

8 . FINANCIAL STATEMENTS OF BANKING COMPANIES

NO. OF PROBLEMS IN 42e OF CA INTER: CLASSROOM - 11, ASSIGNMENT - 26

NO. OF PROBLEMS IN 41.5e OF CA INTER: CLASSROOM - 09, ASSIGNMENT - 19

NO. OF PROBLEMS IN 42.5(2e) OF CA INTER: CLASSROOM - 10, ASSIGNMENT - 13

MODELWISE 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)	M-19(N)
Model - 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Model - 2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Model - 3	8	5	5	8	4	4	4	4	4	-	8	6	6	4	-	-	5	6
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	ILL - 7 (Unit - 4)	ILL - 7	-	-	-	M15-12M	-
CR 3	PQ - 3	-	10	-	-	-	-
CR 4	-	-	-	-	-	-	-
CR 5	ILL - 5 (Unit - 5)	ILL - 5	-	N17	M19(O), N18	N17-6M	-
CR 6	ILL - 1 (Unit - 5)	ILL - 1	-	-	-	-	-
CR 7	ILL - 7 (Unit - 5)	ILL - 7	-	-	-	-	-
CR 8	PQ-5(Unit-6)	PQ-5	-	-	-	-	-
CR 9	ILL - 2 (Unit - 6)	ILL - 2	-	-	-	-	-
ASG 1	ILL - 1 (Unit - 4.1)	ILL - 1	-	-	-	-	-
ASG 2	-	-	5	-	-	-	-
ASG 3	ILL - 6&4 (Unit - 4& 4.3)	ILL - 6 & 4	-	-	-	-	-
ASG 4	PQ - 1	-	6	-	-	-	-
ASG 5	ILL - 3 (Unit - 5)	ILL - 3	-	-	M18(O)	N18(N) - 5M	-
ASG 6	ILL - 4 (Unit - 5)	ILL - 4	-	M17	-	-	-
ASG 7	PQ - 4	-	26	-	-	-	-
ASG 8	ILL - 2 (Unit - 5)	ILL - 2	-	-	-	-	-
ASG 9	ILL -5& 6 (Unit - 5)	ILL -5 &6	-	-	-	-	-
ASG 10	PQ - 6	-	36	M18(N&O)	N18(N&O)	M18(O)-8M	-
ASG 11	ILL - 3 (Unit - 6)	ILL - 3	-	-	-	-	-
ASG 12	ILL - 1 (Unit - 6)	ILL - 1	-	-	-	-	-
ASG 13	-	-	28	-	-	-	-

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.

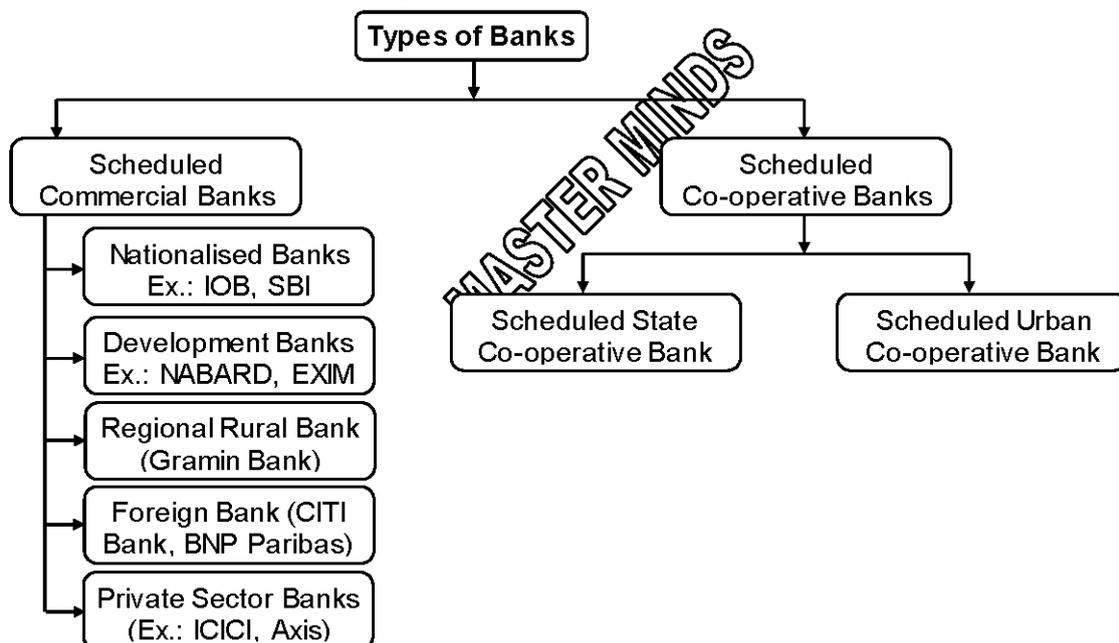
Note: Banks in India are regulated by the Banking Regulation Act, 1949. RBI as the Central Bank is the 'Bank of Last Resort'.

