

**ACCOUNTING PRACTICES ADOPTED BY SMALL  
INDUSTRIES IN KATHMANDU DISTRICT**

**A PROJECT WORK**

**Submitted by:**

**Binod Prasad Dhungana  
Nepal Commerce Campus  
T.U. Registration No.: 7-1-25-71-96  
Campus Roll no.: 973/062  
Exam Roll no.: 1718/064**

**Submitted to:**

**Office of the Dean  
Faculty of Management  
Tribhuvan University**

**In partial fulfillment of the requirements for the Degree of Master  
Of Business Studies (MBS)**

**New Baneshwor, Kathmandu  
February, 2009**

## **RECOMMENDATION**

This is to certified that the project work

**Submitted by:**

**Binod Prasad Dhungana**

Entitled:

### **ACCOUNTING PRACTICES ADOPTED BY SMALL INDUSTRIES IN KATHMANDU DISTRICT**

has been prepared as approved by this department in the prescribed format of faculty of Management, T.U. This project work is forwarded for examination.

-----  
**(Dr. Bihari Binod Pokharel)**  
**Head of the Research Department**  
**and**  
**Project supervisor**

-----  
**(Mr. Diwakar Pokhrel)**  
**Campus Chief**

## DECLARATION

I hereby declare that the project work entitled “**Accounting Practices adopted by Small Industries in Kathmandu District**” submitted to the Nepal Commerce Campus, Minbhawan Faculty of Mangement, Tribhuwan University. This is my work, which is prepared as the *partial fulfillment of the requirement for the Degree of Master of Business Studies(MBS),Tribhuwan University.*

I have completed this research work under the regular guidance of my *Project work supervisor Dr.Bihari Binod Pokharel.*

-----  
**Binod Prasad Dhungana**

T.U. Registration No.: **7-1-25-71-96**

Campus Roll No.: **973/062**

Exam Roll No.: **1718/064**

Nepal commerce Campus

February, 2009

## ACKNOWLEDGEMENTS

This Project work entitled **Accounting Practices adopted by Small Industries in Kathmandu District**, is a Masters Degree project work prepared to fulfill the partial fulfillment of the requirement for the Degree of Master of Business Studies(MBS),Tribhuwan University. The main objective of the study is to identify the accounting problem faced by the small Industries in Kathmandu District.

I am extremely grateful to my respected teacher and the advisor of this dissertation *Dr.Bihari Binod Pokharel* of Nepal Commerce Campus. I am indebted to my respected teacher, without his guidance, suggestions and complete co-operation it wouldn't have been possible to complete this work in this form.

I am also indebted my respected teacher of Nepal Commerce Campus, who have assisted from their respected sector. I am also thankful to the library members of the Nepal Commerce Campus, Central Library and Industrial Enterprises Development Institute.

I am very much grateful to the entrepreneurs or owner, accountant and other staffs of the Industries for their kind co-operation by providing necessary data and information for my research work.

I would like to express hearty thanks towards my brother Subas Dhungana and all my colleagues for their valuable suggestions.

-----  
**Binod Prasad Dhungana**  
**Nepal Commerce Campus, Minbhawan**  
February-2009

# TABLE OF CONTENTS

	<b>Page No.</b>
RECOMMENDATION	
DECLARATION	
ACKNOWLEDGEMENTS	
LIST OF TABLES	
ABBREVIATIONS	
<b>CHAPTER-I</b>	
<b>INTRODUCTION</b>	<b>1-41</b>
1.1 Background of the Study	1
1.1.1 Book-Keeping and Accounting	2
1.1.2 Definitions of Accounting	2
1.1.3 Need of recording for Small Industries Transactions	3
1.1.4 Small Scale Industries in Nepal	4
1.1.5 Industrialization through small scale Industries	4
1.2 Objectives of the Study	6
1.3 Limitations of the study	7
1.4 Statement of the Research Problems	7
1.5 Research Methodology	8
1.5.1 Research Design	8
1.5.2 Population and Sample	8
1.5.3 Nature and Sources of Data	9
1.5.4 Data Analytical tools	10
<b>1.6 REVIEW OF LITERATURE</b>	
1.6.1 Introduction	12
1.6.2 Theoretical Framework	12
1.6.3 Meaning and Definition of cottage and small Industries	13
1.6.4 Small and cottage industries in Some Asian countries	13
1.6.5 Roles and Importance of Cottage & Small Industries	16
1.6.6 Historical Development of Cottage & Small Industries	17
1.6.7 Government's Efforts for the small industries under different Development plan	19
1.6.8 Industrial Act-1987	21
1.6.9 Industrial Policy-1992	22
1.6.10 Objectives of the Accounting for small industries	24
1.6.11 History of Accounting	25
1.6.12 Accounting Evolution in Micro firm	26
1.6.13 Evolution of accounting in Nepal	27
1.6.14 Accounting Cycle	28
1.6.15 Accounting Principle	28
1.6.16 Accrual Accounting	32
1.6.17 Cash basis Accounting	33

1.6.18 Responsibilities of the Accountant	33
1.6.19 Accounting Information system in a small industries	34
1.6.20 System of Accounting	36
1.7 Review of related studies	37

**CHAPTER-II :**

**2. DATA PRESENTATION AND ANALYSIS 41-64**

2.1 Overview of accounting system in small industries	42
2.2 Age of the owners of the small scale industries	43
2.3 Academic Background of the Book-keeper or Accountant	45
2.4 Who keeps the accounting record?	48
2.5 Accounting Records of the small industries	49
2.6 Feedback of Maintaining Accounting Books	51
2.7 Final output of the book Maintained by the small industries	52
2.8 Methods of charging Depreciation applied by small industries	53
2.9 Methods of Paying wages to the staffs of the enterprises	54
2.10 Inquiry about Account training	55
2.11 Small business Promotion Project (SBPP)	56
2.12 Costing system of the small enterprises	58
2.13 Pricing System adopted by small Industries	59
2.14 Budgeting system used by small Industries	59
2.15 Usages of Accounting Records	60
2.16 Procedures of Accounting Records	61
2.17 Mode of maintaining Accounting Records	62
<b>2.18 Major Findings of the Study</b>	<b>62</b>

**CHAPTER- III**

**CONCLUSION AND RECOMMENDATIONS 64-72**

**3.1 CONCLUSION 64**

**3.2 RECOMMENDATIONS 65**

**BIBLIOGRAPHY**

**APPENDICES**

## LIST OF TABLES

<u>Table NO.</u>	<u>Title of Table</u>	<u>Page No.</u>
<b>Table 1.1</b>	Small Scale Industries established at Kathmandu District	5
Table 1.2	Category of the Industries on the basis of Investment in Assets	14
Table 1.3	Historical Development of Small scale industries In Nepal after 2046	18
Table 1.4	Classification of the Industries according to the Act 1974	19
Table 1.5	Status of C&S Industries in the total industries Sector of Nepal in 6 <sup>th</sup> plan	20
Table 1.6	The Sequence of accounting process	28
Table 1.7	The form of accounting equation	31
Table 1.8	Data processing cycle in accounting	35
Table 2.1	The sampling chart	42
Table 2.2	The Different age group of entrepreneur	44
Table 2.3	Calculated mean, variance and T-test	44
Table 2.4	Academic background of the Accountant of The small industries at Kathamndu district	46
Table 2.5	Relations between academic qualification and Accounting techniques	47
Table 2.6	Personnel of accountant of the small industries	48
Table 2.7	Sector wise comparison of Accountant	49
Table 2.8	Accounting system applied by the industries	50
Table 2.9	Accounting basis followed by the industries	50
Table 2.10	Closing period of the accounting records	51
Table 2.11	Feedback of maintaining accounting records	52
Table 2.12	Final output of the accounting records of the industries	52

Table 2.13	Depreciation methods applied by small industries	53
Table 2.14	Wages payment methods of the small industries	54
Table 2.15	Trained accountants of the small industries	55
Table 2.16	Inquiry about accounting training	56
Table 2.17	Book keeping training provide by SBPP in Kathmandu	57
Table 2.18	Costing system applied by the small industries	58
Table 2.19	Pricing system adopted by small industries	59
Table 2.20	Budgeting system adopted by small industries	60
Table 2.21	Usages of accounting records for small industries	60
Table 2.22	Selecting of Book of account by small Industries	61
Table 2.23	Types of account maintained by small industries	62
Table 3.1	Pro-foma profit and loss account for small industries	69
Table 3.2	Formula for asserting items of Balance- Sheet	69
Table 3.3	Pro- foma Balance-sheet for Small industry	70



## ABBREVIATIONS

AIS	:Information System
A/P	: Accounts Payable
A/R	: Accounts Receivable
B/S	: Balance Sheet
CEDA	: Centre for Economic Development and Administration
CPA	: Certified Public Accountants
Cr.	: Credit
C&S	: Cottage and Small Industries
DCSI	: Department of Cottage and Small Industries
Dr.	: Debit
e.g.	: example gratia, for example
Etc.	: Etceteras, and so forth
FNCSI	: Federation of National Cottage and Small Industries
GDP	: Gross Domestic Product
GNP	: Gross Net Product
i.e.	: idest, that is
IEDC	: Industrial Enterprises Development Centre
IEDI	: Industrial Enterprises Development Institute
NCC	: Nepal Commerce Campus
Op. cit.	: Opere citato, in the work mentioned
OR	: Operations Research
PERT	: Program Evaluation and Review Technique
SAARC	: South Asian Association for Regional Co-operation
SAP	: Structural Adjustment Program
SBPP	: Small Business Promotion Project
SSI	: Small Scale Industries
TU	: Tribhuwan University
UNDP	: United Nations Development Program

## Executive Summary

Nepal is agricultural based least development land-locked country. The economic condition of the country is very poor. The per capita income of Nepal is near about \$300 an average real income growth of about 3.5% which is the lowest among SAARC and almost lower per capita in the world. Non agriculture sector provides over 59.8% of the real GDP which is largely limited in the urban area and only 40% of the GDP is contributed by the Agriculture. One of the main objective of the each and every country is to raise the living standard of the people through economic activities. To attain these achievement Government should lunch various activities and programs and government need various resources; man, money, material and machine. In the context of Nepal, Nepalese economic is facing various problems of resources gap. So, Nepal has dependent on foreign aid and loans to fulfill the need for development activities, which is not beneficial in the long run interest of the country. The industrial development means naturally a labour intensive, local raw material and local indigenous skill oriented enterprises. Such enterprises apart from helping accumulate the scattered capital resources in the rural areas enable rural population. Living under same subsistence actively participate the development of country's individual economy. In our context the cottage and small scale industries can play important role to increase the export and there by help maintain the balance of payments, utilization of local skills and technologies and make Nepalese traditional & cultural heritage renowned in the international field.

Business enterprises; like individual wish to increase their ability to acquire and hold goods and services. In general they seek to maintain as a high level of economic power as well. It is assumed that the business entrepreneur and managers try to optimize short run as well as long run profit for their enterprises. Accounting is a means of providing information to the entrepreneurs to achieve their goals. Once the firm is on the road to long run profit optimization, the accounting report can show the managers how well they are staying on the road. Accounting reports can indicate for corrective actions and help entrepreneurs' each decisions about when and how much to run the wheel, step on the gas or apply the brakes. Hence well prepared accounting records provides various financial information to compete in this age and to take right decisions at the right time.

The Study entitled "*Accounting Practices adopted by small Industries in the Kathmandu District*". This study is related to the accounting methods, techniques which are adopted by the Small Scale Industries in the Kathamandu District. In this study; the

accounting problems facing by such types of industries, how they are used the methods of the accounting record and how they are taken financial information for decision making has been analyzed. Similarly analysis of effectiveness of the accounting practiced training, the accounting techniques , financial information and usefulness of the accounting system are mentioned in this study.

**In the First Chapter- *Introduction:*** Background of the study( meaning of Accounting, Definitions of the accounting book-keeping, Need of recording for small scale industries), Small Scale industries in Nepal, Objectives of the study, Limitations of the study, Statement of the research problem, Research Methodology(Research design, Population and Sampling methods, Nature and resources of the data, Data analysis tools are included. In this chapter Review of related studies included; theoretical framework and meaning and definitions of the small scale and cottage industries in some Asian countries, Roles, objectives and importance of small and cottage industries, Historical development and some government's efforts for cottage and small scale industries under different five year development plans(4<sup>th</sup>,6<sup>th</sup> and 10<sup>th</sup>). In this chapter, major provisions for small and cottage industries through Industrial act-1987 & Industrial policy-1992, History and evolution of the accounting in Nepal, Accounting concepts, conventions, principles, basis(cash & accrual),Responsibilities of the accountant and Review of related studies are mentioned. In this chapter review of related theses submitted by the scalars of the T.U. faculty of management are included also.

**In the Second Chapter- *Data Presentation and Analysis:*** In this chapter data collected from the 20 samples of the small industries located at Kathmandu District are presented and analyzed them which are primary as well as secondary data related to the study are included. Primary data are presented in the table and testing them by the hypothesis (t-test, chi-square test) wherever necessary. Major findings of the study are; Many smaller industries however not always use complete accounting or book-keeping cycle, most of the industries are facing costing, pricing and budgeting problems or they haven't knowledge and techniques about the accounting and many entrepreneurs are interested in accounting training to improve their transaction record.

**In the Third Chapter- *Conclusion and Recommendations:*** In this chapter the conclusions taken from the study are mentioned as: Many entrepreneurs are interested in accounting training to improve their transactions record, accounting system is important tool for managing the business from the point of view of financial and other important

conclusions are included. Some recommendations are also given at the end of the study for the small industries to keep the accounting records systematically and effectively.

In this way the study is completed with the achievement of the stated objectives.

# **CHAPTER-I**

## **INTRODUCTION**

### **1.1 Background of the Study**

This study will help to know the accounting practices of small entrepreneur in Nepal, their problems with basic accounting rules and procedures. Many small businessmen believe that their main problem is shortage of capital. The main source is only bank. Accounting system helps the entrepreneur to make financial analysis and to make appropriate investment in the working capital. Financial analysis helps to find idle capital of the business. In other word accounting records provide necessary information for managing all resources economically.

### **Meaning of Accounting**

Businessmen must keep a systematic record to know what happen from his day to day transactions. The art of keeping records in a regular and systematic manner is called "Book keeping". Book keeping is an elementary stage of accounting. Accounting means the process of analysis financial transactions and recording them in the books of account to show the result of financial operations. Accounting is also known as an administrative tool, a means to an end which produces the financial information needed for successful administrator. However account is a mirror which shows a clear picture of revenue and expenditure made for a specific period. The financial picture mostly has two parts one showing profit or loss through income statement and other showing assets and liabilities through balance sheet.

#### **1.1.1 Book keeping and Accounting**

The terms book- keeping and Accounting are used sometimes synonymously though they are substantially different in nature. Book keeping is a part of accounting. It is the

preliminary stage of accounting. Book keeping in an activity, complementary to the accounting process which is concerned with the recording financial data relating to business operations in a significant and orderly manner. However, accounting is much more extensive in its scope. It does the designing of system for classifying and summarizing recorded data and interpreting them for internal and external purposes.

