

Financial Reporting Analysis

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FINANCIAL REPORTING ANALYSIS

[As per Revised Syllabus of 2014-15 for BBI, Semester V, University of Mumbai]

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Preface

We are happy to present this book “**Financial Reporting Analysis**” to the students of T.Y.BBI, Vth semester. In this edition, an effort has been made to incorporate professional examination questions at relevant places in the book.

The syllabus contains a list of the topics covered in each chapter which will avoid controversies regarding the exact scope of the syllabus. The text follows the term-wise chapter topics pattern prescribed in the syllabus. We have preferred to give the text of the section and rules as it is and thereafter added the comments with the intention of explaining the subject to the students in a simplified language. While making an attempt to explain in a simplified language, any mistake of interpretation might have crept in. This book is a unique presentation of subject matter in an orderly manner. This is a student-friendly book and tutor at home. We hope the teaching faculty and students community will find this book of great use.

We are extremely grateful to Mr. K.N. Pandey, Director of Himalaya Publishing House Pvt. Ltd. for their devoted and untiring personal attention accorded by them to this publication. We gratefully acknowledge the immense contribution and suggestion from various colleges. We gratefully acknowledge our deepest and sincere thanks to:

- Mr. Jitendra Singh, Trustee, Thakur College;
- Dr. Chaitaly Chakraborty, Principal, Thakur College
- Mrs. Janki Nishikant Jha.

We welcome suggestions from students and teachers for further improvement of quality of the book.

Authors

Syllabus

UNIT – 1:

- (a) Preparation and Presentation of Banking Company Final Accounts in Accordance with Banking Regulations Act (Calculation of Rebate on Bill Discounted).
- (b) Study of Accounting Policies from Annual Reports of Banks. (15 Lectures)

UNIT – 2:

- (a) Preparation and Presentation of Corporate Final Accounts for Insurance Companies Final Accounts in Accordance with Insurance Legislation.
- (b) Study of Accounting Policies from Annual Reports of Listed Insurance Companies. (15 Lectures)

UNIT – 3:

- (a) Preparation and Presentation of Corporate Final Accounts and Reports for Trading, Manufacturing and Others Companies in Accordance with Revised Schedule VI of Company Final Accounts.
- (b) Analysis and Interpretation of the Contents of Annual Reports of Companies covering the following:
 - Chairman's Statement.
 - Director's Report Annexure.
 - Corporate Governance Disclosures.
 - Compliance Certificate in Corporate Governance Auditor's Report.
 - Annexure to Auditor's Reports including CARO Balance Sheet.
 - Profit and Loss Account.
 - Schedules Forming Part of the Accounts.
 - Statement u/s 212 of the Companies Act, 1956.
 - Balance Sheet Abstract. (15 Lectures)

UNIT – 4:

- (a) Financial Analysis and Interpretation of Final Account using Tools of Financial Management and Investment Analysis like Ratio Analysis, Funds Flows and Cash Flows Analysis. (15 Lectures)

Total: 60 Lectures

Scheme of Examination

Credit Based Grading System Scheme of Examination

- **Internal Assessment – 25%** **25 Marks**
- **Semester End Examinations – 75%** **75 Marks**

Question Paper Pattern

Duration: 2½ Hrs.

Maximum Marks: 75

All Questions are Compulsory Carrying 15 marks each.

Questions to be Set: 05

Particulars	Marks
Q.1 Objective Questions	
(a) Sub Questions to be asked 10 and to be answered any 08	
(b) Sub Questions to be asked 10 and to be answered any 07	
(*Multiple choice/True or False/Match the column, Fill in the blanks)	15 Marks
Q.2 Full Length Practical Question	15 Marks
OR	
Q.2 Full Length Practical Question	15 Marks
Q.3 Full Length Practical Question	15 Marks
OR	
Q.3 Full Length Practical Question	15 Marks
Q.4 Full Length Practical Question	15 Marks
OR	
Q.4 Full Length Practical Question	15 Marks
Q.5 (a) Theory Questions	08 Marks
(b) Theory Questions	07 Marks
OR	
Q.5 Short Notes	15 Marks
To be asked 05	
To be answered 03	

Note: Full length question of 15 marks may be divided into two sub questions of 08 and 07 marks.

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1

Chapter

FINANCIAL REPORTING OF BANKING COMPANIES

- 1.1 Introduction
- 1.2 Meaning of Banking Company
- 1.3 Principal Provisions of Banking Regulation Act
- 1.4 Preparation and Presentation of Final Accounts
- 1.5 Form of Final Account
- 1.6 Important Items of the Final Accounts
- 1.7 Non-Performing Assets
- 1.8 Illustrations

1.1 INTRODUCTION

Some special provisions relating to banking companies were incorporated in the Indian Companies Act, 1913, not until 1936, although the said provisions were found to be inadequate to protect the interest of the depositors. As a result, banking companies are governed by the Banking Regulation Act, 1949, which actually came into force on 16th March 1949. This Act, of course, has been amended several times. The Companies Act, 1956, however, is also applicable to banking companies since it is not inconsistent to the provisions of the Banking Regulation Act.

