

14. NON - BANKING FINANCIAL COMPANIES**ASSIGNMENT SOLUTIONS****PROBLEM NO. 1**

Statement showing calculation of 'Net Owned Fund'

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

PROBLEM NO. 2

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

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

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

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)

	<i>Amount in lakhs</i>	<i>Percentage of provision</i>	<i>Provision in lakhs</i>
Standard assets	10,000	0.25	25.00
Sub-standard assets	1,000	10	100.00
Secured portions of doubtful debts–			
– upto one year	160	20	32.00
– one year to three years	70	30	21.00
– more than three years	20	50	10.00
Unsecured portions of doubtful debts	90	100	90.00
Loss assets	30	100	30.00
			308.00

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)

	<i>Amount in lakhs</i>	<i>Percentage of provision</i>	<i>Provision in lakhs</i>
Standard assets	10,000	0.40	40.00
Sub-standard assets	1,000	10	100.00
Secured portions of doubtful debts–			
– upto one year	160	20	32.00
– one year to three years	70	30	21.00
– more than three years	20	50	10.00
Unsecured portions of doubtful debts	90	100	90.00
Loss assets	30	100	30.00
			323.00

PROBLEM NO. 4

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

	<i>Amount Rs.in lakhs</i>	<i>Percentage of provision</i>	<i>Provision Rs.in lakhs</i>
Standard assets	33,600	0.25	84.00
Sub-standard assets	2,680	10	268.00
Secured portions of doubtful debts–			
– upto one year	640	20	128.00
– one year to three years	180	30	54.00
– more than three years	60	50	30.00
Unsecured portions of doubtful debts	194	100	194.00
Loss assets	96	100	96.00
			854.00

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 Rs.in lakhs	Percentage of provision	Provision Rs.in lakhs
Standard assets	33,600	0.40	134.40
Sub-standard assets	2,680	10	268.00
Secured portions of doubtful debts–			
– upto one year	640	20	128.00
– one year to three years	180	30	54.00
– more than three years	60	50	30.00
Unsecured portions of doubtful debts	194	100	194.00
Loss assets	96	100	96.00
			904.40

PROBLEM NO. 5

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

	Amount Rs.in lakhs	Percentage of provision	Provision Rs.in lakhs
Standard assets	8,400	0.25	21.00
Sub-standard assets	670	10	67.00
Unsecured portions of doubtful debts	50	100	50.00
Loss assets	24	100	24.00
			162.00

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 Rs.in lakhs	Percentage of provision	Provision Rs.in lakhs
Standard assets	8,400	0.40	33.60
Sub-standard assets	670	10	67.00
Unsecured portions of doubtful debts	50	100	50.00
Loss assets	24	100	24.00
			174.60

PROBLEM NO. 6

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

	Amount Rs.in lakhs	Percentage of provision	Provision Rs.in lakhs
Standard assets	53,600	0.25	134.00
Sub-standard assets	2,680	10	268.00
Secured portions of doubtful debts–			
– upto one year	640	20	128.00
– one year to three years	180	30	54.00
– more than three years	60	50	30.00
Unsecured portions of doubtful debts	194	100	194.00
Loss assets	96	100	96.00
			904.00

PROBLEM NO. 7

- i) Since, the hire-purchaser paid the first instalment due on 31.3.2017, the notional principal outstanding on 1-4-2017 was Rs.246.20 lakhs (refer W.N.).

In the year ended 31.03.2018, the instalment due of Rs.70 lakhs has not been received. However, it was due on 31.3.2018 i.e. on the balance sheet date, and therefore, it will be classified as standard asset. Abhiram Ltd. will recognize Rs.13.29 lakhs as interest income included in that due instalment as this should be treated as finance charge. (Refer W.N.)

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

	Rs.in lakhs
Overdue instalment	70.00
Instalments not due (Rs.70 lakhs x 3)	210.00
	280.00
Less: Finance charge not matured and hence not credited to Profit and loss account (10.23 + 7.00 + 3.28)	(20.51)
	259.49
Less: Provision as the NBFC prudential norms (Refer point (iii))	49.49
Net book value of assets for Abhiram Ltd.	210.00

- iii) Amount of Provision:

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

Since, the instalment of Rs.70 lakhs not paid, was due on 31.3.2018 only, the asset is classified as standard asset. Therefore, no provision has been made for it.

Working Note:

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

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

* Difference in interest value is due to approximation.

THE END