

11. BANK ACCOUNTS

MODEL WISE ANALYSIS OF PAST EXAM PAPERS OF IPCC

MODEL NO.	N-11	M-12	N-12	M-13	N-13	M-14	N-14	M-15	N-15	M-16	N-16
Model – 1	8	-	-	8	-	-	-	-	4	-	8
Model – 2	-	-	-	-	-	-	-	-	-	-	-
Model – 3	-	5	5	-	4	4	4	4	-	-	-
Model – 4	-	8	-	-	-	-	8	12	-	-	-
Model – 5	-	-	8	-	-	-	-	-	-	10	-
Model – 6	-	-	-	-	-	-	-	-	-	-	-
Model – 7	-	-	-	-	-	-	-	-	-	-	-
Model – 8	-	-	-	-	-	-	-	-	4	4	-

Model – 1 : Rebate on Bills discounted

Model – 2 : Income Recognition

Model – 3 : Non-Performing assets

Model – 4 : Capital Adequacy ratio, Ledger A/c's

Model – 5 : Profit & Loss A/c

Model – 6 : Balance Sheet

Model – 7 : Financial Statements- Profit & Loss A/c & Balance Sheet

Model – 8 : Theory

THEORY

Topics to be covered:

Prudential Norms

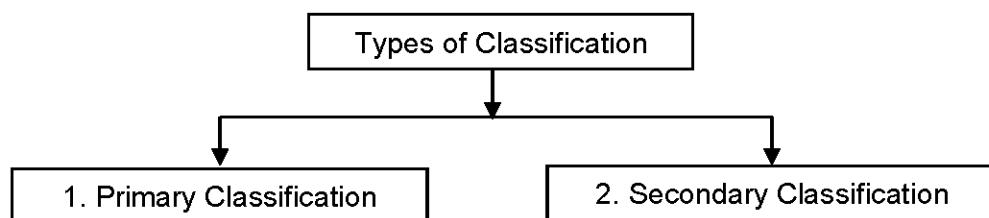
Bank Final Accounts

PRUDENTIAL NORMS

Deals with 4 main aspects:

- I. Classification of Advances.
- II. Income Recognition.
- III. Provision creation.
- IV. Capital adequacy norms.

I. Classification of Asset/Advances:



Primary Classification:**What is primary classification?**

A Classification made for enabling the Secondary Classification.

Income Recognition (Therefore it can be concluded that for income Recognition primary classification is sufficient)

Types of Assets under this classification:

- Performing Asset:** A banking Asset which is not a Non-performing Asset i.e. An asset which generates the income properly for the bank.
- Non Performing Asset:** A banking Asset becomes a NPA when the interest/principal from it is not received for a certain period.
- What is a certain Period?**

This period varies from one type of advance to another type. This will be discussed below.

Term Loans: A term loan is treated as a non-performing asset (NPA) if interest and/or installment of principal remain overdue for a period of more than 90 days. For Eg. Any amount which had become payable before 31st of December, 2005 will be NPA as at 31st of March, 2006 if it remains unpaid.

Cash Credits and overdrafts: A cash credit overdraft account is treated as NPA if it remains out of order. An account is treated as 'out of order' if any of the following conditions is satisfied:

- The outstanding balance remains continuously in excess of the sanctioned limit / drawing power for a continuous period of 90 days prior to the balance sheet date.
- Though the outstanding balance is less than the sanctioned limit/drawing power –
 - There are no credits continuously for more than 90 days as on the date of balance sheet ;
(or)
 - Credits during the aforesaid period are not enough to cover the interest debited during the same period.

Further any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank.

Example of OUT OF ORDER

Sanctioned limit	Rs. 60,00,000
Drawing power	Rs. 55,00,000
Amount outstanding continuously from 30.12.2005 to 31.03.2006	Rs. 47,00,000
Total interest debited	Rs. 3,42,000
Total credits	Rs. 1,25,000

Category–Sub-standard: Since the credit in the account is not sufficient to cover the interest debited during the period account will be said as NPA.

Bills Purchased & Discounted: Such credit facilities are treated as NPA if they remain overdue and unpaid for a period of more than 90 days. For Eg. If the bills purchased and discounted before 31st December, 2004, if unpaid as at 31st March, 2005 will be treated as NPA.

Other Credit Facilities: Such credit facilities are treated as NPA if any amount to be received in respect of such a facility remains overdue for a period of more than 90 days.

Agricultural Advances: Advances granted for agricultural purposes become NPA if interest and/or installment of principal remains overdue for two crop seasons in case of loan granted for short duration crops and one crop season in case of long duration crops.

For this purpose "long duration crops would be crops with crop season longer than one year".

Appropriations of money paid to the bank by the customer: Arrears of interest, current period interest, Arrears of Principle, Current period principle.

Regularisation of Account by Year-end: The identification of NPA is to be done on the basis of the position as on the balance sheet date. If an account has been regularized before the balance sheet date by payment of overdue amount through genuine sources (and not by sanction of additional facilities or transfer of funds between accounts), the account need not be treated as NPA.

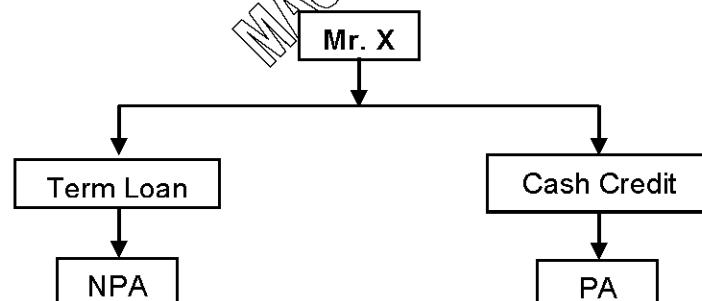
Net worth of Borrower/Guarantor or Availability of Security: Since income recognition is based on recoveries from an advance account, net worth of borrower/guarantor should not be taken into account for the purpose of treating an advance as NPA or otherwise. Likewise, the availability of security is not relevant for determining whether an account is NPA or not (this, however, subject to certain exceptions discussed later in this chapter.)

Consortium Advances: Each bank may classify the borrowing accounts according to its own record of recovery and other aspects having a bearing on the recoverability of the advances.

Advances Secured Against Certain Instruments: Advances secured against term deposits, national savings certificates, Indira Vikas Patras, Kisan Vikas Patras and life insurance policies have been exempted from the above guidelines. Thus, interest on such advances may be taken to income account on due dates provided adequate margin is available in the respective accounts.

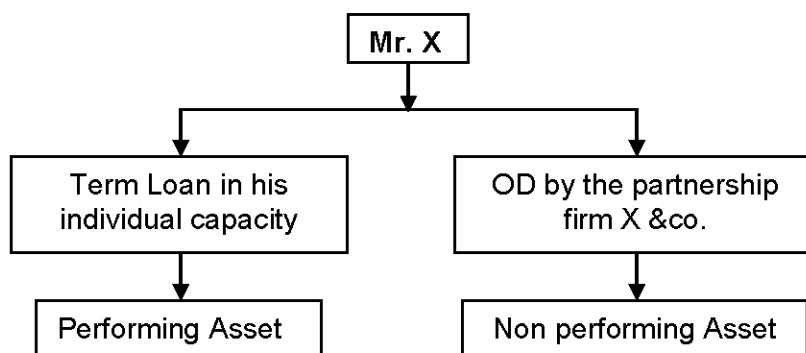
Determination of NPA's-Borrower-wise, Not Facility-wise: If any of the credit facilities granted to a borrower becomes non-performing, all the facilities granted to the borrower will have to be treated as NPA without having any regard to performing status of other facilities.

Ex: 1



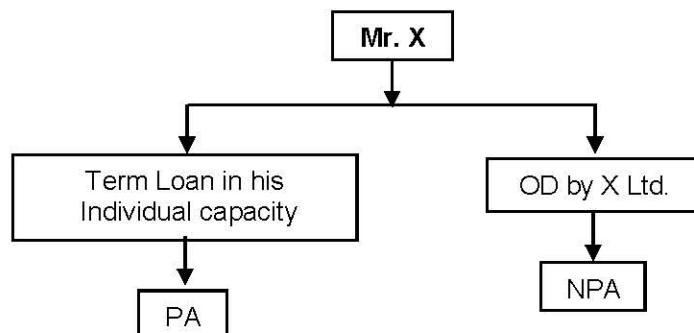
Therefore both the accounts will become NPA for Mr. X

Ex: 2 Mr. X [Having a management and financial control in a partnership firm of X & Co.]



Both the accounts will be treated as NPA. [As partnership and partner has no separate legal entity]

Ex.3: Having a substantial interest and Managing Director of X Ltd.



Both the accounts not get the same status because the company and shareholders are not one & the same.

Income Recognition: Banks recognise income (such as interest, fees and commission) on accrual basis, i.e., as it is earned. In view of the significant uncertainty regarding ultimate collection of income arising in respect of non-performing assets, the guidelines require that banks should not take to income interest on non-performing assets until it is actually realised.

