

**APPLICATION OF MANAGEMENT ACCOUNTING TOOLS
AND TECHNIQUES IN NEPALESE COMMERCIAL JOINT
VENTURE BANKS**

A Thesis Proposal

Submitted

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1. Background of the study

Management accounting is concerned with providing both financial and non-financial and information that will help decision makers to make better decision. An understanding of accounting tools and techniques therefore requires an understanding of decision making process and an awareness of the users of accounting. Management accounting is concerned with accounting information that is useful for management. Management accounting concept emerged because of the complexity that exists in today's business decision making process. Its main theme is to simplify the planning and decision making process and to provide support to achieve better organizational outcomes. It is important for every level of managers, who have to involve in some sort of decision making process. Management Accounting is "the process of identification, measurement, accumulation, analysis, preparation, interpretation and communication of information used by management for planning, evaluating and controlling within an entity and assuring appropriate use and accountability for its resources. Management accounting also comprises the preparation of financial reports for non-management groups such as shareholders, creditors, regulatory agencies, and tax authorities" (CIMA, 2005).

Accounting system plays the important role in the operation of any business organization and help to enhance the business activities in the future. Accounting system includes Management Accounting that provide guidelines to utilize available resources and help to achieve competitive advantages at the hyper competitive environment through various tools and techniques of management accounting. Management Accounting plays a significance role in every organization. It helps to manager for planning, controlling and decision making. The will focused on the management accounting practice of Joint Venture Bank in Nepal.

Management accounting is the process of analysis, interpretation and presentation of accounting information collected with the help of financial accounting and cost accounting in order to assist management in the process of decision making, creation policy and day to day operation of an organization. It helps in analyzing and recording business activities for internal company use an effect to increase efficiency and

productivity. CIMA (2005), states that the management accounting is differs from financial accounting due to its lone intention of availing fruitful performing advice to managers. It's characterized by unique practices that must be grasped in order to devise a managerial accounting plan successful. It is an essential management sub function. The function requires the recognition, assessment and addition, scrutiny and translation and effective delivery of advice. The information is in turn used by management to strategies, assess and control internal and external organizational activities and to secure proper accountability for its monetary resources.

Banking sector plays vital role in the development of an economy of the nation. All the economic activities are directly or indirectly related with the Banks. Commercial Banks are one of the major parts of the Banking sector, which deals with in the process of mediating the available resource to the needed sector. Modern commercial banks are identified with different names such as Business Banks, Retail Banks, Clearing Banks, Joint Venture Banks, Merchant Banks, and Development Banks etc. No matter what name we give to banks, they all perform the same basic function: i.e. they provide a link between lenders, those who have surplus money and do not wish to spend immediately, with borrowers, and those who do not have surplus money but wish to borrow for investment in productive purposes. Basically, by charging a rate of interest to borrowers slightly higher than they pay to lenders, the Banks make their profit. This is known as financial intermediation.

2. Problem statement

Banking and financial sector are backbone of an economy. Different kind of banks are operating with their different financial activities contributing to the economy of the country. The commercial bank can be categorized as public sector and private sector commercial banks. The public sector commercial banks including Nepal Bank Limited, Rastriya Banijya Bank and Agriculture Development Bank have been managed by foreign professional management team due to inefficient management whereas the private sector commercial banks are as seen operating more efficiently from the establishment. Among the private sector commercial banks, most of the Joint Venture Banks are running theirs operations smoothly. Their experiences in

international banking, prompt and computerized services, professional attitude are the factors for their rapid progress. The private sector commercial banks as Joint Venture Banks have succeeded to capture the large market share of Nepalese banking and financial sector in short period.

Management Accounting provides various tools and techniques to aid management function in an efficient manner. Poor performance is the outcome of poor planning, controlling and decision making. Yet a question is arise do the Joint Venture Banks of Nepal practice management accounting tools and techniques to carry out planning, controlling and decision making functions? If they do, what kinds of tools are used? To find the correct answer of this question hereby it is necessitated to conduct a research.

This study supports in identifying various management accounting strategies relating to these banks. The study analyzes not only the accounting information of JVBs but also various tools and techniques. This study is of great importance to the parties concerned and hence the topic has been identified as the problem of the study. This study covers all the management accounting techniques of the JVBs and is highly instrumental in recognizing the potential areas.

This study will try to answer the following research questions:

- a. Whether commercial Joint Venture Banks are practicing management accounting tools or not?
- b. Which management accounting tools are mostly applied in the Joint Venture Banks?
- c. Is there any impact of management accounting practices on performance of JVBs?

