

11. FINANCIAL STATEMENTS OF BANKING COMPANIES

NO. OF PROBLEMS IN 39e OF CA INTER: CLASSROOM - 16, ASSIGNMENT - 19

NO. OF PROBLEMS IN 40e OF CA INTER: CLASSROOM - 10, ASSIGNMENT - 24

NO. OF PROBLEMS IN 41e OF CA INTER: CLASSROOM - 10, ASSIGNMENT - 24

MODEL WISE ANALYSIS OF PAST EXAM PAPERS OF IPCC & CA INTER

| MODEL NO. | 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(O) | M-18(N) | N-18(O) | N-18(N) |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|------|---------|---------|---------|---------|
| Model - 1 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Model - 2 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Model - 3 | 8 | 5 | 5 | 8 | 4 | 4 | 4 | 4 | - | 8 | 6 | 6 | 4 | - | - | 5 | |
| Model - 4 | - | - | 8 | - | - | - | - | - | - | 10 | - | - | - | 8 | 10 | - | |
| Model - 5 | - | 8 | - | - | - | - | 8 | 12 | - | - | - | - | - | 10 | - | - | |

Model - 1 : Basics of Banking

Model - 2 : Books of Accounts, Returns and Forms of Banking

Model - 3 : Income Recognition, Classification of Assets & Provisions

Model - 4 : Preparation of Financial Statements (Balance sheet and Profit & Loss A/c)

Model - 5 : Capital Adequacy Norms

SIGNIFICANCE OF EACH PROBLEM COVERED IN THIS MATERIAL

| Problem No. in this material | Problem No. in NEW SM | Problem No. in OLD SM | Problem No. in OLD PM | RTP | MTP | Previous Exams | Remarks |
|------------------------------|-----------------------|-----------------------|-----------------------|-----------|--------------|----------------|---------|
| CR 1 | ILL - 2 (Unit - 4.1) | ILL - 2 | Ex - 2 | - | - | - | - |
| CR 2 | - | - | - | - | - | - | - |
| CR 3 | PQ - 3 | - | 10 | - | - | - | - |
| CR 4 | ILL - 5 (Unit - 4.3) | ILL - 5 | - | - | - | M18 (O) -4M | - |
| CR 5 | ILL - 1 (Unit - 5) | ILL - 1 | - | N17 | M19 (O), N18 | N17-6M | - |
| CR 6 | ILL - 7 (Unit - 5) | ILL - 7 | - | - | - | M15-12M | - |
| CR 7 | ILL - 3 (Unit - 6) | ILL - 3 | - | - | N17 | - | - |
| CR 8 | ILL - 2 (Unit - 6) | ILL - 2 | - | M19 (N&O) | - | - | - |
| CR 9 | ILL - 4 (Unit - 6) | ILL - 4 | - | - | - | - | - |
| CR 10 | ILL - 1 (Unit - 3) | ILL - 1 | - | - | - | M18 (N)-10M | - |
| ASG 1 | ILL - 1 (Unit - 4.1) | ILL - 1 | - | - | - | - | - |
| ASG 2 | ILL - 2 (Unit - 4.3) | ILL - 2 | - | - | - | - | - |
| ASG 3 | ILL - 3 (Unit - 4.3) | ILL - 3 | - | - | - | - | - |
| ASG 4 | - | - | 15 | - | - | M12-5M | - |
| ASG 5 | ILL - 6 (Unit - 4.3) | ILL - 6 | - | - | - | - | - |
| ASG 6 | ILL - 4 (Unit - 4.3) | ILL - 4 | - | - | - | - | - |
| ASG 7 | - | - | 8 | - | - | - | - |
| ASG 8 | - | - | 7 | - | - | - | - |
| ASG 9 | PQ - 1 | - | 6 | - | - | - | - |
| ASG 10 | ILL - 3 (Unit - 5) | ILL - 3 | - | - | M18 (O) | N18 (N) - 5M | - |
| ASG 11 | ILL - 4 (Unit - 5) | ILL - 4 | - | M17 | - | - | - |
| ASG 12 | ILL - 5 (Unit - 5) | ILL - 5 | - | - | - | - | - |
| ASG 13 | ILL - 6 (Unit - 5) | ILL - 6 | - | - | - | - | - |

| | | | | | | | | |
|--------|--------------------|---------|----|-----------|-----------|-----------|---|---|
| ASG 14 | PQ - 4 | - | 26 | - | - | - | - | - |
| ASG 15 | ILL - 2 (Unit - 5) | ILL - 2 | - | - | - | - | - | - |
| ASG 16 | - | - | 21 | - | - | - | - | - |
| ASG 17 | - | - | 27 | - | M19 (N) | - | - | - |
| ASG 18 | - | - | 33 | - | - | - | - | - |
| ASG 19 | - | - | 34 | - | M17 | - | - | - |
| ASG 20 | - | - | 31 | N09 | - | - | - | - |
| ASG 21 | - | - | 32 | - | - | - | - | - |
| ASG 22 | PQ - 6 | - | 36 | M18 (N&O) | N18 (N&O) | M18(O)-8M | - | - |
| ASG 23 | ILL - 1 (Unit - 6) | ILL - 1 | - | - | - | - | - | - |
| ASG 24 | - | - | 28 | - | - | M17-6M | - | - |

THEORY

PART 1: BASICS OF BANKING

Introduction:

- ✓ Banks are vital to the prosperity and well-being of any society or country.
- ✓ Banks enable a society to create the platform for the satisfaction of wants of its people by managing and maintaining the flow of money to carry out transactions.
- ✓ The role of banks may be likened to the heart in a human being, circulating and managing money through the economy, thereby playing a crucial role for its good health.