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	<p>The General Ledger contains:</p> <ul style="list-style-type: none"> a) Control Accounts of all personal ledgers. b) Profit and Loss Account. c) Asset's Accounts. d) Contra Accounts. <p>Usefulness: It facilitates the preparation of Balance Sheet.</p>
2. Profit and Loss Ledger	<p>The Profit and Loss Ledger contains:</p> <ul style="list-style-type: none"> a) Detailed Accounts of Revenue Items. b) Detailed Account of Expense items. <p>Usefulness: It facilitates the preparation of Profit and Loss Account.</p>

Subsidiary Books

Personal Ledgers	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> a) Inward Bills for Collection b) Outward Bills for Collection c) Bills Discounted and Purchased Register

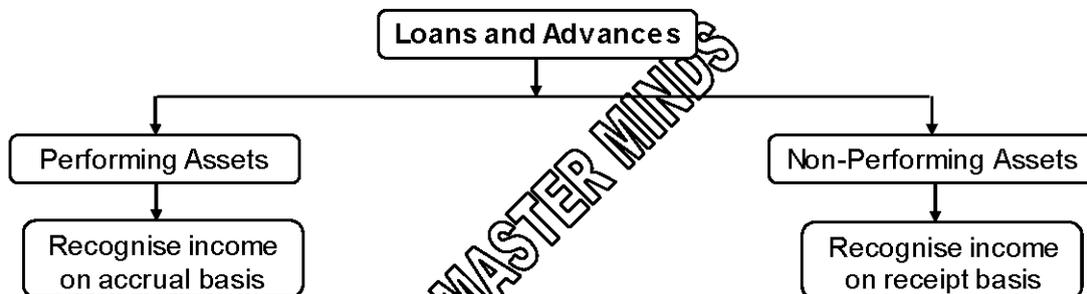
PART 3: INCOME RECOGNITION, CLASSIFICATION OF ADVANCES AND PROVISIONING NORMS**Introduction:**

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:
 - a) 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.
 - b) Though the outstanding balance is less than the sanctioned limit/drawing power -
 - i) There are no credits continuously for more than 90 days as on the date of balance sheet; (or)
 - ii) 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.

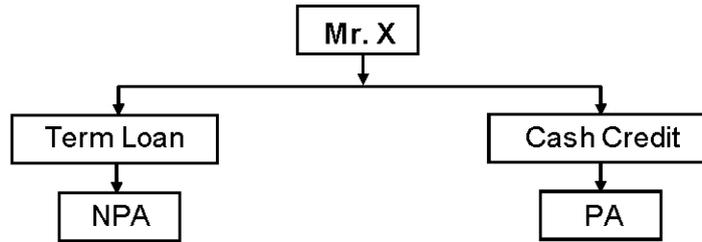
9. Advances Guaranteed by EXIM Bank: In the case of advances covered under the guarantee-cum-refinance programme of EXIM Bank, to the extent payment has been received by the bank from the EXIM Bank, the advance may not be treated as NPA. The balance should, however, be treated as NPA (if the conditions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

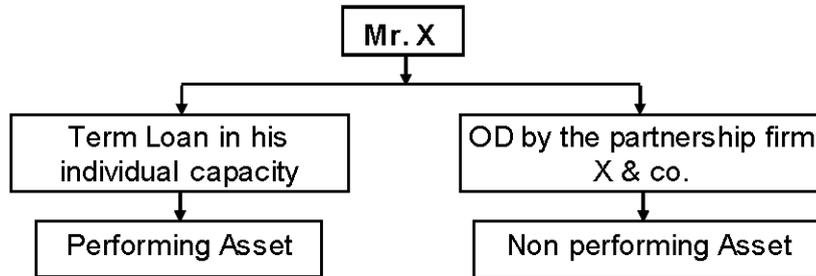
Determination of NPAs-Borrower-wise, Not Facility-wise: If any of the credit facilities granted to a borrower becomes non-performing, all the facilities granted to the borrower will have to be treated as NPA without having any regard to performing status of other facilities.

