

11. BANK ACCOUNTS**PROBLEM NO: 1****Note:**

- Interest on performing Asset should be recognised on Accrual basis
- Interest on Non-performing Asset (NPA) should be recognised on Cash basis

Particulars	PA (Rs.)	NPA (Rs.)	Total Amount (Rs.)
Interest on Term loan	120	5	125
Interest on Cash credits and overdraft	750	12	762
Income from bills purchased and discounted	150	20	170
			1,057

PROBLEM NO: 2

Computation of provisions for AG Bank

(Amount Rs.in Lakhs)

Asset	Amount (Rs)	% Provision	Provision (Rs.)
Standard Assets	5000	0.4	20
Substandard Assets (Note)	4000	15	600
Doubtful one year	800	25	200
Doubtful for 3 years	600	40	240
Doubtful for more than 3 years	200	100	200
Loss of Assets	1000	100	1000
Total provision required			2,260

Note: Sub Standard Assets are assumed as fully secured.**PROBLEM NO: 3**

Provision required to be made as on 31-3-2013

Particulars	Amount (Rs.)
Outstanding balance	4,00,000
(-) Value of Security held (secured portion)	(1,50,000)
Un realized balance	2,50,000
(-) ECGC Cover @ 50%	(1,25,000)
Net Unsecured balance	1,25,000

Particulars	Amount (Rs.)
Provision for Unsecured Portion of Advance (Doubtful More than 3 years) – 100%	1,25,000 (1,25,000 x 100%)
Provision for Secured Portion of Advance (Doubtful More Than 3 years)	150,000 (1,50,000 x 100%)
Total Provision to be made	2,75,000

PROBLEM NO: 4

Computation of Provision to be made for the year ended 31.3.2012

Particulars	Term Loan (Rs.)	Export Credit (Rs.)
Outstanding balance	35,00,000	30,00,000
(-) Realizable value of Securities	(10,00,000)	(8,00,000)
Unrealised balance	25,00,000	22,00,000
(-) DIGC Cover @ 40%	(10,00,000)	-
(-) ECGC Cover @ 50%	-	(11,00,000)
Unsecured balance	15,00,000	11,00,000

Note: Since no interest has been paid since 2006, the entire balance as on 31.3.2012 can be Categorised as doubtful. Hence, Provision has to be made @ 100% of both Secured & Unsecured Portion.

Particulars	Term Loan (Rs.)	Export Credit (Rs.)
Provision for Unsecured Portion @ 100%	15,00,000	11,00,000
Provision for Secured Portion @ 100%	10,00,000	8,00,000
Total Provision required	25,00,000	19,00,000

PROBLEM NO: 5

i) Packing Credit:-

Particulars	Amount (Rs.)
Outstanding balance	60,00,000
(-) Realisable value of securities	(15,00,000)
Unrealisable balance	45,00,000
(-) ECGC Cover @ 40%	(18,00,000)
Unsecured balance	27,00,000

Required provision:

Particulars	Amount (Rs.)
Provision for unsecured portion (Doubtful More than 3 years – 100%)	27,00,000
Provision for secured portion @ 100%	15,00,000
	42,00,000

ii) Other advances:

(Rs. In Lakhs)

Particulars	Amount (Rs.)	% Provision	Provision
Standard Assets	3000	0.40	12
Sub-standard Assets (Note)	2,200	15	330
Doubtful:			
For One year	900	25	225
For 2 years	600	40	240
For 3 years	400	40	160
For more than 3 yrs	300	100	300
Loss of Assets	600	100	600
			1867

Note: Substandard Advances have been assumed as fully secured. In Case of no Security cover is available these advances, provision will be made for 25% for substandard advances.

