

**IMPACT OF NEPAL ACCOUNTING STANDARDS AND NFRS ON
FINANCIAL INDICATORS OF COMMERCIAL BANKS**

A Dissertation Submitted to Office of the Dean Faculty of Management In Partial fulfillment of
the Requirements of the Degree of Master of Business Studies (M.B.S.)

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Kathmandu, Nepal
2022

CERTIFICATION OF AUTHORSHIP

I hereby, declare that the this **IMPACT OF NEPAL ACCOUNTING STANDARDS AND NFRS ON FINANCIAL INDICATORS OF COMMERCIAL BANKS** Submitted of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirements for the Degree of Master Business Studies under the supervision of Asso.Prof.Dr.Jitendra Pd.Upadhyay of Nepal Commerce Campus

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REPORT OF RESEARCH COMMITTEE

Ms. Samjhana Acharya has defended research proposal entitles **IMPACT OF NEPAL ACCOUNTING STANDARDS AND NFRS ON FINANCIAL INDICATORS OF COMMERCIAL BANKS** successfully. The research committee has registered the dissertation for future progress .It is recommended to carry out the work as per suggesting and guidance supervisor Asso.Prof.Dr.Jitendra Pd.Upadhyay and submit the Dissertation for evaluation and viva voce examination .

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APPROVAL SHEET

We have examined the dissertation entitled **IMPACT OF NEPAL ACCOUNTING STANDARDS AND NFRS ON FINANCIAL INDICATORS OF COMMERCIAL BANKS** presented by Samjhana Acharya for the degree of Master of Business Studies. We hereby certify that the dissertation is acceptable for the award of degree

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ACKNOWLEDGEMENTS

It is really an interesting opportunity to the students to experience of report writing as part of the curriculum for MBS of Tribhuvan University as well as practical experience for future works.

For preparing this report and appropriate guidance and Suggestions have been received from various dignities. I am especially indebted to my Supervisor Asso.Prof.Dr.Jitendra Pd.Upadhyay of Nepal Commerce Campus for his valuable suggestions, guidance and continuous co-operation throughout the period of this study. I would also like to express my gratitude to Asso.Prof.Dr.Jitendra Pd.Upadhyay ,Head of Research Department, Nepal Commerce Campus for their encouragement, inspiration, and valuable comments in the preparation of this thesis report.

I am grateful to all the teachers and staffs of Nepal Commerce Campus for their suggestions and continuous support during the study period.

Samjhana Acharya

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Nepal does not have a very long history with the accounting system. The varied political system, crisis and the autocratic Rana's control over the administration and politics have delayed the development of a transparent system of accounting and regulation. Reforms and development in the accounting system started with the establishment of the Accountant General's Office (AGO) in 1950 with help of the United States Agency for International Development (USAID). Nepal was with no other option than to take international consultant and aid as help in the development of accounting policies and ethics as Nepal was lacking personnel, literate enough to model and implement the requirement of accounting system, producers, acts and standards. With such help and aids, Nepal has started being self-sufficient in the field of accounting. We now have a Taxpayer Office, a Large Taxpayer's Office, Office of Auditor General (OAG), the Institute of Chartered Accountant of Nepal (ICAN) as apex authorities for accounting, tax, excise and similar issues.

The USAID reform program was a four-year-long program during the period following task were accomplished implementation of the new accounting system in twelve out of the fourteen zones of Nepal, training of 4,565 accountants through in-service training classes, facilitating the dispatch of accounting supplies and equipment to government offices in twelve zones, publication and distribution of the manual of expenditure accounting, the handbook of property accounting and guidelines for purchase procedures, making available the first English-Nepali financial dictionary (Donnalley, 1967). The help from USAID has now helped our country to be in a safe hand. We now have qualified accountants, auditors and consultants produced in the nation. Almost 973 A class Members or Chartered Accountants, 1408 B Class Members, 589 C Class Members

and 929 D Class members registered under the ICAN. The ICAN has started a new field for accounting and practice i.e., Accounting Technician which was established to fulfil the upcoming requirement of Registered auditor's replacement as ICAN has cancelled the issuance of B, C, D class license. The journey that started with 4565 accountants has now grown up to almost 4,000 experts practicing and making the nation's accounting practice available for all.

