying international standard accounting is divided into highly need, moderately need, undecided, rarely need, no need. 40% respondents agreed on there is highly need of applying internal standard accounting due to global competitive environment of business. Whereas 35% of the respondents agreed on the moderately need of applying international standard accounting because of lowest growing situation of Nepalese commercial banks. 15% of the respondents suggested on rarely need and 5% both undecided and no need of applying standard accounting in Nepalese business organization.

It can be concluded that there is highly need of applying international standard accounting in Nepalese prospective business i.e. commercial banks.

Table No. 4.25

Adoption of Nepalese Standard Accounting in Nepalese Commercial Banks

S.N.	Particulars	Number	Percentage
a	Yes	20	100
b	No	-	-
Total		20	100

Source: Field survey, 2012.

The above table 4.25 shows the adoption of Nepal standard accounting in Nepalese business i.e. commercial banks. Among the respondents, 100% respondents were found to have adopted Nepalese accounting standard in their business organization. It shows the conciseness about the accounting system. There were no respondents not adopting Nepalese accounting standard. It shows the effectiveness of the Nepalese accounting standard also.

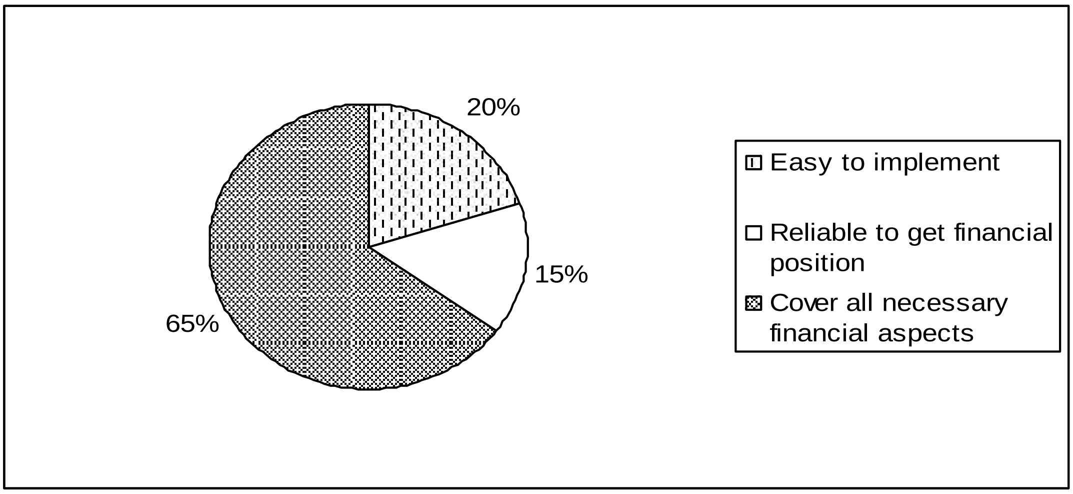
Table No. 4.26

Positive Aspects of Nepalese Accounting Standard

S.N.	Particulars	Number	Percent
a	Easy to implement	4	20
b	Reliable to get financial position	3	15
c	Cover all necessary financial aspects	13	65
Total		20	100

Source: Field survey, 2012.

Figure 4.15: Positive Aspects of Nepalese Accounting Standard



The above table 4.26 shows the positive aspects of Nepalese accounting standard which is classified into three parts, easy to implement, reliable to get financial position and cover all the necessary financial aspects. Question about the positive aspects of Nepalese accounting standard, 20% respondents were found using Nepalese accounting standard because of easiness to implement and 15% respondents were using because of reliability to get financial position and 65% respondents were using Nepalese accounting standard because it covers all necessary financial aspects.

From the above table and figure we came to in to conclusion that the positive aspect and Nepalese accounting standard is that covers all necessary financial aspects.

Table No. 4.27

Major Problem in Adopting Accounting System

S.N.	Particulars	Number	Percent
a	Difficult to understand	14	70
b	Costly	4	20
c	Unclear in some aspect	1	5
d	Lack of government coordination	1	5
Total		20	100

Source: Field survey, 2012.