PROBLEM NO: 6

Computation of amount attributable to the unexpired portion of the period of the respective bills:-

i) The bill due on 5th June; hence no of days away from 31st March, is 66. The discount on Rs. 140,000

for 66 days @ 14% p.a will be $140,000 \times 14\% \times \frac{66}{365} = \text{Rs. } 3544$

ii) The bill is due on 12th June; No. of days in the unexpired portion of the bill is 73;

Discount = $436,000 \times \frac{73}{365} \times 14\% = \text{Rs. } 12,208$

iii) The bill is due on 25th June, No of days in the unexpired portion of the bill is 86 days

Discount = $282,000 \times 14\% \times \frac{86}{365} = \text{Rs. } 9302$

iv) The bill is due on 6th July, No of days in the unexpired portion of the bill is 97 days

Discount = $4,06,000 \times \frac{97}{365} \times 16\% = \text{Rs. } 17,263$

The amount of discount to be credited to the profit & Loss A/c will be:

Particulars	Amount (Rs.)
Transfer from Rebate on bills discount as on 31.3.2012	22,160
(+) discount received during the year	1,05,708
(-) Rebate on bills discounted as on 31.3.2013 (3,544 +12,208+9302+17,263)	(42,317)
	85,551

Journal Entries

Particulars	Debit (Rs.)	Credit (Rs.)
1. Rebate on bills discounted A/c Dr.	22,160	
To Discount on bills A/c		22,160
(being the rebate on bills discounted transferred to Discount on bills A/c)		
2. Discount on bills A/c Dr.	42,317	
To Rebate on bills discounted (Being provision made on 31.03.2013)		42,317
3. Discount on bills A/c Dr.	85,551	
To profit & Loss A/c (Being the amount of discount on bills transferred to profit & loss A/c)		85,551

PROBLEM NO: 7

Un expired discount

$$\text{On Bill Discounted} = 31547000 \times \frac{18}{100} \times \frac{46}{365} = \text{Rs. } 7,15,642/-$$

$$\text{On Bills for collection} = 12,00,000 \times \frac{4}{100} \times \frac{15}{365} = \text{Rs. } 1,973/-$$

$$= \text{Rs. } \underline{7,17,615/-}$$

Amount to be credited to profit & loss

Particulars	Amount (Rs.)
Balance in discount received	= 46,00,000
Add: Rebate on Bill discounted as on 01-01-09	= 3,20,000
Less: Rebate on Bills discounted on 31-12-10	= (7,15,642)
Less: rebate on Bills for collection	= <u>(1,973)</u>
Amount to be transferred to profit & loss account	= <u>42,02,385</u>

Journal Entries

Particulars	Amount (Rs.)	Amount (Rs.)
Rebate on bills discounted A/c Dr.	3,20,000	
To Discount received A/c		3,20,000
(Being transfer of opening balance in the rebate A/c)		
Discount received A/c Dr.	7,17,615	
To Rebate on bills discounted A/c		7,15,642
To Rebate on bills for collection A/c		1,973
(Being provision for unexpired discount as on 31-03-2010)		
Discount A/c Dr.	42,02,385	
To Profit & loss A/c		42,02,385
(Being transfer of discount net after adjustment)		

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PROBLEM NO: 8

Journal Entries in the books of uncertain Bank:

(Rs. In Crores)

Particulars	Debit	Credit
1. Rebate on bills discounted A/c Dr.	9.00	
To discount on bills A/c		9.00
(Being the transfer of opening balance in Rebate on bills discounted A/c to Discount on bills A/c)		
2. Bills purchased and Discounted A/c Dr.	4000.00	
To Discount on bills A/c		144.00
$\left(4000 \times 18\% \times \frac{73}{365}\right)$		
To Customers A/c		3856.00
(Being the discounting of bills of exchange during the year)		
3. Discount on bills A/c Dr.	10.80	
To Rebate on bills discounted A/c		10.80
$\left(600 \times 18\% \times \frac{36.5}{365}\right)$		
(Being the unexpired portion of discount in respect of the discounted bills of exchange carried forward))		
4. Discount on bills A/c Dr.	142.20	
To profit & Loss A/c		142.20
(Being the transfer of discount on bills, to profit & Loss account)		

Discount on bills A/c

(Rs. In crores)

Dr.

Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
31.03.11	To Rebate on Bills discounted	10.80	01.04.10	By Rebate on bills discounted	9.00
31.03.11	To Profit & Loss A/c (b/f)	142.20	2010-11	By Bills purchased and Discounted	144.00
		153.00			153.00

Rebate on bills Discounted

(Rs. In crores)

Dr.

Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
01.04.10	To discount on bills	9.00	01.04.10	By balance b/d	9.00
31.03.11	To Balance C/d	10.80	31.03.11	By Discount on bills A/c	10.80
		19.80			19.80

PROBLEM NO: 9

Bill for collection (Assets) A/c

(Rs. In Lakhs)

Dr.

Cr.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance b/d	7.00	By bills For Collection	47.00
To Bills for collection	64.50	By Bills Dishonored	5.50
		By Balance c/d	19.00
	71.50		71.50

Bills for collection (Liabilities) A/c

(Rs. In Lakhs)

Dr.

Cr.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Bills for Collection	47.00	By balance b/d	7.00
To Bills Dishonored	5.50	By Bills for collection	64.50
To Balance C/d	19.00		
	71.50		71.50

PROBLEM NO: 10**Hamara Bank Ltd****Profit and Loss A/c for the year ended 31st Mar 2013**

Particulars	Schedule No	Amount (Rs.) in lakhs
i) Income:-		
Interest Earned	13	4,425
Other Income		125
		4,550
ii) Expenditures:-		
Interest Expended		1360
Operating Expenses		1331
Provisions & contingencies (Note)		1034.31
		3725.31
iii) Profit/Loss:-		
Net Profit/Loss for the year		824.69
Profit / Loss brought forward		40.00
		864.69
iv) Appropriations:-		
Transfer to statutory reserve @ 25% of 824.69		206.17
Transfer to other reserves		-
Balance carried forward to balance sheet		658.52
		864.69

Schedule – 13: Interest Earned

Particulars	Amount (Rs.)
Interest & Discount	4,430
(-) Rebate on bills discounted	(15)
(+) Income on Investments	10
	4,425

Note: Calculation of provisions & Contingencies**i) Provision on Non-Performing Assets:**

(Rs. In Lakhs)

Particulars	Amount (Rs.)	% Provision	Provision (Rs.)
Standard Assets	2500	0.40	10
Sub-standard Assets	560	15	84
Doubtful Assets not covered by security	255	100	255
Doubtful Assets covered by security:			
For 1 year	25	25	6.25
For 2 years	50	40	20
For 3 years	100	40	40
For 4 years	75	100	75
Loss of Assets	100	100	100
	3,665		590.25

Note: It is assumed that all sub-standard assets are fully secured.

ii) Calculation of provision for Tax

= 35% [Total income – total expenditure (excluding tax)]

= 35% [(4425+125)-(1360+1331+590.25)]

= Rs. 444.06 lakhs

∴ Total provisions and contingencies

= provisions on NPAs + Provision for Tax

= 590.25 + 444.06

= Rs. 1034.31 Lakhs.

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PROBLEM NO: 11

Profit & loss A/c of KC bank for the year ended 31st march 2013

(Rs in 000's)

Particulars	Schedule no.	Amount (Rs)
i) Income:		
Interest earned	13	3,830
Other income	14	250
		4,080
ii) Expenditure:		
Interest Expended	15	2,720
Operating expenses	16	2,340
Provisions & contingencies (Working note)		680
		5,740
iii) Profit/Loss		(1,660)
iv) Appropriations		Nil

Schedule 13 – Interest Earned

(Rs in '000's)

Particulars	Amount (Rs.)	Amount (Rs.)
1. Interest/discount on advances/bills		
• Interest on Cash credit (1820+400-820)	1,400	
• Interest on Overdraft (750+100-450)	400	
• Interest on Term loans (1540+250-750)	1,040	2,840
2. Income on investments		840
3. Interest on balance with RBI		150
		3,830

Note: Interest on NPA is recognized on cash basis, hence excess reduced.