Ex: 1



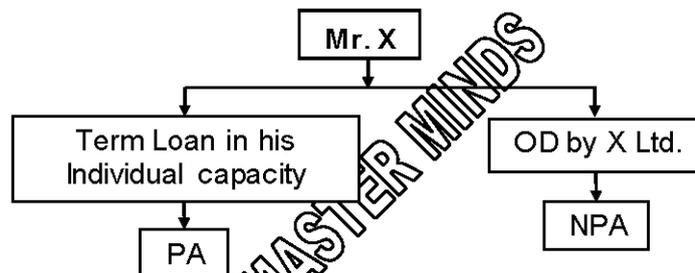
Therefore, both the accounts will become NPA for Mr. X.

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



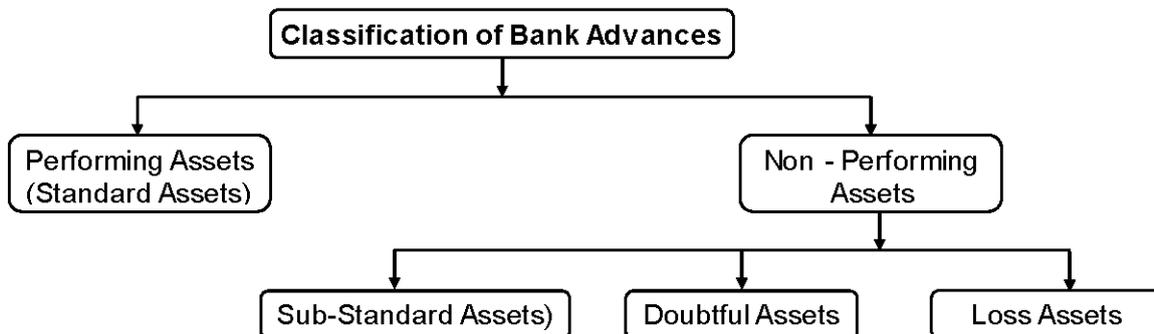
Both the accounts will be treated as NPA. [As partnership and partner has no separate legal entity]

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



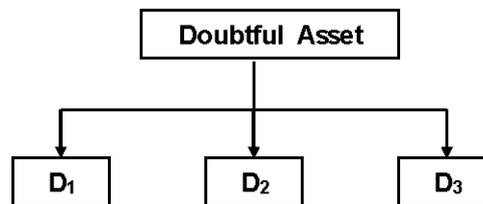
Both the accounts not get the same status because the company and shareholders are not one & the same.

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.

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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 more than 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.

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		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.

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PROBLEMS FOR CLASSROOM DISCUSSION

PROBLEM 1: 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: 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. 1,720) (SOLVE PROBLEM NO. 2 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 3:

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. 3 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 4: The following information are also given for SM Bank:

Assets	Rs. in Lakhs
Standard	75,00
Sub-Standard	60,00
Doubtful: for 1 Year (fully Secured)	12,00
For 1 to 3 year (fully secured)	9,00

For more than 3 years	9,00
Loss Assets	15,00

Additional Information:

- Standard Assets includes Rs.15,00 lakhs Advances to Commercial Real Estate(CRE).
- Out of RS 60,00 Lakhs of sub-standard Assets Rs.200 lakhs are unsecured.
Unsecured includes Rs.5,00 Lakhs in respect of Infrastructure Loan Accounts with ESCROW Safeguard.
- Doubtful Assets for more than 3 years includes Rs.4,00 Lakhs ,Which is covered by 50% ECGC, value of security of which is Rs.150 Lakhs.

You are required to find out the amount of provision to be shown in the Profit & Loss Account of SM Bank. (May19-6M)

(ANS.: Total provision 4049 lakhs) (SOLVE PROBLEM NO. 4 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. 5,6,7,8 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 6: (PRINTED SOLUTION AVAILABLE): Following facts have been taken out from the records of Adarsha Bank Ltd. in respect of the year ending March 31, 2013:

- 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.
- 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.
- 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. 9 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
		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
	XXX	XXX
Add: Forfeited shares	XXX	XXX
	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:	XXX	XXX
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:	XXX	XXX
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	XXX
Advances secured by tangible Assets	XXX	XXX
Secured by Guarantee of Govt.[or] Other Banks	XXX	XXX
Unsecured Advances	XXX	XXX
Total:	XXX	XXX
In India:		
Priority Sector	XXX	XXX
Public Sector	XXX	XXX
Banks	XXX	XXX
Others	XXX	XXX
Total:	XXX	XXX
Outside India:		
Banks	XXX	XXX
Others: Bills Purchased & Discounted	XXX	XXX
Syndicated Loans	XXX	XXX
Others	XXX	XXX
Grand Total:	XXX	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	XXX	XXX
Total:		<u>XXX</u>	<u>XXX</u>
Expenses:			
Interest Paid/expended	15	XXX	XXX
Administration exp.	16	XXX	XXX
Provisions and Contingencies		XXX	XXX
Total:		<u>XXX</u>	<u>XXX</u>
Profit/Loss			
Net Profit for the year		XXX	XXX
Net profit b/f		XXX	XXX
Total:		<u>XXX</u>	<u>XXX</u>
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		XXX	XXX
Total:		<u>XXX</u>	<u>XXX</u>
Balance in Profit & Loss A/c:		<u>XXX</u>	<u>XXX</u>

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.____	For year ended 31.3.____
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

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. 10,11 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 8: How will you disclose the following Ledger balances in the Final accounts of DVD bank:

	Rs. in Lacs
Current accounts	700
Saving accounts	500
Fixed deposits	700
Cash credits	600
Term Loans	500
Bills discounted & purchased	800

Additional information:

- Included in the current accounts ledger are accounts overdrawn to the extent of Rs. 250 lacs.
- One of the cash credit account of Rs. 10 lacs (including interest Rs. 1 lac) is doubtful.
- 60% of term loans are secured by government guarantees, 20% of cash credits are unsecured,

other portion is secured by tangible assets.

(NEW SM)

(ANS.: Deposits-2,150L, Advances-2,150L, other liabilities & provisions-10L, P & L-10L)

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

(SOLVE PROBLEM NO. 12 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	XXX
(Representing surplus on sale of assets and held in a separate account only)	
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)
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, etc. Accepted	100
9.	Non funded exposure to Real estate	150

PROBLEM 10: (PRINTED SOLUTION AVAILABLE): 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: M18 (N) - 10M) (ANS.: CAPITAL ADEQUACY RATIO - 7.65%)

(SOLVE PROBLEM NO. 13 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PRINTED SOLUTIONS FOR SOME SELECTIVE PROBLEMS**PROBLEM NUMBERS TO WHICH SOLUTIONS ARE PROVIDED: 6,9,10****PROBLEM NO: 6****(a) Bills for Collection (Assets) A/c 20X1**

20X1	Particulars	Rs.	20X1-X2	Particulars	Rs.
Apr. 1 20X1-X2	To Balance b/d	7,00,000		By Bills for Collection (Liabilities) A/c	47,00,000
	To Bills for Collection (liabilities) A/c	64,50,000		By Bills for collection (Liabilities) A/c	5,50,500
			20X2		
			Mar. 31	By Balance c/d	18,99,500
		71,50,000			71,50,000

Bills for Collection (Liabilities) Account

20X1-X2		Rs.	20X1		Rs.
	To Bills for collection (Assets) A/c	47,00,000	Apr. 1	By Balance b/d	7,00,000
	To Bills for Collection (Assets) A/c	5,50,500	20X1- X2	By Bills for collection (Assets) A/c	64,50,000
20X2 Mar. 31	To Balance c/d	18,99,500			
		71,50,000			71,50,000

(b) Acceptances, Endorsement & Other Obligation Account

20X1- X2	Particulars	Rs.	20X1	Particulars	Rs.
	To Constituents' Liability for Acceptance, Endorsement, etc.	25,00,000	Apr. 1	By Balance b/d	14,50,000
	To Constituents' Liability for Acceptances, Endorsement etc.	10,00,000	20X1- X2	By Constituents, Liabilities for Acceptances, Endorsements, etc.	44,00,000
	To Constituents' Liability for Acceptances, Endorsements, etc. (amount paid on failure of clients)	1,00,000			
Mar. 31	To Balance c/d	22,50,000			
		58,50,000			58,50,000

(c) 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 the security is Rs. 8,20,000 covering the loan and the interest due comfortably. Hence it is to be treated as good and fully secured.