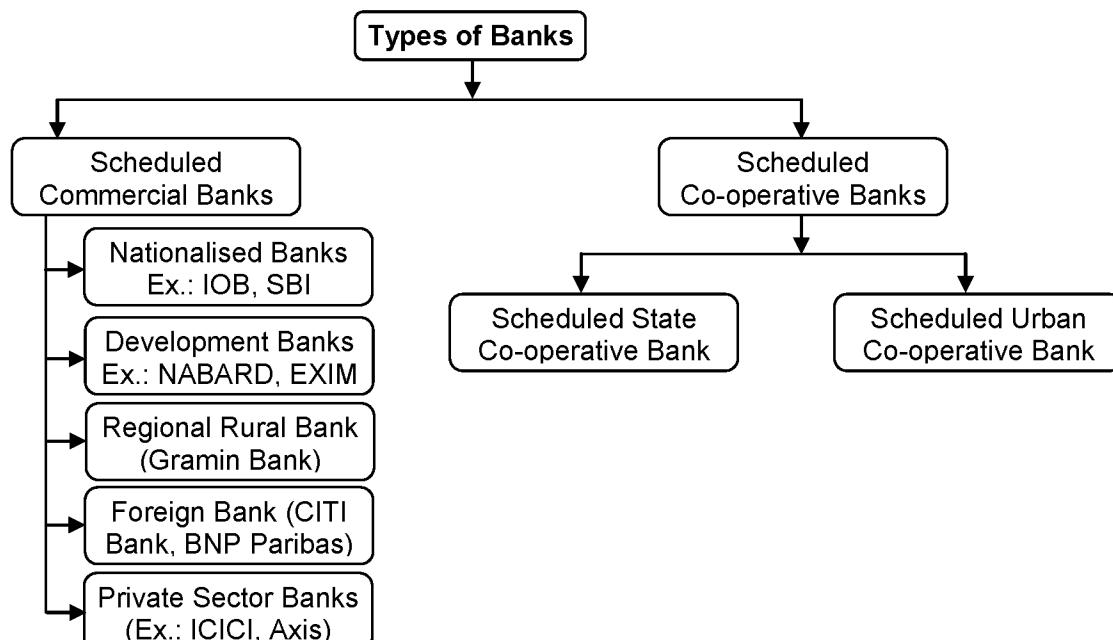
Note: Banks in India are regulated by the Banking Regulation Act, 1949. RBI as the Central Bank is the 'Bank of Last Resort'.

Definition: As per Banking Regulation Act, 1949 "Banking" means **Accepting deposits** of money from public for the purpose of lending or investing and repayable on **demand or can be withdrawn** by cheque, draft or otherwise.

Types of banks: There are two main categories of Commercial Bank in India namely:-

1. Scheduled Commercial Bank
2. Scheduled Co-operative Bank

Scheduled Commercial Banks are again divided into five types and the Scheduled Co-operative Banks into two as given in the following chart.



Functions of a Commercial Bank:

Some of the main functions of modern commercial banks are:

- a) Receiving of money on deposit and providing facilities to constituents for payments by cheque.
- b) Dealing in securities on its own account and on account of customers.
- c) Lending of money by -
 - i) Making loans and advances,
 - ii) Purchasing or discounting of bills.
- d) Transferring money from place to place by -
 - i) The issue of demand drafts, telegraphic transfers, traveller's cheques, etc.,
 - ii) Collection of bills.
- e) Issuing letters of credit.
- f) Safe custody of securities and valuables.
- g) Issuing guarantees.
- h) Buying, selling and dealing in foreign exchange.
- i) Acting as managers for issue of capital by companies and performing functions incidental thereto.

PART 2: BOOKS OF ACCOUNTS, RETURNS AND FORMS OF BANKING**A. Bank's Book-keeping system:**

Under bank's Book-keeping system, every transaction particularly concerning the customers is entered in the personal ledger directly from vouchers as soon as it takes place.

The objective of the system is

- a) to keep up-to-date detailed ledgers
- b) to balance the trial balance every day.
- c) to keep all control accounts in agreement with the detailed ledgers.

B. Main Characteristics of a Bank's Book-Keeping System:

The main characteristics of a bank's system of book-keeping are as follows:

| | |
|------------------------|---|
| Voucher Posting | Entries in the personal ledger are made directly from vouchers instead of being posted from the books of prime entry. |
| Voucher Summary Sheets | The vouchers entered into different personal ledgers each day are summarised on summary sheets, totals of which are posted to the control accounts in the general ledger. |
| Daily Trial Balance | The general ledger trial balance is extracted and agreed everyday. |
| Continuous Checks | All entries in the detailed personal ledgers and summary sheets are checked by persons other than those who have made the entries. A considerable force of such check is employed, with the general result that most clerical mistakes are detected before another day begins. |
| Control Accounts | A trial balance of the detailed personal ledgers is prepared periodically, usually every two weeks, agreed with general ledger control accounts. |
| Double Voucher System | Two vouchers are prepared for every transaction not involving cash-one debit voucher and another credit voucher. |
| Slip System of Posting | Under this system, entries in the personal ledgers are made directly from vouchers like Pay-in-slips, cheques etc. which are mostly filled by the customers and it 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, total of which are posted to the different control accounts which are maintained in the General Ledger. |