### **1.1.2 Definitions of Accounting**

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

"Accounting is a system of generating and communicating financial information to tabulate the result of operations of enterprise" as defined by–

**Subash sharma& M.P Vithal.**

"Accounting contributes to the decision making process by providing some of the information needed in determining how to allocate limited resources as efficiently as possible. The information supplied by accounting is in the form of quantitative data, primarily financial in nature and is concerned with origination units called economic entities". as stated by – **K.Fred, Harold, w. Steve.**

**A committee of the American Institute of CPA** has defined

"Accounting is the art of recording, classifying and summarizing in significant manner and in terms of money”.

"Accounting is considerable a one of the most effective tools of the management for measuring efficiency" **-H.M Susana**

Therefore, it is clear that, accounting means the collection and processing of financial data of an entity to report the decision makers. In general terms, there are three aspects of accounting function which adapts to suit business requirement. The first aspect is that the system it lays down for recording business transactions. The second aspect deals with the

method of controlling day today business operations. The third is the managerial or service aspect which analysis business situations for appraising the past and deciding the best action to be followed in the future.

### **1.1.3 Need of Recording for Small Industries' transactions.**

Book keeping is a tool to keep a record of financial transactions. The needed of recording for small industries' transaction arises because of the following causes:

- i. Planning :**The financial information is required for the purposes of costing, forecasting, budgeting and planning.
- ii.** The financial information is needed for the managed shareholders, creditors, bankers.
- iii.** It is difficult to remember the various financial receipt and payments taking place during the period of time. Accounting shows that a payment has been made when and what for.
- iv.** Accounting is considerable as one of the most effective control tool.
- v. Proof:** Taxation authorities are likely to believe the facts contained in the set of accounting book, which are maintained according to generally accepted accounting principles.
- vi. Evidence:** Accounting records, backed up by proper and authenticated vouchers are good evidence in the court of law.
- vii. Goodwill:** Accounting increases the goodwill of the business. It keeps the smooth relation with its customers, suppliers etc.
- viii. Decision making:** Accounting contributes to the decision making process determining how to allocate limited resources as efficiently as possible.
- ix. Profitability:** An entity can increases profitability using various accounting technique such as cash management.

### **1.1.4 Small scale Industries in Nepal**

The country has been basically an agrarian one with an agriculture sector which even at present contributes 40.2% to the total GDP. In recent years Nepal has provided ample scope for industrialization in this context, Small and Cottage industry development has been top

on priority.

The per capita income of Nepal is \$300 with an average real income growth of about 3.5%. Non agriculture sector provides over 59.8% of the real GDP which is largely limited in the urban area. Therefore, the gap of standard of living in the rural and urban areas appears to have increased because of development of cottage and small industries. Industrial sector of Nepal couldn't develop fully. This is mainly due to poor resource base small and inland domestic market, inadequate infrastructure development, lack of skill and semi-skilled manpower, and -locked position of the country, long and open border with India, lack of entrepreneurial ability lack of technical knowledge etc. Small scale & Cottage industry has been the only one sector to employ a substantial number of people apart from the agricultural sector. At present it is estimated that 85% share of total industrial employment is in this sector. Contribution to GDP consists of 7.5% exported by this sector. Development of Cottage and Small industries has been a priority of the Government. According to the new Industrial Policy 1992, all those units which have fixed capital investment upto Rs.10 million are categorized as small scale units and given the extra facilities by the government. The successful operation of the small business requires good management for good management; it requires good and correct information which is available from systematic records. Book keeping provides required for discharging responsibilities.

### **1.1.5 Industrialization through Small Scale industries**

Industrialization is a most powerful instrument for attaining the higher level of economic development. Nepal is still depending on agriculture sector for economic acceleration. It is proved by decreasing number of engaging people in productive sector from 90% to 80% during 2005/2006. The contribution of this sector is only 40.3 % while non agriculture is 59.8% in the year 2006/2007 .Many countries started industrialization program through large scale industries while other medium and small scale industries. Developing countries like Nepal is progressing through the small scale industries because of socio economic and geographic structure.



**Table 1.1****Small Scale Industries established at Kathmandu District till 2063 B.S.**

S. NO.	Types of Industry	Private Firm	Public firm	Private Limited
1	Tobacco	19	2	1
2	Mineral Water	21	3	21
3	Bag	46	13	5
4	Furniture	298	84	6
5	Woolen	120	11	16
6	Food Industry	331	52	62
7	Plastic	48	13	26
8	Metal	168	17	19
9	Electronic	44	14	13
10	Garment	226	45	254
11	Medicinal herb	16	3	7
12	Agriculture& Nursery	27	5	3
13	Poultry Farming	64	10	12
14	Miscellaneous	36	6	14
	Total	1,467	275	459

**(Source: Small and Cottage industry Annual Report Ktm 2064)**

In its effort to attain rapid economic development, Nepal started the process of economic liberalization with the implementation of structural adjustment program (SAP) in 1986/87. But steps to make economic reforms were a popular slogan during these recent days and some of the public enterprises were converted into the private sector. The government tried to improve the tax structure also. Although some of the reforms have shown positive effects in the economy, the agriculture sector that provides over 55% of the real GDP has been mostly outside the preview of economic reforms initiatives. Nearly 80% of the population living in the rural areas is less affected by such reforms. The gap of standard of living of the rural and urban areas appears to have increased and the life of the rural people also appears

to have further worsened even during the recent year.

Cottage and small industries play an important role in improving the living standard of the rural and urban people by creating employment opportunities. Besides, such industries also help to preserve traditional skill and crafts. Such industries have high value added as they rely less on imported raw materials and more on local skill labor and raw materials. Besides, small and cottage industries help with import substitution help to earn foreign exchange and improve the balance of payment situations. There is a need to make industrialization process dynamic and consolidated by developing and expanding cottage and small scale industries in keeping with limited market, level of technical know how, position of transportation and geographical structure of the country. Our country should be away from dependency on other countries.

## **1.2 Objectives of the project**

The basic objective of the study is evaluate the existing accounting system and identify the accounting problems faced by small industries. Besides this, the study will concentrate on:

1. To study and examine the existing accounting systems used by small industries.
2. To identify and assess the need for account training
3. To analyze how they assess their profit of loss.
4. To evaluate what kind of cost information is typically provided to the manager of small industries.
5. To identify the appropriate accounting system which will provide the necessary information to the manager of the small industries.

## **1.3 Limitations of the study**

The study has been conducted to the partial fulfillment of the requirement for the Degree of Master of Business Studies so time, money and experiences of the researcher which may affect the study. The limitations of the study are as:

1. It covers only one district i.e. Kathmandu
2. This study proceed to analyze the accounting system of some registered small industries

having the fixed capital not more than 10 million.

3. This study is concern about accounting aspect of the small industries excluding service industries.
4. The study as a partial fulfillment of the requirement of MBS degree will limitation with the purpose time and economic constraints.
5. This study takes only 20 small scale industries as sample and draw conclusion. So the drawn conclusions are suggestive rather than prescriptive.

#### **1.4 Statement of the Research Problems**

The main source of internal information is accounting system. But in many Nepalese companies, manager was forced to take decisions on the basis of incorrect data. Many managers find difficult to know where money goes and comes from. Thus, it is necessary to examine their accounting system. The accounting problems are faced by small entrepreneur of the Nepalese small Industries as follows:

1. Lack of awareness concerning the accounting tools and techniques.
2. Not used the appropriate accounting system.
3. Lack of proper and updated account training.
4. Not used the existing system sufficiently present their transaction and informs them for decision.
5. Financial limitation of the Industry.
6. Lack of knowledge, what type of accounting system will provide best information to the manager.

#### **1.5 RESEARCH METHODOLOGY**

Research Methodology refers to the process of a systematic and in-depth study of any particular topic or area of investigation backed by the collection, presentation and interpretation of the relevant details. It is really a method of critical thinking by defining and redefining problems, formulating hypothesis or careful search or inquiry into any subject matter, which is an Endeavour to discover valuable facts. The research that involves scientific analysis would result in the formulation of new theories, the discover of new

techniques, a modification of old concepts or techniques.

### **1.5.1 Research Design**

Research Design is the framework or blueprint of the study or plan for the collection and analysis of data. Identification, selection and formulation of the research problems may be considered as planning stage of a research and remaining activities refers to the designs, operation and completion of the research study.

There are various types of research design hence, selection of proper design is basically determined on the basis of purpose, level and nature of the study. To conduct the study descriptive survey field study research approach is adopted for the available of primary and secondary data used in this study.

### **1.5.2 Population and Sample**

Population refers to all items that have been chosen for study ,to any collection of specified group of objects, human beings educational institutions, geographical areas or industries. The total number of registered small and cottage industries in Kathmandu district are considered as the population of this study. Total 1,467 including private firm, public firm and private limited small scale industries are registered in Kathmandu district till end of the 2064.

It is hardly possible to study the whole population therefore; the study will be based on the sample. A small portion chosen from the population for studying its properties is called sample and the number of units is known as sample size. Total 20 small scale industries are included from the different types of industry at the Kathamndu District for sample to obtain the objectives of the study. Out of the various sampling method ,in this study stratified random sampling method is followed. By picking of a population, thus dividing the population into subsection, a representative sample can be chosen.

### **1.5.3 Nature and sources of data**

Collecting data is the connecting link to the old of reality and researcher. Required data for this study will be collected mostly from primary sources and secondary data are also used for the study.

#### **Secondary Data Sources:**

Currently available literature, research reports, text books, acts, booklets, statistical books, articles of newspaper that are related to the subject and public materials for various organizations, important sources of the information are:

- a. Department of Small and cottage Industry(DSCI)
- b. Industrial Enterprise Department Centre.
- c. Central Library
- d. Nepal Commerce Campus, Library.
- e. Center for Economic Development Association
- f. Sankar Dev Campus Library.
- g. National Planning Commission, Central Bureau of Statistics.
- h. FNCSI
- i. Nepal Rastra Bank.
- j. Ministry of finance.

#### **Primary data sources:**

Personal contact, field survey, pamphlets collection etc from the different industries are the main sources of primary data. Questionnaire and observation at the concern industries and the persons (i.e. proprietor, accountant and other staffs) are mainly followed for this purpose. Total 20 industries are included for the primary data.(See Anex-4 ; List of the sample industries)

### **1.5.4 Data analysis tools**

Statistical tools are used for the analysis of numerical data. In this study, central of

tendency(mean), dispersion( ), hypothesis test (T-test) and Chi-square test are used for analyzing the data. Mostly percentage method has been used in addition to hypothesis test. Side by side graph and tabulation presentation are done in the case study.

### **Step-I, Coding of Data**

The data obtained from the survey are carefully edited and then coded in the standard code sheet. After the tabulation of data is done as per the needed. T- test and Chi-square test(  $\chi^2$  – test) are applied to test the hypothesis .General Procedure of Testing a hypothesis are Hypothesis testing begins with an assumption. The steps of testing hypothesis are applied as follows :

### **Step-II, Formulating the Hypothesis:**

- a. **Null hypothesis:** A statistical hypothesis which is stated for the purpose of possible acceptance is called a null hypothesis and is denoted by  $H_0$ .
- b. **Alternative Hypothesis:** Any hypothesis which is complementary to the null hypothesis is called an alternative hypothesis and is denoted by  $H_1$ .

### **Step-III, Computing the test statistic**

After formulating the hypothesis, the next step is to calculate an appropriate test statistics which is based on an appropriate probability distribution. For testing whether the null hypothesis should be accepted or rejected.

### **Step-IV, Decision two tailed or one tailed test:**

- a. Two tails of two sides under the curve.
- b. One tails or one side under the curve which is either the left tail or right tail.

### **Making Decision:**

If the computed value of the test statistics is less than the critical value, then the computed value lies in the acceptance region and  $H_0$  is accepted otherwise vice versa. In testing a hypothesis 5% (0.05) level of significance is used unless otherwise stated.

### **Summary of the Decision:**

If,  $T < T_{\alpha}$  , accept  $H_0$ .

If,  $T > T_c$ , reject  $H_0$  or accept  $H_1$ .

Where;  $T$  and  $T_c$  are computed and critical (table) values at a level of significance.

$\chi^2$ - Test as a test of independence: To test whether there is any relationship between the O and E, the null hypothesis of no relationship or of independence between O and E is set up. Chi-square is calculated using the formula.

$$\chi^2 = \sum \frac{(O - E)^2}{E}$$

Where; O refers to the observed frequencies and E refers to the expected frequencies.

To calculate the expected frequencies (E) the following equation is used:

$$E = \frac{RT \times CT}{N}$$

Where,

RT = the row total for the row containing the cell.

CT = the column total for the column containing the cell.

N = the total number of the observations.

Decision Rule;

If; Calculated  $\chi^2 <$  tabulated value of  $\chi^2$ ; it is not significant and  $H_0$  is accepted.

Otherwise it is rejected.

## **1.6 REVIEW OF LITERATURE**

### **1.6.1 Introduction**

In fact, Review of Literature begins with search for suitable topic and continues throughout the duration of the research work. It means reviewing research studies or other relevant propositions in the related area of the study so that all the past studies, their conclusions and deficiencies may be known and further research can be conducted. The main reasons for a full review of research in the past is to know the outcomes of those investigations in areas where similar concepts and methodologies had been used successfully.

Critical review is useful and informative because it is a part of this academic research proper. The related literature sections should conclude with a discussion of the findings and their implications. An extensive or even exhaustive process of such review may offer vital

links with the various trends and phases in the researches in one's area of specialization, familiarizing with characteristics percepts, with the rationale for understanding one's proposed investigation.

## **1.6.2 Theoretical Framework**

### **Meaning**

In some subject areas to study, it is important to locate the problem within a theoretical framework and in such cases the underlying theory needs to be reviewed as well. Keeping accounting records is an important part for the smooth operation of business. It helps them to keep track of how much is earned and how much is spent in operating the business. An entrepreneur needs a lot of factual information to use the limited resources i.e. (man, material and money) and to work efficiently, which can be derived from written records of transactions. Some concepts concerning small business and their accounting system have been developed and applied in this world. In this chapter an attempt is made to review the theoretical framework of the accounts keeping system in the small business.

### **1.6.3 Meaning and definition of cottage and small industries**

Cottage Industry gives us an idea of a very small type of manufacturing unit which is generally handled at household level in which family members work full or part time. It is said that such type of industries needn't maintain any accounts because the process of production of cottage industries is through manual labor using little or no machinery. Small industries are more or less mini factories. These industries are more dependent on outside resources i.e. man, material, money, machine and management (also called 5ms). They supply semi-finished products to the large industries or to the consumers.

