

9. NON-BANKING FINANCIAL COMPANIES

NO. OF PROBLEMS IN 42E OF CA INTER: CLASSROOM -06, ASSIGNMENT - 07

NO. OF PROBLEMS IN 41.5E OF CA INTER: CLASSROOM - 06, ASSIGNMENT - 06

NO. OF PROBLEMS IN 42.5(2E) OF CA INTER: CLASSROOM - 06, ASSIGNMENT - 06

MODEL WISE ANALYSIS OF PAST EXAM PAPERS

MODEL NO.	M-11	N-11	M-12	N-12	M-13	N-13	M-14	N-14	M-15	N-15	M-16	N-16	M-17	N-17	M-18	N-18	M-19
Model – 1	-	-	-	-	-	-	-	-	-	-	-	4	-	-	-	-	-
Model – 2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Model – 3	-	-	-	-	4	-	-	-	-	-	-	-	-	-	-	10	-
Model – 4	-	-	-	-	-	-	4	-	-	-	-	-	-	-	5	-	5
Model – 5	-	-	-	-	-	-	-	-	8	-	-	-	8	-	-	-	-
Model – 6	-	-	-	-	-	-	-	-	-	5	-	-	-	-	-	-	-

Model – 1 : Net owned fund

Model – 2 : Asset Classification

Model – 3 : Provisioning Norms

Model – 4 : Provisioning Norms for Lease and Hire Purchase Assets

Model – 5 : Net Book Value & Provision as per prudential norms for Hire Purchase Assets

Model – 6 : Accounting for investment by NBFC

Problem No. in this material	Problem No. in new SM	Problem No. in old PM	RTP	MTP	Previous Exams	Remarks
CRD 1	ILL 1	-	-	-	-	CA INTER
CRD 2	ILL 2	-	-	-	-	CA INTER
CRD 3	ILL 3	-	-	-	-	CA INTER
CRD 4	PQ 2	-	-	-	M18	CA INTER
CRD 5	-	Q 10	-	-	-	CA FINAL
CRD 6	-	-	-	-	-	-
ASG 1	-	-	-	-	-	-
ASG 2	-	-	M17	-	-	CA FINAL
ASG 3	-	-	N13	-	-	CA FINAL
ASG 4	-	-	M18	-	-	CA INTER
ASG 5	-	-	-	-	M17	CA FINAL
ASG 6	-	-	-	-	M19	CA INTER
TQ 1	TQ 1	-	-	M18	-	CA INTER
TQ 2	-	-	-	-	-	-
TQ 3	TQ 1	-	-	-	-	CA INTER
TQ 4	-	EX.1	-	-	-	CA FINAL

1. INTRODUCTION:

- Non-banking financial companies play an important and crucial role in broadening access to financial services, enhancing competition and diversification of the financial sector.
- There are different types of institutions involved in financial services in India. These include commercial banks, financial institutions(FIs) and non-banking finance companies(NBFCs)

- Due to the financial sector reforms, NBFCs have been emerged as an integral part of the Indian financial system. NBFCs frequently act as supplier of loans & credit facilities and accept deposits, operating mutual funds and similar other functions.
 - NBFCs are competitive and complimentary to banks and financial institutions
2. **DEFINITION:** A Non – Banking Financial Company (NBFC) is a Company registered under the Companies Act 1956/2013, engaged in the business of Loans and advances, acquisition of shares, debentures and other securities, leasing, Hire-purchase, insurance business and chit business.

Section 45 I(f) of Reserve Bank of India (Amendment) Act, 1997 defines a nonbanking financial company as:

- A financial institution which is a company;
- A non-banking institution which is a company with principal business of receiving of deposits, under any scheme or arrangement or in any other manner, or lending in any manner;
- Such other non-banking institution or class of such institutions, as the Reserve Bank with the previous approval of the Central Government may specify by notification in the Official Gazette.

For purposes of RBI (Reserve Bank of India) Directions relating to Acceptance of Public Deposits, non-banking financial company means only the nonbanking institution which is a – “Loan company”, “Investment company”, “Hire purchase finance company”, “Equipment leasing company” and “Mutual benefit financial company”.