PROBLEMS FOR CLASSROOM DISCUSSION

Problem 1: (PRINTED SOLUTION AVAILABLE) KC bank statement of interest on advances in respect of performing assets and non-performing assets are as follows: (in lakhs)

Particulars	Performing Assets		NPA	
	Interest Earned	Interest Received	Interest Earned	Interest Received
Cash credit & OD	1800	1060	450	70
Term Loan	480	320	300	40
Bills purchased & discounted	700	550	350	36

Find out the income to be recognized for the year ended 31st March, 2012. (SM)
(Ans.: Income Recognised Rs.3126)

(Solve problem no. 1 of assignment problems as rework)

Note: _____

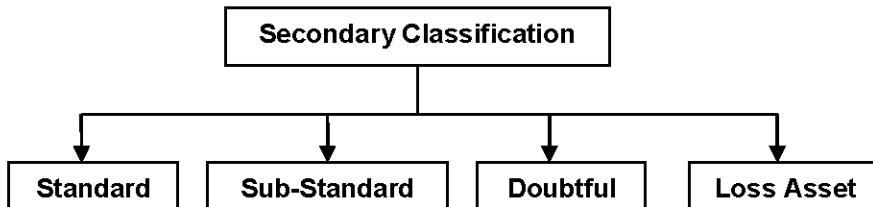
Problem 2: Identification of Non-performing assets: From the following information identify the non performing assets (NPA) of a commercial bank for the year ending 31st March 2011.

Terms Loans: Rs.150 lakhs out of which interest remains over due for three quarters on Rs.50 lakhs and for three quarters on Rs.40 lakhs.

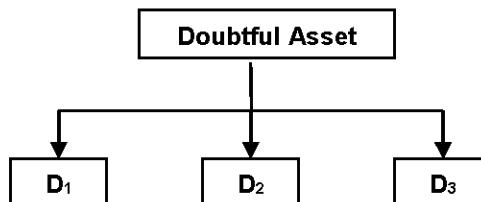
Cash credit and overdrafts: Rs.1,120 lakhs out of which interest remained out of order for two quarters on Rs.150 lakhs, for three quarters on Rs.80 lakhs and for <90 days on Rs.70 lakhs.

Bills purchased and discounted: Rs.2,150 lakhs out of which remained over due for one quarter on Rs.750 lakhs, for 95 days on Rs.500 lakhs, for 180 days on Rs.400 lakhs and for 190 days on Rs.350 lakhs. (Ans.: Total Amount of NPA-1570L)

Note: _____

Secondary classification:

- Standard Asset:** A performing Asset.
- Sub-standard assets:** A sub-standard asset is one which has remained as NPA for a period of less than or equal to 12 months.
- Doubtful assets:** w.e.f. 31st March, 2006 an asset would be classified as doubtful if it remained in the substandard category for 12 months.



D₁: An asset comes under this category if it remains Doubtful upto 1 year.

D₂: Doubtful for more than 1 year but it should be upto 3 years.

D₃: Doubtful for morethan 3 years.

- Loss Asset:** It is a non performing asset which is identified as irrecoverable either by internal auditors or external auditors or by management or by RBI inspectors.

It may be noted that the above classification is meant for the purpose of computing the amount of provision to be made in respect of advances and not for the purpose of presentation of advances in the -balance sheet. The balance sheet presentation of advances is governed by the Third Schedule to the Banking Regulation Act, 1949, which requires classification of advances altogether differently.

Threats to Recovery: As per the guidelines, upon becoming NPA, a credit facility would be classified first as sub-standard for a period not exceeding 12 months and then as doubtful. It has been clarified that in respect of accounts where there are potential threats to recovery it will not be prudent for banks to clarify them first as sub-standard and thereafter as doubtful. Banks have been advised to classify such accounts straightaway as doubtful or loss assets, as appropriate, irrespective of the period for which the account has remained NPA.

Security Having Significant Realisable Value: It has been clarified that where the realisable value of security is significant, the credit facility should not be treated as a loss asset. To illustrate, suppose, as on March 31, 2001, the bank or the internal/external auditor or the RBI inspection identifies a particular credit facility as a loss asset where the amount outstanding is Rs.1.00 lakh and the salvage value of the security is Rs.0.01 lakh. In such a case, the facility should be treated as a loss asset and provision should be made for Rs.1.00 lakh (and not Rs.0.99 lakh). If, on the other hand, the realisable value of the security is Rs.0.80 lakh and the bank or the internal or external auditor or the RBI inspection has not treated the security unrealisable, the credit facility should be treated as doubtful and not as a loss asset.

Rates of provisioning for non performing assets:

Category of advances	Rates of provisions (%)
Standard advances	
(a) direct advances to agriculture and SME	0.25
(b) advances to commercial real estate (CRE) sector	1.00

(c) all other loans and advances not included in (a) and (b)	0.40
Sub- standard advances	
Secured exposures	15
Unsecured exposures	25
Unsecured exposures in respect of infrastructure loan accounts where certain safeguards such as escrow accounts are available	20
Doubtful advances –unsecured portion	100
Doubtful advances-secured portion	
For doubtful up to 1 year	25
For doubtful >1year and up to 3 years	40
For doubtful > 3 years	100
Loss advances	100

The provision on standard assets should not be reckoned for arriving at net NPAs.

Problem 3: (PRINTED SOLUTION AVAILABLE) From the following information, compute the amount of provisions to be made in the Profit and Loss Account of a Commercial bank:

Assets	Rs. in lakhs
1. Standard (Value of security Rs. 6,000 lakhs)	7,000
2. Sub-standard	3,000
3. Doubtful	
a. Doubtful for less than one year (Realisable value of security Rs. 500 lakhs)	1,000
b. Doubtful for more than one year, but less than 3 years (Realisable value of security Rs. 300 lakhs)	500
c. Doubtful for more than 3 years (No security)	300

(PM) (Ans: Total provision Rs.1,723L)

Note: _____

Problem 4: From the following, compute the amount of provisions to be made in the profit and loss account of a commercial bank for the year ending on 31-03-2012.

Assets (category of advances)	Rs. in lakhs
Standard advances	7,000
Sub-standard advances	3,500
(Include secured exposures Rs.1,000 lakhs and balances unsecured exposures Rs.2,500 lakhs includes Rs.1,500 lakhs in respect of infrastructure loan accounts where escrow accounts are available)	
Doubtful advances –unsecured portion	1,500
Doubtful advances-secured portion	
For doubtful up to 1 year	500
For doubtful more than 1 year and up to 3 years	600
For doubtful more than 3 years	300
Loss advances	200

(PM) (May-2012) (Ans.: Total Amount of Provision – 3093L)

(Solve problem no. 2 of assignment problems as rework)

Note: _____

Provisioning for Certain Specific Types of Advances: Advances secured against term deposits, NSCs eligible for surrender, Indira Vikas Patras, Kisan Vikas Patras and life insurance policies are exempted from provisioning requirements. Accordingly, the banks need not treat such accounts as NPAs. It may be noted that advances against gold ornaments, government securities, and all other kinds of securities are not exempted from provisioning requirements.

Government guaranteed advances: The credit facilities backed by guarantee of the Central Government though overdue may be treated as NPA only when the Government repudiates its guarantee when invoked. This exemption from classification of Government guaranteed advances as NPA is not for the purpose of recognition of income. The requirement of invocation of guarantee has been delinked for deciding the asset classification and provisioning requirements in respect of State Government guaranteed exposures. With effect from the year ending 31 March 2006 State Government guaranteed advances and investments in State Government guaranteed securities would attract asset classification and provisioning norms if interest and/or principal or any other amount due to the bank remains overdue for more than 90 days.

Advances Guaranteed by ECGC/DICGC: In case advances are guaranteed by ECGC/DICGC then the provision should be created as follows:

Particulars	RRs.
Balance Outstanding	XXX
Less: Realisable Value of Security	(XXX)
Unsecured Portion	XXX
Less: ECGC/DICGC Cover	(XXX)
Net Unsecured Portion	XXX
Provisioning Required:	
For net Unsecured Portion (100% X Net Unsecured Portion)	XXX
For Portion covered by security	
Provision as per secondary classification	XXX
Total Provision Required	XXX

Note: _____

Problem 5: In KR bank the doubtful assets (more than 3 years) as on 31-3-2012 is Rs.1,000 lakhs. The value security (including DICGC 100% cover of Rs.100 lakhs) is ascertained at Rs.500 lakhs. How much provision must be made in the books of the bank towards doubtful assets? **(SM)** (Ans.: Total Provision Rs. 900)

Note: _____

Problem 6: (PRINTED SOLUTION AVAILABLE)

Outstanding Balances	Rs.4 lakhs
ECGC Cover	50%
Period for which the advance has remained doubtful	More than 3 years remained doubtful (as on March, 31, 2012)
Value of security held (Realisable value only 80%)	Rs.1.50 lakhs

You are required to calculate provisions as per applicable rates. **(SM)**

(Solve problem no 3 of assignment problems as rework)

(Ans.: Total Amount of Provision – 2.60L)

Note: _____

Problem 7: Bidisha bank ltd. had extended the following credit lines to a small scale industry, which had not paid any interest since March, 2006.