Schedule 14 – Other Income

(Rs in '000's)

Particulars	Amount (Rs)	Amount (Rs)
1. Commission, exchange and Brokerage		
• Commission on remittances and transfer	75	
• Commission on letter of credit	118	
• Commission on Government business	82	275
2. Profit on sale of land & building		27
3. Loss on Exchange transactions		(52)
		250

Schedule 15 –Interest Expended

(Rs in '000's)

Particulars	Amount (Rs)
Interest on deposits	2,720
	2,720

Schedule 16 – Operating expenses

(Rs in '000's)

Particulars	Amount (Rs)	Amount (Rs)
1. payment and provision for employees		
• Salaries, allowances and bonus	1,240	
• Provident Fund contribution	280	1,520
2. Printing & stationery		140
3. Advertisement and publicity		180
4. Director fess, allowances & expenses		250
5. Auditors fees and expenses		120
6. Postage, telegrams and telephones etc		80
7. Repairs and maintenance		50
		2,340

WORKING NOTE:**Provisions and Contingencies:**

Particulars	Calculations	Amount (Rs'000)
<u>Provision for NPA</u>		
• Standard Assets	3000 x 0.40%	12
• Substandard Assets	1120 x 15%	168
• Doubtful not covered by security	200 x 100%	200
• Doubtful covered by security for one year	50 x 25%	12.5
• Loss of Assets	200 x 100%	200
		592.5

Depreciation on current investments:

Cost (75% of 2,750)

Rs. 2,062.50

(-) Market Value

Rs. (1975.00)

87.5**680**

Note:- 25% of the total investments are held to maturity. In case of held to maturity, investments are valued at cost and these are not marked to market value. Hence depreciation on investments has been calculated only on other investments which can either be held for trading or available for sale.

PROBLEM NO: 12

Well-to-do Bank Ltd

Profit & loss A/c for the year ended 31-03-2008

(in thousands)

Particulars	Schedule No	Amount (Rs.)
Income		
Interest Earned	13	8,830
Other Income	14	250
Total		9,080
Expenditure		
Interest Expenses	15	2,720
Operating Expenses	16	2,662
Provisions & contingencies		1020.5
Total		6402.5
Net Profit for the year		2677.5

Schedule No.13: Interest Earned

Particulars	Amount (Rs.)
Interest and discount	8,860
(-) Rebate on bills discounted	<u>(30)</u>
	<u>8,830</u>

Schedule No.14: Other Income

Other Income	<u>250</u>
	<u>250</u>

Schedule No.15: Interest Expenses

Interest on public deposit	<u>2,720</u>
	<u>2,720</u>

Schedule No.15: Operating expenses

Operating expenses	<u>2,662</u>
	<u>2,662</u>

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Computation of provisions in respect of Advances

Particulars	Value (Rs. '000s)	% of Provision	Amount ('000s)
Standard Assets	5,000	0.4	20
Sub Standard	1,120	15	168
Doubt full			
Fully Unsecured	200	100	200
Secured			
< than 1 year	50	25	12.5
1-3 years	300	40	120
> than 3 years	300	100	300
Loss Asset	200	100	200
Total Provisions			1020.5

Note: Sub-standard assets are assumed to be fully secured

PROBLEM NO: 13

Profit & Loss A/c of KLM Bank Ltd. For the year ended 31.03.2013:

Particulars	Schedule No	Amount (Rs.)
i) Income:-		
• Interest Earned	13	37,95,160
• Other Income	14	4,87,800
Total		42,82,960
ii) Expenditure:-		
• Interest Expended	15	22,95,360
• Operating expenses	16	5,70,340
• Provisions & contingencies (450,000 + 200,000 + 200,000)		8,50,000
Total		37,15,700
iii) Profit/ Losses:		
Net profit for the year		5,67,260
Profit brought forward		-
		5,67,260
iv) Appropriations:		
Transfer to statutory Reserves (5,67,260 x 25%)		141,815
Proposed dividend (10,00,000 x 5%)		50,000
Balance carried forward to Balance sheet		375,445
		5,67,260

- Profit & Loss A/c Balance of Rs. 3,75,445 will appear under the head 'Reserves & Surplus' in schedule 2 of Balance sheet

Schedule 13 – Interest Earned

Particulars	Amount (Rs.)
Interest and Discount received	38,00,160
(+) Rebate on bills discounted on 31.03.12	15,000
(-) Rebate on bills discounted on 31.03.13	(20,000)
	37,95,160

Schedule 14 – other income

Particulars	Amount (Rs.)
Commission, exchange and brokerage	190,000
Profit on sale of investment	2,25,800
Rent received	72,000
	4,87,800

Schedule 15 –Interest Expended

Interest paid on deposits → Rs. 22,95,360.