C. Books of Accounts:

Principal Books of Accounts

| | |
|---------------------------|---|
| 1. General Ledger | The General Ledger contains: a) Control Accounts of all personal ledgers. b) Profit and Loss Account. c) Asset's Accounts. d) Contra Accounts. Usefulness: It facilitates the preparation of Balance Sheet. |
| 2. Profit and Loss Ledger | The Profit and Loss Ledger contains: a) Detailed Accounts of Revenue Items. b) Detailed Account of Expense items. Usefulness: It facilitates the preparation of Profit and Loss Account. |

Subsidiary Books

| | |
|------------------|--|
| Personal Ledgers | a) Current Accounts Ledger. b) Saving Bank Accounts Ledgers. c) Fixed Deposits (Often further classified by length of period of deposit) Ledgers. d) Loan Ledger. e) Overdraft Ledger. f) Cash Credit Ledger. g) Customers' Acceptances, Endorsements and Guarantee Ledgers. |
| Bill Registers | a) Inward Bills for Collection b) Outward Bills for Collection c) Bills Discounted and Purchased Register |

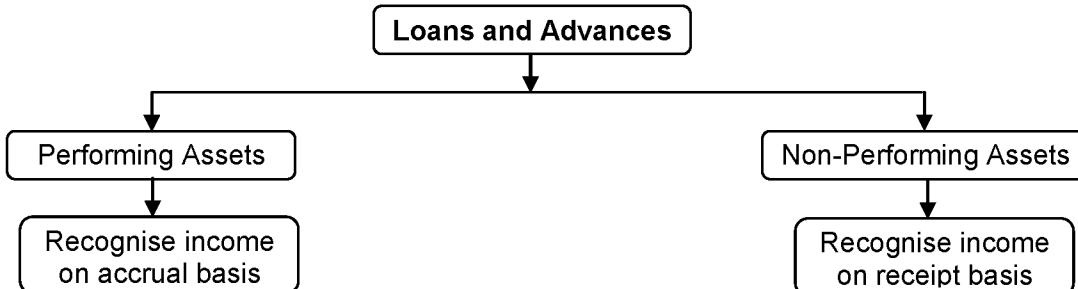
PART 3: INCOME RECOGNITION, CLASSIFICATION OF ADVANCES AND PROVISIONING NORMSIntroduction:

Bulk of a banks' income is from two sources:

1. Interest earned on Loans & Advances extended to its customers.
2. Discount and commission earned on handling Bills of Exchange, Letter of Credit (LC), Letter of Guarantee (LG) etc.

I. Income Recognition:

For the purpose of recognising income of interest earned, bank has to classify its loans & advances:



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: The Reserve Bank of India has issued detailed guidelines to banks regarding the classification of advances between performing and non-performing assets which are revised from time to time. The latest guidelines for identifying an NPA's are:

1. **Bills purchased and discounted** become NPA if interest and / or instalment of principal remain overdue for a period exceeding 90 days.
2. **Term Loans:** become NPA if their amount (interest or principal) remain overdue wholly or partly for a period exceeding 90 days.

3. 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

4. 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.

"Long duration crops would be crops with crop season longer than one year".

5. Securitisation transactions: Such transactions become NPA when the amount of liquidity facility remains overdue for more than 90 days.

6. Derivative transactions: Such transactions become NPA when the overdue receivables representing positive mark to market value of a derivative contract remain unpaid for a period of 90 days from the specified due date for payment.

7. 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. 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.

8. Advances to Staff: in respect of housing loans or similar advances granted to staff members where interest is payable after recovery of principal, the overdue status (in respect of payment of interest) should be reckoned from the date when there is default in payment of interest or repayment of installment of principal on due date of payment.

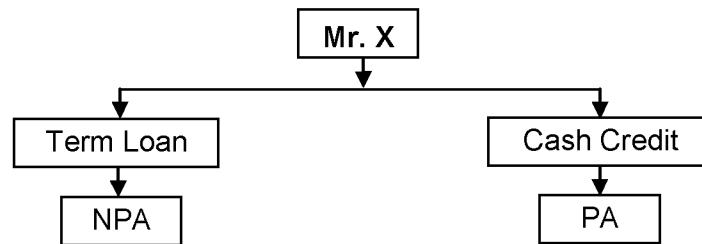
9. Advances Guaranteed by EXIM Bank: In the case of advances covered under the guarantee-cum-refinance programme of EXIM Bank, to the extent payment has been received by the bank from the EXIM Bank, the advance may not be treated as NPA. The balance should, however, be treated as NPA (if the conditions for treating it as NPA are satisfied).

10. Consortium Advances: Two (or) more banks come together by forming an association/consortium for lending loans to customers out of which one will be lead bank and others are member banks. Asset classification of accounts under consortium should be based on the record of recovery of the individual member banks and other aspects having a bearing on the recoverability of the advances.

11. 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. Advances against gold ornaments, government securities and all other securities are not covered by this exemption.