The word small scale industry is itself different in various countries. In India it is called small business and small industry. In Japan it is called "small enterprise". In Germany and Sweden there is no official definition about the term of small industry. In Sweden small scale industry is generally used to denote industrial establishments having 50



employees or less, while in Germany even unit having up to 300 employees are considered to be small units.

So, small industries have different parameter in different countries . The Georgia institute of technology states that at least 50 different definitions are used in 75 countries. Definitions may relate to the capital invested (with maximum ranging from about \$25000 to 2 million) or employees (ranging from 15 to 500) or both or other criteria. In Nepal, there is only one considered capital investment; there is no limit of the workers. In Nepal the industrial policy 1992 has clearly defines “Small Industries as industries other than traditional cottage industries with fixed capital is not more than Rs. 10 millions”.

#### **1.6.4 Small and Cottage Industries in some Asian countries**

The small and medium scale industries sector has grown steadily over the past decades in the Asian countries. Industry plays a vital role in the economic structure of these countries by contributing significantly to their national industrial production and generating substantial employment. The average annual growth rate of GNP per capita of SAARC region is in fluctuation trend .

Small scale industries are the backbone of the developing countries like Nepal. It is estimated that cottage and small industries contributes about one third of industrial value added in Nepal. The number of registered small and cottage industries upto the fiscal year 2007/2008 is 10,587. Cottage and small enterprises account for 7.5% of Gross Domestic Products 66% exports, 55% industrial employment and 95% of the total industrial units in Nepal. These indicators focus the important role of the small business operations in Nepal Industrial Enterprise Development Centre is a joint project of the ministry of the government of Nepal and federal Republic of Germany. Its experience shows that only little small business in Nepal operates with zero account systems. The IEDC is a pioneer is a institution in the field of accounts training for small entrepreneurs in Nepal.

**The different definitions used by the different countries are as follows:**

**India**

In India, during the last decade, the extent of small scale industries has grown very rapidly now and occupy a vital position in the national economy of the country. Small scale and village industries taken together constitute about 49% of total industrial production. According to revival act, small scale industry is defined as "All units having investments in plant and machinery up to Rs. 6 million are small units up to Rs. 7.5 million investments in plant and machinery as an ancillary.

**Bangladesh**

The small scale and cottage industries sector plays an important role in the national economy of Bangladesh. It accounted for about 90% of the total industrial employment and nearly 40% industrial value added in 1980. Small scale industry is defined in Bangladesh units with mechanical power employing between 10-19 workers or units without mechanized power employing less than 20 workers.

**Philippines**

In Philippines, the ministry of industry and the financial institution classify industries into cottage (home), Small, Medium and Large Industries on the basis of Assets Range as:

**Table: 1.2**

**Small, medium and large industries according to investment in assets**

<b>Assets Range (million)</b>	<b>Classification</b>
Less than 0.1	Cottage (home)
0.1 to 1.0	Small Industry
1.0 to 4.0	Medium Industry
Over 4.0	Large Industry

**Sri Lanka**

According to investment in machinery and equipment:

Small and medium Industry :-less than Rs.1 million investment in machinery and equipment.

Indonesia, Thailand and Malaysia classify the industries according to no. of employees, here under:

**Indonesia**

Small industry	5 to 9 employees
Medium	20 to 99 employees

**Thailand**

According to no. of workers employed:

Small Industry :	less than 50 workers
Medium Industry :	49 to 200 workers

**Malaysia**

Small Industry	less than 50 employees
Medium	50 to 200 employees

**China**

Small & Medium industry Classification depends upon the matrix Medium of product types. In general industries Industry having fixed assets valued at less than 30 million yens are considered small and medium industries.

**Republic Korea**

These Industries which have 50 to 300 employees and investment up to 500 million own are known as small industries.

**(Sources: Small industry bulletin for Asia and pacific UN No. 26)**

**1.6.5 Role and Importance of cottage & small Industries**

Development of a country is almost impossible without establishment of industries. To develop the nation it is necessary to change its dependency from traditional agriculture sector to industry sector. Industrialization is a most powerful tool for the economic development of every nation. Some countries have attained industrialization through large scale industries while other mainly through medium and small scale industries. Small scale industries have played principal role in many developed countries like USA, Japan, Germany, Britain etc. Especially, “in south –east Asian region, the experience and achievement in the field of the small scale industries are very important and effectiveness.” “It has been argued in all the south-Asian countries, since the very beginning that small

scale enterprises deserve support because they need a lesser capital investment than the big industries.” Small scale industries are back- bone of the developing countries like Nepal. Such industries have played significant role in resource utilization, employment generation and other operation of successful industrial evolution in the country.

The main determinants for the acceleration of industrialization have been the size of the market-efficiency of the factors of production and many other infrastructure bases such as transport and communications. With two third of its land being mountains the inaccessible to the conventional transportation small sized projects are considered to be appropriate in Nepal.

It is estimated that cottage and small industries contribute to about one third of industries value added in Nepal. The number of registered small and cottage up to fiscal year 2006/2007 was 92,863 which are 95% of total industrial units of Nepal. Small & cottage industries provide 85% of industrial opportunities and 46% contribution on industrial manufactured. It produces 66% of manufactured exports and make up 7.5% of gross Domestic products (GDP). Above indicators focus the important role of small and cottage industries on economic development. The strengths of Nepalese small business lie in their greater ability to use indigenous resources, better response to local market conditions, relative ease in absorbing new methods and appropriate equipment resulting in higher employment and lower capital outlay. Moreover, they stimulate balanced regional economic development and place for less demand on transportation and utility infrastructure. The 10th plan (2002-2007) has stated the objective of sustainable economic growth, poverty alleviation, rural development and regional balance. To achieve these objectives it is essential to promote the cottage and small industries in Nepal.

### **1.6.6 Historical Development of Cottage & Small industries**

People fulfilled their needs with the goods produced at home. They gradually learnt to weave clothes and make other necessary articles. They started to export their specialized

goods to the foreign countries around 14<sup>th</sup> century. They expanded these productive activities in large scale. Then large industries were begun to established around 18<sup>th</sup> century. After the industrial revolution of Great Britain in 19<sup>th</sup> century, the world entered into the industrialization era but the role of small & cottage industries has not decrease. S&C industries were developed side by side with large industries. The economic development of each country is accelerated by small industries.

In Nepal, the evolution of crafts and small industries is perhaps as old as the growth of the “Kiratte civilization”. Nepalese goods were exported to India and Tibet (China) in “Lichchhavi” and “Malla” period of Nepal. Nepalese handicrafts were praised by Kautilya in 14<sup>th</sup> century B.C. The Chinese travelers Heun Tsang also described the Nepalese artisans in 673 B.C. In 1793 Kirk Patriak who came to visit Nepal, also appreciated the Nepalese handicrafts.[ Khatri,T.B. 2022, page24] The history of united form of cottage industries began with the beginning of cotton textile hand loom in 1925 A.D. period of P.M. Chandra Shamsheer. In 1935 “Udyog praised” was constituted. Similarly, a governmental office was established in 1939 named as “Nepal Kapada and Gharelu Illam Prachar Adda” (Nepal cloth and cottage promotion office). After a long gap, in 1947 some personnel were sent to India for cotton industry training. On 28<sup>th</sup> April 1954 Ford Foundation provided financial as well as technical assistance to Nepal for the development of cottage and small industries in the country. Department of cottage and village industry was established in 1957 A.D.[CEDA, Jan-1998; page23]

**Table 1.3**

**Historical development of Small Scale Industries in Nepal After 2046**

<b>Fiscal Year</b>	<b>No. of Industries</b>	<b>Fixed Capital investment (Rs. in million)</b>	<b>No. of employed person</b>
2047/048	5203	1226.20	36095
2048/049	5727	2574.00	85125
2049/050	6781	3150.00	82176
2050/051	9486	5720.00	95500
2051/052	8519	5370.00	75091
2052/053	9650	7220.00	92581
2053/054	8196	6040.00	85540
2054/055	9650	8960.00	93094
2055/056	9990	9620.00	88973
2056/057	10127	10340.00	97618
2057/058	9317	7320.00	79618
2058/059	9890	7720.00	84743
2059/060	7572	5910.00	65374
2060/061	7133	6110.00	67975
2061/062	8030	11010.00	71614
2062/063	10873	12757.00	103215

(Source: Economic Survey, 2063/064)

**Government's Efforts for the Small Industries Under the Different Development plan**

Some efforts were made by the government in the field of the Small scale Industries through the different fifth year planning. The main efforts for the small scale Industries are mentioned as follows:

**A. Under the Fourth Five Year Plan (1970/71 – 1974/75)**

In this plan period a new industrial enterprise Act 1974 was introduced. A clear delineation of the area of private and public investment was defined. The main features of this new Industrial act were: de-licensing for cottage industries, lower interest rate for

cottage industries, appropriate tax system. It was provided particular exempt on income tax, sales tax and excise duty and provision of 1% custom duty (Import tax) on machinery.

**Table 1.4**

**The act 1974 has classified all industries into four categories on the basis of investment.**

<b>Classification</b>	<b>Investment(Rs.)</b>
<b>Cottage industries</b>	up to Rs. 200 thousand
<b>Small industries</b>	200 thousand to 1 million.
<b>Medium industries</b>	1 to 5 millions
<b>Large Scale industries</b>	over 5 million.

During the plan period, a sample survey of cottage and small industries was completed. According to this survey 1,169 industrial units were registered creating job opportunities for 9,352 persons in this period and 2,311 persons were trained. Nepal Rastra bank has encouraged the commercial banks in SCIS through 'Small Scale ' credit program for financing on priority Sector (Agriculture, Cottage & Small Industrial and Services) for the first time in 1,974 which is continuous now.

### **B. Under Sixth Five Year Plan(1980/81-1985/86)**

In 1982, Government of Nepal launched cottage and small industries project with the technical and financial assistance of International Development Association (IDA) World Bank and United Nations Development program (UNDP).

The Major objectives of the sixth five year plan were set as follows:

- a) Creating large employment.
- b) Saving and earning foreign exchange through the promotion of this sector.
- c) Import substitution through things producing locally.
- d) Development and expansion of cottage and village industries in the country.

**Table. 1.5**  
**Status of C&S Industries in the total industrial sector of Nepal**  
**in the 6th plan**

<b>S. N.</b>	<b>Particulars</b>	<b>Total Industries</b>	<b>Medium &amp; Large Industries</b>	<b>C&amp;S Industries</b>	<b>% of C&amp;S</b>
1	Industries(No.)	7,54145	3,570	7,50,570	99.5
2	Employment(No.)	12,71340	56,340	12,15000	95.6
3	Production(Rs000)	32,88141	25,75140	7,13,001	21.7
4	Investment	8,26050	4,85,000	3,41,659	41.3

**[Source: The sixth plan (Nepali version)]**

The table marks clearly that the total existing industrial units in the country are 99.5% for the cottage industries. In the same manner the contribution of this sector to the total industrial employment of the country is as high as 95.6%. However, the production, value added and investment of this sector are comparatively low. The percentage is 21.7%, 31.3% and 41.3% respectively. These figures clearly reveal the low productivity of C & S industries sector in comparison to large one.

Small Business promotion project(SBPP) was established in 1983 to encourage entrepreneurship by Government of Nepal in corporation with the government of federal republic of Germany. Its main purpose is to promote and increase the number of independent micro enterprises in the country through human resources development and proper utilization of raw material. The contribution of SBPP on the field of account training to small entrepreneur is most significant presented.

### **C. Under the Tenth Five Year Plan(2002-2007)**

The Tenth Plan was formulated after making several amendments in its basic structure. It had to be implemented from the commencement of the fiscal year 2059, but it could not be launched in time due to political instability in the country. The major objectives of this plan are:

1. High, sustainable and broad economic growth
2. Development of social sector and rural infrastructure.



3. Development of tourism, water resources, information technology, industrial and trade sector through the participation of private sector.
4. Human Development and Women Empowerment
5. Poverty Alleviation and Employment
6. Guarantee and Strengthening of good governance.
7. Promotion and Protection of Environment
8. Infrastructure development at national and regional level.

**(Source: National Planning Commission of Nepal)**

### **1.6.8 Industrial Act 1987**

Industrial Enterprises Act 1987 was introduced by the government in this period. The Act 1987 was classified all industries into four categories.

- I. Cottage Industries :** Those industries whose investment in machinery, equipment and tools does not exceed Rs. 200,00, in value and in which fixed assets don't exceed Rs. 5,00,000.
- II. Small Industries :** Those industries having total assets Rs. 200 thousand to Rs. 2 million.
- III. Medium Industries :** Those industries whose investment is Rs. 2 million to 10 million fixed capital.
- IV. Large industries :** Those industries whose investment is above 10 million in fixed capital.

### **1.6.9 Industrial Policy 1992**

During the period prior to the restoration of democracy a three year plan and six five year plans were formulate and implemented but the economy of the country couldn't achieve the desired progress. One of the primary factors for this was the inability to clearly establish interrelationship among the goals and the objectives, priorities, strategies and programs of the plans. Considering these problems the eight five year plan was formulated with the view of open market and liberal economy. This plan had adopted the policy for changing existing industrial act and policy. Government of Nepal has promulgated a new

constitution on 9th November 1990 ensuring the sovereignty of the people, a multi party democracy within a constitutional monarchy, independent judiciary and the fundamental right of the people. The New Constitution will pave the way for a stable political environment to the rapid industrial development of Nepal.

The Industrial Policy of Government follows an outward looking and private sector originates strategy for industrial development.

Important objectives of new "*Industrial Enterprises Act 1992*" is to

- I. Increase industrial production
- II. Create maximum opportunities for employment
- III. Increase the contribution of the industrial sector to national production.
- IV. Improve the balance of payment through greater import substitution and export oriented industries.

The achievement of these small and cottage industries are encouraged to supplement domestic capital, employment generation and successful industrial evolution in the country. The new industrial policy 1992 has classified and scaled all industries for the purpose of industrial administration and facilities as follows.

## **A) Classification of Industries**

- i. Manufacturing Industries:** Industries which produce goods by utilizing or processing materials by product or waste product.
- ii. Energy Based Industry:** Industries generating energy from water resources, wind, solar, coal, natural oil & gas, bio gas of any other sources.
- iii. Agro and Forest Based Industry:** Business mainly based on agriculture and forest such as integrated sericulture and silk production, horticulture and fruit processing, animal husbandry, Poultry farming, fishery, tea gardening and processing, coffee farming and processing, herb processing vegetables and seed farming agro forestry come under it.

- iv. Mineral Industry:** the industries involve in mineral excavation, processing will come under it.
- v. Tourism industry:** Tourist lodging and hotel, hotel ,restaurant , travel agency, skin gliding, water rafting, cable car pony trekking, hot ballooning . Para- sailing golf course, horse riding etc.
- vi. Service Industry:** Workshops, printing press, consultancy services, ginning and balancing business, public transportation, photocopy, hospital nursing home, educational institution, laboratory , air service, cold storage, cinematography construction business.
- vii. Construction industries:** Road, bridge, tunnel , ropeway, flying bridge railway , trolley bus, commercial and residential complex.