Particulars	Term loan	Export loan
Balance outstanding on 31.03.2012	70 LAKHS	60 LAKHS
DICGC/ECGC COVER	50%	40%
Securities held	30 LAKHS	25 LAKHS
Realisable value of securities	20 LAKHS	15 LAKHS

Compute the necessary provisions to be made for the year ended 31st March, 2012. (PM)

(Ans.: Provision for Term Loan – 45L, Export Loan – 42L)

(Solve problem no. 4 and 5 of assignment problems as rework)

Note: _____

BILLS FOR COLLECTION

Bills for collection refer to the bills received by bank from customers for the purpose of collection.

Accounting treatment of Bills for collection:

1. On receipt of bills for collection, the particulars of such bills are recorded in bills for collection register.
2. On collection, the following entry is passed:

Cash A/c	Dr. (With Bill Amount)
To Commission A/c	(With Commission)
To Customers A/c	(With Balance)

Disclosure of Bills for collection:

Bills held for collection are to be shown by way of note to the balance sheet.

Rebate on Bills Discounted (Or) Unexpired Discount (Purchase Or Discounting Of Bills)

An act of purchasing of a bill and making payment for it before its maturity is called discounting of bill. When the customers discounts the bill with the bank, the bank earn discount which is named as Discount on Bills discounted. But some of the bills may mature after the year ending & in which case a part of the discount should be shown as income of the next accounting year.

Accounting Entries will be as follows:

1.	On Discounting of the Bills: Bills Discounted A/c To Customer A/c To Discount on Bills Discounted A/c	Dr	XXX	XXX XXX
2.	At the end of the year: Discount on Bills discounted A/c To Rebate on Bills Discounted A/c	Dr	XXX	XXX
3.	In the beginning of the next year the entry to be passed is: Rebate on Bills Discounted A/c To Discount on Bills Discounted A/c	Dr	XXX	XXX
4.	At the end of the year the Balance in Discount A/c will be transferred to P&L A/c: Discount on Bills Discounted A/c To Profit & Loss A/c	Dr	XXX	XXX

Discount to be shown in the P& L A/c next year:

Particulars	Rs.
Discount	XXX
Add: Rebate on Bills discounted (b/f from last year)	XXX
Less: Rebate on Bills Discounted (c/f to next year)	XXX
Total: (to be shown in Profit & Loss A/c)	XXX

ACCEPTANCES, ENDORSEMENTS AND OTHER OBLIGATIONS

- Credibility:** A Bank has a more acceptable credit as compared to that of its Customers. Therefore, it is often called upon to Accept or Endorse Bills on behalf of its Customers.
- Undertaking Liability:** On a request from its Customer, a Bank undertakes a liability towards Third Party, which agrees to receive such a bill in payment of a Debt or agreed to Discount the Bill after the same has been accepted by the Bank.
- Bank's Claim:** As against liability undertaken by the Bank, it has a corresponding claim against its customer, on whose behalf it has undertaken to be a party to the bill, either as an acceptor or as an endorser.
- Security:** The Customer is required to deposit a security equivalent to the amount of bill accepted on his behalf by the Bank. It is done to protect the interest of the bank as a safeguard against the customer not being able to meet the demand of the bank.
- Bills Accepted Register:** A record of the particulars of the bills accepted as well as of the securities collected from the customers is kept in the Bills Accepted Register. This may not be a part of the regular system of accounts of the Bank.
- Selling of Security:** If the bill, at the end of its term, has to be retired by the bank and the amount cannot be collected from the customer on demand, the bank reimburses itself by disposing of the security deposited by the customer.

Problem 8: (PRINTED SOLUTION AVAILABLE) Calculate Rebate on Bills discounted as on 31 December, 2013 from the following data and show journal entries:

	Date of Bill	Rs.	Period	Rate of Discount
(i)	15.10.13	25,000	5 months	8%
(ii)	10.11.13	15,000	4 months	7%
(iii)	25.11.13	20,000	4 months	7%
(iv)	20.12.13	30,000	3 months	9%

(SM)

(Ans: Total of Rebate on bills discounted Rs. 1,569.30)

(Solve problem no.6 of assignment problems as rework)

Note: _____

Problem 9: Given below is an extract from the trial balance of T.K. Bank Limited as on 31st December, 2012:

Particulars	Debit Rs.	Credit Rs.
Bills discounted	12,64,000	----
Rebate on bills discounted (1.1. 2012)	----	8,340
Discount received for the year		85,912

An analysis of the bills discounted is as follows:

Rs.	Due date in 2013	Rate of Discount in % (p.a)
1,40,000	March 6 th	5
4,36,000	March 12 th	4.5
2,82,000	March 26 th	6
4,06,000	April 6 th	4

Show the workings, how the relevant items will appear in the bank's Profit and Loss account as on 31st December, 2012 and in bank's Balance Sheet as on 31st December, 2012. (PM)

(Ans.: Total Rebate on bills discounted – 13,274, P&L a/c 80,978)

(Solve problem no. 7 and 8 of assignment problems as rework)

Note: _____

Problem 10: From the following details, prepare bills for collection (Asset) Account and Bills for collection (Liability) Account:

	Rs.
On 1.4. 2012, Bills for Collection were	51,00,000
During the year 2012-13 Bills received for Collection amounted to	75,00,000
Bill collected during the year 2012-13	98,47,000
Bill dishonoured and returned during the year	27,10,000

(PM)

(Ans.: Total of Bills for collection a/c 1,26,00,000)

(Solve problem no. 9 of assignment problems as rework)

Note: _____

Problem 11: (PRINTED SOLUTION AVAILABLE) Acceptances, endorsements and other obligation A/c: From the following details prepare "Acceptances, Endorsements and other Obligation A/c" as would in the general ledger.

On 1 – 4 - 2013 Acceptances not yet satisfied stood at Rs.22,30,000. Out of which Rs.20 lakhs were subsequently paid off by clients and bank had to honour the rest. A scrutiny of the Acceptance Register (for transactions during the year) revealed the following:

Client	Acceptances/ Guarantees	Remarks
A	10,00,000	Bank honoured on 10-6-13
B	12,00,000	Party paid off on 30-9-13
C	5,00,000	Party failed to pay and bank had to honour on 30-11-13
D	8,00,000	Not satisfied up to 31-3-14
E	5,00,000	Not satisfied up to 31-3-14
F	2,70,000	Not satisfied up to 31-3-14
Total:	42,70,000	

(SM) (Ans.: Balance – 15,70,000)

Note: _____

Problem 12: Bills for collection A/c: Following facts have been taken out from the records of Adarsha Bank Ltd. in respect of the year ending March 31, 2013:

1. On 01.04.2012 Bills for collection were Rs.7,00,000. During 2012-2013 bills received for collection amounted to Rs.64,50,000, bills collected were Rs.47,00,000 and bills dishonoured and returned were Rs.5,50,500. Prepare Bills for collection (Assets) A/c and bills for Collection (Liability) A/c.
2. On 01.04.2012, Acceptance, Endorsement, etc. not yet satisfied amounted to Rs.14,50,000. During the year under question, Acceptance, Endorsements, Guarantees etc., amounted to Rs.44,00,000. Bank honoured acceptances to the extent of Rs.25,00,000 and client paid off Rs.10,00,000 against the guaranteed liability. Clients failed to pay Rs.1,00,000 which the Bank had to pay. Prepare "Acceptances, Endorsements and other Obligations A/c" as it would appear in the General ledger.
3. It is found from the books, that a loan of Rs.6,00,000 was advanced on 30.09.2012 @ 10 per cent p.a. interest payable half yearly; but the loan was outstanding as on 31.03.2013 without any payment recorded in the meantime, either towards principal or towards interest. The security for the loan was 10,000 fully paid shares of Rs.100 each (the market value was Rs.98 as per the Stock Exchange Information as on 30th September, 2012). But due to fluctuations, the price fell to Rs.40 per share in January, 2013. On 31.03.2013, the price as per Stock Exchange rate was Rs.82 per share. State how you would classify the loan as secured / unsecured in the Balance Sheet of the Company.
4. The following balances are extracted from the Trial Balance as on 31.03.2013:

Particulars	Dr. Rs.	Cr. Rs.
Interest and Discounts		98,00,000
Rebate for bills discounted		20,000
Bills discounted and purchased	4,00,000	

It is ascertained that the proportionate discounts not yet earned for bills to mature in 2012-2013 amount to Rs.14,000. Prepare Ledger Accounts. (May 15)

(SM) (Ans: a) Total of bills for collection a/c 71,50,000; b) Balance 22,50,000; c) Fully secured; d) Total of rebate on bills discounted 20,000 and Total of Interest & discount a/c 98,06,000)

(Solve problem no. 16 of assignment problems as rework)

Note: _____

BANK ACCOUNTS PROFORMA

Profit & Loss A/c of the Bank for the year ended DD-MM-YYYY

Particulars	Schedule No.	For year ended 31.03. (Current year)	For year ended 31.3. (Previous year)
Income:			
Interest Received/earned	13	XXX	XXX
Other Income	14	XXX	XXX
Total:		XXX	XXX
Expenses:			
Interest Paid/expended	15	XXX	XXX
Administration exp.	16	XXX	XXX
Provisions and Contingencies		XXX	XXX
Total:		XXX	XXX
Profit/Loss			
Net Profit for the year		XXX	XXX
Net profit b/f		XXX	XXX
Total:		XXX	XXX

Appropriations:			
Transfer to Statutory Reserve / Reserve Fund (25%)		XXX	XXX
Transfer to Other Reserve		XXX	XXX
Transfer to Proposed Dividends		XXX	XXX
Balance c/f to Balance Sheet		<u>XXX</u>	<u>XXX</u>
Total:		<u>XXX</u>	<u>XXX</u>
Balance in Profit & Loss A/c:		<u>XXX</u>	<u>XXX</u>

Note: Students shall ensure that part of profit earned during current year is transferred as statutory reserve @ 25% even if question is silent in the examination while attempting question on preparation of Financial Statements.