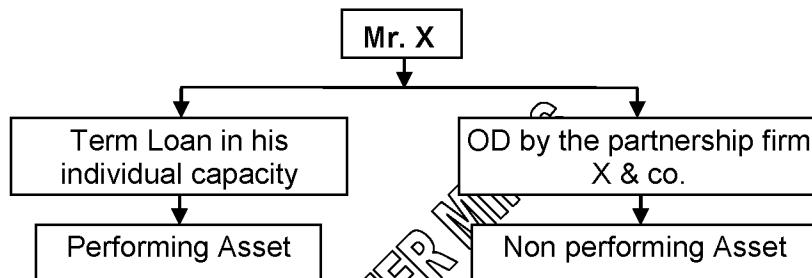
Determination of NPAs-Borrower-wise, Not Facility-wise: If any of the credit facilities granted to a borrower becomes non-performing, all the facilities granted to the borrower will have to be treated as NPA without having any regard to performing status of other facilities.

Ex: 1



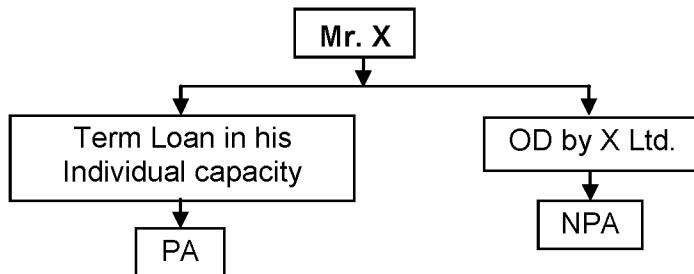
Therefore, both the accounts will become NPA for Mr. X.

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



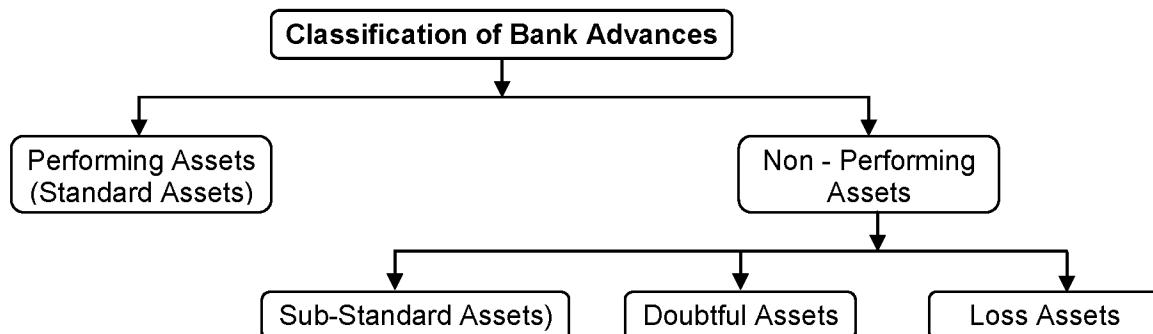
Both the accounts will be treated as NPA. [As partnership and partner has no separate legal entity]

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

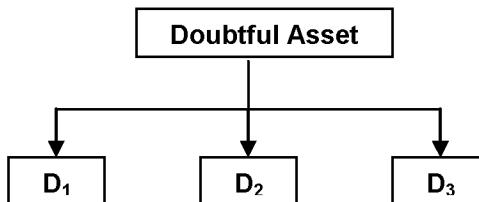


Both the accounts not get the same status because the company and shareholders are not one & the same.

Classification of Bank Advances on Basis of Performance:



1. **Standard Asset:** A performing Asset.
2. **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.
3. **Doubtful assets:** An asset would be classified as doubtful if it remained in the substandard category for a period of at least 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.

4. **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.

Note: 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.

Threats to Recovery: It has been clarified that in respect of loans & advances where there are potential threats to recovery 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, 2012, 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.100 lakhs and the salvage value of the security is Rs.10 lakhs. In such a case, the facility should be treated as a loss asset and provision should be made for Rs.100 lakhs (and not Rs.90 lakh). If, on the other hand, the realisable value of the security is Rs.80 lakhs 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.

Note: Since no bank is likely to extend any loans or advances without adequate security, it is prudent to assume that all substandard or doubtful or loss assets are secured unless and otherwise provided in the question.

Advances Guaranteed by ECGC/DICGC: In case advances are guaranteed by Export credit guarantee Corporation (ECGC)/ Deposit insurance credit guarantee Corporation (DICGC) then the provision should be created as follows:

| Particulars | Rs. |
|--|-------|
| 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 |

II. 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.

Bills sent for Collection (Asset) A/c

Dr.

To Bills sent for Collection (Liability) A/c

2. On collection, the following entry is passed:

Cash A/c

Dr. (With Bill Amount)

Disclosure of Bills for collection:

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

III. 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 |
| | XXX |
| Less: Rebate on Bills Discounted (c/f to next year) | XXX |
| Total: (to be shown in Profit & Loss A/c) | XXX |

IV. 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.

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.

(B) (NEW 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 overdue 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 overdue 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.

(C) (ANS.: TOTAL AMOUNT OF NPA - 1570L)

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 |

(A) (NEW SM) (ANS.: TOTAL PROVISION RS. 1,723L) (SOLVE PROBLEM NO. 2,3,4 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 4: (PRINTED SOLUTION AVAILABLE)

| | |
|--|--|
| Outstanding Balance | 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.

