

**COST ACCOUNTING AND MANAGEMENT ACCOUNTING
PRACTICES IN NEPAL SBI BANK LIMITED**

By

UMA NATH DANGAL

Shanker Dev Campus

Campus Roll No.: 404/062

T.U. Regd. No.: 7-3-39-490-2005

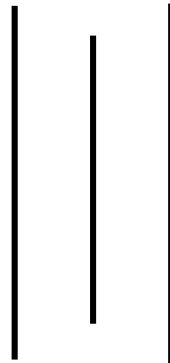
2nd Year Exam Symbol No.: 4340

A Thesis Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University



*In partial fulfillment of the requirement for the degree of
Master of Business Studies (MBS)*

Kathmandu, Nepal

December 2010

RECOMMENDATION

This is to certify that the thesis

Submitted by:

UMA NATH DANGAL

Entitled:

**COST ACCOUNTING AND MANAGEMENT ACCOUNTING
PRACTICES IN NEPAL SBI BANK LIMITED**

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

.....
Asso. Prof. Prakash Singh Pradhan
(Thesis Supervisor)

.....
Prof. Bishweshor Man Shrestha
(Head, Research Department)

.....
Prof. Dr. Kamal Deep Dhakal
(Campus Chief)

.....
Shanker Raj Joshi
(Thesis Supervisor)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

By

UMA NATH DANGAL

Entitled:

**COST ACCOUNTING AND MANAGEMENT ACCOUNTING
PRACTICES IN NEPAL SBI BANK LIMITED**

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

Master of Business Studies (MBS)

Viva-Voce Committee

Head, Research Department

Member (Thesis Supervisor)

Member (Thesis Supervisor)

Member (External Expert)

DECLARATION

I hereby declare that the work reported in this thesis entitled “**Cost Accounting and Management Accounting Practices in Nepal SBI Bank Limited**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Asso. Prof. Prakash Singh Pradhan** and **Shanker Raj Joshi** of Shanker Dev Campus, T.U.

.....

Uma Nath Dangal

Shanker Dev Campus

Campus Roll No.: 404/062

T.U. Regd. No.: 7-3-39-490-2005

2nd Year Exam Symbol No.: 4340

ACKNOWLEDGEMENT

This is an attempt to present the study on cost accounting and management accounting in Nepalese SBI Bank Limited. It was a great experience to complete the study to fulfill the partial requirements of the Master's Degree. This research has been completed by my sole efforts. Many have made contributions in different ways to bring out it in this shape.

First, I would like to offer my sincere gratitude to my thesis supervisors Asso. Prof. Prakash Singh Pradhan and Shanker Raj Joshi of Shanker Dev Campus for their invaluable guidance, comments and suggestions during the successful completion of this thesis.

I am grateful to my father, mother and brothers who help me in developing career. I would like to share the credit of my success with them. Thanks goes to COO and all the staffs of Nepal SBI Bank Limited who help me by filling of questionnaire and giving sufficient and correct information. I must thanks to my friends Subash Shrestha, Deepak Shah, Dikesh Karki and Priya Shrestha who guided me in preparing this thesis. Lastly, thanks goes to Prakash Dhakal, Sharmila Parajuli, Eknarayan Adhikari and Pabitra Kafle of Jaya Laxmi Computer Service, Putalisadak, Kathmandu.

Advice recommendations and suggestions are whole heartedly welcome.

Uma Nath Dangal

TABLE OF CONTENTS

Recommendation	
Viva Voce Sheet	
Declaration	
Acknowledgement	
Table of Contents	
List of Tables	
Abbreviations	
	Page No.
CHAPTER – I INTRODUCTION	
1.1 Background of the Study	1
1.2 Statement of the Problem	4
1.3 Objective of the Study	5
1.4 Importance of the Study	5
1.5 Limitation of the Study	6
1.6 Organization of the Study	6
CHAPTER – II LITERATURE REVIEW	
2.1 Cost Management	8
2.2 Cost Accounting	9
2.2.1 Cost Accounting in Management	11
2.3 Management Accounting	13
2.4 Cost Accounting and Management	15
2.4.1 Cost Accounting and Management Accounting	16
2.5 Cost Accounting and Financial Accounting	17
2.6 Evolution of Accounting in Nepal	17
2.7 Concept of Costs	19
2.7.1 Cost Behavior and Cost Classification	21
2.7.2 Cost Segregation	24
2.8 A Brief Review of Management and Cost Accounting Tools	25
2.8.1 Cost Classifications	26