Cash Reserve (Section 18): Every scheduled bank has to maintain a cash reserve at least to the extent of 4% of its demand and time liabilities in India. Cash reserve can be maintained by way of balance in a current account with the Reserve Bank of India or by way of net balance in current accounts.

Liquidity Norms (Section 24): Banking companies have to maintain sufficient liquid assets in the normal course of business. In order to safeguard the interest of depositors and to prevent banks from overextending their resources, liquidity norms have been settled and given statutory recognition. Every banking company has to maintain in cash, gold or unencumbered approved securities, an amount not less than 21.5% of its demand and time liabilities in India. These norms may change as per RBI guidelines.

Note: CRR & SLR regularly revised by RBI with in 3 or 6 months as case may be.

Schedule 13 [Interest Received]

Particulars	For year ended 31.03. (Current year)	For year ended 31.3. (Previous year)
Interest & Discounting charges [Net of Rebate on bills discounted]	XXX	XXX
Interest Received on Investments	XXX	XXX
Interest on balance with RBI & Other Banks	XXX	XXX
Other Incomes	XXX	XXX
Grand Total:	XXX	XXX

Schedule 14 [Other Income]

Particulars	For year ended 31.03. (Current year)	For year ended 31.3. (Previous year)
Commission, Exchange & Brokerage	XXX	XXX
Profit on sale of Investments	XXX	XXX
[Less: Loss on sale of investment]		
Profit on revaluation of Investments	XXX	XXX
[Less: Loss on revaluation of Investment]		
Profit on sale of Assets	XXX	XXX
[Less: Loss on sale of Assets]		
Profit on exchange transactions	XXX	XXX
[Less: Loss on exchange transactions]		
Income earned by way of dividends etc. from subsidiaries /companies and/ or joint ventures abroad/in India	XXX	XXX
Miscellaneous income	XXX	XXX
Grand Total:	XXX	XXX

Note: Under items II to V figures may be shown in brackets.

Schedule 15 [Interest paid]

Particulars	For year ended 31.03. (Current year)	For year ended 31.3. (Previous year)
Interest on deposits	XXX	XXX
Interest on RBI/Inter-bank borrowings	XXX	XXX
Other expenses	XXX	XXX
Grand Total:	XXX	XXX

Schedule 16 [Administration & Others Expenses]

Particulars	For year ended 31.03._	For year ended 31.3._
Payments & Provisions for employees	XXX XXX	XXX XXX
Rent, Taxes & Lighting	XXX	XXX
Printing & Stationery	XXX	XXX
Advertisements	XXX	XXX
Depreciation on Bank's property	XXX	XXX
Directors Fees, allowances & expenses	XXX	XXX
Auditors Fee & expenses (including Branch Auditors)	XXX XXX XXX	XXX XXX XXX
Law Charges	XXX	XXX
Postage, Telephones & Telegrams	XXX	XXX
Repairs & Maintenance	XXX	XXX
Insurance		
Other Expenses	XXX	XXX
Grand Total:		

Interest Application: On an account turning NPA, banks should reverse the interest already charged and not collected by debiting Profit and Loss Account, and stop further application of interest. However, banks may continue to record such accrued interest in a Memorandum account in their books. For the purpose of computing Gross Advances, interest recorded in the Memorandum account should not be taken into account.

In the account books of the bank, a customer's loan account is debited with the amount lent to him and the interest accrued thereon is also entered in the debit side of his account. This procedure is followed when the financial position of the customer is good and he will be in a position to return the money on maturity date; the journal entry is:

Debit : Customer's Loan Account

Credit : Interest Account

But if there is any doubt regarding customer's to pay, the debt becomes doubtful and the interest accrued on doubtful debts at the end of the accounting year should not be credited to Interest Account because it remains unrealized and would artificially inflate the profit of the bank company. Interest on doubtful debts should be then credited to Interest Suspense Account and debited to Customer's Loan Account as shown below:

Debit : Customer's Loan Account

Credit : Interest Suspense Account

In the balance sheet Interest Suspense Account will be shown in Liabilities side of to be included in **Schedule 5: Other Liabilities and Provision**, Customer's Loan account with interest included would be shown in the Assets side. At a later date when the loan is repaid by the customer and obviously interest will also be realized, the entry would be:

Debit : Interest Suspense Account

Credit : Interest Account

Finally, the unrealised amount of interest should be transferred to Customer's Loan Account with the help of following entry:

Interest Suspense Account Dr.

To Customer's Loan Account

For Example:

On 31 March 2013, there is an unsecured loan of Rs. 8,00,000 to Shri Pankaj in the loan ledger of a Sona Bank. It is found on enquiry that the financial position of the borrower is bad and doubtful. Interest on the said loan has accrued Rs. 80,000 and is yet to be recorded. During 2013-14, the bank is able to realise only 80% of the outstanding amount on account of customer's bankruptcy. Show how the transactions would be recorded in the books of the Sona bank.

Solution:

Journal Entries
Books of Sona Bank

Date	Particulars	Debit(Rs.)	Credit(Rs.)
31 st march, 2013	Pankaj loan A/c Dr. To Interest suspense A/c (Interest due on doubtful debt credited to interest suspense account)	80,000	80,000
2013 - 2014	Bank account Dr. To Pankaj Loan Account (Recovery of 80% of the total loan amount and interest accrued i.e; $(8,00,000+80,000) \times 0.80$)	7,04,000	7,04,000
	Interest suspense Account Dr. To Interest Account (Amount received against suspense account)	64,000	64,000
	Interest suspense Account Dr. Bad debts Account Dr. To pankaj loan account (Unrecovered portion of the interest reversed and the balance transferred to bad debts account)	16,000 1,60,000	1,76,000

Problem 13: (PRINTED SOLUTION AVAILABLE) From the following information, you are required to prepare Profit and Loss Account of Zee Bank Ltd., for the year ending 31st March, 2013:

Particulars	Rs.	Particulars	Rs.
Interest and Discount	44,00,000	Interest Expended	13,60,000
Other Income	1,25,000	Operating Expenses	13,31,000
Income on investments	5,000	Interest on balance with RBI	25,000

Additional information:

1. Rebate on bills discounted to be provided for Rs. 15,000
2. Classification of advances:

Particulars	Rs.
Standard Assets	25,00,000
Sub-standard Assets	5,60,000
Doubtful Assets not covered by security	2,55,000
Doubtful Assets covered by security	

For 1 year	25,000
For 2 year	50,000
For 3 year	1,00,000
For 4 year	75,000
Loss Assets	1,00,000

3. Make Tax Provision @ 35 %
 4. Profit and Loss A/c (Cr.) Rs. 40,000.

Give schedule relating to Interest earned only. **(PM)** (Ans: Net profit for the year 8,18,187)

(Solve problem no. 10 of assignment problems as rework)

Note: _____

Problem 14: From the following information prepare the Profit & Loss Account of Jawahar Bank Limited for the year ended 31st March, 2013. Also give necessary Schedules.

Particulars	Rs. In 000's
Interest earned on term loans	17.26
Interest earned on term loans classified as NPA	4.52
Interest received on term loans classified as NPA	2.04
Interest on cash credits and overdrafts	38.54
Interest earned but not received on cash credit and overdraft treated as NPA	8.39
Interest on deposits	27.20
Commission	1.97
Profit on sale of investments	11.76
Profit on revaluation of investments	2.76
Income from investments	15.53
Salaries, bonus and allowances	18.75
Rent, taxes and lighting	1.70
Printing and stationary	0.75
Director's fees, allowances expenses	1.33
Law charges	0.22
Repairs and maintenance	0.18
Insurance	0.30
Other information:	Rs. In 000's
Make necessary provision on risk assets:	
1. Sub-standard	15.00
2. Doubtful for one year	7.00
3. Doubtful for two years	2.40
4. Loss assets	0.65
Investments	3700.00

Bank should not keep more than 25% of its investments as 'held-for-maturity' investment. The market value of rest of 75% investments is Rs. 9,00,000 as on 31st March, 2013. **(PM)**

(Ans: Loss for the year (1,854.09))

(Solve problem no. 11 and 12 of assignment problems as rework)

Note: _____

Problem 15: From the following information, prepare Profit and Loss A/c of Dimple Bank as on 31.03.2013:

'000 Rs.	Item	Rs. In 000's
2011-12		2012-13
14.27	Interest and Discount	20,45
1.14	Income from investment	1,12
1.55	Interest on Balance with RBI	1,77
7.22	Commission, Exchange and Brokerage	7,12
12	Profit on sale of investments	1,22
6.12	Interest on Deposits	8,22
1.27	Interest to RBI	1,47
7.27	Payment to and provision for employees	8,55
1.58	Rent, taxes and lighting	1,79
1.47	Printing and stationery	2,12
1.12	Advertisement and publicity	98
98	Depreciation	98
1.48	Director's fees	2,12
1.10	Auditor's fees	1,10
50	Law charges	1,52
48	Postage, telegrams and telephones	62
42	Insurance	52
57	Repairs & maintenance	66

Also give necessary Schedules:

Other Information:

1. The following items are already adjusted with Interest and Discount (Cr.):

Tax Provision ('000 Rs.)	1,48
Provision for Doubtful Debts ('000 Rs.)	92
Loss on sale of Investments ('000 Rs.)	12
Rebate on Bills discounted ('000 Rs.)	55

2. Appropriations:

25% of profit is transferred to Statutory Reserve.