(A) (NEW SM, SIMILAR: M18 (O) - 4M)

(ANS.: TOTAL AMOUNT OF PROVISION - 2.60L) (SOLVE PROBLEM NO. 5, 6, 7, 8, 9 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 5: 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.

(A) (NEW SM, SIMILAR: RTP N17, N17 - 6M, MTP1 M19 (O), MTP2 N18 (N) - 6M) (ANS.: REBATE ON BILLS DISCOUNTED: RS.42,317)

(SOLVE PROBLEM NO. 10, 11, 12, 13 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 6: 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.

(A) (NEW SM, M15)

(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. 14, 15, 16, 17 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PART 4: FINANCIAL STATEMENTS (BALANCE SHEET & PROFIT & LOSS A/C)

Schedule - III (Section 29)

Balance Sheet of Bank as at DD-MM-YYYY

(Form-A)

| Particulars | Schedule No. | As on 31.03.____ Current year | As on 31.3.____ 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 |
| | Total: | XXX | XXX |
| Contingent Liabilities / Bills for Collection | 12 | XXX | XXX |
| | 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 |
| Less: Calls unpaid | 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: | | |
| 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 31.03. 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 31.03. 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 | XXX | XXX |
| 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 |

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 | <u>XXX</u> | <u>XXX</u> |
| | Total: | XXX | XXX |
| Expenses: | | | |
| Interest Paid/expended | 15 | XXX | XXX |
| Administration exp. | 16 | XXX | XXX |
| Provisions and Contingencies | | <u>XXX</u> | <u>XXX</u> |
| | Total: | XXX | XXX |
| Profit/Loss | | | |
| Net Profit for the year | | XXX | XXX |
| Net profit b/f | | <u>XXX</u> | <u>XXX</u> |
| | 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: | XXX | XXX |
| Balance in Profit & Loss A/c: | | XXX | XXX |

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 20.5% 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 31.03. (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. (Current year) | For year ended 31.3. (Previous year) |
|--|---|---|
| Payments & Provisions for employees | 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 |
| Law Charges | XXX | XXX |
| Postage, Telephones & Telegrams | XXX | XXX |
| Repairs & Maintenance | XXX | XXX |
| Insurance | XXX | XXX |
| Other Expenses | XXX | XXX |
| Grand Total: | XXX | XXX |

PROBLEM 7: From the following information, prepare Profit and Loss A/c of KC Bank for the year ended 31st March, 2013.

| Items | Rs. (in '000) |
|---|---------------|
| 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 (Rs.'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.

(A) (NEW SM, SIMILAR: MTP N17) (ANS.: BALANCE IN PROFIT & LOSS ACCOUNT- (16,60,000))

(SOLVE PROBLEM NO. 18, 19, 20 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 8: From the following information, prepare Profit and Loss A/c of Dimple Bank as on 31.03.2013:

| '000 Rs. 2011-12 | Item | Rs. In 000's |
|---------------------|------------------------------------|--------------|
| | | 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.

(A) (NEW SM, SIMILAR: RTP M19 (N&O))

(ANS.: BALANCE IN PROFIT & LOSS ACCOUNT CARRIED TO BALANCE SHEET -RS. 66,100)

(SOLVE PROBLEM NO. 21, 22 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 9: (PRINTED SOLUTION AVAILABLE): 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.

(C) (NEW SM) (ANS.: TOTAL OF BALANCE SHEET - 61,86,00,000, PROFIT FOR THE YEAR - 5,59,00,000)

(SOLVE PROBLEM NO. 23 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PART 5: 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/Risk-weighted assets 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 (Representing surplus on sale of assets and held in a separate account only) | XXX |
| E. Other Disclosed Free Reserves | XXX |
| Total | |
| Less: (a) Equity investments in subsidiaries (xxx) | |
| (b) Intangible Assets (xxx) | |
| (c) Current and brought forward losses (xxx) | <u>(XXX)</u> |
| Tier I capital | XXX |

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% (xxx) | 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 | XXX |
| (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) | |
| Tier II capital (not exceeding tier I capital) | XXX |

a) Risk adjusted value 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 |

PROBLEM 10: 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 |

(A) (NEW SM, SIMILAR, MTS (N) - 10M) (ANS.: CAPITAL ADEQUACY RATIO - 7.65%)

(SOLVE PROBLEM NO. 24 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

ASSIGNMENT PROBLEMS

PROBLEM 1: Given below interest on

(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.

(B) (NEW 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 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 |

(A) (NEW SM) (ANS.: TOTAL AMOUNT OF PROVISION - 2260L)

PROBLEM 3: From the following information of AY Limited, compute the provisions to be made in the Profit and Loss account.

| Particulars | Rs. in lakhs |
|---|--------------|
| Assets: | |
| Standard | 20,000 |
| Sub standard | 16,000 |
| Doubtful | |
| For one year (secured) | 6,000 |
| For two years and three years (secured) | 4,000 |
| For more than three years (secured by mortgage of plant and machinery of Rs.600 lakhs | 2,000 |
| Loss assets | 1,500 |

(A) (NEW SM) (ANS.: TOTAL AMOUNT OF PROVISION - 9080L)

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 |

(A) (OLD PM) (M12) (ANS.: TOTAL AMOUNT OF PROVISION - 3093L)

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?

(B) (NEW SM) (ANS.: TOTAL PROVISION RS. 900L)

PROBLEM 6:

| | |
|--|--|
| Outstanding Balance | 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.

