MANAGEMENT ACCOUNTING PRACTICES

IN NEPALESE INSURANCE COMPANIES

Submitted by:

**aCHUAT PANDIT**

**Balkumari College**

**TU Registration No: 7-2-241-01-2002**

Roll No. 94 (2062-064)

A Thesis Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

In the partial fulfillment of the requirements for the degree of

Master's in Business Studies (MBS)

Narayangarh, Chitwan

**June, 2010**

Recommendation

This is to certify that the thesis

Submitted by

Achuat Pandit

Entitled

Management Accounting Practices in Nepalese Insurance Companies

has been prepared as approved by this department in the prescribed format of faculty of management. This thesis is forwarded for evaluation.

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

Mr. Shiva Prasad Poudel Mr. Baburam Panthi

Thesis Advisor Chairperson, Research Committee

….........…………… ….……….....…........…

Mr. Bharat Khanal Mr. Chiranjibi Shrestha

Programme Incharge Principal

Date:

Viva-voce sheet

We have conducted the Viva-Voce examination of the

Thesis presented by

Achuat Pandit

Entitled

Management Accounting Practices in Nepalese Insurance Companies

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

Master Degree in Business Studies (MBS)

VIVA-VOCE COMMITTEE

Chairperson, Research Committee: ……………………….

Member (Thesis Advisor): ……………………….

Member (External Expert): ……………………….

Date:

**DECLARATION**

I hereby declare that the work done in this thesis entitled **"Management Accounting Practices in Nepalese Insurance Companies"** submitted to Balkumari College, Faculty of Management, Tribhuvan University is my original work. It is done in the form of partial fulfillments of the requirement of the degree of Master of Business studies (M.B.S.) under the supervision and guidance of Mr. Shiva Prasad Poudel, Lecturer of Balkumari College.

June, 2010

**Achuat Pandit**

Reseacher

T.U. Reg. No: 7-2-241-01-2002

Balkumari College

ACKNOWLEDGEMENT

I am please to present this thesis entitled "Management Accounting Practices in Nepalese Insurance Companies" to the Tribhuvan University faculty of management for the partial fulfillment of the requirement of the Master in Business Studies degree at Balkumari College. It would have been almost impossible to complete without cooperation and help from different section of intellectuals.

I would like to express my gratitude & deep sincerity to the honorable Mr. Shiva Prasad Poudel, respected lecturer of Balkumari College Narayangarh, Chitwan, for his valuable suggestion and guidance. His continuous cooperation and coordination has been instrumental in the process of preparing this research work.

My special thank goes to Mr. Bharat Khanal, Program Incharge (MBS), Mr. Babu Ram Panthi, Chairman of Research Committee and other respected Lectures of Balkumari College, Mr. Bhim Narayan Adhikari, Mr. Bajay Lal Pradhan, Mr. Guna Raj Chhetri, Mr. Ganga Prasad Sapkota for their proper encouragement & cooperation.

I am indebted to the staff member of sample insurance companies who provided me necessary information and data required for the study.

I would like to thank my Parents and my brothers Arjun and Arun, who have given suggestion to do this study. In the same ways, my special thanks go to my colleagues and friends for their invaluable suggestions at every stage of my work.

Last but not least, I am also appreciating to Mr. C. M. Adhikari of Classic Computer for their expert work in designing & printing this dissertation.