Growth in changing as well as competition as a result of Information and Communication Technology (ITC), globalization and trade liberalizations have changed the business environment internationally as well as on the domestic front (Gorton, 1999). In the current Nepalese business environment, firms are faced with intensifying competition locally and globally and fast changes in customers and technologies and the growth of international companies and them investing in foreign countries as in form of Foreign Direct Investment (FDI), Subsidiary company, Frenchies and sometimes outsourcing as well. The fact that FDI has created a complex and interrelated financial relation between countries and the financial information being the backbone for any business organization has demanded these companies to create and record information as per the law of the nation. The Nepalese fiscal year ends with the end of the third month of the calendar year (i.e., Ashad). Generally, this date is between 14-17 July at the end of the fiscal year, every profit-making and non-profit-making organization along with the public limited companies are required to submit the audited financial report to the Inland Revenue Department (IRD).

Financial reporting is directly related to accounting and recording of financial data which has been an area of focus with increasing investment in form of shares, debenture and with globalization at its peak it has made it the most important sector to be considered. With increasing investment outside the country with different laws, corporate ethics and procedural differences the accounting system has craved a common way to record and present the data and make it comparable between companies within an industry.

Furthermore, there has been a shift in the Accounting standard and this has caused a further problem as the problem manpower, switching cost, the technical ability does not seem to be available as we are still not able to stand tall and independent. The emergence of a globally accepted accounting standard that is based on principles rather than rules has made it difficult for developing as it has been concluded by Perera (1989). Nepal is an underdeveloped country, the standard that best suits developed economy with the highest level of technology and manpower who were involved in setting these standards might not be easy to handle and problems will be required to be solved and they will be challenging. Changes will be required from the grass-root level. Accountants to the Apex authorities are required to be trained and the academic syllabus is required to be changed with the change in the accounting system.

Introduction of NFRS in the Nepalese Bank

International Accounting Standards (IAS) starts with the establishment of the International Accounting Standard Committee (IASC) back in 1973 with the vision of developing International Financial Reporting Standards, their revision amendment, coordinating with the different stakeholders and promoting the use and application of these standards in 2001 it was replaced by International Accounting Standards Board in and afterwards 2001. International Accounting Standards Board (IASB) is responsible for taking the responsibilities of IASC.

The Nepal Accounting Standards (NASs) used to be the standards issued by Accounting Standards Board (ASB) in Nepal but ASB now has ceased the use of Nepal Accounting Standard and now Nepal Financial Reporting Standard (NFRS) has lived which directly aligns with International Financial Reporting Standard (IFRS). The ICAN Act, 1997, made it mandatory for the board to formulate and revise NASs following the International Financial Reporting Standards (IFRS) issued by IASB. While International Financial Reporting Standards have been used for the development of NFRSs, we must confess that the legal and regulatory environment and the preparedness of the

stakeholders of the accounting standards into the country have been considered by making minimum possible modifications to the IFRSs in developing Nepal Accounting Standards (NAS).

Even though Nepal has accepted IFRS and IAS, Nepal has issued its Nepalese Accounting Standards in 2001 AD that was intended to localize the standards and counter the preparedness of stakeholders. The current developments in accounting and reporting standards are tending towards a degree of commonality at national and international levels which means more comparable, transparent and rule-based accounting systems rather than principle. The ICAN was established under a special act. ICAN is responsible for ensuring the proper implementation of rules and procedures set by the Accounting Standard Board. The Institute is an autonomous body and the Council is fully authorized by the Act to undertake the accountancy profession in Nepal. Against the common understanding, it is not ICAN that sets the accounting standards of Nepal, it is ASB that is responsible for the development of standards and ICAN is the body responsible for implementation and monitoring of those standards.

This change in reporting system has brought some challenges and changed information to the user of such financial reports. Nepal Rastra Bank (NRB) has its own sets of requirements and NFRS has now with the change in accounting standard a certain set of challenges are inevitable.

1.2 Problem Statement

A fundamental question is whether NFRS has changed the information available to market participants in a beneficial way, that is, the market more efficient when NFRS is used? The implementation of NFRS will require technical manpower with knowledge of NFRS, auditors, users and regulators. The shortage in such qualified users, accountants, auditors can be one of the major problems in implementing NFRS in Nepal. The cost of adoption and the switching cost will get higher with the technology change and also there will be changes in the legal requirements. There is the requirement of change in internal plans and policies as the internal control system will be one of the major things to

consider as the change in the accounting standard will mean there is a shift in the whole accounting procedure. All these challenges have never been discussed before.

Furthermore, NFRS has been adopted to ensure more accountable, more transparent accounting and reporting but does it make sure that a rule-based system will be better than a principal-based system. How can one be assured and trust the reported material? The value relevance is one of the hot topics to discuss as financial statements are not just the reporting of a company's status it is associated with the capital market of the nation and the capital market is the backbone of every economy and country.