## **B. Division of Scale**

- i. Traditional cottage industry:** the traditional industries mobilizing specific skill or local raw material of resources and labor intensive and related with national customs, arts and culture.
- ii. Small Industry:** Industries other than traditional cottage industries with a fixed capital investment not exceeding Rs. 10 million.
- iii. Medium industry:** Industries with a fixed capital investment between Rs. 10 million and Rs. 50 million.
- iv. Large Industry:** Industries with a fixed capital investment more than Rs.50 million.

The New Industries Policy 1992 has scaled all industries only in term of the fixed capital investment not in term of employees or machine powers etc. The new industries policy has provided various facilities to cottage and small industries. Small and cottage industries are almost control free. A license is not required for establishment, expansion and modernization of industrial enterprises except those related with defense, public health and environment. Not withstanding, anything contained in the laws relating income tax, sales tax, excise duty and in any other existing laws, a small industry shall be entitled to received the facilities and concessions provided by Industrial Enterprises Act 1992. Some provisions for cottage industries are:

- I. No income tax shall be imposed on the export earning.
- II. Income tax shall be exempted in the case of manufacturing industries based on agro forestry energy and mineral for a period of five years.
- III. Industries establishing in remote area, underdeveloped and under developed area will be given extra facilities.
- IV. Already imposed excise duty or sales tax will be refunded to the industries.
- V. Which utilities locally available raw material, chemical and packing materials etc.

The new industries policy has adopted both export promotion and import substitution strategies for economic development of the country. The government seems to be in such confident mood that it has initiated its machinery to gear itself towards the necessary process required for a reform minded economy. A one window policy on foreign investment is open. The investor is looking maximum rate of return.

#### **1.6.10 Objectives of the Accounting for small Industries**

The main objectives of accounting for small industries are only two:

- I. To have a permanent record of each transaction and of it's financial effects and
- II. To show the combined effect of all the transactions made during a particular period upon the financial position of the concern as a whole.

#### **1.6.11 History of Accounting / Evolution of Accounting**

Historical development of accounting is as long as money. Accounting was practiced in India twenty three centuries ago. It is clear from the book named "Arthashastra written by Kautila. Written record of accounting have been traced back as far as 5000 B.C to the Egypt & Babylonia empire, which used to record on a clay tablets such transactions as the payment of wages and taxes. During the Roman period detail tax record were maintained. In England under Henry I period, investigation of financial records similar to contemporary audits were concluded. However, the modern system of accounting was originated from Italian Franciscan Monk, Luca Pacioli. He published the system of double entry system on

his book "Accounting of Venice" which was published in 1494 at Venice in Italy. This system is still in use. He had described three kinds of accounts- They are:

- i. Quarderno or Final account
- ii. Memoraile or ledger account and
- iii. Geornal or Journal

In the 17th and 18th centuries the Industrial Revolution in England provided the impetus for the developing new approaches in accounting that focused on the accumulation of data about the cost of manufacturing each product. Manufacturing processes started to evolve from individualized, handicraft systems to mass production, factory systems. Technological advances not only provided new machinery but required new types of expenditures as well as cost accounting systems had to be developed to analyze and control the financial operations of this increasingly complex manufacturing process. During the late 1930 and 1940's attempts were made to formalize the framework underlying the rules for recording and reporting financial matters. The works of Sanders, Hat Field and Moore (1938) Gilman (1939) Patton and Littleton (1940) and other attempted to rationalize existing practice and to sell the framework within which alternative ideas and procedure might be evaluated. F.w Taylor designed many of the complex cost systems used by large manufacturing firms during the late nineteenth century.

Historically, of course all accounting systems had to be maintained by the hand. The image of the accountant with green eye shade and meticulously maintaining the accounting records reflects those early manual systems. [K. Fred and Harold w. '1967' page 54] Early accounting practice was to record transactions and accumulate such records. It was later developed to consider the usefulness of the balance sheet and profit and loss account. It provides cost effective information for operating a business and for the purpose of control and accountability. The important factor to the evolution of accounting was the development of the corporate form of business. Government laws and requirements also have caused changes in the business environment and have stimulated the growth of accounting evolved in response to the increased planning and controlling responsibilities of the management.

### **1.6.12 Accounting Evolution in Micro Firm**

The typical manufacturing firm operating before 1900 apparently expected its accounting system simply to provide information on short run operations. Cost accounting records were the most highly developed sources of such information on short run operation. A cost accounting system was the main accounting device that enabled top management to control cost of goods manufactured. When a bonus incentive system was made available to member of the sales staff, thus as indirect consequences of the accounting systems developed.[*John Samuels, 1989; page 18*]

Accounting practices in micro firm prior to 1900 was brief descriptive fact of the firm. Historically, of course, all accounting systems had to be maintained by hand. The image of the accountant with working with computer showed in a dignified manner. Today, small companies generally use same type of automated equipment such as cash register, adding machine (calculator), typewriters, etc. Even some small companies use automated or computerized system too.

### **1.6.13 Evolution of Accounting in Nepal**

The history of account keeping in Nepal by government is very old. Mandev 1st, the king of Nepal in Lichhavi period had circulated first coin called "Mananka coin" during the period 464-491 A.D. Similarly, the Mahendra Malla had circulated the coin named "Mahendra Mally" in Malla period of Nepal. This seems to be the main step to record the national transactions in a proper way and manner. It is said that a few number of financial transactions used to be performed in Lichhave and Malla periods. It proved that there was a certain form of accounting to record transactions.

Written records of accounting have been traced back after 18thcenturies in Nepal. After the unification of the nation in 1768(1825B.S) by the king Prithivi Narayan Shah, the chief of the district level soldiers used to keep the account of the government offices. In 1814, a book called "Lal Dhadda was created for recording revenue and administrative expenses.

Similarly, in 1822 for recording land management (Kitab Byabastha), another book called "Mothdhadda" was used. These two records are important steps in the history of accounting in Nepal. Again after along gap, in 1868 A.D, an office called " Kitab Khana" was formed for recording the salaries paid to government personnel which is still in use. In the process of development of accounting in 1879 A.D Kharidar Gunawanta, a senior official was made for recording all the governmental transactions. After that Syaha Shresta Pranali was propounded which was advanced form of accounting Faram shresta Pranali was introduced in 1911 A.D especially which was used in terai regions.

After the overthrow of Rana Regime, first budget system was started in Nepal in 1951. The auditor General office was started in Nepal. Later on Bhuktani shresta Prinali was adopted which was little based on the double entry book Keeping system. In 1960 A.D, committee was formed to study the accounting procedure which was practiced in Nepal. [Aryal Vojraj, 2004 page: 12] The four members studied for 288 days and developed a standard form which is called as New Accounting system. Nowadays this types accounting system are follow in the government offices of Nepal.

### 1.6.14 Accounting Cycle

Accounting cycle is the procedure for recording , summarizing, classifying, and reporting the transactions of an entity. In order to determined how well an entity is managing its sources, the result of these and similar transactions must be analyzed. The accounting cycle makes that analysis possible by recording; classifying and summarizing an entity's transactions and preparing report that present the summary results. [K. fred, Harold 1967, page: 54]

**Table 1.6**

**Table given below shows the sequence of accounting process**

<b>Exchange Transaction documents</b>	<b>Recording</b>	<b>Analyzing the evidence of transactions, business</b>	<b>Classifying</b>	<b>summarizing</b>	<b>reporting</b>
<b>Interpreting</b>					

Accounting cycle refers to complete sequences of accounting procedure which are

required to be repeated in the same order during each accounting period. Accounting cycle includes the following items:

- I. Recording:** First of all transactions should be recorded in the journal of Book of original entry known as subsidiary books whenever they take place.
- II. Classifying:** All entries in the journal of books of original entry should be posted the appropriate ledger accounts to find out at glance the total effect of all such transactions in a particular account.
- III. Summarizing:** The last step is to prepare trial balance and final account with a view to ascertain the profit or loss made during a trading period and the financial positions of the business on particular date.

### **1.6.15 Accounting principle (concept & Conventions )**

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

I) Accounting concepts and II) Accounting conventions.

#### **I. Accounting concepts**

It is consider as a postulates. Basic assumptions or conditions upon which the science of accounting is based. There is no authoritative list of these concept but some of the usual concept are discussed here under:

##### **A) Business Entity Concepts.**

This concept implies that a business unit is a separate and distinct from the entrepreneur. This means that account should be kept for the business entity as distinct from the persons associated with the business entity. In practice, difficulties arise in defining the business entity as distinct from the owner, particularly in the case of small businessman. .[Jain& K.L. Narang, 199; page: 111]



An entity is defined as an organizational unit for which accounting records are maintained. There are three major types of business entity:

- a. Proprietorship:** A proprietorship is a business owned by one person usually the owner of business is also the manager.
- b. Partnership:** A partnership is an association of two or more individual or entries to carry on economic activity. A partnership should have a written agreement which specifies the ownership rights of the partners as well as role to take managerial decision for accounting purpose, however, the activities dealing with individual partner are recorded.
- c. Corporation:** A corporation is an organization that is chartered as a separate legal entity under the laws of a particular state. As such, a corporation has some rights and obligations. There is a legal distinction between the owners and the business.

#### **B) Money Measurement Concept:**

Money is the only practical unit of measurement that can be employed to achieve homogeneity of financial data. The transactions are converted into monetary term for record keeping. It is automatically assumed that a rupee is a stable unit of measurement. However, it is not true because of inflation. In accounting, all the transactions are stated in monetary terms. According to this concept employer morale is not recorded but the wages paid to him are recorded.

#### **C) Going concept :**

According to this concept, the entity is expected to continue in operation. In accounting, it is assumed that the business will continue to operate in the future. Thus transactions are recorded in the book keeping in view the going concern aspect of the business unit.

#### **D) Accounting Period Concept:**

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

An entity's life is divided into distinct and equal periods in order to report financial information in a regular manner. In practice, the size of period for many businesses requires a month or a quarter or annual basis.

**E) Cost concept :**

The cost principle is that asset is recorded in the books at the price paid to acquire the fixed assets. In another word, accountants record transactions at historical costs that is originally paid for acquiring the assets. The historical cost is assumed to represent the fair market value of the item at the date of the transaction because it reflects the actual use of the resources by independent parties. Due to such factors as inflation this amount may be quite different from what an entity would have to pay at a later time to buy or replace the item. [John & Samuels, 1989, page: 28]

**F) Accounting Equation (Dual Aspect Concept)**

Dual concept may be stated a "for every debit there is a credit". Every transaction should have two side effects to the extent of same amount. This concept has resulted in accounting equation which states that at any point of time the assets of any entity must be equal to the total of owner's equity and outsider's liabilities.

**Table 1.7**

**This may be expressed in the form of accounting equation on the table :**

$$\text{Assets} = \text{Liabilities} + \text{Capital}$$

This equation may also be shown in algebraic form ;  $A=L+C$

Where, A = assets of the entity

C= Proprietor's claim on the entity.

L= Liabilities of the entity.

The important point in the equation is that both sides must always be equal. An increase on one side of the equation must be exactly matched either by an increase on other side or by the decrease on the same side of the equation. Above equation can be presented as:

$$C = L - A$$

It means the proprietor claim is the balance after providing for outsider's claim against the

business from the total assets of the business.

## II. Accounting Conventions

The term convention means "established usage". Convention is based on practicability and usage. For example, the relationship of 12 units forming a dozen is a convention. Conventions are categorized as follows;

- a. **Relevance:** A principle is relevant to the extent who wants to know something about a certain business. [ *C.Mohan Juneja, R.C. Chawala & K.K. Saxena, 1991; page 20*] The convention of relevance emphasizes the fact that only such information should be made available by accounting as it is relevant and useful for achieving its objectives. For example a business is interested in knowing as to what has been total labor cost. It is not interested in knowing how much employees spend and what they save.
  
- b. **Objectivity:** The information is not influenced by the personal bias of those who furnishes the information. The convention of objectivity emphasizes that accounting information should be measured and expressed by the standard which is acceptable. Asset should be recorded on its cost price.[ *C.Mohan Juneja, R.C. Chawala & K.K. Saxena, 1991; page 20*]
  
- c. **Feasibility:** The last convention relating to feasibility applies to time, labor and cost of generating data and accuracy in relation to probable use and resulting benefits.[*S.k. Bhattacharya, 1997; page 20*]

### 1.6.16 Accrual Accounting

Accrual accounting is a system of accounting in which revenues and expenses are recorded as they are earned and incurred not necessarily when cash is received or paid. Accrual accounting requires that revenue and expenses be assigned to their proper accounting periods. There are two principles for accrual accounting. .[*S.k. Bhattacharya,*

### **A) Revenue Recognition Principle.**

How are revenue assigned to particular period? First how revenues are determined? The revenue recognition principle states that revenues are record when two main criteria have been met.

- a. The earning process is substantially complete which generally means that a sale has been made or service has been performed.
- b. An exchange has taken place.

### **B) The Matching Principle**

Once a company determines which revenues should be recognized during a period. How does it identify the expenses incurred? The matching principle requires that all expenses incurred to generate the revenue recognized in an accounting period be matched with those revenues. The cost of the merchandise sold, should be matched to the revenue derived from the sale of the merchandise during the period. Expenses that can not be matched with revenues are assigned to the accounting period in which they are incurred.

<b>Recognized Revenue – matched expenses= Net income for the period.</b>
--

Accrual basis accounting is the foundations of accounting for most business today.

### **1.6.17 Cash Basis Accounting**

Some small business records the transactions and recognizes revenues and expenses only when cash is received or paid with the cash basis approach. Income is what is left when cash disbursement of a period are subtracted from cash receipts during the period. Cash basis accounting is a system of accounting in which transactions are recorded and revenues and expenses are recognized only when cash is received or paid.

This system does not making a complete record of financial transaction of a trading period a it does not record outstanding transaction like outstanding expenses and outstanding incomes. The system being used on a record of actual cash receipt and actual cash payment will not able to disclose correct profit or loss for a particular period and will

not exhibit true financial position on the business on a particular day.

### **1.6.18 Responsibilities of an Accountant in small Business**

Traditionally, the accountant was expected to compile and present the financial information to the owner of the entity at the end of the accounting period but with the advent of cost accounting, management accounting and financial accounting the duties of the accountant are grown enormously. The function of accounting beyond the traditionally accepted double entry routines can be grouped under. [C. Mohan Junena, R.C. Chawala & K.K Saxena, 1991; page: 9]

- a. Financial Function
- b. Central Function
- c. Planning Function.

#### **a. Financial Function**

Every business faces the problems of arising and using the funds. The responsibilities of accountant of small business under finance are to ensure that:

- i) Funds are obtained at the lowest cost and
- ii) Funds are optionally used to obtain higher return.

#### **b. Central Function**

It refers to the selection of the objectives of the small scale business. The responsibilities of accountant of such types of business under the central function are as:

- i) Profit Maximization or Cost minimization
- ii) Value maximization & sales Revenue Maximization.
- iii) Cost reduction technique etc.