3. REGISTRATION AND CLASSIFICATION OF NBFC:

- No NBFC can commence or carry on business of a non-banking financial institution with out obtaining certificate of registration and with out having a **Net owned fund of Rs.200 lakhs**
- Certain categories of NBFCs which are regulated by other regulators are exempted from requirement of registration with RBI subject to certain conditions. The NBFCs which are exempted from registration are as follows:
 - Housing finance companies (Regulated by national housing Bank)
 - Merchant banking companies/ Stock-exchanges/Stock brokers or sub brokers/ venture capital fund companies (Regulated by SEBI)
 - Insurance companies (Regulated by IRDA)
 - Chit fund companies (Respective state governments)
- Based on the kind of activity performed by the NBFC; the NBFCs registered with the RBI are classified as follows
 - Asset finance company
 - Investment company
 - Loan company
 - Infrastructure finance company
 - Systematically important core investment companies
 - Infrastructure debt fund
 - Non-banking financial company - Micro finance institution
 - Non-banking financial company – Factors
 - Mortgage guarantee companies
 - NBFC- Non-cooperative financial holding company

4. **DISTINCTION BETWEEN NBFC AND BANK:** NBFCs perform functions similar to that of banks. However there are following few differences:

S. No.	NBFC	Bank
1.	An NBFC cannot accept demand deposits.	A Bank can accept demand deposits.
2.	An NBFC is not a part of the payment and settlement system.	A Bank is a part of the payment and settlement system.

3	An NBFC cannot issue cheques drawn on itself.	A Bank can issue cheques drawn on itself.
4	Deposit insurance facility of the Deposit Insurance and Credit Guarantee Corporation (DICGC) is not available for NBFC depositors.	Deposit insurance facility of the Deposit Insurance and Credit Guarantee Corporation (DICGC) is available for banks.

5. **MINIMUM NET OWNED FUND:** The minimum Net owned fund requirement for new companies to commence business of NBFC is Rs.200 lakh.

6. **Net Owned Fund:**

Owned Fund	XXX
Less: Investments in shares of subsidiaries/ companies in same group/Other NBFC	(XXX)
Less: Book value of debentures, bonds, outstanding loans and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group (to the extent such sum exceeds 10% of owned fund)	(XXX)
Net Owned Fund	XXX

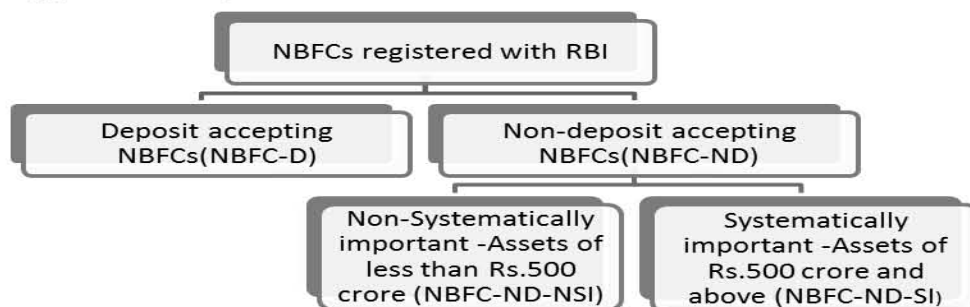
Owned Fund:

Paid-up equity capital	XXX
Add : preference shares which are compulsorily convertible into equity	XXX
Add : free reserves	XXX
Add : share premium balance	XXX
Add : capital reserves representing surplus arising out of sale proceeds of asset	XXX
Less: reserves created by revaluation of asset	(XXX)
Less: accumulated balance of loss	(XXX)
Less: deferred revenue expenditure	(XXX)
Less: other intangible assets	(XXX)
Owned Fund	XXX

7. **LIQUID ASSET REQUIREMENTS:**

- Minimum level of liquid asset to be maintained by NBFCs is 15% of public deposits outstanding as on the last working day of the second preceding quarter.
- Of the 15%, NBFCs are required to invest not less than 10% in approved securities and the remaining 5% can be in unencumbered term deposits with any scheduled commercial bank.
- The investment in government securities should be in dematerialized form only.
- The liquid assets maintained as above are to be utilized for payment of claims of depositors.