The above table shows the causes of not adopting accounting system in Nepalese organization in Kathmandu valley. From the above table major problem are divided into four parts i.e. difficult to understand, costly, unclear in some aspect, lack of government coordination. It is obvious that 70% respondents (14 no) of commercial banks were found accounting system difficult to understand. Whereas 20% respondents agreed on costly system for adopting, 5% were not using proper accounting system because of unclear in some aspects of accounting and 5% were not agreed on the statement of major problem in adopting accounting system was lack of government coordination.

We can concluded that there was difficulty to understand accounting principles and problems in accounting system for adopting proper and reliable accounting system.

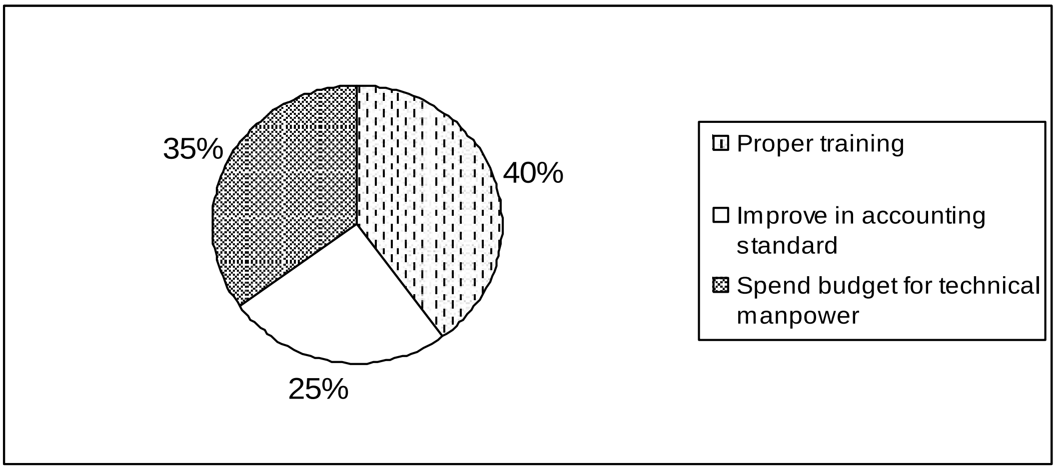
Table No. 4.28

Governmental Organization's Step for Maintaining Sound Accounting Environment

S.N.	Particulars	Number	Percent
a	Proper training	8	40
b	Improve in accounting standard	5	25
c	Spend budget for technical manpower	7	35
Total		20	100

Source: Field survey, 2012.

Figure 4.16: Governmental Organization's Step for Maintaining Sound Accounting Environment



The above table shows the steps government and organization should take to maintain sound accounting environments. The steps may be proper training, improve in accounting standard, spend budget for technical manpower. 40% respondents were suggested to organize proper training to make sound accounting environment whereas 25% respondents were suggested to improved accounting standard and 35% respondents advised to spend budget for technical manpower. There is not variation between the options among respondents.

From the above table and pie-chart, it can be concluded that organization and government should give proper training to the accounting implementer for sound accounting environment.

Table No. 4.29

Establishment of Relation of Decision Making and Accounting Information System

S.N.	Particulars	Number	Percent
a	Yes	20	100
b	No	-	-
Total		20	100

Source: Field survey, 2012.

The above table 4.29 shows the relationship between decision making and accounting information system. 20 respondents agreed on the establishment and relationship of decision making and accounting information system.

It can be concluded that there were great relationship between decision making and accounting information system in Nepalese organization.

When a question asked to the respondent about the importance of tools used in Nepalese commercial Banks . Following result obtained:

Table No. 4.30

Importance of Tools to Baking Companies

Accounting system	1	2	3	Total Respondents	Median weights
Pay in slip system	0	0	20	20	3
Control accounts	2	2	16	20	2.7
Preparation of summary sheet	1	3	16	20	2.75
Continuous check	3	2	15	20	2.6
Daily preparation of trail balance	2	4	13	20	2.45

Source: Field survey, 2012.

The respondent was to assign weights from low importance to high. The median weights found to be ranging from 2.45 to 3 indicates that all the given tools are of high importance to Nepalese Commercial Banks.

From the above table It can be concluded that there is highly importance of using accounting tools .