**Achuat Pandit**

**Narayangarh, Chitwan**

TABLE of Contents

Recommendation i

Viva-Voce Sheet ii

**Declaration iii**

**Acknowledgment iv**

**Table of Contents v-viii**

**List of Tables ix**

**List of Figures x**

**List of Appendixes xi**

**List of Abbreviations xii**

**Chapter One Page No.**

**Introduction 1-10**

1.1 Background of the Study 1

1.1.1 Introduction of Insurance 3

1.1.2 Growth of Insurance Business in Nepal 4

1.1.3 Role of Management Accounting (MA) 6

1.2 Statement of the Problem 8

1.3 Objective of the Study 8

1.4 Significance of the Study 9

1.5 Limitations of the Study 9

1.6 Organization of the Study 10

**Chapter Two**

**Review of Literature 11-64**

2.1 Meaning & Definition of Management Accounting 11

2.2 Functions of Management Accounting 12

2.3 Objectives of Managerial Accounting 13

2.4 Insurance Companies in Nepal 15

2.5 Management Accounting Tools 18

2.5.1 Methods of Segregating Mixed Costs in Fixed cost and Variable cost 18

2.5.2 Cost Allocation and Apportionment 19

2.5.3 Product/Service Costing Method 20

2.5.4 Cost-Volume-Profit Analysis (CVP Analysis) 21

2.5.5 Budgeting for Planning and Controlling 21

2.5.5.1. Process of Budgeting 22

2.5.5.2. The Master Budget (A Network of Inter-Relationship) 22

2.5.5.3. Operating Budget 23

2.5.5.4. Budgeted Financial Statement 27

2.5.5.5. Zero Base Budgeting 28

2.5.5.6. Activity Based Budgeting (ABB) 28

2.5.6. Management Control Systems and Responsibility Accounting 29

2.5.6.1. Management Control System 29

2.5.6.2. Responsibility Accounting 30

2.5.7. Standard Costing: Direct Material and Direct Labor Cost 30

2.5.8. Flexible Budgeting and Overhead Cost Control 31

2.5.9. Decision Regarding Alternatives in Business Operation 32

2.5.9.1. Process of Decision Making 32

2.5.9.2. Decision Regarding Alternative Choice 33

2.5.10. Pricing Decision of Product/Services 35

2.5.10.1. Cost-Plus Pricing 35

2.5.10.2. Variable cost pricing 36

2.5.10.3. Full Cost Pricing 37

2.5.10.4. Time and Material Pricing 37

2.5.10.5. Pricing for Competitive Bidding and Special Orders 37

2.5.10.6. Strategic Pricing for New Product 38

2.5.10.7. Target Cost Pricing 38

2.5.10.8. Pricing under Activity Based Costing 39

2.5.10.9. Transfer Pricing 39

2.5.11. Long-term Investment Decisions 40

2.5.11.1. Estimating the Project's Cash Flows 40

2.5.11.2. Relevant Information for Investment Decision 41

2.5.11.3. Long-term Investment Evaluation Technique 41

2.5.11.4 Capital Budgeting Under Risk and Uncertainty 46

2.5.12 Managerial use of Financial Statement Analysis 47

2.5.12.1 The Statement of Cash Flows 48

2.5.12.2 Ratio Analysis 50

2.6 Review of the Previous Studies 57

2.6.1 Mr. Sagar Sharma 57

2.6.2 Mr. Krishna Bahadur Karki 58

2.6.3 Mr. Narayan Prasad Acharya 58

2.6.4 Mr. Lila Raj Baral 59

2.7 Research Framework 60

2.8 Research Gap 63

**Chapter Three**

**Research Methodology 65-69**

3.1 Introduction 65

3.2 Research Design 65

3.3 Source of Data 65

3.4 Population and Sampling 66

3.5 Data Collection Procedure 66

3.6 Data Processing Procedure 66

3.7 Data Analysis 66

3.8 Hypothesis 67

**Chapter Four**

**Presentation and Analysis of Data 70-103**

4.1 Introduction 70

4.2 Percentage Analysis of Management Accounting Tools 71

4.2.1 Management Accounting Tools Practiced in Nepalese Insurance Companies 71

4.2.2 Number of Nepalese Insurance Companies Practicing One or More MA Tools 72

4.2.3 The Department for Budget Preparation in Nepalese Insurance Companies 73

4.2.4 Types of Budget Practiced in Nepalese Insurance Companies 75

4.2.5 Number of Insurance Companies Prepared One or More Type of Budget 76

4.2.6 Time Period Covered by Budget in Nepalese Insurance Companies 77

4.2.7 Bases Taken by Nepalese Insurance Companies While Preparing Budget 78

4.2.8 Number of Nepalese Insurance Companies Taking One or More Base While Preparing Budget 79

4.2.9 Capital Budgeting Tools Practiced in Nepalese Insurance Companies 80

4.2.10 Number of Capital Budgeting techniques Practiced in Nepalese Insurance Companies 81

4.2.11 Techniques Adopted for Estimating Cost and Revenue by Nepalese Insurance Companies 83

4.2.12 Number of Cost and Revenue Estimation Techniques Practiced in Nepalese Insurance Companies 84

4.2.13 Risk Adjustment Criteria Adopted by Nepalese Insurance Companies while Evaluating Capital Investment 85

4.2.14 Number Risk Adjustment Techniques Practiced by the Insurance Companies of Nepal 86

4.2.15 Technique of Measuring and Controlling Overall Performance of the Companies at the End of the Accounting Year in Nepalese Insurance Companies 88