Based on the review of the literature and research gap, the following research questions are set out for the study.

- a. In the year of transition, what are the financial differences reported under NAS and NFRS?
- b. Is there is any difference in the relationship between Earning Per Share (EPS), Book Value Per Share (BVPS), Change in Earning Per Share (CEPS) and Net Profit Margin (NPM) before and after the implementation of NFRS?
- c. Was NFRS challenging enough for a commercial bank to adopt?

1.3 Objectives of the Study

The following are the main objectives are the study:

- a. To examine the financial differences of report under NAS and NFRS in the year of transition.
- b. To analysis the value relevance of NFRS implementation with the change in the relationship between EPS, BVPS, CEPS and NPM
- c. To examine about the challenges faced by commercial Banks during the adoption of NFRS

1.4 Hypotheses of the Study

The following null hypothesis has been set for the study and will be tested in upcoming chapters and sections to conclude the findings and results.

H₀: There is no financial difference in reports reported under NAS and NFRS at the year of transition.

H₁: There is no effect on the relation between EPS, BVPS, CEPS and NPM with the implementation of NFRS.

H₂: NFRS was not challenging enough for commercial banks.

1.6 Rationale of the study

The study heightens the challenges facing jurisdictions who express initial reluctance although ultimately decide to adopt NFRS on account of institutional pressures. Financial reporting and reports have always had great importance for stakeholders and regulators. There have been a lot of research work on the topic and a lot of different findings have been reported. However, the adoption of NFRS in Nepal has a very short history and limited research has been done because of which there is a huge potential in this sector and is one of the emerging ideas in the whole world and must be taken into consideration by academician and researcher both.

The study on implementation or adoption of NFRS has been conducted in a developed nation but there has been a limited study of the impact of such studies from an academic point of view. Also, this study will help find the difficulties faced by early adopters and the challenges at transition. With SME's adopting the NFRS from 2016-17 for its financial reporting it is one of the most attractive fields of study. This study will also help to find out if it is appropriate to move further ahead in implementing such standards as Nepal Standard.

1.7 Limitations of the Study

Every research and researchers have a framework and threshold to work with. Research at this level is to understand and know-how research are conducted. This research as with others has some limitations. There were some other limitations unaddressed here but present throughout the study. Some of those limitations that were taken into consideration during the study are.

- Most of the data to be used in the study for the analysis of value relevance in Pre-Post NFRS analysis will be secondary data. So, the reliability of this analysis depends upon the pooled secondary data. The analysis of NFRS in the context of Nepal will be done with data collection from the respondent. The reliability of secondary data depends on the integrity of the respondent.
- This report covers the data from the fiscal year 2073/74 to 2076/77 based on the availability of data. The data for 10 years has been divided into two groups pre-NFRS from 2073/74 to 2076/77 and post-NFRS from the year 2073/74 to 2076/77. The length of the period was 7 years and 3 years respectively for Pre and Post NFRS.
- Data for analysis of NFRS in the context of Nepal has been collected from six sample commercial banks. Two of the samples are banks under the control of the Government, two of them are foreign collaborated banks and the final two are banks under private control. This study is not able to cover all the commercial banks in Nepal.
- This study is concerned only with the impact on financial indicators relationship of pre-NFRS implementation and post-implementation, adoption challenge and the difference in reported profit. The reason and probable solution have not been researched.
- This study has been based on financial statements like balance sheet, profit and loss account and cash flow statement which provided the quantitative information.

This research report's reliability is highly based on the respondent's integrity and the information gathered from financial statements.

- Collection of data was difficult as all the employees in the bank itself are unaware of the change and are not required to adopt the change as the finance, account and internal audit departments are somehow concerned. Getting responses for such high-level department officers who are themselves busy most of the time and managers was one of the frustrating works done during the research.

1.8 Organization of the Study

This paper includes five chapters namely introduction, related literature and conceptual frame, research methods, result and discussion and last conclusion and implications.

In the Introduction chapter the background of the study has been used as starting off chapter which has further gone with the setting of objective, hypothesis and the limitation and problem statement has also been discussed.

In the second chapter collection of related articles has been discussed. The literature review has been separated in Theoretical Review and Review of Related Literature where different research report has been reviewed with the methods, results and conclusions of many such pieces of research included in this research projects with the help from one of those researches we have set a framework for this research.

In the third chapter, the methods of data collection, sources, the design of research, approach to the research, populations and samples have been defined.

In the fourth chapter, data has been analyzed, presented and briefly described. The data analysis used reliability test analysis for primary data and further correlation analysis was done along with the regression analysis. The data collected from a secondary source will not require a reliability test. Correlation analysis along with regression has been done in the research.