Schedule 16 – Operating Expenses

Particulars	Amount (Rs.)
Payment to and provisions for employees (salaries & allowances)	2,50,000
Rent, Taxes paid	100,000
Depreciation on Assets	40,000
Director's Fee, allowances & Expenses	35,000
Auditor's Fee	12,000
Statutory expenses	38,000
Postage & Telegrams	65,340
Preliminary Expenses	30,000
	5,70,340

PROBLEM NO: 14

Balance Sheet of ADT International Bank as on 31st Mar-2013

Particulars	Schedule No	Amount (Rs.) in lakhs
Capital and Liabilities:		
Share capital	1	198.00
Reserves & Surplus	2	793.00
Deposits	3	1487.12
Borrowings	4	110.00
Other liabilities and Provision	5	0.10
		2588.22
Assets:		
Cash and balances with RBI	6	219.63
Balances with banks and money at call and short notice	7	344.39
Investments	8	165.40
Advances	9	1632.98
Fixed Assets	10	225.82
Other Assets	11	-
		2588.22
Contingent liabilities	12	14.67
Bills For Collection		18.10

Schedule 1 - Share Capital:

(Rs) in Lakhs

Particulars	
Authorized Capital	
Issued, subscribed and paid up capital 19,80,000 shares of Rs. 10 each	198.00

Schedule 2 – Reserves and surplus:

1. Statutory Reserve :	
Opening balance	231
(+) Additions during the year	375
	268.50
2. Balance in profit & Loss A/c [WN-1]	524.50
	793.00

Schedule 3 – Deposits:

Demand deposits from others	520.12
Saving bank deposits	450.00
Fixed deposits	517.00
	1487.12

Schedule 4 – Borrowings:

Borrowings in India – Other banks	110.00
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Schedule 5 – Other liabilities & provisions:-

Bills payable	0.10
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Schedule 6 - cash and balances with RBI:

Cash inhand	160.15
Balances with RBI in current A/c (WN-2)	59.48
	219.63

Schedule 7 – Balances with banks and money at call and sort notice

Balance with banks in current A/c (WN-3)	134.27
Money at call and short notice	210.12
	344.39

Schedule 8 – Investments:-

1. Investment in India in	
• Govt. Securities	110.17
• Others – Gold	55.23
	165.40

Schedule 9 – Advances :-

A. i) Cash Credits, overdrafts (includes Debit balance in current A/c as ODS)	840.10
ii) Term loans	792.88
	1632.98
B. i) Secured by tangible Assets (b/f)	1152.53
ii) Secured by bank / govt guarantees	396.44
iii) unsecured	84.01
	1632.98

Schedule 10 – Fixed Assets :-

1. Premises at Cost as on 31.03.2012	156.80
Depreciation to date	(1.10)
	155.70

2. Other Fixed Assets	
Furniture (70.90 – 0.78)	70.12
Total (1)+(2)	225.82

Schedule 11 – Other Assets – Nil**Schedule 12 – Contingent liabilities:-**

• Claims against bank not acknowledged as Debts	0.55
• Acceptances, endorsements	14.12
	14.67

WORKING NOTE:**1. Balance in profit & Loss A/c :-**

Particulars	(Rs. in lakhs)
Net profit before appropriation	150.00
(+) profit for the year	412.00
	562.00
(-) transfer to statutory reserve (150 x 25%)	(37.50)
	524.50

2. Transfer from cash with other banks to cash with RBI (when CRR is required to be maintained at 4% of deposits w.e.f Jan 29.2013)

• Cash reserve required (1487.12 x 4%)	59.48
(-) cash with RBI	(37.88)
Transfer needed to maintain cash reserve	21.60