Table No. 4.31

Response Relating to the Internal Control Tools

Weights	1	2	3	4	5	Total Respondents	Mean weight
a) Authorization and verification	0	0	2	8	10	20	4.35
b) Segregation of duties	1	1	2	8	8	20	4.05
c) Physical control and safe guard	1	2	3	5	9	20	3.95
d) Delegation of Authority	0	2	4	7	7	20	3.95
e) Accounting Authority and responsibility	2	0	6	6	10	20	4.7
Supervision	0	0	8	7	5	20	3.85
Management control	1	2	7	8	3	20	3.65

Source: Field survey, 2012.

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

The median values of the mentioned tools varied from 4.7 to 3.65 . Among the authorization and verification is highly used in Nepalese commercial banks. Then segregation of duties, physical control and safeguard. Delegation of authority and responsibility accounting control supervision and management control are sufficient respectively in Nepalese commercial Banks.

Response regarding Implementation of NRB Directives

Table No. 4.32

Question Asked to the Respondent Whether the Bank is Adopting NRB Directives

Particulars	Respondents	Percent
Fully implementing directives	16	80
Moderately implementing	4	20
Not Implementing at all	0	
Total	20	100

Source: Field survey, 2012.

The 80 percent agreed that bank is fully implementing the NRB Directives and 20 percent moderately implementing the NRB Directives It was the view no banks dear to non compliance fully or not at all

It can be concluded that most of the commercial banks were practicing their accounting system according to NRB directions.

4.3 Major Finding of the Study

From the analysis of data following findings are extracted about the accounting practices of commercial Banks.

1. Nepalese commercial banks are using accounting system as collection, recording and reporting of financial information.
2. Double entry system of book keeping was used in Nepalese commercial Bank for recording their transactions.
3. The sampled banks found to recording their transactions in the computer. They could not fully depend on computers only. Because of not computerized environment and technological deficiency Thus, they have followed both paper trial and electronic record who uses the computerized software they are not also satisfied.

4. In Nepalese commercial Banks were using financial accounting only. They are practicing only Income statement, Balance sheet, Cash flow and profit and loss Account only.
5. Budgetary system was used for measuring divisional performance in Nepalese commercial Banks.
6. The study shows that accounting information system shows a reasonable assurance of increasing market share that are used for generating more profit in future.
7. This study shows that Nepalese commercial banks were using accounting information system as a tool of increasing productivity, protect resources from fraud and mismanagement in the organization.
8. This study shows that there is the mechanism of reviewing of accounting reports on department wise progress in achieving division al performance.
9. The study shows that implementation system of accounting practices is sound.
10. There was highly need of applying international standard accounting system to raise their accounting trend.
11. Major problem identified in the record keeping were difficult to understand, costly, unclear in some aspect and lack of government coordination. Among them, difficult to understand found to significant problem in recording.
12. It is found that majority of commercial bank of research area have not followed the proper accounting records to make future decision. But they were merely maintained their account to know their own investment and liabilities.

13. Accounting practice of commercial banks depend upon following regulation and directives issued by NRB. Major legislation and regulation relating to accounting activities of commercial bank are restriction on certain activities, maintenance of minimum capital and reserve, provision of cash reserve ratio, interest spread, interest rate, directed credited, loan classification, loan loss provision, risk weights, capital adequacy, supervisory and controlling power of NRB, single borrower limit, NRB directives, and provision of accounting policy and structure of financial statement.

CHAPTER -V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

This study intended to system used by commercial Banks attempts to identify the accounting problems faced by commercial banks and to give appropriate accounting model for them. There is no earlier study about the accounting system being practiced in commercial Banks. So the study Lacks review of previous related studies. This study based on the sample of 10 different banks which has been chosen using judgmental sampling.

From this study it is found that the levels of accounting system which being practice in Nepalese commercial banks are only satisfactory. New accounting tools and methods are not used yet. They have been suffering form various accounting problems, proper training is not provided by training and development department of their organization. Majority of the accountants are interested to undergo account training program and are interested to change their existing accounting system. So as to, use accounting information in decision making process.

The main objective of the study are to find out what type of accounting system and practices have been applied by Nepalese commercial Banks to the organizations effectively and provide suggestions to use the modern and scientific techniques to help to reduce accounting expenses. For this purpose researches interview with officials, the data were collected from various sources with the help of qualitative and quantities tools. All the collected data and facts are analyzed on the basis of table, standard deviations, co-variance, mean and so on.