The fifth chapter has discussed the conclusion of the study, made some suggestion and discussed the implications of the study. The conclusion is based on the results obtained in chapter four of this research report and suggestion has been given based on research finding analysis and conclusions.

CHAPTER – II

RELATED LITERATURE

This chapter discusses the previous literature in the epitomic version explaining the basic difference between the IFRS and GAAP. The reviewed article seeks to identify the primary difference in principle found out by the previous researcher and then the challenges faced during the first-time adoption. Finally, the review will end with the financial impact or the value relevance of IFRS based on the pre-IFRS era and post-IFRS era.

2.1 Theoretical Review

CHAPTER – III

RESEARCH METHODOLOGY

In this chapter, the research design, data collection procedure and procedures concerning the analysis of data are described thoroughly. This chapter mainly focuses on the research process and methods design to meet the stated objectives of the study. It covers the research plan and design, description of the sample, instrumentation, data collection procedure, validity and reliability of data and analysis plan.

3.1 Research Design

The study employed a correlation research design in examining NFRS adoption and its impact on financial performance in the case of commercial banks in Nepal. Correlational research design is used for establishing a meaningful relationship between variables.

Using the correlation research design, the study seeks to determine the impact of IFRS on financial information (DEPS, EPS and BVPS) on NPM. Financial statements before and after the adoption of NFRS have been used.

The correlation research design has again been used to establish the relationship between variables Adoption challenge and Internal Control system, Information and technology, Cost of adoption and Legal Requirement. This design result will help find out the status of NFRS in the context of commercial banks of Nepal.

3.2 Research Approach

The present study is a case study of the adoption challenge and its financial impact so quantitative and qualitative research design both will be used as per the requirement. This study employs a correlational research design in examining IFRS adoption.

To answer the questions the data were collected from secondary as well as primary sources. Financial statements, balance sheets, income statements and other required data used from secondary sources.

To find out challenges in adopting NFRS questions are raised and primary data is collected using the questions and respondent's data were evaluated.

3.3 Population and Sample

There are twenty-seven commercial banks in Nepal among these commercial banks Nepal Bank Limited, Agriculture Development Bank Limited, Nabil Bank Limited, Sanima Bank Limited, NIC Asia Bank Limited and Everest Bank Limited have been used for the comparative study of the financial impacts and challenges faced. Selection is done with a view of finding results from government-owned, private and foreign collaborated banks. Six banks are selected as they will cover almost 23% of the commercial bank delivering service to the customer and are listed in Nepal Stock Exchange (NEPSE).

3.3.1 Variables

This study includes the dependent and independent variables. The study deals with the different types of independent variables along with their relationship with the dependent variable. NPM is regarded as the dependent variable and EPS, BVPS, DEPS and e are considered as independent variables. These variables are for an objective.

Dependent Variable Adoption challenge and Independent Variables Internal Control System, Information and technology, Cost of Adoption and Leal Requirements are another set of variables to test the challenge in commercial bank of Nepal during the adoption process.

3.4 Nature and Sources of Data

For this study, different techniques and procedures have been adopted to collect the necessary information and data. The study is based on both primary and secondary data. Secondary data were obtained from reported financial statements whereas primary data through the questionnaires.

3.4.1 Primary data

Primary Data is the first-hand data that were collected during the study using questionnaires. The respondents were the top-level employee of all 27 commercial banks or the chief of finance and accounts in those commercial banks. The questionnaire has been used to collect the data in a measured way. A structured questionnaire was directed to the users. The data so collected were presented in tabulated and calculated. The survey questionnaires were created to obtain the self-reported opinion of respondents to each variable measured using a five-point Likert type scale ranging from “strongly disagree” to “strongly agree” with “neutral” as the middle point.

3.4.2 Secondary data

As mentioned, many times previously as well to determine the value relevance or the financial impact on indicators the secondary data are pooled from Financial Statements published by commercial banks. Here the data does include six of the commercial banks in Nepal as they were mentioned in the sample section.

3.4.3 Instruments

Financial Statements collected from the website of the concerned bank are the main source of data. Whereas, the challenges faced by commercial banks during the adoption

were answered through questionnaires. The structured questionnaire was designed in a way that it covers the objectives of the study and was distributed to the respondents personally. The questionnaire was designed to make it easy to answer and to cover most of the common research questions. The questionnaires were used for collecting the primary data for the study which were distributed to the concerned department heads or top-level management employees of commercial banks. Altogether there exist 26 banks and responses from six of these banks have been collected for analysis.