3. Liquid Assets:

Cash on hand	160.15
Cash with other banks	155.87
Money at call and short notice	210.12
Gold	55.23
Govt. securities	110.17
	691.54
Excess liquidity [691.54 – (1487.12 x 23%)]	349.50

The excess liquidity enables the transfer as per (2) above, After the transfer, cash with Other banks = 155.87 – 21.60 = Rs. 134.27

PROBLEM NO: 15**i. Capital funds – Tier I:****(Rs. In lakhs)**

Particulars	Amount (Rs.)
Equity share Capital	48000
Statutory Reserve	28000
Capital Reserve (arising out of sale of assets)	930
	76930

Capital Funds – Tier II:

Particulars		(Rs. in lakhs)
• Capital Reserve (arising out of revaluation of assets)	280	
(-) discount to the extent of 55%	(154)	126
		77056

ii. Risk Adjusted Assets:**(in lakhs)**

Funded Risk Assets	Amount (Rs.)	% of Weight	Amount (Rs.)
• Cash balance with RBI	480	0	-
• Balances with other banks	1250	20	250

• Claims on banks	2850	20	570
• Other investments	78250	100	78250
Loans & Advances:-			
• Guaranteed by government	12820	0	-
• Guaranteed by public sector Undertaking of central government	70210	0	-
• Others	52,02,50	100	520250
• Premises, Furniture & Fixtures	18200	100	18200
Other Assets	20120	100	20120
			637640

Off-balance sheet item	Amount (Rs.)	Credit conversion factor	Amount (Rs.)
Acceptances, Endorsements and Letters of Credit	370250	100	370250

$$\text{Risk weighted Assets Ratio} = \frac{\text{capital funds (Tier I + Tier - II)}}{\text{Risk adj assets + Off balanc sheet itens}} \times 100$$

$$= \frac{76930 + 126}{637640 + 370250}$$

$$= \frac{77056}{1007890} \times 100$$

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$$\text{Capital adequacy Ratio} = 7.65\%$$

Expected Ratio is 9% So, The bank has to improve the ratio by introducing further Tier – I capital.

PROBLEM NO: 16

i) **Bills For collection (Assets) A/c**

Dr.

Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
1.4.2014	To balance b/d	10,15,000	2014 -15	By bills for Collection	64,50,000
2014-15	To bills for Collection	89,75,000		By Bills for Collection (Dishonoured)	11,25,000
			31.03.15	By balance C/d	24,15,000
		99,90,000			99,90,000

Bills for Collection (Liabilities) A/c

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
2014 - 15	To Bills For collection	64,50,000	1.4.14	By balance b/d	10,15,000
	To bills for collection	11,25,000	2014.15	By bills for collection	89,75,000
31.3.15	To Balance c/d	24,15,000			
		99,90,000			99,90,000

ii) **Acceptances, Endorsement & Other obligation A/c**

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
2014-15	To Constituents liability for acceptance, endorsement etc. (bank dishonoured)	44,50,000	1.4.14	By balance b/d	27,50,000
	To Constituents liability for acceptance, endorsement etc. (clients paid off)	15,00,000			

	To Constituents liability for Acceptance, Endorsements etc. (Amt Paid on Failure of Clients)	400,000	2014.15	By constituents, liabilities for Acceptances, Endorsements etc.	67,50,000
31.3.15	To Balance b/d	31,50,000			
		95,00,000			95,00,000

- iii) For classifying loans as fully secured or Otherwise, the value of the Security as on the Last date of the year is considered. The Value of security $100,000 \times 85 = 85,00,000$ Covering the loan and the interest due Comfortably.

Hence it is to be treated as good and fully secured

Rebate on bills discounted A/c

Dr.

Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
2014 – 15	To Interest & Discount	21,000	1.4.14	By balance b/d	45,000
31.3.15	To balance c/d	24,000			
		45,000			45,000

Interest & discount A/c

Dr.

Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
31.3.15	To profit & Loss A/c	98,21,000	1.4.14	By balance b/d	98,00,000
			2014-15	By Rebate on bills Discounted	21,000
		98,21,000			98,21,000

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THE END