(A) (NEW SM) (ANS.: TOTAL AMOUNT OF PROVISION - 2.75L)

PROBLEM 7: Rajataapeeta 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.

(A) (OLD PM) (ANS.: TOTAL PROVISION ON TERM LOAN 25L, EXPORT LOAN 19L)

Problem 8: 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.

(A) (OLD PM) (ANS.: PROVISION FOR TERM LOAN - 45L, EXPORT LOAN - 42L)

PROBLEM 9: 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 |

(Note: Assume Substandard and doubtful advances as fully secured)

(A) (NEW SM) (ANS.: PROVISION FOR PACKING CREDIT - RS.42L; PROVISION FOR OTHER ADVANCES - RS. 1,867 L)

PROBLEM 10: The following information is available in the books of X Bank Limited as on 31st March, 20X2:

| | Rs. |
|---|-------------|
| Bills discounted | 1,37,05,000 |
| Rebate on Bills discounted (as on 1.4.20X1) | 2,21,600 |
| Discount received | 10,56,650 |

Details of bills discounted are as follows:

| Value of bill (Rs.) | Due date | Rate of Discount |
|---------------------|-----------|------------------|
| 18,25,000 | 5.6.20X2 | 12% |
| 50,00,000 | 12.6.20X2 | 12% |
| 28,20,000 | 25.6.20X2 | 14% |
| 40,60,000 | 6.7.20X2 | 16% |

Calculate the rebate on bills discounted as on 31.3.20X2 and give necessary journal entries.

(A) (NEW SM, SIMILAR: MTP2 M18 (O), N18 (N) - 5M) (ANS.: TOTAL REBATE ON BILLS DISCOUNTED: RS. 4,25,254)

PROBLEM 11: 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% |

(A) (NEW SM, SIMILAR: RTP M17) (ANS.: TOTAL OF REBATE ON BILLS DISCOUNTED RS. 1,569.30)

PROBLEM 12: 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.

(B) (NEW SM) (ANS.: TOTAL OF BILLS FOR COLLECTION A/C 71.5L)

PROBLEM 13: 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 | |

(A) (NEW SM) (ANS.: BALANCE - 15,70,000)

PROBLEM 14: ABC bank Ltd. has a balance of Rs.40 crores in "Rebate on bills discounted" account as on 31st March, 2014. The Bank provides you the following information:

- During the financial year ending 31st March, 2015 ABC Bank Ltd. discounted bills of exchange of Rs. 5,000 crores charging interest @ 14% and the average period of discount being 146 days.
- Bills of exchange of Rs.500 crores were due for realization from the acceptors/customers after 31st March, 2015. The average period of outstanding after 31st March, 2015 being 73 days. These bills of exchange of Rs.500 crores were discounted charging interest@ 14% p.a.

You are requested to pass necessary Journal Entries in the books of ABC Bank Ltd. for the above transactions.

(A) (NEW SM) (ANS.: TOTAL REBATE ON BILLS DISCOUNTED - RS.14 CRORES)

PROBLEM 15: 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.

(A) (NEW SM) (ANS.: TOTAL OF DISCOUNT ON BILLS A/C 153.00, REBATE ON BILLS DISCOUNTED 19.80)

PROBLEM 16: 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 |

(A) (OLD PM) (ANS.: TOTAL OF BILLS FOR COLLECTION A/C 1,26,00,000)

PROBLEM 17: Following facts have been taken out from the records of M/s. Sneha Bank Ltd. in respect of the year ending March 31, 2015:

- i) 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.
- ii) 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.
- iii) 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.
- iv) 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.

(A) (OLD PM, SIMILAR: MTP1 M19 (N))

(ANS.: A) TOTAL OF BILLS FOR COLLECTION A/C 99,90,000; B) BALANCE 31,50,000; C) FULLY SECURED; D) TOTAL OF REBATE ON BILLS DISCOUNTED 45,000 AND TOTAL OF INTEREST & DISCOUNT A/C 98,21,000)

PROBLEM 18: 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 |

(A) (OLD PM) (ANS.: TOTAL PROVISION 590.25L AND NET PROFIT FOR THE YEAR 824.69)

PROBLEM 19: 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.

(A) (OLD PM, SIMILAR: MTP M17, N18 (O) - 10M) (ANS.: LOSS FOR THE YEAR (1,854.09))

PROBLEM 20: 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:

(i) Profit and Loss Account of the Bank for the year ended 31st March, 2008.

(ii) Provision in respect of advances.

(A) (OLD PM, RTP - N09)

(ANS.: NET PROFIT/LOSS FOR THE YEAR RS. 16,94,000; PROVISION IN RESPECT OF ADVANCES - RS.10,20,500)

PROBLEM 21: 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.

(A) (OLD PM) (ANS.: NET PROFIT FOR THE YEAR: RS. 8,18,187)

PROBLEM 22: 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:

i) 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.

- ii) There was also other debts for which a provisions of Rs. 2,00,000 was found necessary.
- iii) Rebate on bill discounted on 31-03-2012 was Rs. 15,000 and on 31-03-2013 was Rs. 20,000.
- iv) 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.

(B) (NEW SM, SIMILAR: RTP M18 (N&O), M18 (O) - 8M, MTP1 N18 (N&O) - 16M) (ANS.: PROFIT FOR THE YEAR -RS. 5,67,260)

PROBLEM 23: 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.