Multiple choice questions, five-point Likert-type scale questions were asked with respondents to know about the challenges faced by commercial banks in the adoption and implementation of NFRS. Processing of data has been done using Microsoft Excel and SPSS.

3.5 Data Analysis Tools

The following financial and statistical tools are used for the research project report.

3.5.1 Statistical Tool (Descriptive Analysis)

Descriptive statistics are brief descriptive indicators that represent a given data set which can be the illustration of the entire population or sample. It helps to describe and understand the basic features of a specific set of data. It provides summaries about the samples and observations taken under study. Mean, standard deviation, minimum, and maximum of the data were analyzed to determine the impact of various independent variables on the impact on financial indicators and adoption challenges.

3.5.2 Financial Tools

Regression and Correlation analysis used to find out the value relevance of NFRS.

Correlation analysis

The correlation is used to measure and analyze the degree of relationship between two variables. Correlation analysis deals with the association between two or more variables which precisely determines the direction and degree of the relationship. In the study, correlation is used to measure and analyze relationships used to find out the value relevance of NFRS and adoption challenges. The independent variable internal control system, information technology system, cost of adoption and legal requirements whereas adoption challenges the dependent variable for the study of adoption challenge and EPS, BVPS, CEPS and e are the independent variables and NPM the dependent variable for impact on financial indicators. As per the purpose of the study, Pearson's correlation analysis has been employed.

CHAPTER – IV

RESULTS AND DISCUSSION

This chapter presents the result and discussion section of the study. For this purpose, the data were collected and appropriate statistical tools have been applied to obtain the required result of the impact of NFRS adoption on the financial indicators and the adoption challenges for the commercial banks in Nepal.

4.1 Results

This section discusses the results of financial which were analyzed during the research. The correlation analysis and regression analysis that was used to identify the relation has been presented and explained.

Write about descriptive statistics presenting the table of descriptive statics.

4.1.1 Correlation analysis

Pearson's Correlation analysis has been carried out to analyze the relation and direction of relationship among the variables. The correlation analysis between dependent and independent variables has been presented in the table below. A strong correlation or the higher value of correlation in between variables indicates the higher explanatory power of the independent variables. A positive correlation reveals that the direction of the relationship is positive with one increasing concerning the other's increase. While, a negative correlation reveals that an inverse of the above, which means, the increase in one variable when there is a decrease in the other.

The correlation of financial indicators regarding NPM, BVPS, CEPS, EPS has been

presented in tables 4.1 and 4.2 where at first the relationship between these variables before the implementation of NFRS was checked and then followed by the Post-NFRS correlation check.

Table 4.1

Correlation Analysis Pre-NFRS

	<i>NPM</i>	<i>EPS</i>	<i>CEPS</i>	<i>BVPS</i>
<i>NPM</i>	1			
<i>EPS</i>	0.016435	1		
<i>CEPS</i>	0.112637	0.566145	1	
<i>BVPS</i>	-0.09456	0.599026	-0.08499	1

Source: Financial statements from year 2072/73 to year 2076/77

Table 4.1 explains the relationship between Dependent Variable NPM and Independent Variable EPS, CEPS, BVPS at a 5% level of significance. Here in the table, we can observe the highest coefficient being 0.112 i.e., between CEPS and EPS it means that EPS and CEPS are more related than another variable.

The correlation coefficient between NPM and other independent variable is positive with 0.0164, 0.112 and -0.094 this means the increase in value of these independent variables will lead to the increase in value of the independent variable but an increase in value of NPM by one unit will result in the decrease in BVPS by .09 unit as they are negatively correlated. The table clearly explains a negative relationship between BVPS and NPM with a coefficient of -0.0945.

The negative relationship between BVPS and CEPS was also observed as the presence of negative sign between then represents the BVPS decreased with the increase in value of CEPS.

4.5 Analysis of Respondent's Data

The profile of respondent has been measured in the team of age, education, professional certification, and designation. The result from the data analysis has been presented in the table below.

Analysis of respondent's age

The table below represents the age group respondents who responded the questionnaires.

Table 4.10

Analysis of Respondents age

Age	Below 30	30-50	50 and above
% of Respondent	0%	83.33%	16.67%

Source: Data collected from respondents using questionnaires

The analysis of respondent age has given us a clear view that all the respondent is above the age of 30 and only 16.67% are above 50.

Education qualification of respondent

The table below represented the level of education of respondent.

Table 4.11

Analysis of Education Qualification of Respondent

Education	Bachelor's	Master's	Above Master's
% of Respondent	16.67%	83.33%	0%

Source: Data collected from respondents using questionnaires

The respondents are educated with 16.67% have an academic qualification of bachelor degree and 83.33% with master's degree however none of the respondents was with a degree higher than Master's.