8. **CATEGORIES OF NBFC:** NBFCs are categorized into following three groups for the purpose of administering prudential regulations:



9. **PRUDENTIAL NORMS:** The current prudential regulation mainly comprises the following elements:

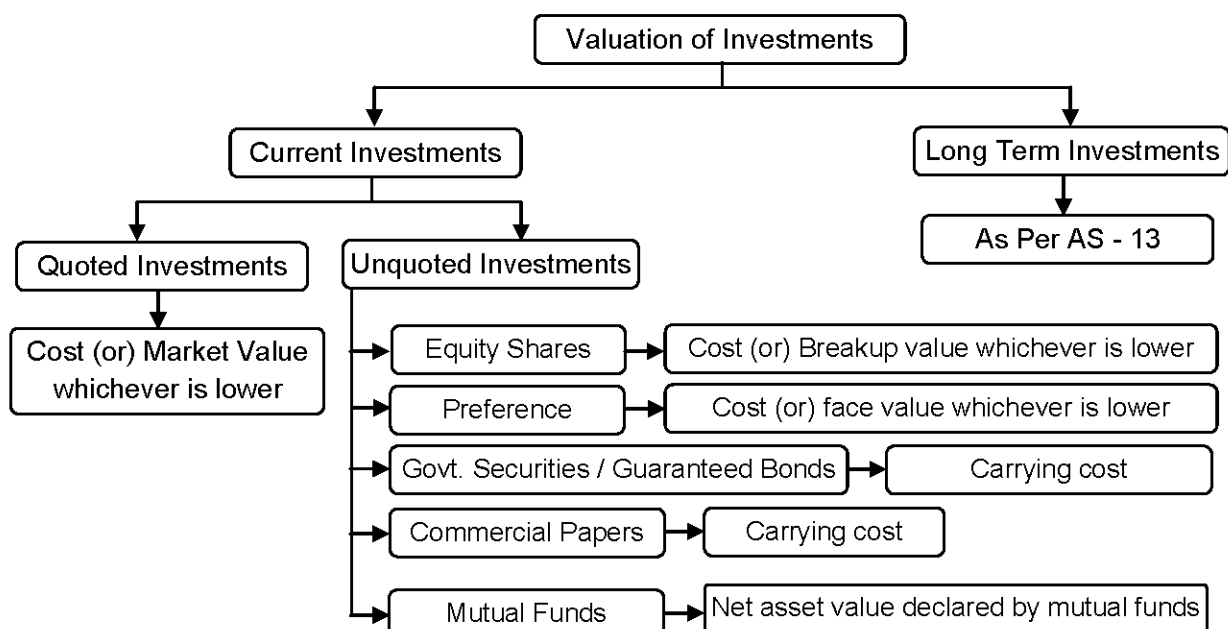
- Norms relating to **Income recognition, Asset classification and provisioning norms;**
- Capital to risk weighted assets ratio (CRAR);** (Not applicable to NBFC-ND-NSI)
- Credit concentration norms;** (Not applicable to NBFC-ND-NSI)

10. INCOME RECOGNITION:

Income	Recognition principle
Income on Non-performing assets	Recognized only when actually realized
Income relating to Hire purchase assets, where instalments are overdue for more than 12 months	Recognized only when the hire charges actually received
Income relating to Leased asset, where lease rentals are overdue for more than 12 months	Recognized only when the lease rental is actually received
Income from dividend on shares of corporate bodies and units of mutual funds	Recognized on cash basis
Income from dividend on shares of corporate bodies	Recognized on accrual basis when such dividend has been declared by the corporate body in its annual general meeting and the NBFC's right to receive payment is established.
Income from bonds and debentures of corporate bodies and from government securities/bonds	Recognized on accrual basis, provided that the interest rate on these instruments is pre-determined and that interest is serviced regularly and is not in arrears.
Income on securities of corporate bodies or public sector undertakings, the payment of interest and repayment of principal of which have been guaranteed by CG or SG	Recognized on accrual basis

11. ACCOUNTING FOR INVESTMENT:

- Investments in securities shall be classified into current and long term, at the time of making each investment
- There shall be no inter-class transfer on ad-hoc basis; The inter-class transfer, if warranted, shall be effected only with the approval of the Board;
- The investments shall be transferred scrip-wise, from current to long term or vice-versa, at book value or market value, whichever is lower;
- The depreciation, if any, in each scrip shall be fully provided for and appreciation, if any, shall be ignored;
- The depreciation in one scrip shall not be set off against appreciation in another scrip, at the time of such inter-class transfer, even in respect of the scrips of the same category.