(d) Rebate on Bills Discounted Account

	Particulars	Rs.		Particulars	Rs.
20X1-X2	To Interest and Discount A/c	6,000	20X1 Apr. 1	By Balance b/d	20,000
20X2 Mar.31	To Balance c/d	14,000			
		20,000			20,000

Interest & Discount Account

20X2	Particulars	Rs.	20X1	Particulars	Rs.
Mar. 31	To Profit & Loss A/c	98,06,000	Apr. 1	By Balance b/d	98,00,000
20X1-X2				By Rebate on Bills discounted A/c	6,000
		98,06,000			98,06,000

PROBLEMNO: 9Balance 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	
a) In Other accounts	2,63,50
b) Money at call and short notice	2,00,00
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
B.	19,60,00
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	<u>50,00</u>
	5,92,00
II. Other fixed articles (Including Furniture and Fixture)	
At cost as on 31 st March, 2011	48,00
Depreciation to date	<u>5,00</u>
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 - 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

PROBLEM NO. 10

(i)

Capital Funds - Tier I :	Rs. in lakhs	Rs. in lakhs
Equity Share Capital		480,00
Statutory Reserve		280,00
Capital Reserve (arising out of sale of assets)		9,30
	769,30	
Capital Funds - Tier II :		
Capital Reserve (arising out of revaluation of assets)	280	
Less : Discount to the extent of 55%	(154)	1,26
		770,56

(ii) Risk Adjusted Assets

Funded Risk Assets	Rs. in lakhs	Percentage weight	Amount Rs. In lakhs
Cash Balance with RBI	4,80	0	—
Balances with other Banks	12,50	20	2,50
Claims on banks	28,50	20	5,70
Other Investments	782,50	100	782,50
Loans and Advances:			
(i) guaranteed by government	128,20	0	—
(ii) guaranteed by public sector undertakings of Central Govt.	702,10	0	—
(iii) Others	52,02,50	100	52,02,50
Premises, furniture and fixtures	1,82,00	100	1,82,00
Other Assets	2,01,20	100	2,01,20
			63,76,40

Off-Balance Sheet Item	Rs. in lakhs	Credit Conversion Factor	
Acceptances, Endorsements and Letters of credit	37,02,50	100	$\frac{37,02,50}{100,78,90}$

$$\text{Risk Weighted Assets Ratio} = \frac{\text{Capital Funds (Tier I \& Tier II)}}{\text{Risk Adjustment Assets + Off Balance Sheet items}} \times 100$$

$$= \frac{7,69,30 + 1,26}{63,76,40 + 37,02,50}$$

$$\text{Capital Adequacy Ratio} = \frac{770,56}{100,78,90} \times 100 = 7.65\%$$

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

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, 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 3: A) 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)

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 PROVISIONRS. 900L)

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

PROBLEM 4: 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:

- i) 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.
- ii) 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 5: 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 6: 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 7: 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:

- i) During the financial year ending 31st March, 2015 ABC Bank Ltd. discounted bills of exchange of Rs. 5,000 crores charge interest @ 14% and the average period of discount being 146 days.

- ii) 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 8: 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 9: 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 01.04.2013 bills for collection were 7 lacs. During 2013-14 bills received for collection amounted to 64.5 lacs. Bills collected were 47 lacs. Bills not honoured were 5.5 lacs. Prepare Bills for collection (Assets) and Bills for Collection (Liabilities) Accounts.

ii) 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	

- 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) (OLDPDM, SIMILAR: MTP1M19(N))

(ANS.: (i) (NEW SM) (ANS.: TOTAL OF BILLS FOR COLLECTION A/C 71.5L) (ii) (NEW SM) (ANS.: BALANCE - 15,70,000) (iii) FULLY SECURED; (iv) TOTAL OF REBATE ON BILLS DISCOUNTED 45,000 AND TOTAL OF INTEREST & DISCOUNT A/C 98,21,000)

PROBLEM 10: 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:

- 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.
- There was also other debts for which a provisions of Rs. 2,00,000 was found necessary.
- Rebate on bill discounted on 31-03-2012 was Rs. 15,000 and on 31-03-2013 was Rs. 20,000.
- 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), BM, MTP1 N18 (N&O) - 16M) (ANS.: PROFIT FOR THE YEAR - RS. 5,67,260)

PROBLEM 11: From the following information, prepare Profit and Loss A/c of Dimple Bank as on 31.03.2013:

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

PROBLEM 12: 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 13: 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%)

PROBLEMS FOR SELF PRACTICE

PROBLEM 1: 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 2: 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 3: 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 months 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 - 1530L)

PROBLEM 4: Rajatapeeta 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	50 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.

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

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To **MASTER MINDS**, Guntur

THE END