#### **c. Planning Function**

The process of planning involves long term decisions as well as short term decision has to be taken regarding. Selection of one alternative out of many alternatives such as:

- i) Make or buy decision
- ii) Drop or continue decisions

**iii) Purchase or Lease decision etc.**

For problems involved in planning function, accountant to depend not only on accounting information but also an outside information. As regards long term planning, the task is to plan for continuity and development of the firm.

### **1.6.19 Accounting information system in a small business**

The term system refers “an assembly of methods, procedure or techniques that are united by regulated interaction to form an organized whole” Intact system means a collection of things interacting and inter-dependent to form a complex whole. A system receives inputs as men, materials, money and machines and so on. Process them and generate such output as finished products or services.

Accounting information system an invaluable asset of the small business. No organization can run without accounting information of its own. The importance of accurate, reliable and timely data and information system are required for performing management functions while planning, controlling and decision making.

Traditionally, accounting system was concerned with only financial accounting. The area of accounting is concerned with periodically measuring and reporting on the financial status and operating results of the organization to outside parties. This obligatory function of accounting system was useful to record the transactions and maintain ledgers, prepare financial statement and report to the interested external parties. Besides, the traditional accounting system were of little use for the management while planning and controlling, and making decision . For this purpose, management accounting system is developed. In other words, management accounting system is a resource of management that supplies financial information at all the levels. Especially in planning and administrating of business. Accounting system has explained from its traditional confines of historical transactions data to analyze the present situation and forecasting the future prospects.

**Table 1. 8**  
**Data Processing Cycle in Accounting**

Source document	Journal	ledgers	Trial Balance	Financial Statements
Files	Other report and analyze			
Collection Refinement: Processing and maintenance Output				

[Source: Accounting information systems and business organizations  
3rd editor Barry E. Cushing]

Accounting information systems(AIS) does two tasks Plan, Co-ordinate and Control activities of an organization and supply information to the required parties.

### **1.6.20 System of Accounting**

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

- I.** Single entry System
- II.** Double entry System.

#### **I) Single Entry System**

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

Single entry system is not any particular system of accounting, but rather it is an incomplete and disjointed form. Kohler has defined single entry system as follows: "a system of book keeping in which as a rule only records of cash and personal accounts are maintained. It is always incomplete double entry varying with the circumstances.

#### **II) Double Entry System**

It is an accounting system under which every transactions requires double entries in the

book. Luca Paciolo, the first propounded the principle of double entry system in 1494 A.D. He described a method of arranging accounts in a way of the dual aspects known as double entry system of accounting today.

Every transaction has two aspects i.e. when the person receives something he gives something else in return. This method of writing every transaction in two accounts is known as a double entry system of accounting. Of the two accounts one account is given debit while the other account is given credit with an equal amount. Thus, on any date, the total of all debits must be equal to the total of credit amount because every debit has a corresponding credit.

Double entry system of book keeping adheres to the rule, without any exception that for each transaction the debit amount must be equal to the credit amount. That is why this system is called double entry.

#### **Advantages of double entry System:**

The following are the main advantages which can be derived from the use of double entry system.

1. It provides a complete record of every transaction whether it relates to personal or impersonal.
2. It provides an arithmetical check on the records as the total of debit entries must be equal to the credit of all entries.
3. The amount owing to outsiders and amount due to the business can be ascertained with the help of personal accounts.
4. The profit and loss account can be prepared with the help of nominal account which is helpful to the business to ascertain the operating results of the business.
5. It helps to prepare the balance sheet of the business which is helpful to ascertain the financial position of the business on a particular date.
6. It helps to reduce the occurrence of the errors and frauds and when occurred can be deducted easily. It can work well with the help of internal check system.



## 1.7 REVIEW OF RELETED STUDIES

Books, articles, Act or Policy and Thesis related with accounting practices and small scale Industries are used in the study. Previous researches related with the study/Review of Theses are as:

**Acharya, Bhim Prasad (2005)** Submitted a thesis on “*A Study on Accounting System Being Practiced by Small Scale Industries in Nepal*” for the partial fulfillment of the MBS (Nepal Commerce Campus).

### **The main objectives of the study were:**

- i. To examine the existing accounting system used by the small industries, especially service industries.
- ii. To examine the effectiveness of the accounting system in small scale industries.
- iii. To identify the accounting problems faced by small entrepreneur.
- iv. To identify the how can asses their profit and loss.
- v. To point out suitable suggestions and recommendation.

### **He has concluded his study as follows:**

- i. Many small businesses use single entry book keeping system instead of double entry of Journals and Ledgers.
- ii. Their transactions are recorded on the cash basis accounting.
- iii. Many small businesses prefer less detailed records, less accurate to save the expenses for the double entry system.
- iv. They have less knowledge about the accounting system.
- v. Most of them don't prepare profit and loss account & B/S.
- vi. Government has not launched an extensive training program for improving accounting system in small business.
- vii. Most of firms are interested to undergo account training to maintain account properly .

### **His major recommendations were as follows:**

- i. The government should launch the special program about the accounting

methods to create the account base market economy.

- ii. Government and responsible authority emphasis about the accounting principles and try to provide sufficient knowledge and prescribed act to maintain accounts.
- iii. New approach of accounting system for small businesses as follows:

**Journal:** The book-keeper of the small industries may use only one journal with special columns that takes place of the special journals. As transaction take place, each items are recorded in the appropriate column. At the end of the every month, the total of each special column is posted to the proper Ledger account. The two Questions are raised this combination journal for a small business:

#### **What about account Receivable?**

A bill is provided for each customer and the original copy is kept within the business. When cash is received, it is so marked. The balance of Accounts Recievable should agree with the total of the unpaid bills. A separate ledger should be maintain for the Accounts Receivable.

#### **What about Accounts Payable?**

Accounts payable columns are provided in the combination journal and are posted monthly to the Accounts payable in the general ledger. Proving the combination of journal. At the end of the month, the cheque-book balance and the cash on hand are verified by adding the total cash receipts to beginning cash on hand.

**Pradhan Bhupati(2007)**, [the faculty of management of Shankardev campus] Submitted a thesis on “*Accounting Practices in Nepalese Small Industries*” for the partial fulfillment of MBS Degree.

#### **The main objectives of the study were:**

- i. To examine the existing accounting systems and effectiveness used by small entrepreneur.
- ii. To identify how IEDI/SBPP has been providing the accounting

knowledge for small entrepreneur.

- iii. To identify how small industries record their cash, sales and other transactions.
- iv. To identify the effectiveness of accounts training provided by IEDI.
- v. To point out suitable suggestions and recommendation.

**His has concluded his study as follows:**

- i. Many small industries however not always use the complete book-keeping system.
- ii. They use cash register because they record the income and expenses when cash is actually
- iii. Received or paid respectively.
- iv. Most of the industries have not basic concept of the accounting.
- v. Training and education are the fundamental to the success of maintaining accounting records.
- vi. They have been facing the accounting problem.
- vii. All the expenses are not clearly systematically separated.

**His Major Recommendations were as follows:**

- i. The accounting training is necessary to them to maintain record properly.
- ii. Government should bring the special program about the accounting principles and techniques.
- iii. One of the main reason is the lack of prescribed act, so the responsible authority should prescribed act to maintain accounts.
- iv. Many small businesses prefer less detailed records, complete book keeping cycle is not always useful for the such type of industries. So, they may use simple and special new approach of accounting system which should be prescribed by government for them.

**Sharma, Maha(2007**, faculty of management of Nepal commerce campus) submitted a thesis on “*Practices of Auditing in Cottage and Small Industries in Bhaktapur District*” for the partial fulfillment of the MBS Degree.

**The main objectives of his study were:**

- i. To identify the problems of the accounting system, facing by the small industries.
- ii. To identify the existing system of accounting and effectiveness of the small entrepreneurs.
- iii. To examine the auditing system of the small industries.

**He has concluded as follows:**

- i. They are audited by the 'GA & GHA' level of auditors.
- ii. The accounting records are not properly maintained due to lack of knowledge about the accounting system. Training about the accounting principle and methods is necessary for them.
- iv. They used single entry system instead of double entry.
- v. They are not audited on time.

**His major Recommendations were as follows:**

- i. Government should provide special training about the accounting techniques.
- ii. Regulation mechanism is necessary for the regulating them.
- iii. Government should encouraged them to audit them.

## CHAPTER-II

### DATA PRESENTATION AND ANALYSIS

#### **Meaning:**

Collecting primary Data from the 20 small industries which are registered in the small industries, Kathmandu District and secondary Data from the various articles, published or unpublished annual reports of the various concern organizations that are related to the subject to study are presented and analyzed in this chapter. Primary as well as secondary Data are put on the systematic manner is known as Data Presentation. Data are presented at the form of table in this section and major findings from the study by analyzing these data what they are shown.

Data collecting from the sample small scale industries located at Kathmandu District which are taken from primary and secondary sources are presented and analyzed as follows:

#### **2.1 Overview of accounting system in small industries**

Small and cottage industries those registered up to 2063 in Kathmandu 8,773. Out of them, industries 2,201 are small scale except service industries and 6,572 are service industries. It should be noted that as per district cottage and small industries report, industries like Furniture, Leather, garment etc which renew their registration annually. Those small industries which don't renew are assumed to be closed. Among 1,939 Industries, which are the total population of this study; the 20 sample industries are drawn for the study to collect the data excluding service industries are as follows:

## The Sampling chart

Table 2.1

### Small Scale Industries established at Kathmandu District till 2063 B.S.

S. NO.	Types of Industry	Total Industries	Sample
1	Tobacco	22	1
2	Mineral Water	45	1
3	Bag& Clothing	85	1
4	Furniture	153	2
5	Woolen	120	1
6	Food Industry	185	2
7	Plastic	87	2
8	Metal	100	1
9	Electronic	71	-
10	Garment	525	2
11	Medicinal herb	26	1
12	Agriculture& Nursery	45	2
13	Poultry Farming	64	1
14	Miscellaneous (Footware, Paper)	56	3
	<b>Total</b>	<b>1,939</b>	<b>20</b>

(Source: Small and Cottage industry Annual Report Ktm. 2063)

## 2.2 Age of the owners of the small scale industries

There are 20 years to more than 50 years old entrepreneurs are operating the small scale industries at Kathmandu District. The different age group of them are shown as following table:

**Table 2.2**  
**The Different age group Entrepreneur of Kathmandu District**

Entrepreneur	Total	
Age group	No.	Percentage
Below 20Years	-	-
20Years-29Years	3	15
30Years-39Years	5	25
40 Years-49 Years	7	30
50years& Above	5	30
<b>Total</b>	<b>20</b>	<b>100</b>

The different entrepreneurs being interviewed on age group basis are presented in the above table. The average age of the entrepreneur of Kathmandu district is 44.25. It is calculated by using arithmetic mean formula which is shown in the next table. The study shows that the larger number of entrepreneurs were ranging from 40 to 49 years age group and the ranging from 20 to 29 years age group entrepreneurs are comparatively low.

**Table 2.3**  
**Calculated Arithmetic mean, Variance and T-test:**

$\bar{X} = \frac{\sum fx}{N}$	<b>44.25</b>
$S^2 = \frac{\sum fx^2 - \frac{(\sum fx)^2}{N}}{N-1}$	<b>20.5</b>

For Calculation see Anex-1

**Justification of the result by using T-test as follows:**

Testing of Hypothesis of Single mean as following steps;

**Step-I**

**Null Hypothesis, H<sub>0</sub>:**  $\mu = \mu_0 = 44.25$ ; The population mean has some specified value  $\mu_0$ . In

other words, there is no significance difference between sample mean( $\bar{X}$ ) and population mean( $\mu$ ).

**Alternative Hypothesis,  $H_1$ :**  $\mu \neq 44.25$ ; The population mean is not equal to  $\mu_0$ . There is significance difference between sample mean and population mean.

### **Step-II**

Computation of the Test statistics: Under  $H_0$ , the test statistics is;

$$T = \frac{\bar{X} - \mu}{S^2/N}$$
$$= 0.25$$

$$\text{Degree of Freedom(d.f.)} = N-1$$
$$= 20-1$$
$$= 19$$
$$t = 5\%$$

Tabulated value of t at 5% level of significance and 19 d.f. for two tailed test is 2.093. That is  $t_{0.05}(19) = 2.093$

### **Step-III**

#### **Decision:**

Since, calculated value of  $t <$  tabulated value of  $t$  ; it is not significant and  $H_0$  is accepted which means population mean is 44.25.

## **2.3 Academic Background of the Book-Keeper or Accountant**

It found that the Academic Background of the Book-keeper or the accountant of the 20 sample of Small Industries in the Kathmandu District from Blow than S.L.C. to Masters Degree, which is presented as follows:



**Table 2.4**

**Academic Background of the Accountants of small industries at Kathamndu district**

<b>Level of Education</b>	<b>No.</b>	<b>Percentage</b>
<b>Below S.L.C.</b>	3	15
<b>S.L.C.</b>	4	20
<b>Intermediate</b>	7	35
<b>Bachelor</b>	4	20
<b>Masters</b>	2	10
<b>Total</b>	<b>20</b>	<b>100</b>

This Shows that Accountants of many small industries in Kathamndu district have less than Bachelor Degree. The number of the Accountants having Bachelor and Masters Degree are 6 that is only 30% of the total sample.

Accountants having education below S.L.C. and S.L.C. are the owner or partner of the Industries. Out of 3 accountants having below S.L.C. academic background; 2 have completed Lower Secondary and 1 have not formal Education. They don't prepared the records properly. They use general daily Dairy book to record the transactions.

All Bachelor Graduates Accountants are appointed by the Industries prepare the accounting record properly. They use Double Entry System, prepare the Profit & Loss Account and Balance sheet or Income & Expenditure Account. The accountants having Intermediate; some of them are practiced to put record properly. Out of 7 Accountants having Intermediate graduation 3 use single Entry system and 4 are using Double Entry System. Among them 2 are the owner or partner of the Industries.

It shows that the Academic background of the Accountants and the accounting practices are positive related. Small Scale Industries are felt that the necessity of the

accounting record properly therefore they want to hire highly academic Graduates or to develop their own accounting knowledge.

**Table2.5**

**Relations Between Academic Qualification and accounting techniques**

<b>Accounting System \ Academic Background</b>	<b>Good</b>	<b>Moderate</b>	<b>Poor</b>	<b>Total</b>
Below than S.L.C.	-	-	3	<b>3</b>
S.L.C.	-	1	3	<b>4</b>
Intermediate	2	3	2	<b>7</b>
Bachelor and Above	5	1	-	<b>6</b>
<b>Total</b>	<b>7</b>	<b>5</b>	<b>8</b>	<b>20</b>

Justification of the Data by using Test of Hypothesis(chi-square test using 5% level of significance)

Step I;

**Null Hypothesis, H<sub>0</sub>:** Accounting keeping system is independent in the academic background of the accountant.