From this study, it is concluded that most of the commercial Banks are not using modern accounting tools. Budgeting is a major tool of performance analysis. New accounting system like human resource accounting and social accounting are out of reach. Few management accounting tools are used.

5.2 Conclusion

To fulfill the accounting practice system on time effectively and effectively , The study focus on motivating managers and accountants for the sake of enhancing total profitability of Nepalese commercial Banks . Following conclusion has been drawn on the basis of analysis of information collected.

1. Nepalese commercial Banks have used accounting system only for collection , recording and reporting of economic information
2. All commercial Banks are using accounting system.
3. Unnecessary recording and lack of understanding proper accounting system were found as common constraints in Nepalese commercial Banks
4. Computerized accounting system is used in Nepalese commercial Banks but some commercial banks are still using both manual and computerized accounting system.
5. There is not clear-cut boundaries to separate Fixed and variable cost which were roughly classified in Nepalese commercial Banks
6. All commercial banks are strongly agreed to apply accounting information system to increase market share of the organization but they are not practicing proper accounting information accounting system which gives all information regarding planning and executing policies

7. Diminishing balance method of depreciation has been used in Nepalese commercial Banks, so far it creates difficulty to get Zero value of assets at the end of assets life.
8. Mostly Financial accounting is used in Nepalese commercial Banks. They are less aware from modern management and cost accounting.
9. Cost and difficult to understand modern accounting tools is a major problem in adopting proper accounting system in Nepalese commercial Banks.
10. Proper accounting training is essential from their Training and development department for maintaining accounting system. Most of the Banks have been facing the problems in adopting new accounting tools. So It is necessary to provide the detail comprehensive accounts training to them. Training is the fundamental to the success for maintaining accounts. Majority of firms are interested to undergo accounting program. And are interested to change their existing accounting system in to new and modern accounting with uses of accounting information on decision making process.

5.3 Recommendation

There are no difficulties in collecting essential data and contact with the reasonable chief department in the process of the study. The behavior of officer and other staff are found quite helpful and reasonable. All the records of office management were good and systematic. The recommendation of the study are as follows:

1. From the studies it is found that most of the commercial Banks using accounting system as collection , recording and reporting of economic information But their reporting system is quite poor

which don't cover all essential data so They should establish relationship between accounting system and reporting system through using new accounting tools like cost accounting , mgmt accounting , profit planning and control .

2. Most of the commercial Banks were using computerized accounting system only. It is quite effective if main documents like Balance sheet and profit and loss account maintained both using computer and manual which helps in reporting information.
3. In Nepalese commercial Banks, Accounts are closed in quarterly and yearly basis. Organization should prepare their accounting reports on monthly, semi monthly basis also which helps organization to measure divisional performance.
4. Mostly financial accounting was used in Nepalese commercial Banks. They are unaware about cost accounting, management accounting and other accounting like strategic management accounting and social accounting. Government and their training and development department should give emphasis on these new accounting also.
5. Diminishing method of Depreciation is used to charge depreciation. It is recommended that Depreciation should be charged under Fixed and other method also because it helps organization to determine actual value of assets at the end of assets life.
6. Cost should be segregated by applying various tools and techniques such as least square method, regression analysis and other also.
7. Nepalese commercial Banks were using only budgetary control for their financial control. They should also focus on other Financial control tools like variance analysis, Break even analysis, etc. The

organization should implement other control system by co-coordinating with accounting boards, universities using different newly developed techniques assigning power and responsibilities to different centers.

8. Most of the commercial Banks are preparing income statement, cash flow and balance sheet on yearly basis . It is further recommended to prepare other statements like profit planning and control report , share statement , pricing analysis etc
9. Proper training facilitates to understand accounting terms and norms which help to reduce costs. so training should be provided to related persons to understand basic terms and procedure while implementing new accounting tools
10. The frequent changes in accounting system has also affected and creates unsuitable recording system , Then changes isn't positive so before using new accounting system sound communication mechanism should be developed.

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Appendix

Questionnaire

Dear respected participants

I am planning to conduct a research in the accounting practice in Nepalese commercial banks. The present research will explore the knowledge and existing practice to find accounting practices and impacts of accounting practices on overall performance of these sectors. Each of your opinion will be very important to managers, policy markers, researchers, and academicians. Your individual responses will be treated anonymously and only the general findings will be presented in the final report:

Name:______________________________ Post: ______________

Organization:________________________

Group I

Please tick (Ĕ) only one option out of different alternatives.