Professional certification of respondent

Below is the table that represented if the respondent were certified with any professional certificates or not.

Table 4.12

Analysis of Professional Certification of Respondent

Professional Certification	Chartered Accountant	No certification
% of Respondent	50%	50%

Source: Data collected from respondents using questionnaires

Among the respondent, 50% were with professional qualification and 50% without. All the professional certification as a chartered accountant.

Designation of respondent

Table below represents the level of the employee.

Table 4.13

Analysis of Level of Respondent

Level of Respondent	Officer	Manager	Department Head
% of Respondent	0%	33.33%	66.67%

Source: Data collected from respondents using questionnaires

All the respondent are high ranking officers with 66.67% of the respondent being department head and 33.33% of them are managers.

4.4.1 Correlation Analysis

4.2 Major Findings

In this section the research's major findings will be pointed out; the findings are backed up by analysis tables above and data collected. Some of the major findings are as follows.

- The relationship between Dependent Variable NPM and Independent Variable EPS, CEPS, BVPS at a 5% level of significance. Here in the table, we can observe the highest coefficient being 0.112 i.e., between CEPS and EPS it means that EPS and CEPS are more related than another variable.
- The correlation coefficient between NPM and other independent variable is positive with 0.0164, 0.112 and -0.094 this means the increase in value of these independent variables will lead to the increase in value of the independent variable but an increase in value of NPM by one unit will result in the decrease in BVPS by .09 unit as they are negatively correlated. The table clearly explains a negative relationship between BVPS and NPM with a coefficient of -0.0945.
- The negative relationship between BVPS and CEPS was also observed as the presence of negative sign between them represents the BVPS decreased with the increase in value of CEPS.

- Before NFRS was implemented the correlation between NPM and BVPS was negative but weak. After the implementation of NFRS, the negative correlation was changed into a weak but positive correlation.
- There was value relevance of the independent variable before NFRS was implemented and there is value relevance of independent variable after the implementation of NFRS. The post-NFRS value relevance is higher than in the Pre-NFRS era.
- The respondent in this research is highly educated and hold a responsible post in the concerned bank. With all respondent having completed at least a bachelor degree and 50% of them having professional certification.
- The respondents were matured and responsible enough with none of the respondent being under the age of 30 and 34% of them being managers of the bank and 66% being the head of the department.
- The most challenging factor during the change was the Cost of Adoption and the least was Internal Control System. Although the whole process was found not challenging.
- The correlation between the variables used was strong and positive. The increase in one will increase the Adoption Challenge.
- The change in standard and the adoption process was found not challenging with the significance of the regression coefficient being 0.58. This indicated that commercial banks of Nepal are now at the stage to handle a major challenge like the change in accounting standard itself.

4.3 Discussion

In this section of research, the result and discussion about the result obtained have been presented and a comparison has been done with the previous study's research. This is done with the reference of analysis done in the previous section of the research.

In the case of the analysis of the profit as explained by Shamrock (2012), there was a significant change at the year of transition. Shamrock (2012) explained the income statement, IFRS defines an element called *income* that encompasses both revenue and gains. US GAAP defines gains/losses separately from revenue (income from the main activities of the entity). However, IFRS includes revenues and gains within the income definition. The decrease in profit as explained by Shamrock (2012) can be due to the incorrect way of loss treatment.

The Pre-NFRS regression analysis resulted from R-square be .020 and Post-FRS R-square was .406 which was not statistically significant however there was a great improvement in value relevance or the impact of financial indicators improved a lot with the implementation of NFRS. The result coincides with the result from researches conducted by Oystein, Kjell and Frode (2008) where they found in Norwegian firms, the financial statements of 2004 are more value-relevant when restated following IFRS rather than local accounting standards. Based on a sample of 145 firms listed on the Oslo Stock Exchange, they employ both the return and the price models. The analysis reveals little evidence of increasing value relevance of accounting information after the mandatory adoption of IFRS in 2005. Also, the result from Portugal, in research conducted by Morais and Curto (2008) with a sample of 34 Portuguese listed over 1999- 2006. Based on the explanatory power of the price model, they document a decrease in the value relevance of accounting information over the two years of IFRS (2005-2006) compared to the period of domestic accounting standards (1995-2004). There was a similar case in Sweden, Paananen (2008) evaluated that with a sample of 376 firms for two years before IFRS adoption (2003-2004) and two years of mandatory IFRS adoption (2005-2006). Using the price model, the results show a decrease in the value relevance of accounting information – although it is not statistically significant – following IFRS adoption.