**Alternative Hypothesis, H<sub>1</sub>:** Accounting keeping is dependent in the academic background of the accountant.

Step II;

**Test statistic under H<sub>0</sub>**

The test statistic is;  $\chi^2 = \frac{(O-E)^2}{E} = 26$

(For calculation see Anex-2)

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

Tabulated value of  $\chi^2$  at 5% level of significance(  $\chi^2_{0.05}$ ) for 6 is 12.592

Step III;

**Decision:**

The calculated value of  $\chi^2 (26) > \text{Tabulate } \chi^2(12.592)$ ; It is highly significance since Null Hypothesis  $H_0$  Rejected and Alternative Hypothesis  $H_1$  is accepted. It means the accounting technique is dependent in the academic background of the accountant.

### 2.4 Who Keeps the Accounting Record?

It Found that the accounting records are kept by the owner or partner himself or hired other person as a Accountant and hardly set up separate Account Department for the Small Scale Industries in the Kathmandu District. Which is Shown as following table.

**Table 2.6**

**Personnel of the accountant of the small Industries at Kathmandu district**

<b>Classification as Accountant</b>	<b>No.</b>	<b>Percentage</b>
<b>Owner/ Partner</b>	5	25
<b>Accountant</b>	14	70
<b>Separate Account Department</b>	1	5
<b>Total</b>	<b>20</b>	<b>100</b>

The Entrepreneurs keep the Account themselves as seen number of 5, out of 20 enterprises 14 Industries hire the one accountant for the enterprises and only one have separate Account Department to manage the accounting records of the Small Industries in the Kathmandu district.

It was noted that the owner as an Accountant did not record the transaction properly. They use the accounting record to find out the credit transactions and for knowing the cash balance only. Those who are hired by the Industries as Accountant, it found that they kept accounting records properly, but they rarely use Management Accounting(i.e. Budgetary

and Planning System, Cost- volume profit analysis etc.). Which Industries have a separate accounting Department kept accounting properly and the department use financial as well as management accounting system.

**Table 2.7**  
**Sector wise comparison of the Accountant**

Sector	Owner/Partner	One Accountant	Separate Account Department
Food Industry		2	
Foot ware		2	
Paper		2	
Metal	1		
Herbal Processing		1	
Tobacco		1	
Mineral water		1	
Plastic		2	
Bag and cloth		1	
Garment		1	1
Woolen		1	
Furniture	2		
Nursery	2		
Poultry	1		
<b>Total</b>	<b>5</b>	<b>14</b>	<b>1</b>

## 2.5 Accounting Records of the Small Industries

### A. Accounting System

It found that, in the study from the 20 samples of the small Industries registered at Kathmandu District are applied accounting system of Single Entry or Double Entry as :

**Table 2.8**

**Accounting System applied by the Industries**

<b>System</b>	<b>No.</b>	<b>Percentage</b>
Single Entry System	9	49
Double Entry System	11	51
<b>Total</b>	<b>20</b>	<b>100</b>

The table shows that, the small scale industries are started to practiced Double entry system instead of single entry system. For that many firms are hired accountant and take accounting training to improve their skills and knowledge. These industries, where the owners of the industries are keeping accounting record are used single entry. Out of 20 Industries, 9 are used Single entry and 11 are used double entry system.

### B. Accounting Basis

In the study, from 20 samples of the small scale Industries registered at Kathamndu district follow the cash basis or accrual basis as follows:

**Table 2.9**

**Accounting Basis followed by the Industries**

<b>Basis</b>	<b>No.</b>	<b>Percentage</b>
Cash	6	30
Accrual	14	70
<b>Total</b>	<b>20</b>	<b>100</b>

The above table shows that, many smaller Industries in Kathamandu District are recorded on the basis of the Accrual. Out of 20 Industries, 14 used accrual basis and 6 used cash basis.

### C. Period of Accounting book closed

Most of the small scale industries, registered on Kathmandu District, are closed their accounting record annually. Because they do not want to consuming time to close the record, so they feel convenient to close the accounting record annually.

**Table 2.10**

#### **Closing period of the accounting record of the small industries in Kathmandu**

<b>Closing Period</b>	<b>No. of Industries</b>	<b>Percentage</b>
Monthly	2	10
Quarterly	0	0
Annually	18	90
<b>Total</b>	<b>20</b>	<b>100</b>

Out of 20 Small scale industries registered in the Kathmandu District, only 2 say 90 percentage are closed their account monthly, no one industry closed on quarterly and 18 say 90 percentage Industries are closed their accounting record annually.

### 2.6 Feedback of Maintaining Accounting Books

Many Small Industries are opined that records of the accounting plays not important role in the various decision making for their industries. They said that the accounting records are not so useful device for small scale industries. In their view about usefulness of the accounting records or their feedbacks are shown as following table.

**Table 2.11**

#### **Feedback of maintaining accounting records by the small industries**

<b>Feedback</b>	<b>No. of Industries</b>	<b>Percentage</b>
Very useful	4	20
Useful	9	41
Less Useful	7	39
<b>Total</b>	<b>20</b>	<b>100</b>

Out of 20 small scale industries which are registered in Kathmandu district; 4(only 20 percentage) said the book-keeping is very useful, 9 industries(41percentage) said it is

useful and 7 industries(say 39 percentage) thought that book-keeping is less or not useful. It shows that majority of the Entrepreneurs are thought book keeping is useful for the operation of the business smoothly, which provide the information about the financial transactions.

## 2.7 Final output of the book Maintained by the small Industries

Many small industries do not prepared the proper final account because they are feeling difficulties to prepare such type of accounts. The study found that the final account are prepared by the auditor at the period of the final auditing due to their lack of knowledge about the accounting practices for preparing the final output of the book keeping. The small scale industries registered at Kathmandu District are preparing the accounting records for the final output of the book keeping as follows:

**Table 2.12**

### **Final Output of the Accounting Record by Small Industries at Kathmandu District.**

<b>Types of final account</b>	<b>No.</b>	<b>Percentage</b>
Profit and Loss account with Balance Sheet	6	30
Receipt and Payment account	3	15
Income and expenditure	4	20
No proper Account	7	35
<b>Total</b>	<b>20</b>	<b>100</b>

Out of 20 small scale industries registered at Kathmandu District; some of them using Profit and loss account with balance sheet, the study shows that only 6 Industries are prepared P/L account with Balance Sheet, 3 Industries prepare Receipt and payment Account only means they use single entry system, 4 industries prepare Income and Expenditure account only and 7 Industries are not prepared any proper account for the final output of the accounting record. It shows that many small scale Industries are kept no proper accounting records. It means that the small scale Industries feel no need to maintain final output of the accounting records. They said that their main motive for keeping accounts is to identify the accounts payable and accounts receivable.

## 2.8 Methods of charging Depreciation applied by small industries

There are various methods to charge the depreciation for fixed assets. The small scale enterprises registered at Kathmandu District apply the some of them methods as their convenience shown as follows which are taken from 20 samples for the study:

**Table 2.13**

**Depreciation Method applied by the small Industries at Kathamndu district**

<b>Methods of Depreciation</b>	<b>No. of Industries</b>	<b>Percentage</b>
Straight Line	15	75
Diminishing	1	5
No Proper method	4	20
<b>Total</b>	<b>20</b>	<b>100</b>

The above table shows that most of the Small Industries are applied Straight line method to keep the depreciation of the fixed assets of the business. They feel fixed method is easy to keep depreciation provision. Out of 20 Industries; 15 industries say 75 percent of the Industries applied fixed depreciation method, Only one say 5 percent industry is applying Diminishing balance method and 4 industries say 20 percent are not apply any proper method for the provision of the depreciation. It shows that they are conscious for the fixed assets due to need of the large investment for that type of assets.

## 2.9 Methods of paying wages to the staffs of the enterprise

The small Industries; some are followed contract, some enterprises are following periodic or some are following both of contract and periodic style to pay the wages to their staffs according to the nature of the industries. The Industries are using their payment method of wages of the samples from the Small Industries located at Kathmandu District for the study as follows:



**Table 2.14**

**Wages Payment methods applied by the small Industries at Kathmandu District**

<b>Method of payment</b>	<b>No.</b>	<b>Percentage</b>
Contract	1	5
Periodic	13	65
Both	6	30
<b>Total</b>	<b>20</b>	<b>100</b>

The above table shows that many small Industries are paying wages on the periodic basis to their staffs. Which means that the salaries labors of the industries are fixed. Most of the small enterprises are paying wages to the staffs on monthly basis or fixed salary is paid after the completion of the month and keeping accounting records accordingly. The study shows that out of 20 industries; only one paying the wages on the contract basis, 13 industries or 65 percent are applying periodic basis to pay the wages and 6 industries say 30 percentage of them are using both periodic and contract system. Among of them nursery and clothing industries apply both method for paying the wages according to the nature of the work.

### **2.10 Inquiry about Account Training**

In the inquiry of the training of the accountant of these small scale industries at Kathmandu District is categorized under trained accountants who have already taken training or non trained accountant and who are interested for taking training in future to make efficiency of the accounting records. The study found about the trained accountant and interests in such type of accounting training for the accountant of the small scale industries of Kathmandu district as shown follows:

**Table 2.15**

**Trained Accountant of the small industries at Kathamandu District**

<b>Accountant</b>	<b>No.</b>	<b>Percentage</b>
Trained	5	25
Non Trained	15	75
<b>Total</b>	<b>20</b>	<b>100</b>

It shows that many smaller industries do not appointed trained accountants for keeping accounting records. Out of 20 industries, 75 percentage or accountants of 15 small scale industries at Kathmandu District are non trained and only 25 percentage accountants of 5 industries are trained. It means the small scale enterprises think there is no need to appoint trained accountant for preparing the records of the financial transactions. Some of the accountants of the enterprises have accounting knowledge who have academic qualification is good and make the accounting records properly. Trained has improved their efficiency after training.

Training for the accountants is important to improve their efficiency and to make accounting system effective.

**Table 2.16**

**Inquiry about interests of accountants of small industries at Kathamandu in Accounting Training**

<b>Interested in training</b>	<b>No.</b>	<b>Percentage</b>
Yes	12	60
No	8	40
<b>Total</b>	<b>20</b>	<b>100</b>

The table shows that the many accountants appointed as an accountant for the enterprises are said to be interested to take the accounting training and some are not interested in training. Out of 20 small scale industries registered at Kathamandu district, 12 accountants (60 percentage) are interested for training they want to take training to

improve their skill for preparing accounting records and 8 or 40 percentage are not interested in training means they think training is not necessary for them.

### **2.11 Small Business Promotion Project ( SBPP)**

A pioneer institute in providing the accounting training to small entrepreneur. The small business promotion project was established in the fiscal year 1982/83 to encourage entrepreneurship with the joint collaboration of Government of Nepal and Federal Republic of Germany through Gtz. The project has an important role in promoting entrepreneurship among Nepalese people through training new business certain, business management, consultancy services, account keeping and skill development and other services.

SBPP was institutionalized on 3rd July 1995 under the Development Board Act 1956 as a firm legal status and called Industrial Enterprises Development Centre (IEDC). The Staff, property service and program of the SBPP project had been passed on to this centre. This centre is new one in the area of promotional organization under newly created industrial Enterprises Development Institute established by a special Act of the parliament 1996.

#### **The objectives of the institute are as follows:**

- i.** To assist the institutional and manpower development of institutions working in the field of industries and business development and provide them with need based service.
- ii.** To carry out action research when needed to provide quality service for industry and business development.
- iii.** To develop technical entrepreneurship and management knowledge and skill of industry and business sectors by making available need based professional services and consultancy and function as a service oriented institution.

**Table 2.17**  
**Book keeping Training Provided by SBPP in Kathmandu**

<b>Year</b>	<b>Total no. of Trainees</b>
2002	16
2003	-
2004	42
2005	79
2006	72
2007	74

(source: Industrial Statistics Booklet, 2064)

SBPP has completed 4th phase training more than 7,000 persons so far, The training includes the following area:

- i. Entrepreneurship development training.
- ii. Book keeping training
- iii. Salesmanship training.

Besides this the project also conducts the follow up workshop, regular consultancy service, and feasibility studies of small business in various area. The Nepalese and German have also agreed for a project to strengthen the institution capacity of the newly established centre.

## **2.12 Costing system of the small enterprises**

There are various systems are available to analyze the costing such as standard costing, cost volume profit Analysis(CVP analysis) ,Activity Based costing (ABC)etc. The costing systems are important for management level to make policies about production, selling, obtain desired profit and play role as controlling tools. Accounting information's relating to cost plays vital roles in this respect. The small scale industries located at Kathmandu district are followed the costing system shown here under:

**Table 2.18**

**Costing System applied by the small industries at Kathmandu District**

<b>Costing System</b>	<b>No.</b>	<b>Percentage</b>
Standard	4	20
CVP and ABC	0	0
No proper	16	80
<b>Total</b>	<b>20</b>	<b>100</b>

The study shows that many smaller industries are not applied any proper costing system in their enterprises. Out of 20 Industries only 4 enterprises say 20 percentage are applying standard costing system , 16 or 80 percentage of the enterprises use no any costing system and no one enterprise is applying any type of costing system.

Majority of the small scale industries at Kathamandu district are not followed the costing system means many smaller industries are not used costing tools for the management of the business. They feel costing system is less important for the small industries.

### **2.13 Pricing System adopted by Small Industries**

Setting the price of organization's product or services is known as pricing. To fix the price many accounting pricing tools are used by the organizations such that cost plus pricing, market pricing, leadership pricing, negotiable pricing, target return of Investment(ROI) etc. There should be economic model suggests that the firm will attempt to set the selling price at a level where profits are maximized, which is affected by nature of the organization, level of the competition, buyers behaviors and other environmental factors. The pricing system adopted by the small Industries at Kathamndu are shown as below:

**Table 2.19**

**Pricing System adopted by small Industries at Kathmandu District**

<b>Pricing System</b>	<b>No.</b>	<b>Percentage</b>
Cost plus	10	50
Market price	8	40
Both	2	10
Others	0	0
<b>Total</b>	<b>20</b>	<b>100</b>

The study found that small scale industries located at Kathmandu are using cost plus, market price or may be both of the pricing system. The table shows that out of 20 Industries registered at Kathamandu District 10 industries say 50 percentage are using cost plus pricing system, 8 enterprises say 40 percentage are using market price pricing system and only 2 industries or 10 percentage are using both cost plus and market price pricing system to fix the pricing of the product and services. Majority of entrepreneurs are used cost plus pricing where a mark up for overhead and profit is added to the direct cost.

### **2.14 Budgeting system used by small Industries**

Budgeting is one of the most important management tools used to plan and control business which summarizes the estimated results of the future transactions. There are sales, operational, financial statements, and capital budgets in the budgeting. Here is showed the budgeting system applied or not by Small scale Industries at Kathamndu district.

