

## 9. NON - BANKING FINANCIAL COMPANIES

### ASSIGNMENT SOLUTIONS

#### PROBLEM NO. 1

Statement showing calculation of 'Net Owned Fund'

		Rs. In lakhs
Paid up Equity Capital		60
Free Reserves		300
Less: Deferred expenditure		(120)
	A	240
Investments		
In shares of subsidiaries and group companies		60
In debentures of subsidiaries and group companies		60
	B	120
10% of A		24
Excess of Investment over 10% of A (120-24)	C	96
Net Owned Fund [(A) - (C)] (240-96)		144

#### PROBLEM NO. 2

Calculation of provision required on advances as on 31<sup>st</sup> March, 2018 (as per the Non-Banking Financial Company - Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016)

Particulars	Amount Rs.in lakhs	Percentage of provision	Provision Rs.in lakhs
Standard assets	67,200	0.25	168.00
Sub-standard assets	5,360	10	536.00
Secured portions of doubtful debts:			
– Upto one year	1,280	20	256.00
– One year to three years	360	30	108.00
– More than three years	120	50	60.00
Unsecured portions of doubtful debts	388	100	388.00
Loss assets	192	100	192.00
			<u>1,708.00</u>

Calculation of provision required on advances as on 31<sup>st</sup> March, 2018 (as per the Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016)

Particulars	Amount Rs.in lakhs	Percentage of provision	Provision Rs.in lakhs
Standard assets	67,200	0.40	268.80
Sub-standard assets	5,360	10	536.00
Secured portions of doubtful debts–			
– upto one year	1,280	20	256.00
– one year to three years	360	30	108.00
– more than three years	120	50	60.00
Unsecured portions of doubtful debts	388	100	388.00
Loss assets	192	100	192.00
			<u>1,808.80</u>

**PROBLEM NO. 3**

Quoted current investments for each category shall be valued at cost or market value, whichever is lower. For this purpose, the investment in each category shall be considered scrip wise and the cost and market value aggregated for all investments in each category. If the aggregate market value for the category is less than the aggregate cost for that category, the net depreciation shall be provided for or charged to the profit and loss account. If the aggregate market value for category exceeds the aggregate cost for the category, the net appreciation is ignored. Therefore, depreciation of a particular item of investments can be adjusted within the same category of investments.

**Value of Investments as on 31.3.2013**

Type of Investment	Valuation Principle	Value in Rs. lakhs
Equity Shares (Aggregated)	Lower of cost or market Value	406.50
Mutual Funds	NAV (Market value, assumed)	54.00
Government securities	Cost	135.00
		<b>595.50</b>

As per para 14 of AS 13 "Accounting for Investments", the carrying amount for current investments is the lower of cost and market price. Sometimes, the concern of an enterprise may be with the value of a category of related current investments and not with each individual investment, and accordingly, the investments may be computed at the lower of cost and market value computed category-wise.

Inter category adjustments of appreciation and depreciation in values of investments cannot be done. It is not possible to offset depreciation in investment in mutual funds against appreciation of the value of investments in equity shares and Government securities.

**PROBLEM NO. 4**

Calculation of provision required on advances as on 31st March, 2018 (as per the Non-Banking Financial Company - Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016)

	Amount Rs.in lakhs	Percentage of provision	Provision Rs.in lakhs
Standard assets	8,400	0.25	21
Sub-standard assets	670	10	67
Unsecured portions of doubtful debts	50	100	50
Loss assets	24	100	<u>24</u>
			<b><u>162</u></b>

Calculation of provision required on advances as on 31st March, 2018 (as per the Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016)

	Amount Rs.in lakhs	Percentage of provision	Provision Rs.in lakhs
Standard assets	8,400	0.40	33.6
Sub-standard assets	670	10	67
Unsecured portions of doubtful debts	50	100	50
Loss assets	24	100	<u>24</u>
			<b><u>174.6</u></b>

**PROBLEM NO. 5**

- i) Since, the hire-purchaser paid the first instalment due on 31.03.2017, the notional principal outstanding on 01-04-2017 was Rs.246.20 lakhs (Refer W.N.).

In the year ended 31.03.2018, the instalment due of Rs.70 lakhs has not been received. However, it was due on 31.03.2018 i.e. on the balance sheet date, and therefore, it will be classified as standard asset. Abhiram Ltd. will recognize Rs.13.29 lakhs as interest income included in that due instalment as this should be treated as finance charge. (Refer W.N.)

## ii) The Net Book Value of the assets as on 31.3.2018:

Particulars	Rs.in lakhs
Overdue instalment	70.00
Instalments not due (Rs.70 lakhs x 3)	210.00
	280.00
<b>Less:</b> Finance charge not matured and hence not credited to P&L A/c (10.23 + 7.00 + 3.28)	(20.51)
	259.49
<b>Less:</b> Provision as the NBFC prudential norms (Refer point (iii))	49.49
Net book value of assets for Abhiram Ltd.	<b>210.00</b>

## iii) Amount of Provision:

	Rs.in lakhs
Overdue instalment	70.00
Instalments not due (Rs.70 lakhs x 3)	210.00
	280.00
<b>Less:</b> Finance charge not matured and hence not credited to P&L A/c (10.23 + 7.00 + 3.28)	(20.51)
	259.49
<b>Less:</b> Depreciated value (cash price less depreciation for two years on SLM @ 20%*) [350 - (350 x 20% x 2Y)]	(210.00)
Provision to be created as the NBFC prudential norms	<b>49.49</b>

Since, the instalment of Rs.70 lakhs not paid, was due on 31.03.2018 only, the asset is classified as standard asset. Therefore, no provision has been made for it.

## Working Note:

It is necessary to segregate the instalments into principal outstanding and interest components by using I.R.R. @ 5.40%.

Time	Opening outstanding amount (a)	Cash flow (b)	Interest @ 5.4% (c) = (a x 5.4%)	Principal repayment (d) = (b - c)	Closing outstanding (e) = (a - d)
31-3-2016		(300)	----	---	300.00
31-3-2017	300.00	70	16.20	53.80	246.20
31-3-2018	246.20	70	13.29	56.71	189.49
31-3-2019	189.49	70	10.23	59.77	129.72
31-3-2020	129.72	70	7.00	63.00	66.72
31-3-2021	66.72	70	3.28*	66.72	0.00

\* Difference in interest value is due to approximation.

**PROBLEM NO. 6**

On the basis of given information in respect of hire purchased assets, additional provision shall be made as under:

Asset Funded	Period overdue	Net book value (Rs. In crores)	Provision % of Net book value	Provision (Rs. In crores)
LCD televisions	Up to 12 months	20,000	-	-
Washing machines	For 24 months	2,000	10%	200
Refrigerators	For 30 months	1,250	40%	500
Air conditioners	For 45 months	600	70%	420
Mobile phones	For 60 months	100	100%	100
<b>Total Provision</b>				<b>1,220</b>

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**THE END**