3. Objectives of the study

The general purpose of this study is to examine and assess the management accounting practiced of the selected Joint Venture Commercial Banks, namely Standard Chartered Bank, NABIL Bank Ltd. and Himalayan Bank Ltd. The specific objectives are:

- a. To analyze the management accounting tools practices in the Joint Venture Banks.

- b. To examine the areas where the management accounting tools can be applied to strengthen commercial activities.
- c. To examine the impact of management accounting practices on performance of JVBs.

4. Rationale of the study

Banking sector plays a vital role for the country's economic development and considered as a pre-requisite for the economy. It is a basic source for economic development; it maintains economic confidence of various segments and extends credit to people. The banking sector has to take great responsibilities since the country is undergoing through a deteriorating economic situation.

Highly competitive and dynamic environment can arise serious problem to the commercial Joint Venture Bank in Nepal. So, Management Accounting Tools and Techniques should be used planning and controlling of the commercial Joint Venture Banks. The study will provide an information related to the management accounting tools practiced in Joint Venture Banks. It will be useful to examine the difficulties in management practices decision making.

The study will be significant in the following ways:

- a. It will help to know the management accounting tools practiced in commercial Joint Venture Banks
- b. It will examine the impact and potentiality of Joint Venture Banks as well as whole commercial banks.
- c. It will provide the information on the application of management accounting tools and techniques under different situation and encourages to management to apply these tools for planning and controlling.
- d. It will provide the literature to the researchers who want to carry on further research in this field.

5. Limitations of the study

Basically, the study has been conducted as partial fulfillment of the requirement of the 'Master of Business Studies'. So this study has the following limitations:

- a) The study focuses on the management practices only. It does not consider other aspects of banks.
- b) This study covers the periods of five years from 2071 to 2075 B.S. only.
- c) The study pays attention to the practice of selected management accounting tools only.
- d) This study focuses on the Joint Venture banks in Nepal and thus the findings might not be applicable to other sector banks and financial institutions/companies of Nepal.
- e) It does not study all the commercial banks in Nepal; rather it will study only three commercial Joint Venture Banks.

6. Literature review

Accounting refers to the process of identifying, recording, classifying, summarizing, analyzing, interpretation and reporting the monetary terms of information of the business. Generally, the main objective of accounting was to ascertain the result and financial position of business activities of particular period. But now days the scope of has been increased in competitive environment with business complexities (Atkinson, 2009).

Accounting provides information so that planning, organizing, staffing, directing, controlling, and other decision making can be done in orderly and rational manner. The management accountant must provide a system, which allows management to receive this necessary information in useful form. The top management accountant, the controller, is thus responsible for gathering, analyzing, evaluating and reporting data (Koirala, 2016).

The period from 1900 to 1950 was the high time in the development of management accounting because ample resources were conducted to evolve new techniques in this discipline during that time. The wide use of management accounting has come in to practice recently. Precisely speaking, it has been developed between 1930's and 1960's. A new school of management accounting thinking that has come to be known as the information economic approach. This new approach extended the user decision model

approach. This new approach viewed management accounting system as representatives for new information. Recent development in the theory of the firm and of economic equilibrium with pertinent information have led to new insights in to the control role of accounting information when designing contracts between owners and managers and between senior managers and subordinate managers. The traditional tools of management like product costing, budgeting and performance evaluation have been augmented and updated with contemporary approaches such as activity based costing, customer profitability analysis, value chain analysis, target costing and strategies cost management (Arkinson, 2009).

Management accounting is a relevant to many activities of managers. Managers develop strategies for achieving goals, evaluate the performance of workers and other managers and make decisions. Managers decide the price to be charged for their product, whether to continue selling particular product and whether to build up a new factory. Many activities performed by manager have to do with acquiring and using economic resources (money, people, machinery, buildings) and manager need information to make those decisions. Management accounting applies to business because it deals with economic information and business seeks profile and other economic goals. Managerial accounting also applied to organization that does not seek profits government units, universities, hospitals and churches because those organizations, like business, use economic resources to achieve their objectives. Hence an understanding of the concept of managerial accounting is the important to managers in any organization (Drury, 2000).

(The Institute of Certified Management Accountants). CGMA (2013) defines a management accounting tool is a framework, model, technique or process that enables management accountants to: improve performance; facilitate decision-making; support strategic goals and objectives; and otherwise add value.