12. ACCOUNTING FOR INVESTMENT:

13. NON-PERFORMING ASSET:

TYPE OF ASSET	NBFC-ND-NSI	NBFC-D and NBFC-ND-SI
An asset in respect of which, interest overdue for	6 months or more	3 months or more
A term loan inclusive of unpaid interest, when the instalment or interest remained overdue for	6 months or more	
A demand or call loan remained overdue for	6 months or more from date of demand or call	
Interest on above demand or call loan overdue for	6 months or more	
A bill which remains overdue for	6 months or more	
Interest in respect of a debt or the income on receivables under the head loans / advances, which facility remained overdue for	6 months or more	
Dues on account of sale of assets or services rendered or reimbursement of expenses incurred remained overdue for	6 months or more	3 months or more
Lease rental and hire purchase instalment which has become overdue for	12 months or more	
The balance outstanding under the credit facilities(including accrued interest) made available to the same borrower/beneficiary when	Any of the above credit facilities becomes non-performing asset	Any of the above credit facilities becomes non-performing asset

14. ASSET CLASSIFICATION:

- a) **Standard asset:** An asset in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem nor carry more than normal risk attached to the business

- b) **Sub-standard asset:**

Criteria	NBFC-ND-NSI	NBFC-D and NBFC-ND-SI
(a).An asset which has been classified as non-performing asset for a period not exceeding	18 months	12 months
(b). An asset where the terms of the agreement regarding interest and/or principal have been renegotiated or rescheduled or restructured after commencement of operations, until the expiry of one year of satisfactory performance under the renegotiate or rescheduled or restructured terms		

- c) **Doubtful asset:** Doubtful asset means

Criteria	NBFC-ND-NSI	NBFC-D and NBFC-ND-SI
<ul style="list-style-type: none"> A term loan or A lease asset or A hire purchase asset or Any other asset Remains a sub-standard asset for a period exceeding	18 months	12 months

d) **Loss asset:** Loss asset means

- i) An asset which has been identified as loss asset by the NBFC or its external or internal auditor or by the reserve bank during the inspection of the NBFC, to the extent not written off by the NBFC;
- ii) An asset which is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or non-availability of security or due to any fraudulent act or omission on the part of the borrower.

15. PROVISIONING REQUIREMENTS:a) **For loans and advances:**

TYPE OF ASSET	PROVISION	
	NBFC-ND-NSI	NBFC-D and NBFC-ND-SI
Standard asset	0.25%	0.40%
Sub-standard asset		10%
Doubtful – unsecured		100%
<u>Doubtful-secured portion</u>		
Upto one year		20%
One to three years		30%
More than three years		50%
Loss assets	The entire asset shall be written off. If the assets are permitted to remain in the books for any reason, 100% of the outstanding should be provided for.	

- b) **Lease and hire purchase assets:** The provisioning requirements in respect of the lease and hire purchase assets shall be as under

Where hire charges or lease rentals are overdue upto 12 Months	Nil
Where hire charges or lease rentals are overdue for more than 12 months but upto 24 months	10% of net book value
Where hire charges or lease rentals are overdue for more than 24 months but upto 36 months	40% of net book value
Where hire charges or lease rentals are overdue for more than 36 months but upto 48 months	70% of net book value
Where hire charges or lease rentals are overdue for more than 48 months	100% of net book value

c) **Net book value means**

- i) In the case of hire purchase asset,

Overdue Installments	XXX
Add: Future installments receivable	XXX
Less: Balance of unmatured finance charges	(XXX)
Less: Provisions made as per paragraph 9(2)(i) of NBFC prudential norms	(XXX)
NET BOOK VALUE	XXX

Amount Of Provision As Per Paragraph 9(2)(i)

Overdue Instalments	XXX
Add: Future instalments receivable	XXX
Less: Balance of unmatured finance charges	(XXX)
Less: Depreciated value of underlying asset	(XXX)
Provision to be created as per para 9(2)(i)	XXX

- ii) in the case of leased asset, aggregate of capital portion of overdue lease rentals accounted as receivable and depreciated book value of the lease asset as adjusted by the balance of lease adjustment account.

16. REQUIREMENTS AS TO CAPITAL ADEQUACY:

- a) NBFC-ND-NSI are exempted from the requirement of maintaining CRAR and credit concentration norms
- b) All NBFC-D and NBFC-ND-SI are required to have minimum CRAR of 15%
- c) Risk weighted asset ratio = $\frac{\text{Capital Funds}}{\text{risk weighted assets}} \times 100$
- d) Capital funds = Tier-I capital + Tier-II capital
- e) Tier-I capital cannot be less than 10%
- f) The total of Tier-II capital, at any point of time, shall not exceed 100% of Tier-I capital
- g) "**Tier I Capital**" means owned fund as reduced by investment in shares of other non-banking financial companies and in shares, debentures, bonds, outstanding loans and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group exceeding, in aggregate, 10% of the owned fund;
- h) "**Tier II capital**" includes the following:
 - i) preference shares other than those which are compulsorily convertible into equity;
 - ii) revaluation reserves at discounted rate of fifty five percent;
 - iii) general provisions and loss reserves to the extent these are not attributable to actual diminution in value or identifiable potential loss in any specific asset and are available to meet unexpected losses, to the extent of one and one fourth percent of risk weighted assets;
 - iv) hybrid debt capital instruments; and
 - v) subordinated debt
 - vi) perpetual debt instruments issued by a Systemically important non-deposit taking non-banking financial company which is in excess of what qualifies for Tier I Capital to the extent the aggregate does not exceed Tier I capital.
- i) "**Subordinated debt**" means an instrument, which is fully paid up and is unsecured and is subordinated to the claims of other creditors and is free from restrictive clauses and is not redeemable at the instance of the holder or without the consent of the supervisory authority of non-banking financial company. The book value of such instrument shall be subjected to discounting as provided hereunder:

	Remaining Maturity of the instruments	Rate of discount
(a)	Upto one year	100%
(b)	More than one year but upto two years	80%
(c)	More than two years but upto three years	60%
(d)	More than three years but upto four years	40%
(e)	More than four years but upto five years	20%

to the extent such discounted value does not exceed fifty per cent of Tier I capital.

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To **MASTER MINDS**, Guntur

PROBLEMS FOR CLASSROOM DISCUSSION**MODEL 1: NET OWNED FUND**

PROBLEM NO 1: (Printed Solution Available) Templeton Finance Ltd. is a non-banking finance company. The extracts of its balance sheet are given below:

Liabilities	Amount. Rs'000	Assets	Amount. Rs'000
Paid-up equity capital	100	Leased out assets	800
Free reserves	500	Investment:	
Loans	400	In shares of subsidiaries and group companies	100
Deposits	400	In debentures of subsidiaries and group Companies	100
		Cash and bank balances	200
		Deferred expenditure	200
	1,400		1,400

You are required to compute Net owned Fund of Templeton Finance Ltd. as per Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

(A) (NEW SM)(ANS.: NET OWNED FUND RS'000 – 240)

(SOLVE PROBLEM NO: 1 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

MODEL 2: ASSET CLASSIFICATION

PROBLEM NO 2: Bright Finance Ltd. is a non-banking financial company. It provides you with the following information regarding its outstanding amount, Rs.200 lakhs of which installments are overdue on 200 accounts for last two months (amount overdue Rs. 40 lakhs), on 24 accounts for three months (amount overdue Rs.24 lakhs), on 10 accounts for more than 30 months (amount overdue Rs.20 lakhs) and on 4 accounts for more than three years (amount overdue Rs.20 lakhs-already identified as sub-standard assets) and one account of Rs. 10 lakhs which has been identified as non-recoverable by the management. Out of 10 accounts overdue for more than 30 months, 6 accounts are already identified as sub-standard (amount Rs.6 lakhs) for more than fourteen months and other are identified as sub-standard asset for a period of less than fourteen months.

Classify the assets of the company in line with Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

(A)(NEW SM)

Note: _____

MODEL 3: PROVISIONING NORMS

PROBLEM NO 3: (Printed Solution Available) While closing its books of account on 31st March, 2018 a Non-Banking Finance Company has its advances classified as follows:

	Rs. in lakhs
Standard assets	16,800
Sub-standard assets	1,340
Secured portions of doubtful debts:	
–upto one year	320
–one year to three years	90
–more than three years	30
Unsecured portions of doubtful debts	97
Loss assets	48

Calculate the amount of provision, which must be made against the Advances as per

- The Non-Banking Financial Company – Non-Systemically Important Non- Deposit taking Company (Reserve Bank) Directions, 2016; and
- Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.(A)

(NEW SM)(ANS.: PROVISION TO BE MADE – FOR NON-SYSTEMATICALLY IMPORTANT - RS.IN LAKHS – 427.00; FOR SYSTEMATICALLY IMPORTANT - RS.IN LAKHS – 443.80)

(SOLVE PROBLEM NO: 2 & 4 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

MODEL 4: PROVISIONING NORMS FOR LEASE AND HIRE PURCHASE ASSETS

PROBLEM NO 4: Peoples Financiers Ltd. is an NBFC providing Hire Purchase Solutions for acquiring consumer durables. The following information is extracted from its books for the year ended 31st March, 2018:

Asset Funded	Interest Overdue but recognized in Profit & loss		Net Book Value of Assets outstanding
	Period Overdue	Interest Amount	
		Rs.(in crore)	Rs.(in crore)
LCD Televisions	Upto 12 months	480.00	20,123.00
Washing Machines	For 24 months	102.00	2,410.00
Refrigerators	For 30 months	50.50	1,280.00
Air Conditioners	For 45 months	26.75	647.00

You are required to calculate the amount of provision to be made.