4.2.16 Number of Technique of Measuring and Controlling Overall Performance of the Companies at the end of the Accounting Year Adopted by Nepalese Insurance Companies 89

4.2.17 Factors Effecting Decision Making Procedure in Nepalese Insurance Companies 91

4.2.18 Mixed Cost Segregation Techniques Practiced by Nepalese Insurance Companies 92

4.3 Why Management Accounting Tools are to be Essentially Applied in Every Insurance Companies of Nepal? 93

4.4 What are the Problems Appearing the Application of Management Accounting Tools in Nepalese Insurance Companies? 94

4.5 Analysis of Hypothesis Test 95

4.6 Major Findings 98

**Chapter Five**

**Summary, Conclusion and Recommendation 104-109**

5.1 Summary 104

5.2 Conclusion 105

5.3 Recommendation 106

**Bibliography**

**Appendixes**

List of tables

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Table No. | | Titles | Page No. | |
| 4.1 | Management Accounting Tools Practiced in Nepalese Insurance Companies | | | 71 |
| 4.2 | Number of Nepalese Insurance Companies Practicing One or More MA Tools | | | 72 |
| 4.3 | The Department for Budget Preparation in Nepalese Insurance Companies | | | 73 |
| 4.4 | Types of Budget Practiced in Nepalese Insurance Companies | | | 75 |
| 4.5 | Number of Insurance Companies Prepared One or More Type of Budget | | | 76 |
| 4.6 | Time Period Covered by Budget in Nepalese Insurance Companies | | | 77 |
| 4.7 | Bases Taken by Nepalese Insurance Companies While Preparing Budget | | | 78 |
| 4.8 | Number of Nepalese Insurance Companies Taking One or More Base While Preparing Budget | | | 79 |
| 4.9 | Capital Budgeting Tools Practiced in Nepalese Insurance Companies | | | 80 |
| 4.10 | Number of Capital Budgeting Techniques Practiced in Nepalese Insurance Companies | | | 81 |
| 4.11 | Techniques Adopted for Estimating Cost and Revenue by Nepalese Insurance Companies | | | 83 |
| 4.12 | Number of Cost and Revenue Estimation Techniques Practiced in Nepalese Insurance Companies | | | 84 |
| 4.13 | Risk Adjustment Criteria Adopted by Nepalese Insurance Companies while Evaluating Capital Investment | | | 85 |
| 4.14 | Number Risk Adjustment Techniques Practiced by the Insurance Companies of Nepal | | | 86 |
| 4.15 | Technique of Measuring and Controlling Overall Performance of the Companies at the End of the Accounting Year in Nepalese Insurance Companies | | | 88 |
| 4.16 | Number of Technique of Measuring and Controlling Overall Performance of the Companies at the end of the Accounting Year Adopted by Nepalese Insurance Companies | | | 89 |
| 4.17 | Factors Effecting Decision Making Procedure in Nepalese Insurance Companies | | | 91 |
| 4.18 | Mixed Cost Segregation Techniques Practiced by Nepalese Insurance Companies | | | 92 |