“Managerial Accounting is the process of identifying, measuring, analyzing, and interpreting and communication information for searching the goals of the company. Managerial accounting is an integral part of the management process and managerial accountants are important strategic partners in the company’s management team” Hilton (2015).

7. Research methodology

Research methodology is a systematic way to solve the research problem, it describes the method and process applied in the entire aspect of the study. Research methodology refers to the various steps should be adopted by a researcher in studying a problem. This chapter consists of research design, population and sample, sources of data, data collection procedures, method of data analysis tools and techniques.

7.1 Research design

A research design is an overall framework or plan for collection and analysis of data. It is the overall operational pattern of framework of the project and stipulates what information is to be collected from which source and what procedure. This research will concern with descriptive and explanatory research. This research is a fact finding operation searching for adequate information. The main purpose of the research design is to provide answers to research question and to control variance.

7.2 Population and sampling procedure

The population for the study basically comprise seven commercial Joint Venture banks. Out of them, three Joint Venture banks, namely NABIL, SCBNL and HBL will be selected on convenience sampling method.

Population of Joint Venture Commercial Banks

S.N.	Bank	Foreign Share (%)	Date of Operation	Foreign Bank
1.	Nepal SBI Bank Ltd.	50	2050-3-23	State Bank of India, India
2.	Everest Bank Ltd.	20	2051-7-1	Punjab National Bank, India
3.	NABIL Bank Ltd.	50	2041-3-19	National Bank Ltd., Bangladesh
4.	Standard Chartered Bank Nepal Ltd.	75	2043-10-16	Standard Chartered Grind Lays Bank Ltd, Australia & UK
5.	Nepal Bangladesh Bank Ltd.	25	2051-2-23	IFCI Bank, Bangladesh
6.	Himalayan Bank Ltd.	20	2049-10-5	Habib Bank Ltd., Pakistan
7.	NMB Bank Ltd.	15	2065-2-20	Young Lien Reality SDN BHD, Malaysia

Source: NRB, Nepal, 2018

7.3 Nature and sources of data collection

Data will mainly collect from primary sources. The primary sources include interviews and questionnaires. Secondary data will also be used as per requirement. The sources of secondary data are books, banks annual reports, and NRB directives.

7.4 Data collection procedure

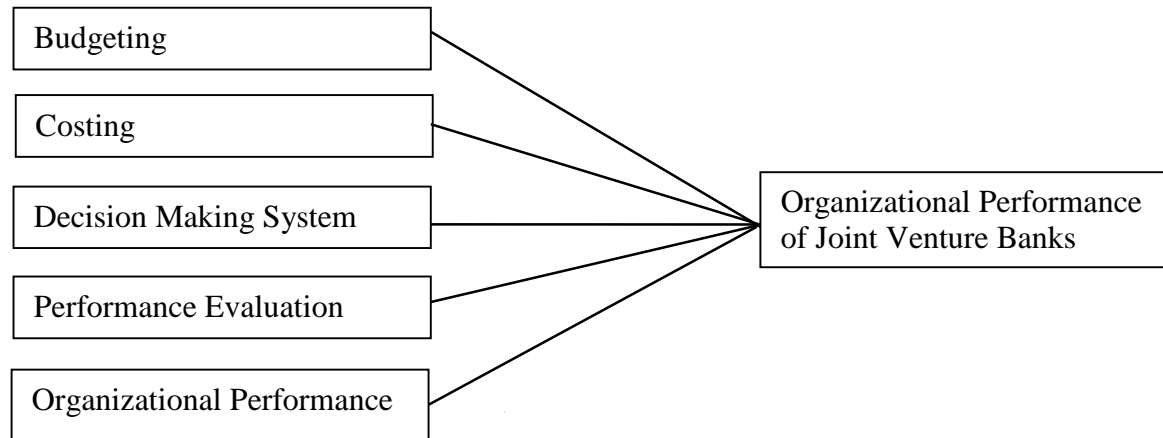
In order to address the research problem, both primary and secondary data sources will be used. Primary data will be collected through questionnaire, internal interview and discussion. Fourteen tick mark were developed for questionnaire and distributed it in the concerned bank. For the purpose of this study, data collection involved the gathering of information that has been systematically observed, categorized, organized, recorded, or defined in a way similar to that of logical processing and inferences.