**Table 2.20**

**Budgeting System Adopted by Small Industries in Kathamndu district**

<b>Apply of Budgeting System</b>	<b>No.</b>	<b>Percentage</b>
Yes	4	20
No	16	80
<b>Total</b>	<b>20</b>	<b>100</b>

The study found that many small industries at Kathmandu district do not use budgeting system in their enterprises. Out of total observed entrepreneurs in kathamndu ; only 4 industries or 20 percentage are using budgeting system to manage the financial

activities and 16 entrepreneurs say 80 percentage do not use the budgeting tools for planning and controlling for enterprises in Kathmandu district.

### 2.15 Usages of Accounting Records

Usages of accounting records refer to the purpose or objectives of accounting records for the small scale industries in Kathmandu district. The main usages of the accounting records which are applied to operate the business activities of such industries as follows:

**Table 2.21**

**Usages of Accounting Records for small Industries in Kathmandu district**

<b>Usages</b>	<b>No.</b>	<b>Percentage</b>
To identify the result of the operation	10	50
To Identify the credit transactions only	2	10
To obtain balance of cash only	3	15
No clear objectives	5	25
<b>Total</b>	<b>20</b>	<b>100</b>

Above table shows that the selected Industries in Kathmandu district, 10 industries used accounting records to identify the result of operation only say to know the profit and loss of the period from the business. Similarly 2 industries used the records to identify the credit transactions of the business only. In total 3 industries are used accounting records to know the cash position of the business only and 5 number or 25 percentage of the industries are used the records but they have no clear objectives where nursery, metal industries are the such type of industries. Clothing , food , paper and footwear industries prepared accounting records properly for the multiple purposes.

### 2.16 Procedure of Accounting Records

The procedures followed by small scale Industries located at Kathmandu District as the various ways on the basis of their convenience. These procedures may be selected as

prescribed by Government, suggested by trainer or consultants and their own way whichever is more convenient and useful for the entrepreneurs shown as following table.

**Table 2.22**

**Selecting of Book of Account by small Industries in Kathamndu district**

<b>Selection of method</b>	<b>No.</b>	<b>Percentage</b>
Prescribed by government	6	30
Suggested by Trainer	4	20
Own way	1	5
No proper method	9	45
Suggested by consultant	0	0
<b>Total</b>	<b>20</b>	<b>100</b>

Out of total observed industries, the study found that 30 percentage means out of 20 industries; 6 industries are followed the accounting systems as prescribed by the government for maintaining the accounting records. Similarly 4 enterprises are maintained accounting records as per suggested by the trainer, out of selected only one enterprises select the book of account as its own method. Out of 20 industries in kathamndu District; 9 Industries or 45 percentages of industries record keeping enterprises in Kathmandu are found as inform of memorandum book, without systematic, keeping unsystematic accounting books which were only for credit memorandum.

### **2.17 Mode of maintaining Accounting Record**

Mode of maintaining accounting records refer to the level of technology which the small scale industries are used to maintain their book-keeping system i.e. manual or computerized accounting system. From the study, mode of maintaining accounting records of the enterprises are shown as follows:



**Table 2.23**

**Types of account maintain by the small industries of Kathmandu district**

Type	No. of Firms	Percentage
Manually	17	85
Computerized	1	5
None	2	10
<b>Total</b>	<b>20</b>	<b>100</b>

It shows that many small scale industries are using manual accounting system. From the above table out of 20 industries; 17(85%) enterprises use manually accounting records, only one which have separate accounting department is used computer to maintain the account this one is the garment factory and 2(10%) enterprises are not maintained their account properly, it means that these enterprises are used rough type of accounting system.

## **2.18 Major Findings of the study**

**The major findings of this research are as follows:-**

1. Many small businesses however not always use the complete book-keeping cycle and use a single entry book-keeping system instead of the double entry system of journals and ledgers. From the study shows some industries have practiced double entry system as well.
2. Many manufacturing industries are charged depreciation at straight line method.
3. From the analysis, it is found that most of the small entrepreneurs have been facing costing , pricing and budgeting problem.
4. Many industries do not use management accounting in decision making.
5. Some efforts are made for cost reduction which is as follows:
  - \* Minimization of wages or wastage control.
  - \* Full capacity utilization or large scale production.
  - \* Raw materials purchase at Economic order quantity (EOQ method)

or using alternative or multiple sources of suppliers.

- \* Effectiveness on supervision.
- \* Credit control.
- \* Using cost accounting principle.
- \* Financial control.

6. Training and education are the fundamental to the success of maintaining accounts, which is neglected by most industries.
7. Most of their transaction are recorded as accrual basis.
8. Out of 20 enterprises, 5 have recorded self accounts, 14 have hired one accountant and one have separate account department.
9. Many small businesses don't prepare profit & loss account and balance sheet record because of they record incomplete, less detailed information. Most of the small entrepreneurs don't have minimum concept of accounting principles, nor do they have professional people.
10. On the study period it is found that most of the entrepreneurs feel difficulty to allocate the fixed overhead on different product items. In another words most of them are confused on costing & pricing of the product.
11. The common causes of not using budgeting system they said are:
  - \* Lack of proper accounting information (data).
  - \* Uncertainty of demand.
  - \* Seasonal industries are not interested.
  - \* Lack of trained manpower.
  - \* Nature of some industries which don't require budgeting system because of small scale such as ice-cream, Bread, nursery.
  - \* Costly small industries aren't applied it because of high cost.
  - \* Those industries whose production depend on direct order sizes, such as Grill, Gate, Furniture etc.
12. Most of the industries have audited their accounts in given time.
13. Cost accounting in smaller enterprises is not put to practice
14. Standard costing is used most of those industries put to practice cost

accounting.

- 15.** Smaller enterprises lack trained personnel and money to set up cost accounting system.
- 16.** Decisions are mostly done by owner based on this hunch and liking .
- 17.** Many industries are closed their account annually, at the end of the Fiscal year.
- 18.** Many industries are using cost plus pricing method.

## **CHAPTER- III**

### **CONCLUSION AND RECOMMENDATIONS**

#### **3.1 CONCLUSION**

The conclusions taken from the study of the project work entitled “Accounting practices adopted by small Industries in Kathmandu district” are as follows:

1. Proper and effective accounting system of the records is the strong tool to manage the financial transactions for the industries.
2. In manufacturing small scale industries, the fixed goals and objectives are written clear and specific. There have not strong basic foundation for planning and budgeting of the enterprises.
3. Well prepared accounting system is essential for the manufacturing Industries to determine the cost of production and pricing of the products.
4. Small industries at Kathmandu district are not clearly and systematically saperated manufacturing, administration and selling & distribution expenses.
5. Accounting system plays a vital roles in management of the business. Many small industries do not prepare the management accounting. Some executives prepare the plan but they don't involve operating level of the staffs while making and no any communications and commercialization of the plan.
6. Training and academic qualification directly affect in improving the system of accounting and their usage in the business. Small scale enterprises do not appoint such type of accountant because they thing it will more costly to provide salary for accountant so some owner be the accountant.
7. Academically qualified entrepreneurs are more conscious about the accounting recording and they use the accounting information on decision making.
8. Cash register is used by small scale industries to record the financial transactions because they apply cash basis means their transactions are recorded when the expenses and incomes are paid and received actually.
9. In many manufacturing industries fixed assets turnover ratio is low means they do not use fixed assets effectively.

10. Planned production , planned sales and achievement are not satisfactory in small scale manufacturing industries.
11. The profit patterns of the small scale industries are not satisfactory because their profit margin is falling since few months.
12. The reporting and management control system haven't used for the purpose of controlling performance and this aspect has been further complication due to absence of any scientific standards to compare the performance.
13. Now, Small industries are also practicing the double entry system and use the accounting system in business because they feel the essential of accounting records effectively.
14. Many small Industries in Kathmandu district are audited their accounts annually.
15. Government and other concerns should encourage the small entrepreneurs to make systematic accounting records and usage of the system to improve the small scale industries' efficiency in developing country Nepal, where majority of the firms are interested to undergo accounting training to change their existing recording into systematic records.

### **3.2 RECOMMENDATIONS**

The above reviews and analysis led us to recommend following suggestions for future better performance of small industries.

1. The studies is found that most of the small entrepreneurs are prepared non detailed accounts due to the lack of knowledge maintain account. An extensive training program of accounting system has to be launched by government for small entrepreneurs.
2. The successful implementation of VAT largely depends upon the account based transaction. But most of the small entrepreneurs have been facing the accounting problem. So it is necessary to provide the detail accounts training to them. They should try to create the account base market economy.
3. The reasons not to maintain accounts are lack of accounting knowledge, lack of specific rules, lack of time; it increases cost and lack of prescribed Act. Government and the responsible authority should emphasis about the accounting principles and try to

provide sufficient knowledge, prescribed Act to maintain Accounts.

4. Many small business firms prefer less detailed records to save the cost and time. The complete book Keeping cycle are not always used for small business. Considering this view, a new approach of accounting system is recommended for small industries which are shown as detail below:

### **A. Book Keeping method for Small Business:**

#### **Journal**

In place of using several special journals, the book keeper for a small business may use only one Journals. For example instead of a sales journal, a sales column is used to record sales. Similarly, necessary columns are set up for all other accounts that are frequently debited or credited. A journal that combines in one book of original entry all the time saving and laborsaving features of the special journals is called a combination of journal or multiple column Journal. Only one journal is used, but a special column is set up for each frequently used item in small business. As transactions take place, each item is recorded in the appropriate column. At the end of the month, the total of each special column is posted to the proper ledger account. This is the same principle that is followed when special journals are used.

Although special columns adapted to each small business are set up in a combination journal to cover transactions that require frequent entries, it would not be possible to have a special column for every type of transaction. That is why the sundry or general columns are provided. For example, if new equipment purchased, the transaction is recorded in the sundry columns. Generally, this type of combination journal is used by professional men who keep records on a cash basis. Two questions may arise about this combination journal for a small business.

#### **About Accounts Receivable**

Accounts receivable are generally kept separate from the regular books. A bill is provided for the each customer and the original copy(o/c) is kept within the business. When cash is received, it is so marked. The balance of the unpaid bills. A separate ledger should

be maintained for Accounts receivable.

### **About Accounts Payable**

Usually, the number of creditors and accounts payable transactions are not sufficient to warrant an account for each creditor. Accounts payable columns are provided in the combination journal and posted monthly to the accounts payable account in the general ledger.

### **Proving the combination Journal**

At the end of the month, the cheque book balance and the cash in hand are verified by adding the total cash receipts to the beginning cash in hand. The equality of the debits and credits can be verified easily because for each debit entry in the combination journal there is a corresponding credit entry. Therefore, the total of the debit columns should equal of the credit column.

### **Posting the combination Journal**

After the accuracy of the entries is proved at the end of the month, the journal is ready for posting. Items in the sundry columns are posted separately. The posting reference column is filled in for each account, to show that the posting has been completed. After the journal is posted, the ledger appears and accounts are numbered in their proper classification i.e. Assets, liabilities and share capital.

Some of these systems even eliminate a ledger. The monthly totals are recorded in an annual summary sheet, which supplies the data necessary for the annual profit and loss statement and balance sheet.

### **Profit and loss statement**

The profit and loss statement is prepared from the yearly totals taken from the monthly summary book. All the data for the statement of the started items, merchandise inventory and depreciation.

Depreciation is based on the estimated life of plant, equipment and furniture. If the building and store are rented a special column is provided in the daily and monthly summary books to record the amount paid out for rent. The merchandise inventory is usually obtained by taking a physical count of the merchandise in hand.

**Table 3.1**

**The pro-forma Profit and loss account for the small industries :**

**Name of the Industry**

**Profit & Loss Account for the -----**

Particulars	Amount
Income from sales	
Cash Sales	-----
Add: Credit sales	-----
	-----
Total sales	***
Less: Sales return	-----
<b>Net sales -----A</b>	***
Less: <b>Cost of goods sold</b>	
Opening inventory of raw materials	-----
Add: Purchase	-----
Total inventory available	-----
Less: Closing inventory of Raw Materials	-----
Net Raw material consumed	-----
Add: Direct Labor used	-----
Total Prime cost	***
Less: Change in finished good inventory	-----
<b>Cost of goods sold-----B</b>	(***)
<b>Gross profit (A-B)-----X</b>	----- ***
Expenses :	
Indirect wages	-----
Utilities/supplies	-----



Repair & Maintenance	-----	
Delivery expenses	-----	
Legal expenses	-----	
Depreciation	-----	
Interest on loan	-----	
<b>Total expenses</b> -----C		***
		-----
<b>Net Operating profit (X-C)</b> -----Y		***
Add: <b>Income from other sources</b>		***
Less: Other expenses		(***)
		-----
<b>Net Income before tax</b>		*****

### Balance Sheet

Generally, Balance sheet is not prepared by small business. If the business require a balance sheet at the end of the year, it can be prepared by taking an inventory of its assets and liabilities.

**Table 3.2**

**Formula for asserting items of balance sheet:**

<b>Closing Cash</b>	=	Cash in hand + Cash at Bank
<b>Capital</b>	=	Assets – Liabilities + (-) drawing / Introduced capital
<b>Value of fixed assets</b>	=	Original cost – depreciation
<b>Value of closing stock</b>	=	Closing stock can be obtained by taking a physical count and value can be found multiplying rate (market price or cost price which ever is less.)

**Table 3.3**

**Pro-foma Balance sheet for the small industry:**

**Name of the Industry**

**Balance Sheet for the end of the year-----**

<b>Liabilities</b>	<b>Amount (Rs.)</b>	<b>Assets</b>	<b>Amount (Rs.)</b>
Creditors, Accounts Payable:		Inventory:	
-Raw material Supplier		-Raw material(--units) ***	
(payable in---) ***		-Finished Goods(--units) ***	***
-Machine Supplier		Accounts Receivable(in--)	***
(payable in---) ***		Cash in hand	***
Out standing Wages	***	Fixed Assets:	
Accrued Operating Expenses	***	-Furniture & Fixture	***
Out standing Other expenses	***	- Plant & machinery	***
Profit and Loss account	***	Less Depreciation (**)	
Short term Bank Loan	***		***
			■■■■■■■■■■
<b>Total</b>	<b>***</b>	<b>Total</b>	<b>***</b>

**B) Cost Accounting in Small Industry**

The most important purpose of cost accounting is cost reduction or control and helpful in pricing as well as general accounting. There are many berries and problems in putting cost control into operation among smaller industries, although, these industries can put cost accounting system as a tool of cost control. There are three steps in cost accounting in small industries:

- I.** First, individual cost accounting (only for important products)
- II.** Second, actual cost accounting ( a shift from the first as experience is gained and with a knowledge of accounting system.)
- III.** The third, standard cost accounting system.