List of Figures

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Figure No. | | Titles | Page No. | |
| 4.1 | Management Accounting Tools Practiced in Nepalese Insurance Companies | | | 71 |
| 4.2 | Number of Nepalese Insurance Companies Practicing One or More MA Tools | | | 72 |
| 4.3 | The Department for Budget Preparation in Nepalese Insurance Companies | | | 74 |
| 4.4 | Types of Budget Practiced in Nepalese Insurance Companies | | | 75 |
| 4.5 | Number of Insurance Companies Prepared One or More Type of Budget | | | 76 |
| 4.6 | Time Period Covered by Budget in Nepalese Insurance Companies | | | 77 |
| 4.7 | Bases Taken by Nepalese Insurance Companies While Preparing Budget | | | 78 |
| 4.8 | Number of Nepalese Insurance Companies Taking One or More Base While Preparing Budget | | | 79 |
| 4.9 | Capital Budgeting Tools Practiced in Nepalese Insurance Companies | | | 81 |
| 4.10 | Number of Capital Budgeting Techniques Practiced in Nepalese Insurance Companies | | | 82 |
| 4.11 | Techniques Adopted for Estimating Cost and Revenue by Nepalese Insurance Companies | | | 83 |
| 4.12 | Number of Cost and Revenue Estimation Techniques Practiced in Nepalese Insurance Companies | | | 84 |
| 4.13 | Risk Adjustment Criteria Adopted by Nepalese Insurance Companies while Evaluating Capital Investment | | | 86 |
| 4.14 | Number Risk Adjustment Techniques Practiced by the Insurance Companies of Nepal | | | 87 |
| 4.15 | Technique of Measuring and Controlling Overall Performance of the Companies at the End of the Accounting Year in Nepalese Insurance Companies | | | 88 |
| 4.16 | Number of Technique of Measuring and Controlling Overall Performance of the Companies at the end of the Accounting Year Adopted by Nepalese Insurance Companies | | | 90 |
| 4.17 | Factors Effecting Decision Making Procedure in Nepalese Insurance Companies | | | 91 |
| 4.18 | Mixed Cost Segregation Techniques Practiced by Nepalese Insurance Companies | | | 92 |

List of APPENDIXES

|  |  |  |
| --- | --- | --- |
| Appendix No. | Titles | Page No. |
| I | Questionnaire | 113-116 |
| II | Management Accounting Tools Practiced in Nepalese Insurance Companies | 117 |
| III | The Responsible Department for Budget Preparation in Nepalese Insurance Companies | 118 |
| IV | Types of Budget Prepared by Insurance Companies of Nepal | 119 |
| V | Period Covered Budget Prepared by Insurance Company | 120 |
| VI | Basis of Preparing Budget in Nepalese Insurance Companies | 121 |
| VII | Tools Used to Make Decision Regarding the long Term Investment or Purchase of Fixed Assets in Nepalese Insurances Companies | 122 |
| VIII | Techniques of Estimating Cost & Revenue in Nepalese Insurance Companies | 123 |
| IX | Tools of Evaluating Risk While Making Capital Investment Decision in Nepalese Insurance Companies | 124 |
| X | Technique of Measuring & Controlling Overall Performance of the Companies at End of the Accounting Year in Nepalese Insurance Companies | 125 |
| XI | Factor Effecting Decision Making Procedure in Nepalese Insurance Companies | 126 |
| XII | Mixed Cost Segregation Techniques Practiced by Nepalese Insurance Companies | 127 |

**List of Abbreviations**

A. D. : Anno Domini

A/C : Account

ABB : Activity Based Budgeting

ABC : Activity Based Costing

AICL : Alliance Insurance Company Limited

ALICO : American Life Insurance Company Limited

ARR : Average Rate of Return

B.S. : Bikram Sambat

CFAT : Cash Flow after Tax

Co. : Company

CVPA : Cost Volume Profit Analysis

DPB : Discounted Payback Period

e.g. : For Example

EICL : Everest Insurance Company Limited

HGICL : Himalayan General Insurance Company Limited

i.e. : That is

IRR : Internal Rate of Return

LGICL : Lumbini General Insurance Company Limited

LICNL : Life Insurance Corporation (Nepal) Limited

Ltd. : Limited

MA : Management Accounting

NAICL : National Insurance Company Limited

NBICL : NB Insurance Company Limited

NICL : Nepal Insurance Company Limited

NIL : Neco Insurance Limited

NLGICL : NLG Insurance Company Limited

NLICL : National Life Insurance Company Limited

NLICL : Nepal Life Insurance Company Limited

No. : Number

NPV : Net Present value

PBP : Payback Period

PI : Profitability Index

PICL : Prudential Insurance Company Limited

PICNL : Premier Insurance Company (Nepal) Limited

RBS : Rastriya Beema Sansthan

Rs. : Rupees

SICL : Sagarmatha Insurance Company Limited

SICL : Shikhar Insurance Company Limited

SIL : Siddhartha Insurance Limited

TOICL : The Oriental Insurance Company Limited

UICL : United Insurance Company Limited

ZBB : Zero Based Budgeting