5% of profit is transferred to Revenue Reserve. (SM)

(Ans.: Balance in Profit & Loss Account- 97000)

Note: _____

Schedule – III (See Section 29)

Balance Sheet of Bank as at DD-MM-YYYY (Form-A)

Particulars	Schedule No.	As on 31.03. Current year	As on 31.03. Previous year
CAPITAL AND LIABILITIES:			
Share Capital	1	XXX	XXX
Reserves & Surplus	2	XXX	XXX
Deposits	3	XXX	XXX
Borrowings	4	XXX	XXX
Other Liabilities & Provisions	5	XXX	XXX
Total:		XXX	XXX

ASSETS:			
Cash in hand & Balance with RBI	6	XXX	XXX
Balance with other Banks,		XXX	XXX
Money at call & Short notice	7	XXX	XXX
Investments	8	XXX	XXX
Advances	9	XXX	XXX
Fixed Assets	10	XXX	XXX
Other Assets	11	XXX	XXX
		XXX	XXX
Total:	12	XXX	XXX
Contingent Liabilities	-		
Bills for Collection			
Grand Total:		XXX	XXX

Schedule – 1 [Share Capital]

Particulars	As on 31.03. Current year	As on 31.3. Previous year
Authorised Capital (-----shares of Rs. ---- each)	XXX	XXX
Issued Capital (-----shares of Rs. ---- each)	XXX	XXX
Subscribed Capital (-----shares of Rs. ---- each)	XXX	XXX
Called-up Capital (-----shares of Rs. ---- each)	XXX	XXX
	XXX	XXX
Less: Calls unpaid	XXX	XXX
	XXX	XXX
Add: Forfeited shares	XXX	XXX
Grand Total:	XXX	XXX

Note: For Nationalized banks capital will be fully owned by Central Government.

Schedule – 2 [Reserves & Surplus]

Particulars	As on 31.03. Current year	As on 31.3. Previous year
Statutory Reserve:		
Opening Balance	XXX	XXX
Additions during the year	XXX	XXX
Deductions during the year	XXX	XXX
Capital Reserve:		
Opening Balance	XXX	XXX
Additions during the year	XXX	XXX
Deductions during the year	XXX	XXX
Securities premium:		
Opening Balance	XXX	XXX
Additions during the year	XXX	XXX
Deductions during the year	XXX	XXX
Revenue & Other Reserves:		
Opening Balance	XXX	XXX
Additions during the year	XXX	XXX
Deductions during the year	XXX	XXX
Balance in P&L A/c:		
	XXX	XXX
Grand Total:	XXX	XXX

Schedule – 3 [Deposits]

Particulars	As on 31.03. Current year	As on 31.3. Previous year
Demand Deposits:		
From Banks	XXX	XXX
From Others	XXX	XXX
Savings Deposits	XXX	XXX
Fixed Deposits:		
From Banks	XXX	XXX
From Others	XXX	XXX
Total (1+2+3):	XXX	XXX
Deposit with Branches in India	XXX	XXX
Deposit with Branches outside India	XXX	XXX
Grand Total:	XXX	XXX

Schedule – 4 [Borrowings]

Particulars	As on 31.03. Current year	As on 31.3. Previous year
Borrowings in India:		
RBI	XXX	XXX
Other Banks	XXX	XXX
Other Institutions & Agencies	XXX	XXX
Borrowings outside India:		
Grand Total:	XXX	XXX

Schedule – 5 [Other Liabilities & Provisions]

Particulars	As on 31.03. Current year	As on 31.3. Previous year
Bills payable	XXX	XXX
Inter Office Adjustments (net) (Credit)	XXX	XXX
Interest Accrued	XXX	XXX
Rebate on Bills Discounted	XXX	XXX
Others: Provisions		
Unclaimed Dividends	XXX	XXX
Employees Insurance fund etc.	XXX	XXX
Grand Total:	XXX	XXX

Schedule – 6 [Cash in Hand & with RBI]

Particulars	As on 31.03. Current year	As on 31.3. Previous year
Cash in hand (including foreign currencies)	XXX	XXX
Balance with RBI		
In current Accounts	XXX	XXX
Other Accounts	XXX	XXX
Grand Total:	XXX	XXX

Schedule – 7 [Balance with Other Banks & Money at Call and Short Notice]

Particulars	As on 31.03. Current year	As on 31.3. Previous year
In India:		
Balance with Bank		
In Current Accounts	XXX	XXX
In Deposit Accounts	XXX	XXX
Money at Call & Short Notice		
With Banks	XXX	XXX

With other Institutions	XXX	XXX
Outside India:		
In Current Accounts	XXX	XXX
In Deposit Accounts	XXX	XXX
Money at Call & Short Notice	XXX	XXX
Grand Total:	XXX	XXX

Schedule – 8 [Investments]

Particulars	As on 31.03. (Current year)	As on 31.3. (Previous year)
In India:		
Government Approved Securities	XXX	XXX
Other Approved Securities	XXX	XXX
Shares	XXX	XXX
Debentures & Bonds	XXX	XXX
Joint Ventures & Subsidiaries	XXX	XXX
Others [to be specified, e.g. Gold]	XXX	XXX
Outside India:		
Government Securities	XXX	XXX
Joint Ventures & Subsidiaries	XXX	XXX
Others [to be specified]	XXX	XXX
Grand Total:	XXX	XXX

Schedule – 9 [Advances]

Particulars	As on 31.03. (Current year)	As on 31.3. (Previous year)
Bills Purchased & Discounted	XXX	XXX
Cash credits & Bank OD	XXX	XXX
Term Loans	XXX	XXX
	Total:	XXX
Advances secured by tangible Assets	XXX	XXX
Secured by Guarantee of Govt.[or] Other Banks	XXX	XXX
Unsecured Advances	XXX	XXX
	Total:	XXX
In India:		
Priority Sector	XXX	XXX
Public Sector	XXX	XXX
Banks	XXX	XXX
Others	XXX	XXX
	Total:	XXX
Outside India:		
Banks	XXX	XXX
Others: Bills Purchased & Discounted	XXX	XXX
Syndicated Loans	XXX	XXX
Others	XXX	XXX
	Grand Total:	XXX

Schedule – 10 [Fixed Assets]

Particulars	As on 31.03. (Current year)	As on 31.3. (Previous year)
Premises		
At cost as on 31 st March of the preceding year	XXX	XXX
Additions during the year	XXX	XXX
Deductions during the year	XXX	XXX
Depreciation to date	XXX	XXX
Other Assets (including furniture & fixtures)		

Additions during the year	XXX	XXX
Deductions during the year	XXX	XXX
Depreciation to date	XXX	XXX
Grand Total:	XXX	XXX

Schedule – 11 [Other Assets]

Particulars	As on 31.03.__(Current year)	As on 31.3.__(Previous year)
Inter office Adjustments (Net) (Debit)	XXX	XXX
Interest accrued	XXX	XXX
Advance Tax/Tax Deducted at source	XXX	XXX
Stationery & Stamps	XXX	XXX
Non Banking Assets acquired in satisfaction of claims	XXX	XXX
Others	XXX	XXX
Grand Total:	XXX	XXX

Schedule – 12 [Contingent Liabilities]

Particulars	As on 31.03.__(Current year)	As on 31.3.__(Previous year)
Claims against the bank not acknowledged as debts	XXX	XXX
Liability on partly paid – up shares	XXX	XXX
Liability on outstanding forward exchange contracts	XXX	XXX
Guarantees given on behalf of constituents		
In India	XXX	XXX
Outside India	XXX	XXX
Acceptances, endorsements & Other Obligations	XXX	XXX
Other items for which bank is contingently liable	XXX	XXX
Grand Total:	XXX	XXX

Problem 16: How will you disclose the following ledger balances in the final accounts of DVD Bank.