In Romania, where listed firms were mandated to report their financial statements under IFRS since 2001, Filip (2010) examines the impact of such adoption on the value relevance of 19 accounting information. The study employs the returned model for a

sample of 280 firm-year observations (related to 48 firms) over the period from 1997 to 2004. The empirical analysis shows that the value relevance of accounting information is significantly higher in the period of IFRS adoption (2001-2004) compared to the pre-IFRS adoption period (1997-2000).

The result obtained in the research and research conducted by Ahmeda, Chalmers and Khlif (2013) was similar. They investigated the effect of IFRS on financial reporting. Specifically, they focused on value relevance and earnings transparency in the form of financial discretionary accruals and capital market effects by way of looking at analyst earnings forecasts and this research focused on value relevance in form of Earning per share, Book Value, change in earning per share, Net profit margin. Through analysis of factors such as value relevance for book value, equity and earnings they were able to quantitatively test the assertion made by standard setters and decision-makers. Their results demonstrated that the book value of equity in earnings is statistically significant and is directly affected by the legal origin and accounting and auditing enforcement as well as congruency between domestic GAAP and IFRS and how IFRS is implemented, i.e., adoption, convergence, or harmonization. In total, the results suggested that IFRS has practical value for investors researchers and standard setters.

In the case of the adoption challenge of NFRS in Nepalese commercial banks, the result does not coincide with any prior research. All the research done before this one in other countries has been presented with a lot of challenges during the first time adoption.

Nepalese commercial banks did not find it challenging enough to adopt NFRS however the Cost of Adoption according to the research was most challenging having been rated 3.9 out of 5 during the research from 6 sample banks used. The adoption challenge was found to be neutral having been rated exactly 3 which means the banks were neutral in their response to the adoption challenge questions.

Perera (1989) indicated that the adoption of the International Accounting Standard (IAS) is harmful to develop countries, as these standards were designed to suit the environment

and needs of developed or industrialized countries. It has been argued that accounting information produced according to developed countries' accounting systems is inappropriate for decision making in less-developed countries and unsuitable for their national needs at both country and company levels. It has also indicated that companies in developing countries may strive to comply with these complex standards, as they surpass companies' needs and are not compatible with the capabilities of their local accounting staff.

CHAPTER - V

SUMMARY AND CONCLUSION

5.1 Summary

In this chapter, the conclusion of the research is drawn and the conclusion is based on previous findings and relations that were established with the variables during the research. The research entitled “NAS and NFRS in context of Nepal: The impact study in financial indicators of commercial banks” here NAS and NFRS in context of Nepal indicated the challenges during the adoption and analysis was done with Adoption Challenge being dependent variable and Internal Control System, Information and Technology, Cost of Adoption and Legal Requirement being the independent variable. Also, the research focused on Pre-NFRS and Post-NFRS To examine the financial differences reported under NAS and NFRS in the year of transition. To and find out the value relevance of pre-post NFRS implementation with the change in the relationship between EPS, BVPS, CEPS and NPM To know about the challenges faced by commercial Banks during the adoption of NFRS To find out the result and get to the conclusion certain questions were raised during the research and data were collected based on finding out the answer to those questions to fulfil our primary objectives. To meet the objective three research questions has been set and the conclusion of the question and the objective have been listed below.

Research Question 1: In the year of transition, what are the financial differences reported under NAS and NFRS

The answer to this question has been given in Table: 4.18 where the difference in Net Profit after tax has been listed with both NAS and NFRS used for the same data in the year of transition. The financial difference reported was different as the sample was classified into three different class i.e., Government Involved Banks, Private Investment Banks and Banks with foreign investment. The research made us conclude that government banks have a decreased profit after the implementation of NFRS. There were different observation in Private Investment Bank and Foreign Collaboration Baks where we observed a profit decrease in NIC Asia Bank Limited and NABIL Bank Limited whereas there was an increase in profit of Sanima Bank Limited and Everest Bank Limited.

The analysis showed that there was an overall decrease in profit in the banking industry. The finding was different the financial difference was observed different from one bank to another.

Research Question 2: Is there is any difference in the relationship between EPS, BVPS, CEPS and NPM before and after the implementation of NFRS?

This question was raised to find out the value relevance or the impact on financial indicators because of the implementation of NFRS in commercial banks of Nepal. The answer to the question was answered by the correlation analysis and the regression analysis. Table 4.1 where the correlation analysis of NPM was done with EPS, CEPS and BVPS and the correlation was positive between NPM, EPS and CEPS with coefficient being .0164 and .112 and the negative correlation between NPM and BVPS with the coefficient being -.09.