**To improve cost accounting in small industries the following task may be useful:**

1. Establishment of cost accounting form (classified by industry)
2. Establishment of cost control system which is combination of cost accounting, general accounting and estimated cost system is considered sufficiency adequate for managerial accounting system in smaller enterprises.
3. Material cost and labor cost, etc., are posted into cash collecting accounting card directly from debit slips as well as of working hours, etc. So, as to account for the cost of each goods.
4. Material cost and labor cost are accounted in detail, but details of indirect costs are omitted considering from the point of economy.
5. Establishment of managerial cost accounting system becomes a necessity. It will include management of plants, material, Labor, operation standard, ratio operation, quality control etc.
6. Classification of cost Centre on fixed cost, variable cost and semi variable cost showing the relationship for analysis.
7. Cost accounting training to small entrepreneurs is necessity.

### **C) Pricing Decision in Small Industries**

Fixing the sales price of a product is perhaps one of the most sensitive decisions of business. In a cottage & small scale industry, pricing decision is usually made by the owner and they made production and Marketing decision also. In another words, in small & cottage industries price and output is determined by the owner. Their experience play the vital role in pricing decision, really they use economic theories.

**The most commonly used method of fixing the sales price of an industrial product are:**

- i. Cost plus pricing method.
- ii. Comparative pricing method or going rate pricing
- iii. What the market will bear method.

### **D) Cash control of Small Business**

There are various internal control procedures that may be set up within the firm, built in with a good system of accounting. In small industries cash and inventory management may

be introduced without much cost to the industry, small industries will not be able to afford comprehensive system. Thus, the following are some of the internal checks which may be introduced to the small industries:

- i. Only a minimum amount of cash should be on hand at all times (Petty cash fund).
- ii. All receipts should be accounted for daily and deposited with a bank the following banking day.
- iii. Control of the amount of disbursement such that payments made by checks.
- iv. Inventories should be properly identified by attaching bin cards or tags.

### **E) Tools of control for Small Industries :**

- 1. Budgetary control :** Budgets are set for every activity or department for a specified period week, month or year. This is setting cost standards for a given period.
- 2. Standard costs :** This is setting cost standards for a unit of output standards are set for material, labor and overhead.
- 3. Break-Even analysis :** A break even point is one where revenue and costs are equal. This gives the point of no profit no loss. This provides a minimum standard for business. Actual performance must be above this point in order to make profit.
- 4. Control reports :** A system of control reports may be used which provides information on quantity, quality, costs and time use.
- 5. Ratio Analysis :** This shows relationships between two variables. Ratio provide information for control purposes e.g. advertising as percent of sales or ratio of current assets to current liabilities.
- 6. Internal Auditing :** This involves vouching and verification of actual performance by special staff.
- 7. Personal Visits :** Visits by owner/manager may be very effective for the purposes of quick control. Most of the facts of control are based on mathematics, statistics and accounting. Quantitative Tools of management such as operations research (or), linear programming, program evaluation and review technique(PERT) may also used.

## BIBLIOGRAPHY

### BOOKS:

- Agrwal Govinda (1982) "*Management and Marketing for Small Business*" CEDA, TU, Kathmandu.
- Bhattachaeya S.K.& Dearden(1997) "*Accounting Theory*" Vikash publishing house pvt. Ltd.
- Cummack,Jon(1992) "*Basic Accounting for Small GroupBusiness*" Oxfam print unit.
- Dangol R.M.(2004) "*Theory of Book keeping and accountancy*" Taleju Prakashan , Bhotahiti Kathmandu.
- Dangol R.N(2002) "*Nepal Industrial Digest Dilemmas In Industrialization*"
- Department of Cottage and Small Industry,(2007) "*Annual report* " Nepal Government
- Federation of National Cottage and Small Industry(2007),"*Annual report 2007*" Nepal
- Handriksen, Eldon S.(1992) "*Accounting Theory*" Richard D. Irwin Inc.Illinois.
- Jain S.P And Narang K.L(1991) "*Cost Accounting* " Kalyan Publishers New Delhi.
- Joshi, P.R.(2003) "*Research Methodology*" Buddha Academic publishers and Distribution pvt. Ltd.,Putalisadak, kathmandu.
- Joshi, Shyam(2006) "*Entrpreneurship Development*" Taleju Prakashan, Bhotahiti Kathmandu.
- Juneja C Mohan, Chawala R.C Saksena K.K(1991) "*Double Entry Book Keeping*" Kalayan Publuishers New Delhi.
- Moser, C.A. and Kalton, G.(1976) "*Survey methods in social investigation*" Hinemann Educational Books,London.
- Munakarmi Shiv Prasad(2003) "*Commercial and Government accounting*" Educational Enterprises pvt.Ltd. Kathmandu.
- Murthy, M.N.(1976) "*Sampling theory and Method*"Statistical Publishing Society, Calcutta.
- Pant, P.R.(2000) "*Fieldwork Assignment and Report Writing*", Buddha Academic publishers and Distribution pvt. Ltd.,Putalisadak, kathmandu.
- Resenberg Jerry m.(1983) "*Diretionary of management*" John willey & sons Inc.
- Shankeran, S(1972) "*Economic Development of India*" Progressive corporation Pvt. Ltd Bombay.
- Shankeran , S(1992) "*Economic Development Of India*" Progressive corportation Pvt. Ltd Bombay.
- Sharma, P.K.,Chaudhary,A.K.(2004) "*Statistical Methods*" Khanal Books and stationery, Minbhawan Kathmandu.
- Wagle Keshab and Dahal Rewan(2006) "*Management Accountitng*" Khanal Books and stationery, Minbhawan Kathmandu.

Wolf, H.K. & pant P.R.(2003) “*Social research and Thesis writing*”  
Budhha academic enterprises ,Kathmandu.

## **THESES**

Acharya, Bhim Prasad(2005), “ *A Study on Accounting System being practiced by SmallScale industries in Neapl*”, An unpublished Master Degree Thesis, T.U. Kathmandu.

Pradhan Bhupati(2007), *Accounting Practices in Nepalese Small Industries*, An unpublished Master Degree Thesis, T.U. Kathmandu.

Shakya Bidhya Shova(2002), *Profit Planning of Smal And Cottage industries a Case study of Bhaktapur Craft Printers*, An unpublished Master Degree Thesis, T.U. Kathamndu.

Sharma Maha(2007), *Practiced of Auditing in Cottage and Small Industries in Bhaktapur District*, An Unpublished Master Degree Thesis, T.U. Kathmandu.

## **JOURNALS, ARTICLES AND OTHER PUBLICATIONS:**

“*Economic Survey*”(2006-2007) Ministry of Finance Nepal  
Government.

Ministry of Industry and Commerce(1987)“*Industrial Enterprises Act 1987*” Nepal Government.

Ministry of Industry and commerce (1992) “*Industrial Policy 1992* ” Nepal  
Government.

SBBP(2007)“ *Cash and Stock Management* ” SBBP Kathmandu.

SBBP(2007) “*Cash Control Using A Cash Register*” SBBP, Kathmandu.

Suran, H.M(2000) “*Management control Through Accounting*” The  
Chartered Accountant Journal vol. xvii Part three.

“*Small Industry Bulletin*” for Asia & Pacific UN. No. 26

## ANEX-1

### Calculation of Mean and Variance of different age group of the Entrepreneurs

Age group	Mid value (X)	Frequency (f)	fx	fx <sup>2</sup>
00-20	10	0	0	0
20-29	24.5	3	73.5	1800.75
30-39	34.5	5	172.5	5951.25
40-49	44.5	7	311.5	15861.75
50-69	59.5	5	327.5	21451.25
<b>Total</b>	--	<b>N=20</b>	<b>fx=885</b>	<b>fx<sup>2</sup>=43065</b>

Now

$$\begin{aligned}
 \text{Arithmetic Mean} &= \frac{\sum fx}{N} \\
 &= \frac{885}{20} \\
 &= 44.25
 \end{aligned}$$

And

$$\begin{aligned}
 \text{Sample Variance}(S^2) &= \frac{1}{N-1} [ \sum fx^2 - (\sum fx)^2/N ] \\
 &= \frac{1}{20-1} [ 43065 - (885)^2/20 ] \\
 &= 20.5
 \end{aligned}$$

## ANEX-2

(Reference to table 2.5)

**Calculation of Expected frequencies(E) and  $\chi^2$  under Null Hypothesis:**

<b>(Row, Column)</b>	<b>Observation Frequency (O)</b>	<b><math>E = \frac{RT \cdot CT}{N}</math></b>	<b>O-E</b>	<b><math>(O-E)^2/E</math></b>
(1,1)	0	$3 \times 7 / 20$	-1.05	<b>1.05</b>
(1,2)	0	$3 \times 5 / 20$	-0.75	<b>0.5625</b>
(1,3)	3	$3 \times 8 / 20$	1.8	<b>3.24</b>
(2,1)	0	$4 \times 7 / 20$	-1.4	<b>1.96</b>
(2,2)	1	$4 \times 5 / 20$	0	<b>0</b>
(2,3)	2	$4 \times 8 / 20$	0.4	<b>0.16</b>
(3,1)	4	$7 \times 7 / 20$	1.55	<b>2.4025</b>
(3,2)	3	$7 \times 5 / 20$	1.25	<b>1.563</b>
(3,3)	2	$7 \times 8 / 20$	-0.8	<b>0.64</b>
(4,1)	5	$6 \times 7 / 20$	2.9	<b>8.41</b>
(4,2)	1	$6 \times 5 / 20$	-0.5	<b>0.25</b>
(4,3)	0	$6 \times 8 / 20$	-2.4	<b>5.76</b>
				<b><math>(O-E)^2/E = 26.01</math></b>

Where;

RT= Row Total

CT= Column Total



## ANEX-3

### RESEARCH QUESTIONNAIRE FOR THE STUDY

I Would be grateful if you supply correct information, desired below. This study is a part of my Master Degree course. Kindly space a few minutes of your valuable time to give your frank and realistic answers to all questions. These will be used only for academic purpose. Your help will be highly appreciated.

1.What is the purpose of the Industry?

:-

2.Who keeps the accounting records?

i)Owner ii) Accountant iii)Non Book Keeping iv)Others

3.What is the qualification of the Book- keeper or Accountant?

:-

4. Which accounting system does the orgn. Use?

i)single ii)double

5. What is the final output in the book maintain ?

i)P/L A/C with Balance sheet ii)Receipt and Payment iii) Income And Expenditure  
iv)No proper account

6. Which basis do you use?

i) Accrual ii) Cash

7. Final output of the Books account maintained by the trainee prepared on:

i) Prescribed by the Govt. ii) suggested by the trainer iii)No proper method

8. How are account closed?

i)Monthly ii) Quarterly iii)annually iv)Others

9. What is the cost evaluation system?

i)Standard costing ii) CVP iii)Ratio analysis iv) Other:-----

10. Method of Charging Depreciation

:-

11. Method of paying wages:

i) contractual ii)periodical iii) both

12. What is the yearly production capacity?

:-

13. What is the pricing System?

i)Cost Plus ii) Market price iii) others:

14. Do you use Budgeting system?

i) Yes ii) No

15. Is Accountant trained ?

i) Yes ii) No

16. Interested in participate on account training?

i)Yes ii) No

17. Improvement on maintaining accounts after training:

i)Yes      ii) No

18. From when you start maintaining Accounts?

i)Before training      ii) After training

19. Usefulness of training:

i)Very ii) useful iii) Less iii) Not

20. Usage of the accounting record:

i)To know result of operation ii)for future transaction iii)To obtain balance of cash iv)  
To identify credit transaction v) No proper Objectives

-----

Signature of the Respondent

Thanking you for your kind co-operation.

## ANEX-4

### List of the sample industries for the study:

1. Om. Shiv Shakti knitting Industry, Old Baneshwor Kathmandu
2. Rara Apparels Industry, New Baneshwor Kathmandu
3. Ammulate woolen Mills, Chhetrapati Kathmandu
4. Shiddhartha Herbal Industry, Satungal ,Kathmandu
5. Krishna Pauroti Udhyog, Kamalpokhari Kathamndu
6. Kathmandu Dairy Udhyog, Babarmahal kathmandu
7. Upreti wood and metal Industry, Bhimsengola, Kathmandu
8. Subedi Kastha udhyog, New Baneshwar kKathmadnu
9. Kantipur Nursary, Santinagar Kathmandu
10. Panchakumari Nursary, Maitidevi Kathamndu
11. New Kantipur Poultry firm, Ghattekulo kathmandu
12. Ram Metal Udhyog, New Baneshwor Kathmandu
13. Plahi Paper Industry, Koteshwor Kathmandu
14. Nepal Footwear Industry, santinagar Kathamndu
15. United Brewery, Baneshwor Kathmandu
16. Seti Surti Udhyog, Maharajgunj Kathamandu
17. Bagamati politick Industries, Asan Kathmandu
18. Bagamati Plastic Industries; Chhetrapati Kathmandu
19. Binita fashion Industries, Sangamchok Kathamndu
20. General Paper and paper Industries, Koteshwor kathmandu

## ANEX-5

### General rules of Debit and Credit of the records

#### On the basis of account:

<b>Types of Account</b>	<b>Debit</b>	<b>Credit</b>
<b>Personal Account</b>	Receiver	Giver
<b>Real Account</b>	Whatever Comes in	Whatever Goes Out
<b>Nominal Account</b>	Expenses and Losses	Incomes & Gains

#### On the Basis of Nature of transactions:

<b>Transactions related to:</b>	<b>Debit</b>	<b>Credit</b>
<b>Assets</b>	Increase	Decrease
<b>Liabilities</b>	Decrease	Increase
<b>Revenue</b>	Decrease	Increase
<b>Expenses</b>	Increase	Decrease
<b>Owner's Capital</b>	Decrease	Increase

**ANEX-6**  
**Format of Receipts and Payments Account & Income and Expenditure Account**

**Receipts and payments Account Of the ----- industry  
for the period of- -- --- -**

<b>Receipts</b>	<b>Amount (Rs.)</b>	<b>Payments</b>	<b>Amount (Rs.)</b>
Balance of Cash & Bank	***	Bank Balance overdraft	***
Capital Receipts	***	Capital Payments	***
Revenue Receipts	***	Revenue Payments	***
Revenue Receipts for coming Year	***	Balance of cash & bank	***
<b>Total</b>	***	<b>Total</b>	***

**Income and Expenditure Account of the ----- Industry  
For the period of-----**

<b>Expenditure</b>	<b>Amount (Rs.)</b>	<b>Income</b>	<b>Amount (Rs.)</b>
Current year's Expenditure	***	Current year's revenue receipts	***
<b>Less:</b> Last year's revenue payments included in current year's revenue payments	(***)	<b>Less:</b> Last year's revenue receipts included in current year's receipts	(***)
<b>Less:</b> Payments for coming year	(***)	<b>Less:</b> Revenue receipts for coming year	(***)
Outstanding revenue	***	Outstanding revenue receipts of current year	***
payments for current year	***	Excess of expenditure over income	***
Excess income over expenditure	***		***
<b>Total</b>	***	<b>Total</b>	***