Particulars	Rs. In lakhs
Current accounts	700
Saving accounts	500
Fixed deposits	700
Particulars	Rs. In lakhs
Cash credit	600
Term loans	500
Bills discounted and purchased	800

Additional information:

1. Included in the current accounts ledger are accounts overdrawn to the extent of Rs.250 lakhs
2. One of the cash credit account of Rs.10 lakhs (including interest Rs.1 lakhs) is doubtful.
3. 60% of term loans are secured by government guarantees, 20% of cash credits are unsecured, other portion is secured by tangible assets.

(May-2010, PM)

Note: _____

Problem 17: The following are the ledger balances (in Rupees thousands) extracted from the books of Vaishnavi Bank as on March 31, 2013:

Particulars	Dr.	Cr.
Share Capital		19,00,00
Current accounts		9,70,00
Employee security deposits		74,20
Investments in Govt. of India Bonds	9,43,70	
Gold Bullion	1,51,30	
Silver	20,00	
Constituent liabilities for acceptances and endorsements	5,65,00	5,65,00
Borrowings from banks		7,72,30
Building	6,50,00	
Furniture	50,00	
Money at call and short notice	2,60,00	
Commission & Brokerage		2,53,00
Saving accounts		1,50,00
Fixed deposits		2,30,50
Balances with other banks	4,63,50	
Other investments	5,56,30	
Interest accrued on investments	2,46,20	
Reserve Fund		14,00,00
Profit and Loss Account		65,00
Bills for collection	4,35,00	4,35,00
Interest		6,20,00
Loans	18,10,00	
Bills discounted	1,25,00	
Interest	79,50	
Discounts		4,20,00
Rents		6,00
Audit fees	50,00	
Depreciation reserve (furniture)		2,00
Salaries	2,12,00	
Rent, rates and taxes	1,20,00	
Cash in hand and with Reserve Bank	7,50,00	
Miscellaneous income		39,00
Depreciation reserve (building)		8,00
Directors fees	10,00	
Postage	12,50	
Loss on sale of investments	2,00,00	
Branch adjustments	2,00,00	
	79,10,00	79,10,00

Other information:

The bank's Profit and Loss Account for the year ended and Balance Sheet as on 31st March, 2013 are required to be prepared in appropriate form. Further information (in Rupees thousands) available is as follows –

1. Rebate on bills discounted to be provided 40,00
2. Depreciation for the year

Building	50,00
Furniture	5,00
3. Included in the current accounts ledger are accounts overdrawn to the extent of 25,00. (SM)
 (Ans.: Total of Balance Sheet – 61,86,00,000, Profit for the year – 5,59,00,000)
 (Solve problem no. 13 and 14 of assignment problems as rework)

Note: _____

CAPITAL ADEQUACY NORMS

Capital Framework of Banks Functioning in India:

Capital Adequacy Ratio (CAR): Every bank should maintain a minimum capital adequacy ratio based on capital funds and risk assets. As per the prudential norms, all Indian scheduled commercial banks (excluding regional rural banks) as well as foreign banks operating in India are required to maintain capital adequacy ratio (or capital to Risk Weighted Assets Ratio) which is specified by RBI from time to time. At present capital adequacy ratio is 9%.

The capital adequacy ratio is worked out as below:

Capital adequacy ratio is worked out as below:

$$\frac{\text{Capital fund (consist of Tier - I and Tier - II)}}{\text{Risk weighted assets + off balance sheet items}} \times 100$$

The CAR measures financial solvency of Indian and foreign banks. This is in line with international standards based on Basel Committee.

The main objectives of Basel committee were

To stop reckless lending by bank

To strengthen the soundness and stability of the banking system and

To have a comparative footing of the banks of different countries.

Under existing Basel norms, Banks can lend only about 22 times of their core Capital.

Tier –I and Tier-II capital for Indian Banks: Tier I capital (also known as core capital) it comprises elements that are the most permanent and readily available support to a bank against unexpected losses. It is calculated as follows:

Particulars	Rs.
A. Paid Up Capital	XXX
B. Statutory reserves	XXX
C. Securities premium	XXX
D. Capital Reserve	XXX
(Representing surplus on sale of assets and held in a separate account only)	
E. Other Disclosed Free Reserves	XXX
Total	
Less : (a) Equity investments in subsidiaries (xxx)	XXX
(b) Intangible Assets (xxx)	
(c) Current and brought forward losses (xxx)	
Tier I capital	(XXX) XXX

(C) TIER II CAPITAL: It comprise elements that are less permanent –in-nature or less readily available than those comprising Tier I capital. It calculates as follows:

A. undisclosed reserves and fully paid up cumulative perpetual Preference shares	XXX
B. Revaluation Reserve xxx Less: discount @ 55% <u>(xxx)</u>	XXX
C. General provision and loss reserves (not exceeding 1.25% of weighted risk assets)	XXX
D. Hybrid debt capital instruments	XXX
E. Subordinated debt (having initial maturity period of at least 5 years and remaining maturity period of more than 1 year) (not exceeding 50% Of tier I capital)	XXX
Tier II capital (not exceeding tier I capital)	XXX

RISK ADJUSTED VALUE OF ON BALANCE SHEET ITEMS

(a) Risk adjusted value of on balance sheet items

= book value of on balance sheet item x risk weight assigned by RBI to this item

In brief the important weights for the purpose of Ascertainment of CAR are as follows:

S. No	Item of assets Risk	Weight
1.	Cash, balances with RBI	0
2.	Balances in current account with other banks	20
3.	Investments in Government Securities	0
4.	Other Investments	100
5.	Loans & Advances guaranteed by Government	0
6.	Other Loans & Advances	100
7.	Bank Premises, Furniture & Fittings etc.	100
8.	All Off- Balance Sheet Items like LC's, LG's, Bills Accepted	100
9.	Non funded exposure to Real estate	150

Calculate risk weighted assets ratio as follows:

Risk weighted assets ratio = capital funds x 100 / risk adjusted assets

Problem 18: A Commercial Bank has the following capital funds and assets. Segregate the capital funds In to Tier I and Tier II capitals. Find out the risk adjusted asset and risk weighted assets ratio.

Particulars	(Rs. in Crores)
Equity share capital	500.00
Statutory reserve	270.00
Capital reserve (of which Rs.16 crores were due to revaluation of assets and the balance due to sale of capital asset)	78.00
ASSETS:	
Cash balance with RBI	10.00
Balance with other banks	18.00
Other investments	36.00
Loans and advances:	
(i) Guaranteed by the Government	16.50
(ii) Others	5,675.00
Premises, furniture and fixtures	78.00

Off-Balance Sheet items:	
(i) Guarantee and other obligations	800.00
(ii) Acceptances, endorsements and letter of credit	4,800.00

(PM)

(Nov-2010)

(Solve problem no. 15 of assignment problems as rework)
(Ans.: Capital Adequacy Ratio – 7.37%)

Note: _____

ASSIGNMENT PROBLEMS

Problem 1: Given below interest on advances of a Commercial Bank

(Rs. in Lakhs)

Particulars	Performing Assets		NPA	
	Interest Earned	Interest Received	Interest Earned	Interest Received
Term Loans	120	80	75	5
Cash credit & OD	750	620	150	12
Bills purchased & discounted	150	150	100	20

Find out the income to be recognized for the year ended 31st March 2012. (SM)

(Ans.: Total Income to be recognized: 1057L)

Problem 2: From the following information, find out the amount of provisions to be shown in the Profit and Loss Account of a AG bank.

Assets	Rs. in lakhs
Standard	5000
Sub-standard	4000
Doubtful : for one year	800
: for three years	600
: for more than three years	200
Loss Assets	1000

(SM) (Ans.: Total Amount of Provision – 2260L)

Problem 3:

Outstanding Balances	Rs.4 lakhs
ECGC Cover	50%
Period for which the advance has remained doubtful	More than 3 years remained doubtful (as on March, 31, 2013)
Value of security held	Rs.1.50 lakhs

You are required to calculate provisions.

(SM)

(Ans.: Total Amount of Provision – 2.75L)

Problem 4: Rajatapeeta Bank Ltd. had extended the following credit lines to a Small Scale Industry, which had not paid any Interest since March, 2006:

Particulars	Term loan	Export loan
Balance outstanding on 31.03.2012	35 LAKHS	30 LAKHS
DICGC/ECGC COVER	40%	50%
Securities held	15 LAKHS	10 LAKHS
Realisable value of securities	10 LAKHS	08 LAKHS

Compute the necessary provisions to be made for the year ended 31st March, 2012. (PM)

(Ans: Total provision on Term loan 25L, Export loan 19L)

Problem 5: From the following information find out the amount of provisions required to be made in the Profit & Loss Account of a commercial bank for the year ended 31st March, 2012:

- Packing credit outstanding from Food Processors Rs. 60 lakhs against which the bank holds securities worth Rs. 15 lakhs. 40% of the above advance is covered by ECGC. The above advance has remained doubtful for more than 3 years.
- Other advances:

Assets Classification	Rs.
Standard	3,000
Sub-standard	2,200
Doubtful :	
For one year	900
For two years	600
For three years	400
For more than 3 years	300
Loss Assets	600

Problem 6: The following is an extract from Trial Balance of overseas Bank as at 31st March, 2013

Particulars	Debit Rs.	Credit Rs.
Bills discounted	12,64,000	----
Rebate on bills discounted not due on 31 st March, 2012	----	22,160
Discount received		1,05,708

An analysis of the bills discounted is as follows:

Rs.	Due date in 2013	Rate of Discount in % (p.a)
1,40,000	June 5 th	14
4,36,000	June 12 th	14
2,82,000	June 25 th	14
4,06,000	July 6 th	16

Calculate Rebate on Bills Discounted as on 31-3-2013 and show necessary journal entries. (SM)

(Ans: Rebate on bills discounted 85,551)

Problem 7: Accounting treatment of discounted bills: As on 31 December 2009, the books of the Pankaj Bank, include among others the following balances: (SM)

Particulars	Rs.
Rebate on bills discounted (01.01.2009)	3,20,000
Discount received	46,00,000
Bills discounted and purchased	3,15,47,000
Bills for collection	12,00,000

Throughout 2009 the Bank's rate for discounting has been 18% and the rate of commission on bills for collection, 4%.