5.2 Conclusion

Represented data analysis of Post-NFRS data and the correlation of indicators were found to be positively correlated with the coefficient being .054, .046 and .096 between NPM, EPS, CEPS and BVPS. The difference observed was that weakly correlated variables were strongly correlated and the negative relation between BVPS and NPS change to a positive correlation along with the change in accounting standard.

Represented data analysis of Pre-NFRS data and the regression analysis of the Dependent Variable NPM with Independent Variable EPS, CEPS and BVPS with the coefficient of R Square being .020. This indicated a very poor explanation of the relation between the independent variable and the dependent variable. represented data analysis of Post-NFRS data and the regression analysis of the Dependent Variable NPM with Independent Variable EPS, CEPS and BVPS with the coefficient of R Square being .406. This indicated a strong change in the relation between the independent variable and dependent variable with an almost 38% increase in explanation of the change in the value of the Dependent variable. During the analysis of profit change in the year of transition, it was found out that commercial banks with investment from the government i.e., Nepal Bank Limited, and Agriculture Development Bank Limited had to face a decline in the amount of profit reported. The profit analysis of privately invested bank i.e., NIC Asia Bank and Sanima Bank showed us a different figure that NIC had a decrease in profit whereas Sanima increased the reported profit. Like privately invested banks foreign collaborated banks i.e., Everest bank and NABIL Bank; Everest Bank's profit rises with the change in the accounting system but Nabil faced a decrease. All these analysis and results indicate and answers that there was a huge change in the relation between EPS, CEPS, BVPS and NPM. The Post-NFRS analysis explains more about the NPM than the Pre-NFRS data. This means that the impact on financial indicators was positive and more value relevant than Pre-NFRS.

The answer to the question has been answered from the analysis of the respondent's data. The reliability test of the data was .863 which means the data are reliable for the test.

The correlation analysis of the Dependent Variable Adoption Challenge with Independent Variables Internal Control System, Information and Technology, Cost of Adoption and Legal Requirements were all positive also the correlation between each of other variable was positive. This helped us to conclude the positive change in one variable will bring positive change in another and coefficient being .472 between adoption challenge and Internal control system indicating a strong correlation, .49 between Information Technology and Adoption Challenge indicating moderate correlation, .59 between Cost of Adoption and Adoption Challenge indicating strong correlation and .38 between legal requirement and Adoption challenge indicating a weak correlation.

The regression analysis as per Table 4.15 R square is .826 which means 82.6% of the relation between the variables used is explained by the model the remaining 17.6% is explained by some other variable. Also, 13.1% additional explanation can be added to this model with an addition of a variable as Adjusted R square in .131. This means the variables used are good enough to explain the relationship. ANOVA analysis for adoption challenge explains the result that adoption of NRS was not challenging enough for a commercial bank in Nepal as the data that were analyzed during the research was not statistically significant with the p-value being .58 which should not have been greater than .05. The p-value of .58 is far greater than the threshold value of .05 which means that the commercial banks disagree that NFRS adoption was challenging to the banking industry of Nepal.

5.3 Implications

The research was conducted to reach some of the objects defined in the previous section of the research. The result from the research has been discussed in chapter 4 and the conclusions have been discussed in chapter 5 itself. Here in this section, the implication of the research will be discussed.

Since the difference in financial statements were because of the rise in expenses as principles of NFRS differed from the rules of NAS. This case is no problem but just a difference that was observed as the accounting standard was changed. Further research can be conducted to find the actual causes behind such difference.

This research was conducted to find the impact on indicators or the value relevance of EPS, CEPS and BVPS on NPM which eventually was more value relevant with the implementation of NFRS. Further research could be conducted on the value relevance of such indicators on the market price per share. As market price is dynamic and is strongly related to the fundamentals that are extracted from the financial statement research that explains such a relationship would be fruitful. This research was able to explain the pre-post NFRS impact on NPM concerning independent explained in this research.

This research focused NFRS on the context of Nepal, which meant to be challenges of NFRS to commercial banks of Nepal. The research outcomes in different tables of the analysis section have indicated Nepalese commercial banks were not challenged by adoption since no challenge means there no problems. Further research can be conducted on the challenges faced by Small and Medium scale industries, Service sector and manufacturing are still untouched. These sectors are one of the emerging sectors and require a lot of attention. Research on these sectors can impact and find the solution to the problem for small investors. NFRS 9 which deals with financial instruments treatment in the commercial bank can be the next research to be done after this research.

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