2.8.1.1 Cost Relating to Income Measurement	27
2.8.1.2 Cost Relating to Profit Planning	28
2.1.8.3 Cost Concept for Control	30
2.1.8.4 Cost for Decision Making	31
2.8.2 Cost Allocation and Apportionment Methods	33
2.8.2.1 Method of Allocation	33
2.9 Product Costing Method	33
2.9.1 Variable/ Direct Costing	33
2.9.2 Absorption Costing	34
2.10 Cost- Volume –Profit Analysis	34
2.11 Budgeting	36
2.11.1 The Budgeting Process	38
2.11.2 Elements of Budget	38
2.11.3 Zero Base Budgeting	39
2.11.4 Activity- Based Budgeting	40
2.12 The Master Budget: A Network of Inter- Relationship	41
2.12.1 Sales Budget	41
2.12.2 Production Budget	42
2.12.3 Direct Material Budget	42
2.12.4 Raw Material Purchase Budget	43
2.12.5 Direct Labor Budget	43
2.12.6 Direct Labor Hour Budget	44
2.12.7 Manufacturing Overhead Budget	44
2.12.8 Selling and Distribution Expenses Budget	45
2.12.9 Administrative Expenses Budget	45
2.12.10 Cost of Goods Sold Budget	45
2.12.11 Cash Budget	45
2.12.12 Pro-Forma Income Statement	46
2.12.13 Pro-Forma Balance Sheet	47
2.13 Management Control Systems and Responsibility Accounting	47
2.13.1 Management Accounting Control System	47

2.13.2 Responsibility Accounting	48
2.14 Standard Costing	49
2.15 Controls through Standard Cost	49
2.16 Setting Standard Cost	50
2.16.1 Ideal (Perfection) Standard	50
2.16.2 Practical (Currently Attainable) Standards	51
2.17 Analysis of Variance	51
2.18 Capital Budgeting	52
2.18.1 Techniques of Capital Budgeting	53
2.19 Decision Making	60
2.19.1 Decision Situation	61
2.19.1.1 Sales Volume Related Decisions	61
2.19.1.2 Sell Now or Further Process Decisions	62
2.19.1.3 Make or Buy Decision	62
2.19.1.4 Addition/ Elimination of Product Lines/ Divisions/Shifts/ Departments	63
2.19.1.5 Short- Term Use of Scarce Resource	63
2.19.1.6 Joint outputs of Common Processing Operations	63
2.20 Pricing of the Product and Services	64
2.20.1 Cost Plus Pricing	64
2.20.2 Target Cost Pricing	65
2.20.3 Variable Cost Pricing	66
2.20.4 Full Cost Pricing	66
2.20.5 Transfer Pricing	66
2.20.6 Different Pricing Practices and Cost Management Methods in Various Countries	68
2.21 Review of Previous Research Work	68
2.22 Research Gap	73

CHAPTER – III RESEARCH METHODOLOGY

3.1	Research Design	74
3.2	Sources of Data	
	74	
3.3	Data Gathering Procedure	74
3.4	Data Processing Procedure	74

CHAPTER – IV DATA PRESENTATION AND ANALYSIS

4.1	Introduction	75
4.2	Percentage Analysis of Management Accounting Practice	76
4.3	Analysis of Open- End Opinions of Management Team	82
4.4	Major Findings	84

CHAPTER – V SUMMARY CONCLUSION AND RECOMMENDATIONS

5.1	Summary	86
5.2	Conclusion	
	87	
5.3	Recommendations	87

Bibliography

Appendix

LIST OF TABLES

Table No.	Title	Page No.
4.1	Percentage Analysis of Management Accounting Practice	76
4.2	Method of Segregating Mixed Cost into Fixed and Variable in Nepal SBI Bank Limited	77
4.3	Base for Budget Preparation in Nepal SBI Bank Limited	77
4.4	Budget Preparation System in Nepal SBI Bank Limited	78
4.5	Budget Practice in Nepal SBI Bank Limited	79
4.6	Practice for Pricing Product Services in the NSBL	79
4.7	Practice of Transfer Pricing in Nepal SBI Bank Limited	80
4.8	Cost and Revenue Estimation in Nepal SBI Bank Limited	80
4.9	Practice of Capital Budgeting Tool in Nepal SBI Bank Limited	81
4.10	Tools Practiced in NSBL for Measuring and Controlling the overall Performance	81

ABBREVIATIONS

ABB	:	Activity Base Budgeting
ABC	:	Activity Base Costing
ARR	:	Accounting Rate of Return
BEP	:	Break-Even Point
CEMEC	:	Central Management Committee
CFAT	:	Cash Flow After Tax
CMPU	:	Contribution Margin Per Unit
COO	:	Chief Operating Officer
CVP	:	Cost Volume Profit
EPS	:	Earning Per Share
EY	:	Earning Yield
FY	:	Fiscal Year
HP	:	High Point
HPLP	:	High Point Low Point
IRR	:	Internal Rate of Return
LP	:	Low Point
MOS	:	Margin of Safety
NPV	:	Net Present Value
NRB	:	Nepal Rastra Bank
NSBL	:	Nepal SBI Bank Limited
P/E	:	Price Earning
PBP	:	Pay Back Period
PI	:	Profitability Index
PPC	:	Profit Planning and Control
RBB	:	Rastriya Banijya Bank
TPV	:	Total Present Value
UVC	:	Unit Variable Cost
ZBB	:	Zero Base Budgeting