On investigation and analysis, the average due date for the bills discounted and purchased in calculated is 15 February, 2010 and that for bills for collection is 15 January, 2010

Show the calculation of the discount earned for the year 2010. Show also the journal entries to adjust above mentioned accounts. **(Nov - 2003)** *(Ans.: Discount Earned - 715642)*

Problem 8: On 31st March, 2010, Uncertain Bank had a balance of Rs.9 crores in "rebate on bills discounted" account. During the year ended 31st March, 2011, Uncertain Bank discounted bills of exchange of Rs.4,000 crores charging interest at 18% per annum the average period of discount being for 73 days. Of these, bills of exchange of Rs.600 crores were due for realisation from the acceptors/customers after 31st March, 2011, the average period outstanding after 31st March, 2011 being 36.5 days.

Uncertain Bank asks you to pass journal entries and show the ledger accounts pertaining to:

Discounting of bills of exchange and

Rebate on bills discounted.

(SM)

(Ans.: Totals Of Discount On Bills A/C 153.00, Rebate On Bills Discounted 19.80)

Problem 9: On 01.04.2013 bills for collection was 7 lacs. During 2013-14 bills received for collection amounted to 64.5 lacs. Bills collected were 47 lacs. Bills dishonoured was 5.5 lacs. Prepare Bills for collection (Assets) and Bills for Collection (Liabilities) Accounts. **(SM)**

(Ans: Total of bills for collection a/c 71.5L)

Problem 10: From the following information, calculate the amount of Provisions and Contingencies and prepare Profit and Loss Account of Hamara Bank Limited' for the year ending 31st March, 2013:

Particulars	Rs.	Particulars	Rs.
Interest and discount	4,430	Interest expended	1,360
Other Income	125	Operating Expenses	1,331
Interest accrued on Investments	10		

Additional Information:

Particulars	Rs. in lakhs
(i) Rebate on bills discounted to be provided for	15
(ii) Classifications of Advances:	
Standard Assets	2,500
Sub-Standard Assets	560
Doubtful Assets not covered by security	255
Doubtful Assets covered by security	
For 1 year	25
For 2 years	50
For 3 years	100
For 4 years	75
Loss Assets	100
(iii) Make tax provisions @ 35% of the profit.	
(iv) Profit and Loss Account (Cr.) brought forward from the previous year	40

(PM)

(Ans: Total provision 590.25L and Net profit for the year 824.69)

Problem 11: From the following information, prepare Profit and Loss A/c of KC Bank for the year ended 31st March, 2013.

Items	000 Rs.
Interest on cash credit	18,20
Interest on overdraft	7,50
Interest on term loans	15,40
Interest on investments	8,40
Interest on balance with RBI	1,50
Commission on remittances and transfer	75
Commission on letters of credit	1,18
Commission on government business	82
Profit on sale of land and building	27
Loss on exchange transactions	52
Interest paid deposit	27,20
Auditors' fees and allowance	1,20
Directors' fees and allowances	2,50
Advertisements	1,80
Salaries, allowances and bonus to employees	12,40
Payment to Provident Fund	2,80
Printing and stationery	1,40
Repairs and maintenance	50
Postage, telegrams, telephones	80

Other Information:

1. Interest on NPA is as follows:

Particulars	Earned (Rs.'000)	Collected (RRs.'000)
Cash credit	8,20	4,00
Overdraft	450	1,00
Term Loans	750	2,50

2. Classification of advances ('000 Rs.)

Standard	30,00
Sub-standard	11,20
Doubtful assets not covered by security	2,00
Doubtful assets covered by security for one year	50
Loss Assets	2,00

3. Investments

27,50

Bank should not keep more than 25% of its investments as 'held-for – maturity' investments. The market value of its rest 75% investments is Rs.19,75,000 as on 31.03.2013. (SM)

(Ans.: Balance in Profit & Loss Account- (16,60,000))

Problem 12: Following information is furnished to you by Well-to-do Bank Ltd. for the year ended 31st March, 2008: (Rs. in thousands)

Particulars	Rs.
Interest and discount - (Income)	8,860
Interest on public deposits – (Expenditure)	2,720
Operating expenses	2,662
Other incomes	250
Provisions and contingencies (it includes provision in respect of Non-performing Assets (NPAs) and tax provisions)	2,004
Rebate on bills discounted to be provided for as on 31.3.2008	30

Classification of Advances:	
Standard Assets	5,000
Sub-standard Assets	1,120
Doubtful Assets – fully unsecured	200
Doubtful assets – fully secured	
Less than 1 year	50
More than 1 year but less than 3 years	300
More than 3 years	300
Loss assets	200

You are required to prepare: Profit and Loss Account of the Bank for the year ended 31st March, 2008. Provision in respect of advances. (RTP – NOV 2009)

(Ans.: Net profit/loss for the year Rs. 2,677.5)

Problem 13: The following figures are extracted from the books of KLM Bank Ltd. as on 31-03-2013:

Particulars	Rs.
Interest and discount received	38,00,160
Interest paid on deposits	22,95,360
Issued and subscribed capital	10,00,000
Salaries and allowances	2,50,000
Directors Fees and allowances	35,000
Rent and taxes paid	1,00,000
Postage and telegrams	65,340
Statutory reserve fund	8,00,000
Commission, exchange and brokerage	1,90,000
Rent received	72,000
Profit on sale of investment	2,25,800
Depreciation on assets	40,000
Statutory expenses	38,000
Preliminary expenses	30,000
Auditor's fee	12,000

The following further information is given:

- 1) A customer to whom a sum of Rs. 10 lakhs was advanced has become insolvent and it is expected only 55% can be recovered from his estate.
- 2) There was also other debts for which a provisions of Rs. 2,00,000 was found necessary.
- 3) Rebate on bill discounted on 31-03-2012 was Rs. 15,000 and on 31-03-2013 was Rs. 20,000.
- 4) Income tax of Rs. 2,00,000 is to be provided.

The directors desire to declare 5% dividend.

Prepare the Profit and Loss account of KLM Bank Ltd. for the year ended 31-03-2013 and also show, how the Profit and Loss account will appear in the Balance Sheet if the Profit and Loss account opening balance was NIL as on 31-03-2012. (PM)

Problem 14: From the following information, prepare a Balance Sheet of ADT International Bank as on 31st March, 2013 giving the relevant schedules and also specify at least four important Principal Account Polices:

Rs. in lakhs

Particulars	Dr.	Cr.
Share Capital:		
19,80,000 Shares of Rs.10 each		198.00
Statutory Reserve		231.00

Net Profit before Appropriation		150.00
Profit and Loss Account		412.00
Fixed Deposit Account		517.00
Savings Deposit Account		450.00
Current Accounts	28.00	520.12
Bills Payable		0.10
Cash credits	812.10	
Borrowings from other Banks		110.00
Cash in Hand	160.15	
Cash with RBI	37.88	
Cash with other Banks	155.87	
Money at Call	210.12	
Gold	55.23	
Government Securities	110.17	
Premises	155.70	
Furniture	70.12	
Term Loan	792.88	
	2,588.22	2,588.22

Additional Information:

Bills of collection	18,10,000
Acceptances and endorsements	14,12,000
Claims against the Bank not acknowledged as debts	55,000
Depreciation charges – Premises	1,10,000
Furniture	78,000

50% of the Term Loans are secured by Government guarantees. 10% of cash credit is unsecured.