(B) (NEW SM)(SIMILAR: M18 - 5M)

(ANS.: ADDITIONAL PROVISION TO BE MADE RS.IN CRORE – 1,205.90)

Note: _____

MODEL 5: NET BOOK VALUE AND PROVISION AS PER PRUDENTIAL NORMS

PROBLEM NO 5: (Printed Solution Available) Samvedan Limited is a non-banking finance company. It accepts public deposit and also deals in hire purchase business. It provides you with the following information regarding major hire purchase deals as on 31-03-2016. Few machines were sold on hire purchase basis. The hire purchase price was set as Rs.100 lakhs as against the cash price of Rs.80 lakhs. The amount was payable as Rs.20 lakhs down payment and balance in 5 equal installments. The hire vendor collected first installment as on 31-03-2017, but could not collect the second instalment which was due on 31-03-2018. The company was finalising accounts for the year ending 31-03-2018. Till 15-05-2018, the date on which the Board of Directors signed the accounts, the second instalment was not collected. Presume IRR to be 10.42%.

Required:

- What should be the principal outstanding on 1-4-2017? Should the company recognize finance charge for the year 2017-2018 as income?
- What should be the net book value of assets as on 31-03-2018 so far Samvedan Ltd. is concerned as per NBFC prudential norms requirement for provisioning?
- What should be the amount of provision to be made as per prudential norms for NBFC laid down by RBI?

(B) (CA FINAL - PM) (ANS.: I).PRINCIPAL OUTSTANDING – RS.50.25 LAKHS; FINANCE CHARGE – RS.5.24 LAKHS; II). NET BOOK VALUE OF ASSET – RS.48 LAKHS; III) PROVISION TO BE MADE – RS.7.49 LAKHS)

(SOLVE PROBLEM NO: 5 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM NO 6: (Printed Solution Available) Albert Finance Ltd. has made the following investments.

i) Purchased the following equity shares from stock exchange on 1st June, 2009.

Particulars	Costs
Scrip X	1,80,000
Scrip Y	50,000
Scrip Z	1,70,000
	4,00,000

ii) Purchased gold of Rs.3,00,000 on 1st April, 2006

iii) Invested in mutual funds at a cost of 6,00,000 on 31st March, 2009.

iv) Purchased government securities at a cost of 50,00,000 on 1st April, 2009

How will you treat these investments as per applicable AA in the books of the Company for the year ended on 31st March, 2010, if the values of these investments are as follows?

Particulars		
Shares	1,90,000	
Scrip -X	40,000	
Scrip -Y	70,000	
Scrip -Z		3,00,000
Gold		5,00,000
Mutual funds		4,50,000
Governments		7,00,000

v) Also explain is it possible to off-set depreciation in investments in mutual funds against appreciation of the value of investment in governments securities?

Note: _____

PRINTED SOLUTIONS TO SOME SELECTIVE PROBLEMS

PROBLEM NUMBERS TO WHICH SOLUTIONS ARE PROVIDED: 1,3,5,6.

PROBLEM NO. 1

Statement showing calculation of 'Net Owned Fund'

		Rs. in 000
Paid up Equity Capital		100
Free Reserves		500
Less: Deferred expenditure		(200)
	A	400
Investments		
In shares of subsidiaries and group companies		100
In debentures of subsidiaries and group companies		100
	B	200
10% of A		40
Excess of Investment over 10% of A (200-40)	C	160
Net Owned Fund [(A) - (C)] (400-160)		<u>240</u>

PROBLEM NO. 3

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)

CA Inter_42.5(2e)_Advanced Accounting _Non – Banking Financial Companies__9.10

	Amount in lakhs	Percentage of provision	Amount of Provision in lakhs
Standard assets	16,800	0.25	42.00
Sub-standard assets	1,340	10	134.00
Secured portions of doubtful debts–			
– upto one year	320	20	64.00
– one year to three years	90	30	27.00
– more than three years	30	50	15.00
Unsecured portions of doubtful debts	97	100	97.00
Loss assets	48	100	48.00
			427.00

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 in lakhs	Percentage of provision	Provision in lakhs
Standard assets	16,800	0.35	58.80
Sub-standard assets	1,340	10	134.00
Secured portions of doubtful debts–			
– Upto one year	320	20	64.00
– One year to three years	90	30	27.00
– More than three years	30	50	15.00
Unsecured portions of doubtful debts	97	100	97.00
Loss assets	48	100	48.00
			443.80

PROBLEM NO. 5

- i) Since, the hire-purchaser paid the first instalment due on 31.3.2016, the notional principal outstanding on 1-4-2017 was Rs.50.25 lakhs (refer W.N.).