(C) (NEW SM) (ANS.: TOTAL OF BALANCE SHEET - 25,88.22L)

PROBLEM 24: 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 |

(B) (OLD PM, SIMILAR: M17 - 6M) (N10) (ANS.: CAPITAL ADEQUACY RATIO - 7.37%)

PRINTED SOLUTIONS FOR SOME SELECTIVE PROBLEMS

PROBLEM NUMBERS TO WHICH SOLUTIONS ARE PROVIDED: 1, 3, 4, 9

PROBLEM NO:1

Interest on performing assets should be recognised on accrual basis, but interest on NPA should be recognised on cash basis.

| Particulars | Rs. in lakhs |
|---|--------------|
| Interest on cash credits and overdraft : (1800+70) | 1,870 |
| Interest on Term Loan (480+40) | 520 |
| Income from bills purchased and discounted : (700+36) | 736 |
| | 3,126 |

PROBLEM NO:3

Statement showing Provisions on various performing and non-performing assets

| Particulars | Amount Rs. in lakhs | % of Provision | Provision Rs.in lakhs |
|---|------------------------|-------------------|--------------------------|
| Standard | 7,000 | 0.40 | 28 |
| Sub-standard | 3,000 | 15 | 450 |
| Doubtful (less than one year) | | | |
| On secured portion | 500 | 25 | 125 |
| On unsecured portion | 500 | 100 | 500 |
| Doubtful (more than one year but less than three years) | | | |
| On secured portion | 300 | 40 | 120 |
| On unsecured portion | 200 | 100 | 200 |
| Doubtful Unsecured (more than three years) | 300 | 100 | 300 |
| Total Provision | | | 1,723 |

PROBLEM NO:4

Provision required to be made as on 31.03.2012

| | |
|---|---|
| Outstanding balance | Rs. 4.00 lakhs |
| Less: Value of security held (80% of 1.5 lacs) | (Rs.1.20 lakhs) |
| Unrealised balance | Rs.2.80 lakhs |
| Less: ECGC Cover (50% of unrealizable balance) | (Rs.1.40 lakhs) |
| Net unsecured balance | Rs.1.40 lakhs |
| Provision for unsecured portion of advance | Rs.1.40 lakhs (@ 100% of unsecured portion) |
| Provision for secured portion of advance | Rs.1.20 lakhs (@ 100% of the secured portion) |
| Total provision to be made | Rs.2.60 lakhs |

PROBLEM NO: 9**Balance Sheet of Vaishnavi Bank Ltd. as on 31st March, 2012**

(Rs. '000)

| Capital and Liabilities | Schedule | As on 31.03.2012 | As on 31.03.2011 |
|----------------------------------|----------|------------------|------------------|
| Capital | 1 | 19,00,00 | |
| Reserves and surplus | 2 | 20,24,00 | |
| Deposits | 3 | 13,75,50 | |
| Borrowings | 4 | 7,72,30 | |
| Other liabilities and provisions | 5 | 1,14,20 | |
| Total | | 61,86,00 | |

| Capital and Liabilities | Schedule | As on 31.03.2012 | As on 31.03.2011 |
|---|----------|------------------|------------------|
| Cash and balance with Reserve Bank of India | 6 | 7,50,00 | |
| Balances with bank and Money at call and short notice | 7 | 7,23,50 | |
| Investments | 8 | 16,71,30 | |
| Advances | 9 | 19,60,00 | |
| Fixed Assets | 10 | 6,35,00 | |
| Other Assets | 11 | 4,46,20 | |
| Total | | 61,86,00 | |
| Contingent liabilities | 12 | 5,65,00 | |
| Bills for collection | | 4,35,00 | |

Vaishnavi Bank Ltd.**Profit and Loss Account for the year ended 31.03.2012**

| Particulars | Schedule No | Rs. |
|---------------------------------------|-------------|-----------------|
| I. Income | | |
| Interest & Discount | 13 | 10,00,00 |
| Other income | 14 | 98,00 |
| | | 10,98,00 |
| II. Expenditure | | |
| Interest Expended | 15 | 79,50 |
| Operating Expenses | 16 | 4,59,50 |
| Provisions and Contingences | | - |
| | | 5,39,00 |
| III. Profits / Loss | | |
| Net profit for the year | | 5,59,00 |
| Profit b/f | | 65,00 |
| | | 6,24,00 |
| IV. Appropriations | | |
| Transfer to Statutory Reserve | | 1,39,75 |
| Balance carried over to Balance Sheet | | 4,84,25 |
| | | 6,24,00 |

Schedule - 1 - Capital

| Particulars | As on 31.03.2012 |
|-----------------------------|------------------|
| III. For Other Banks | |
| Authorized Capital | |
| Shares of Rs..... each | .. |
| Issued Capital | |
| Shares of Rs..... each | .. |
| Subscribed Capital | |
| Shares of Rs..... each | .. |
| Called up capital | |
| Shares of Rs..... each | 19,00,00 |
| | 19,00,00 |

Schedule - 2 - Reserves & Surplus

| Particulars | As on 31.03.2012 |
|------------------------------|------------------|
| I. Statutory Reserves | |
| Opening Balance | 14,00,00 |
| Additions during the year | 1,39,75 |
| | 15,39,75 |

| | |
|---------------------------------------|----------|
| V. Balance in Profit and Loss Account | 4,84,25 |
| Total | 20,24,00 |