(SM) Ans.: Total of Balance Sheet – 25,88.22L)

Problem 15: A commercial bank has the following capital funds and assets. Segregate the capital funds into Tier I and Tier II capitals. Find out the risk-adjusted asset and risk weighted assets ratio:

Capital Funds	(Figures in Rs. lakhs)
Equity Share Capital	4,80,00
Statutory Reserve	2,80,00
Capital Reserve (of which Rs. 280 lakhs were due to revaluation of assets and the balance due to sale)	12,10
Assets:	
Cash Balance with RBI	4,80
Balances with other Bank	12,50
Claims on Banks	28,50
Other Investments	782,50
Loans and Advances:	
(i) Guaranteed by government	128,20
(ii) Guaranteed by public sector undertakings of Government of India	702,10

(iii) Others	52,02,50
Premises, furniture and fixtures	182,00
Other Assets	201,20
Off-Balance Sheet Items: Acceptances, endorsements and letters of credit	37,02,50

(SM)

(Ans.: Capital Adequacy Ratio – 7.65%)

Problem 16: Following facts have been taken out from the records of M/s. Sneha Bank Ltd. in respect of the year ending March 31, 2015:

- On 1-4-2014 Bills for collection were Rs. 10,15,000. During 2014-15 bills received for collection amounted to Rs. 89,75,000, bills collected were Rs. 64,50,000 and bills dishonoured and returned were Rs. 11,25,000. Prepare Bills for collection (Assets) Account and bills for Collection (Liability) Account.
- On 1-4-2014, Acceptance, Endorsement, etc. not yet satisfied amounted to Rs. 27,50,000. During the year under question, Acceptances, Endorsements, Guarantees etc., amounted to Rs. 67,50,000. Bank honoured acceptances to the extent of Rs. 44,50,000 and client paid of Rs. 15,00,000 against the guaranteed liability. Clients failed to pay Rs. 4,00,000 which the Bank had to pay. Prepare the "Acceptances, Endorsements and other obligations Account" as it would appear in the General Ledger.
- It is found from the books, that a loan of Rs. 50,00,000 was advanced on 30.09.2014 @ 14% p.a. Interest payable half yearly; but the loan was outstanding as on 31.3.2015 without any payment recorded in the meantime, either towards principal or towards interest. The security for the loan was 1,00,000 fully paid shares of Rs. 100 each (the market value was Rs. 98 per share as per the Stock Exchange information as on 30th September, 2014). But due to fluctuations, the price fell to Rs. 45 per share in January 2015. On 31-3-2015, the price as per Stock Exchange rate was Rs. 85 per share. State how would you classify the loan as secured/unsecured in the Balance Sheet of the Company.
- The following balances are extracted from the Trial Balance as on 31.3.2015:

	Debit(Rs)	Credit(Rs)
Interest and discounts		98,00,000
Rebate for bills discounted		45,000
Bills discounted and purchased	5,00,000	

It is ascertained that the proportionate discounts not yet earned for bills to mature in 2014-15 amount to Rs. 24,000. Prepare ledger accounts.

THEORY QUESTIONS

- Write short notes on Slip system of posting and double voucher system.

Answer:

Slip system of posting: Under this system used in banking companies, entries in the personal ledgers are made directly from vouchers instead of being posted from the day book. Pay-in-slips (used by the customers at the time of making deposits) and the cheques are used as slips which form the basis of most of the transactions directly recorded in the accounts of customers. As the slips are mostly filled by the customers themselves, this system saves a lot of time and labour of the bank staff. The vouchers entered into different personal ledgers are summarised on summary sheets every day, totals of which are posted to the different control accounts which are maintained in the general ledger.

Double voucher system: In a bank, two vouchers are prepared for every transaction not involving cash—one debit voucher and another credit voucher. This system is called double voucher system. The vouchers are sent to different clerks who make entries in books under their charge. This is designed to increase the quality of internal check. (PM)

2. What are the restrictions imposed by the Banking Regulations Act, 1949 on payment of dividend in case of banking companies?

Answer: As per Section 15 of the Banking Regulations Act 1949, a banking company cannot pay dividend on its shares until all its capitalized expenses including preliminary expenses, organization expenses, share selling commission, brokerage, amount of losses incurred by tangible assets and any other item of expenditure not represented by tangible assets are completely written off. However, as per the Act, it is permissible for a banking company to pay dividend on its shares without writing off:

- The depreciation in the value of its investments in approved securities where such depreciation has not actually been capitalized or otherwise accounted for as a loss.
- The depreciation in the value of its investments in shares, debentures or bonds (other than approved securities) where adequate provision for such depreciation has been made to the satisfaction of its auditors; and
- The bad debts where adequate provision for such bad debts has been made to the satisfaction of its auditors.

(PM)

3. Write short note on Classification of investments by a banking company.

Answer: The investment portfolio of a bank would normally consist of both approved securities (predominantly government securities) and other securities (shares, debentures, bonds etc.).

Banks are required to classify their entire investment portfolio into three categories:

- Held-to-maturity: Securities acquired by banks with the intention to hold them upto maturity should be classified as 'held-to-maturity'.
- Held-for-trading: Securities acquired by banks with the intention to trade by taking advantage of short-term price interest rate movements should be classified as held-for trading. These investments are to be sold within 90 days.
- Available-for-sale Securities which do not fall within the above two categories should be classified as available-for-sale.

Banks may shift investments to / from held to maturity category with the approval of the Board of Directors once a year.

Banks may shift investments to / from held for sale category to held for trading category with the approval of the Board of Directors. In case of exigency if the shift has been approved by the Chief Executive of the Bank or by the head of ALCO, the same must be ratified by the Board of Directors.

Shifting of investments from held for trading category to available for sale category is generally not allowed. However, in case such investments are not sold within the stipulated time of 90 days due to exceptional circumstances such as tight liquidity conditions in the market, extreme volatility etc, the same may be shifted to the available for sale category with the approval of the Board of Directors. (PM)

4. Write short note on Non-Performing Assets.

Answer: According to the Master Circular of the RBI dated July 1, 2013 an asset, including a leased asset becomes non performing when it ceases to generate income for the bank.

A non performing asset is a loan or an advance where:

- Interest and / or installment of principal remain overdue for a period of more than 90 days in respect of a term loan;
- The account remains out of order in respect of an overdraft / cash credit. An account is deemed to be out of order if the outstanding balance remains continuously in excess of the sanctioned borrowing power or though where the outstanding balance is less than the sanctioned borrowing limits there have been no credits in the account for a continuous period of 90 days prior to the Balance Sheet date or where the credits are not enough to cover the interest debited during the same period.

- c. The bill remains overdue for a period of more than 90 days in the case the bill was purchased or discounted;
- d. The installment of principal or interest thereon has remained overdue for two seasons for short duration crops
- e. The installment of principal or interest thereon has remained overdue for one season for long duration crops
- f. The amount of liquidity facility remains outstanding for more than 90 days in respect of securitization transaction undertaken in terms of the guidelines on securitization issued on 1st Feb 2006
- g. The overdue receivables beyond 90 days from the specified date of due payment, such receivables representing positive market to market value of a derivative contract

Income from the non-performing assets can only be accounted for as and when it is actually received.

Necessary provision should be made for non-performing assets after classifying them as substandard, doubtful or loss asset as the case may be. (PM)

5. Write short note on Classification of advances in the case of a Banking Company.

Answer:

Banks have to classify their advances into four broad groups:

- a. **Standard Assets**—Standard assets are those which do not disclose any problems and which do not carry more than normal risk attached to the business. Such an asset is not a NPA as discussed earlier.
- b. **Sub-standard Assets** — Sub-standard asset is one which has been classified as NPA for a period not exceeding 12 months. In the case of term loans, those where installments of principal are overdue for period exceeding one year should be treated as sub-standard. In other words, such an asset will have well-defined credit weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the bank will sustain some loss if deficiencies are not corrected.
- c. **Doubtful Assets** — A doubtful asset is one which has remained sub-standard for a period of at least 12 months. A loan classified as doubtful has all the weaknesses inherent in that classified as sub-standard with added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.
- d. **Loss Assets** — A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspectors but the amount has not been written off, wholly or partly. In other words such assets are considered uncollectable or if collected of such low value that their being shown as bankable assets is not warranted even though there may be some salvage or recoverable value. The classification of advances should be done taking into account (i) Degree of well defined credit weakness and (ii) Extent of dependence on collateral security for the recovery of dues.

The above classification is meant for the purpose of computing the amount of provision to be made in respect of advances. (PM)

6. Mention the condition when a cash credit overdraft account is treated as 'out of order'.

Answer:

A cash credit overdraft account is treated as NPA if it remains out of order for a period of more than 90 days. An account is treated as 'out of order' if any of the following conditions is satisfied:

- a. The outstanding balance remains continuously in excess of the sanctioned limit/drawing power.
- b. Though the outstanding balance is less than the sanctioned limit/drawing power –

- i. there are no credits continuously for more than 90 days as on the date of balance sheet; or
- ii. credits during the aforesaid period are not enough to cover the interest debited during the same period. (PM)

7. Write short notes (Nov-2000)

Acceptances and endorsements

Assets classification borrower – wise in bank accounts. (PM)

ABC ANALYSIS

	A Category	B Category	C Category
Class Room Problems	5, 6, 10, 11, 12, 15, 18	1, 2, 3, 4, 7, 8, 9, 17	13, 14, 16
Assignment Problems	1, 2, 3, 4, 5, 6, 7, 9, 11, 15	8, 12, 13, 16	10, 14

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To **MASTER MINDS**, Guntur

Verified by: Hari Narayana Sir,
Manjunath Sir, Naresh Sir.
Executed by: Rajasekhar Sir.

MASTER MINDS
THE END