In the year ended 31.03.2018, the instalment due of Rs.16 lakhs has not been received. However, it was due on 31.3.2018 i.e. on the balance sheet date, and therefore, it will be classified as standard asset. Samvedan Ltd. will recognise Rs.5.24 lakhs as interest income included in that due instalment as this should be treated as finance charge.

- ii) The net book value of the assets as on 31.3.2018

	Rs.in lakhs
Overdue instalment	16.00
Instalments not due (Rs.16 lakhs x 3)	48.00
	64.00
Less: Finance charge not matured and hence not credited to Profit and loss account (4.11 + 2.88 + 1.52)	(8.51)
	55.49
Less: Provision as per Para 9(2)(i) of NBFC prudential norms (Refer point (iii))	7.49
Net book value of assets for Samvedan Ltd.	48.00

- iii) Amount of Provision

	Rs.in lakhs
Overdue instalment	16.00
Instalments not due (Rs.16 lakhs x 3)	48.00
	64.00
Less: Finance charge not matured and hence not credited to Profit and loss account (4.11 + 2.88 + 1.52)	(8.51)

	55.49
Less: Depreciated value (cash price less depreciation for two years on SLM @ 20%)	(48.00)
Provision to be created as per Para 9(2)(i) of NBFC prudential norms	7.49

Since, the instalment of Rs.16 lakhs not paid, was due on 31.3.2018 only, the asset is classified as standard asset. Therefore, no additional 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. @ 10.42%. (Rs. In lakhs)

Time	Opening outstanding amount (a)	Down payment/instalment (b)	Interest @10.42% (c) = (a x 10.42%)	Principal repayment (d) = (b - c)	Closing outstanding (e) = (a - d)
31-3-2016	80.00	20	-----	20.00	60.00
31-3-2017	60.00	16	6.25	9.75	50.25
31-3-2018	50.25	16	5.24	10.76	39.49
31-3-2019	39.49	16	4.11	11.89	27.60
31-3-2020	27.60	16	2.88	13.12	14.48
31-3-2021	14.48	16	1.52(Bal.)	14.48	0.00

PROBLEM NO. 6

According to AS-13 "Accounting for investments", current investments should be carried at lower of cost and fair value. Valuation of current investments on overall (or global) basis is not considered appropriate. Sometimes, investments may be carried at lower of cost and fair value category wise.

According to NBFC Prudential Norms – RBI Directions current investments should be categorised into equity shares, preference shares, debentures and bonds, government and treasury bills, units of mutual funds and others. Each category should be valued at lower of its cost and market value.

Category	Cost	Market value	Lower of cost and market value	Depreciation	Appreciation
Equity shares	4,00,000	3,00,000	3,00,000	1,00,000	-
Government securities	5,00,000	7,00,000	5,00,000	-	2,00,000
Units of mutual funds	6,00,000	4,50,000	4,50,000	1,50,000	-
Others (Gold)	3,00,000	5,00,000	3,00,000	-	2,00,000
			15,50,000	2,50,000	4,00,000

All these assets should be valued at a cost of Rs. 15,50,000. Depreciation of Rs. 2,50,000 should be charged to revenue . Appreciation of Rs. 4,00,000 should be ignored.

According to AS-13 and the said directions, depreciation in one category of investments cannot be set off appreciation in another category. So, it is not possible to set off depreciation in value of mutual funds units against appreciation in value of government securities

ASSIGNMENT PROBLEMS

PROBLEM NO 1: The extracts of balance sheet of XYZ Ltd; a non-banking finance company, are given below:

Liabilities	Amount. Rs. in lakhs	Assets	Amount. Rs. In lakhs
Paid-up equity capital	60	Leased out assets	480
Free reserves	300	Investment:	
Loans	240	In shares of subsidiaries and	60

		group companies	
Deposits	240	In debentures of subsidiaries and group Companies	60
		Cash and bank balances	120
		Deferred expenditure	120
	8,40		8,40

You are required to compute Net owned Fund of XYZ Ltd. as per Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

(A)(ANS.: NET OWNED FUND RS.(IN LAKHS) – 144)