Schedule - 3 - Deposits

| Particulars | As on 31.03.2012 |
|--------------------------|------------------|
| A. I. Demand Deposits | 9,95,00 |
| II. Saving Bank Deposits | 1,50,00 |
| III. Term Deposits | 2,30,50 |
| | 13,75,50 |

Schedule - 4 - Borrowings

| Particulars | As on 31.03.2012 |
|------------------------|------------------|
| I. Borrowings in India | |
| (ii) Other banks | 7,72,30 |
| Total | 7,72,30 |

Schedule - 5 - Other liabilities and Provisions

| Particulars | As on 31.03.2012 |
|--|------------------|
| IV. Other liabilities including provisions | |
| Rebate on bills discounted | 40,00 |
| Employees Security Deposit | 74,20 |
| Total | 1,14,20 |

Schedule - 6 - Cash and Balances with Reserve Bank of India

| Particulars | As on 31.03.2012 |
|--|------------------|
| I. Cash in hand (including foreign currency notes) | 3,50,00 |
| II. Balances with Reserve Bank of India | |
| (i) In current Account | 3,20,00 |
| (ii) In Other Account | 80,00 |
| Total | 7,50,00 |

(Details are not based on figures given in the question)

Schedule - 7 - Balances with Banks & Money at Calls & Short Notice

| Particulars | As on 31.03.2012 |
|-----------------------------------|------------------|
| I. In India Balances with banks | |
| i) In Current accounts | 2,63,50 |
| a) In Other accounts | 2,00,00 |
| b) Money at call and short notice | |
| ii) With banks | |
| a) With other institutions | 2,30,00 |
| b) Total | 30,00 |
| | 7,23,50 |

Schedule - 8 - Investments

| Particulars | As on 31.03.2012 |
|----------------------------|------------------|
| I. Investments in India in | |
| i) Government securities | 9,43,70 |
| ii) Shares (assumed) | 5,56,30 |
| iii) Gold | 1,51,30 |
| iv) Silver | 20,00 |
| Total | 16,71,30 |

Schedule - 9 - Advances

| Particulars | As on 31.03.2012 |
|--|------------------|
| A. | |
| i) Bills purchased and discounted | 1,25,00 |
| ii) Cash credits, overdrafts and loans repayable on Demand | 18,35,00 |
| | 19,60,00 |
| B. | |
| i) Secured by tangible assets | 12,00,00 |
| ii) Secured by Bank / Govt. Securities | 2,00,00 |
| iii) Unsecured | 5,60,00 |
| | 19,60,00 |

| | |
|----------------------|----------|
| C. Advances in India | |
| i) Priority sector | 8,00,00 |
| ii) Public sector | 1,00,00 |
| iii) Banks | 20,00 |
| iv) Other | 10,40,00 |
| | 19,60,00 |

(Details are assumed)

Schedule 10 - Fixed Assets

| Particulars | As on 31.03.2012 |
|--|------------------|
| I. Premises | |
| At cost as on 31 st March, 2011 | 6,42,00 |
| Depreciation to date | 50,00 |
| | 5,92,00 |
| II. Other fixed articles (Including Furniture and Fixture) | |
| At cost as on 31 st March, 2011 | 48,00 |
| Depreciation to date | 5,00 |
| | 43,00 |
| Total (I) + (II) | 6,35,00 |

Schedule 11 - Other Assets

| Particulars | As on 31.03.2012 |
|-----------------------------------|------------------|
| I. Inter-office adjustments (Net) | 2,00,00 |
| II. Interest accrued | 2,46,00 |
| | 4,46,00 |

Schedule 12 -Contingent Liabilities

| Particulars | As on 31.03.2012 |
|---|------------------|
| I. Acceptance, endorsements and other obligations | 5,65,00 |
| Total | 5,65,00 |

Schedule 13 - Interest earned

| Particulars | As on 31.03.2012 |
|--|------------------|
| I. Interest / discount on advances, bills (6,20,00 + 4,20,00 = 10,40,00) | 10,00,00 |
| Total | 10,00,00 |

Schedule 14 - Other Income

| Particulars | Rs. | As on 31.03.2012 |
|---------------------------------------|---------|------------------|
| I. Commission, Exchange and Brokerage | 2,53,00 | |
| II. Profit on sale of investments | | |
| Less: Loss on sale on investments | 2,00,00 | 53,00 |
| III. Miscellaneous Income | | |
| Rent and Other Receipts | | 45,00 |
| Total | | 98,00 |

Schedule 15: Interest Expenses

| Particulars | As on 31.03.2012 |
|-------------------------|------------------|
| I. Interest on Deposits | 79,50 |
| | 79,50 |

Schedule 16: Operating Expenses

| Particulars | As on 31.03.2012 |
|--|------------------|
| I. Payments to and provisions for employees | 2,12,00 |
| II. Rent, Taxes and Lighting | 1,20,00 |
| III. Depreciation on Bank's Property | 55,00 |
| IV. Director's fees, allowances and expenses | 10,00 |
| V. Auditor's fees and expenses | 50,00 |
| VI. Postage, Telegrams, Telephones etc. | 12,50 |
| Total | 4,59,50 |

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To **MASTER MINDS**, Guntur**THE END**