1. What do you understanding by accounting?
   a. Recording daily transactions
   b. Collection, recording and reporting of economic information
   c. Preparation upto financial statements.

2. Do you have maintained any accounting system?
   a. Yes b. No

3. If yes, which system of bookkeeping are you adopting?
   a. Single entry system b. Double entry system

4. How are your accounts maintained?
   a. Manual b. Computerized c. Both if necessary

5. Which basis of accounting, you are following?
   a. cash basis b. Accrual basis c. Both (if necessary)

6. In what time frame, accounts are closed?
   a. Monthly b. Quarterly c. Semi-quarterly d. Yearly

9. Have you prepared subsidiary books in your organization?
   a. Yes b. No

10. If yes, what are the subsidiary books?
    a. Sales book b. Purchase book
    c. Cash book d. Petty cash book

11. What type of accounting mostly used in your organization?

a. Financial accounting b. Cost accounting . management accounting

12. What is the method of charging depreciation in your organization?

a. Fixed installment b. Diminishing c. Others

13. Which method have you applied for cost estimation/

a. High-low method b. Least square c. Others

14. Have you established budgetary controlled and variance analysis in your organization?

a. Yes b. No

15. If you are preparing financial statements, what are the statements?

a. Income statement b. Cash-flow statement

c. Balance sheet d. Share statements

Group II: Assessment instructions:

Please read the following statements and circle at the appropriate alternative number that come closest to your opinion.

Legend: 5. Strongly agree 4. Agree 3. Undecided

2. Rarely agree 1. Not aggregate

1. Implementation of accounting information system has helped to increase the market shares in your organization.	5	4	3	2	1
2. Implementation of accounting information system has helped to improve profit in your organization.	5	4	3	2	1
3. Implementation of accounting information system has helped to reduce cost in your organization.	5	4	3	2	1
4. Implementation of accounting information system has helped to increase productivity in your organization.	5	4	3	2	1
5. Implementation of accounting information system has helped to improve sales in your organization.	5	4	3	2	1
6. There is a mechanism of reviewing accounting reports for measuring divisional performance.	5	4	3	2	1
7. In your organization accounting information system assists in decision making communicate the objectives.	5	4	3	2	1
8. Accounting information system helps to improve organizational behaviour.	5	4	3	2	1

9. Importance of tools to banking companies.	5	4	3	2	1
10. Important relating to the internal control tools.	5	4	3	2	1

9. Accounting information ensures following aspects efficiently and effectiveness in operations.
   a. Sound management decision making ⊥
   b. Effective utilization of resources ⊥
   c. Collection and dissimilation of reliable information ⊥
   d. reduction of cost ⊥
   e. Score board questions ⊥

Group III (Problem and Prospects)

1. What is the implementation scenario of accounting practices in Nepalese organization?
   i. Unsound ⊥ ii. Sound ⊥ iii. Medium ⊥ iv. Poor ⊥ v. Others⊥
2. What is the need of applying international standard accounting in Nepalese perspective?
   a. Highly need ⊥ b. Moderately need ⊥ c. Undecided ⊥
   d. Rarely need ⊥ e. No need ⊥
3. Have you adopted Nepal Standard Accounting system in your organization?
   a. Yes ⊥ b. No ⊥
4. If yes, what is the positive aspect of Nepalese accounting standard?
   a. Easy to implement ⊥ b. Reliable to get for financial position ⊥
   c. Cover all necessary financial aspects ⊥
5. What is the major problem in adopting accounting system?
   a. Difficult to understand ⊥ b. Costly ⊥ c. Unclear in some aspect ⊥
   d. Lack of government coordination
6. What step government should take for sound accounting environment?
   a. Proper training ⊥ b. Improve in accounting standard ⊥
   c. Spend budget for technical manpower
7. Have you related your decision with accounting information?
   a. Yes ⊥ b. No ⊥

8. How far your organization complying the NRB directives?

a. Fully implementing with non-compliance in certain cases

b. Confidentiality between bank and customer

c. Credit worthiness

d. Profitability

9. What have you seen about the future implementation prospects of accounting system?

………………..………………..………………………………..………………..………………