PROBLEM NO 2: While closing its books of account on 31st March, 2018 a Non-Banking Finance Company has its advances classified as follows:

	Rs. in lakhs
Standard assets	67,200
Sub-standard assets	5,360
Secured portions of doubtful debts:	
– upto one year	1,280
– one year to three years	360
– more than three years	120
Unsecured portions of doubtful debts	388
Loss assets	192

Calculate the amount of provision, which must be made against the Advances as per

- the Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016; and
- Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

(A)(RTP-M17)(ANS.: PROVISION TO BE MADE – FOR NON-SYSTEMATICALLY IMPORTANT - RS.IN LAKHS – 1708; FOR SYSTEMATICALLY IMPORTANT - RS.IN LAKHS – 1808.80)

MODEL 6: PROBLEMS ON ACCOUNTING FOR INVESTMENTS

PROBLEM NO 3: Forever Finance Ltd. is a non-banking finance company. It makes available to you the costs and market price of various investments held by it as on 31.3.2018: (Rs.in lakhs)

Scripts		Cost	Market price
A	Equity shares		
	A	60	61.2
	B	31.5	24
	C	60	36
	D	60	120
	E	90	105
	F	75	90
	G	30	6
B	Mutual funds		
	MF-1	39	24
	MF-2	30	21
	MF-3	6	9
C	Government securities		
	GV-1	60	66
	GV-2	75	72

- Can the company adjust depreciation of a particular item of investment within a category?
- What should be the value of investments as on 31.3.2018?
- Is it possible to off-set depreciation in investment in mutual funds against appreciation of the value of investment in equity shares and government securities?

(B)(RTP – N13)

PROBLEM NO 4: While closing its books of account on 31st March, 2018 a Non-Banking Finance Company has its advances classified as follows:

	Rs. in lakhs
Standard assets	8400
Sub-standard assets	670
Unsecured portions of doubtful debts	50
Loss assets	24

Calculate the amount of provision, which must be made against the Advances as per

- the Non-Banking Financial Company – Non-Systemically Important Non- Deposit taking Company (Reserve Bank) Directions, 2016; and
- Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

(CA FINAL RTP-N12)(ANS.: PROVISION TO BE MADE – FOR NON-SYSTEMATICALLY IMPORTANT - RS.IN LAKHS – 162; FOR SYSTEMATICALLY IMPORTANT - RS.IN LAKHS – 174.60)

PROBLEM NO 5: Abhiram Limited is a non-banking finance company. It accepts public deposit and also deals in hire purchase business of trucks. As on 31-03-2016 Few Trucks were sold on hire purchase basis. The hire purchase price was set as Rs.400 lakhs as against the cash price of Rs.350 lakhs. The amount was payable as Rs.50 lakhs down payment and balance in 5 equal installments. The hire vendor collected first installment as on 31-03-2017, but could not collect the second installment which was due on 31-03-2018. Till 15-05-2018, the date on which the Board of Directors signed the accounts, the second installment was not collected. Presume IRR to be 5.4%. Depreciation is to be charged at 20% per annum.

You are required to answer the following:

- What should be the principal outstanding on 1-4-2017? Should the company recognize finance charge for the year 2017 - 2018 as income?
- What should be the net book value of assets as on 31-03-2018 so far Abraham Ltd. is concerned as per NBFC prudential norms requirement for provisioning?
- What should be the amount of provision to be made as per prudential norms for NBFC laid down by RBI?

(A)(M17 – 8M)

(ANS.: I). PRINCIPAL OUTSTANDING – RS.246.20 LAKHS; FINANCE CHARGE – RS.13.29 LAKHS; II). NET BOOK VALUE OF ASSET – RS.210 LAKHS; (III)PROVISION TO BE MADE – RS.49.49 LAKHS)

PROBLEM NO 6: Babu Bhai Financiers Ltd. is an NBFC providing Hire Purchase Solutions for acquiring consumer durables the following information is extracted from its books for the year ended 31st March, 2018:

Assets Funded	Interest Overdue but recognized in Profit & Loss		Net Book value of Assets Outstanding
	Period Overdue	Interest Amount	
		(RS.in Crore)	(RS.in Crore)
LCD televisions	Up to 12 Months	500.00	20,000
Washing Machines	For 24 Months	100.00	2,000
Refrigerators	For 30 Months	50.00	1,250
Air Conditioners	For 45 Months	25.00	600
Mobile Phones	For 60 Months	10.00	100

You are required to calculate the amount of provision to be made.

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To **MASTER MINDS**, Guntur

THE END