7.5 Research framework and definition variables

The conceptual framework is the basis or foundation upon which the study is established. It is within the framework of this theory that the entire study is proceeds. A theoretical

model may be presented in graphic form, which reflects the variables selected for inclusion in the investigation.

These variables can be shown as:



Independent variables

Dependent variable

7.6 Methods of data analysis

Data will collect from questionnaire in raw form will be classified and tabulated in the required form. For the analysis of data statistical tools Based on SPSS and management accounting tools will be selected as follow:

7.6.1 Management accounting tools

This section describes the Management Accounting Practice by the Joint Venture Banks. The dimensions of the MAPs are Costing, Budgeting, Decision Making, Performance Evaluation and Organizational Performance has been used for analysis.

7.6.2 Statistical tools

Mean, standard deviation, correlation and multiple regression will be used for analysis. Table and charts are also demonstrated as per the requirements.

i) Mean

The mean of a set of observations is the sum of all observations or items divided by the number of observations. It is also known as arithmetic average. It can be express as:

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N}$$

Where,

$\sum X$ = the sum of total observations

N = the number of observation

ii) Standard deviation

Standard deviation is a measure that is used to quantify the amount of variation or dispersion of a set of data values. It can be express as:

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{n-1}}$$

Where,

\sum = sum of

X = each value in data set

(\bar{X}) = mean value

iii) Coefficient of correlation analysis

This analysis identifies and interprets the relationship between the two or more variables. In the case of highly correlated variables, the effect on one variable may have effect on other correlated variable under this topic. Karl Pearson's coefficient of correlation has been used to find out the relationship between the management accounting variables such as costing, budgeting, decision making, performance evaluation and organizational performance.

This tools is used for measuring the intensity or magnitude of linear relationship between two variable X and Y is usually denoted by 'r' can be obtained as:

$$r = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

Where,

N	=	no of observation in series X and Y
$\sum X$	=	sum of observation in series X
$\sum Y$	=	sum of observation in series Y
$\sum X^2$	=	sum of square observation in series X
$\sum Y^2$	=	sum of square observation in series Y
$\sum XY$	=	sum of the product of observation in series X and Y

iv) Multiple regression analysis

Multiple regression analysis is a statistical method used to predict the value a dependent variable based on the values of two or more independent variables. A dependent variable is modeled as a function of several independent variables with corresponding coefficient, along with the constant term. It shows the impact of independent variables on dependent variable. It can be expressed as:

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3 + \dots + b_nx_n$$

Where,

Y	=	Dependent Variable of observation
A	=	Constant variable
$b_n(1, 2, 3 \dots n)$	=	Regression Coefficients
$x_n(1, 2, 3\dots n)$	=	Independent variables

iii) Table and charts

The graphical presentation of data provides bases for comparison, forecasting the trends locations of averages. Table and charts will be used when required.

8. Chapter plan

Chapter 1: Introduction

This chapter provides a general introduction to the study. It contains background of the study, brief profile of the sample organizations, statement of the problems, proposes of the study, significance of the study, limitations of the study, conceptual framework and chapter

plan. This chapter establishes the importance of JVBs in today's modern economy and the importance of management of all organizations.

Chapter 2: Review of literature

The second chapter presents the theoretical analysis, review of related and pertinent literature available. It includes a discussion on review of related studies highlighting on its relevant findings and research gap. This chapter reviews and examines the current state of knowledge under examination. First researches into MAPs that cover MAPs in both developed and developing countries and Banks have explored. Second the role of management will be reviewed. Lastly the research information on the relationship between MAPs and organizational performance will consider.

Chapter 3: Research methodology

This chapter describes the methodology employed in preparing this study. It deals with research design, nature and sources of data, population and sample, and method of data analysis, analysis plan test of significance for the study. It briefly mentions the data collection and analysis techniques and inherent limitation of such techniques.

Chapter 4: Results and discussion

This chapter of study illustrates the collected data into a systematic format. The analysis of data includes an interpretation of analysis has also been done in this section. This chapter presents the results and findings obtained from field data, both descriptive statistics and inferential statistics have been employed to establish the significance of the model and conclude the major findings of the study.

Chapter 5: Summary and conclusion

Last chapter presents summary, conclusion and implication of the study. This section incorporates an outlet for future research with the scope of the future studies in the same field. This chapter provides reflections on the main findings of the study and a discussion of the findings contribution to the extant literature. The implication of the findings for management accounting research will be considered taking into the account any limitations

that may be of relevance to future research. References and appendixes will also be incorporated at the end of the study.

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