1.2 MEANING OF BANKING COMPANY

According to Sec. 5 of the Banking Regulation Act, 1949, a banking company means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise and withdrawn by Cheque, Draft, Order or otherwise. In short, a banking company means and includes any company which carries on the business or which transacts the business of banking in India. Therefore, any company which is engaged in trade or manufacture, which accepts deposits of money from the public for the purpose of financing its business only, shall not be deemed to carry on the business of banking. No company can use as part of its name any of the words bank, banker or banking other than a banking company and, at the same time, no company can carry on business of banking in India unless and until it uses at least one of such words as part of its name.

Sec. 8 states that a banking company cannot deal directly or indirectly in buying or selling or banking of goods except its legitimate banking business.

1.3 PRINCIPAL PROVISIONS OF BANKING REGULATION ACT

Prohibition of Trading (Sec. 8): According to Sec. 8 of the Banking Regulation Act, a banking company cannot directly or indirectly deal in buying or selling or bartering of goods. But it may, however, buy, sell or barter the transactions relating to bills of exchange received for collection or negotiation.

Non-banking Assets (Sec. 9): According to Sec. 9, “A banking company cannot hold any immovable property, howsoever acquired, except for its own use, for any period exceeding seven years from the date of acquisition thereof. The company is permitted, within the period of seven years, to deal or trade in any such property for facilitating its disposal”. Of course, the Reserve Bank of India may, in the interest of depositors, extend the period of seven years by any period not exceeding five years.

Management (Sec. 10): Sec. 10(a) states that not less than 51% of the total number of members of the Board of Directors of a banking company shall consist of persons who have special knowledge or practical experience in one or more of the following fields: (a) Accountancy; (b) Agriculture and Rural Economy; (c) Banking; (d) Co-operation; (e) Economics; (f) Finance; (g) Law and (h) Small-scale Industry.

The Section also states that at least not less than two directors should have special knowledge or practical experience relating to agriculture and rural economy and co-operation. Sec. 10(b)(1) further states that every banking company shall have one of its directors as Chairman of its Board of Directors.

Minimum Capital Reserves (Sec. 11): Sec. 11 of the Banking Regulation Act, 1949, provides that no banking company shall commence or carry on business in India, unless it has minimum paid-up capital and reserve of such aggregate value as noted below:

(a) Foreign Banking Companies: In case of banking company incorporated outside India, its paid-up capital and reserve shall not be less than ₹ 1 lakh in respect of its principal place of business plus ₹ 15 lakhs and, if it has a place of business in Mumbai or Kolkata or in both, ₹ 20 lakhs.

It must deposit and keep with the RBI either in cash or in unencumbered approved securities: (i) the amount as required above, and (ii) after the expiry of each calendar year, an amount equal to 20% of its profits for the year in respect of its Indian business.

(b) Indian Banking Companies: In case of an Indian banking company, the sum of its paid-up capital and reserves shall not be less than the amount stated below:

- (i) If it has places of business in more than one State, ₹ 5 lakhs, and if any such place of business is in Mumbai or Kolkata or in both, ₹ 1 lakh in respect of its principal place of business plus ₹ 10 lakhs.
- (ii) If it has all its places of business in one State, none of which is in Mumbai or Kolkata, ₹ 1 lakh in respect of its principal place of business plus ₹ 1 lakhs in respect of each of its other place of business in the same district in which it has its principal place of business plus ₹ 25,000 in respect of each place of business elsewhere in the State. No such banking company shall be required to have paid-up capital and reserves exceeding ₹ 5 lakhs and no such banking company which has only one place of business shall be required to have paid-up capital and reserves exceeding ₹ 50,000.

In case of any such banking company which commences business for the first time after 16th September 1962, the amount of its paid-up capital shall not be less than ₹ 5 lakhs.

- (iii) If it has all its places of business in one State, one or more of which are in Mumbai or Kolkata, ₹ 5 lakhs plus ₹ 25,000 in respect of each place of business outside Mumbai or Kolkata. No such banking company shall be required to have paid-up capital and reserves exceeding ₹ 10 lakhs.

Capital Structure (Sec. 12): According to Sec. 12, no banking company can carry on business in India, unless it satisfies the following conditions:

- (a) Its subscribed capital is not less than half of its authorized capital, and its paid-up capital is not less than half of its subscribed capital.
- (b) Its capital consists of ordinary shares only or ordinary or equity shares and such preferences shares as may have been issued prior to 1st April 1944. This restriction does not apply to a banking company incorporated before 15th January 1937.
- (c) The voting right of any shareholder shall not exceed 5% of the total voting right of all the shareholders of the company.

Payment of Commission, Brokerage etc. (Sec. 13): According to Sec. 13, a banking company is not permitted to pay directly or indirectly by way of commission, brokerage, discount or remuneration on issues of its shares in excess of 2½ of the paid-up value of such shares.

Payment of Dividend (Sec. 15): According to Sec. 15, no banking company shall pay any dividend on its shares until all its capital expense (including preliminary expenses, organization expenses, share selling commission, brokerage, amount of losses incurred and other items of expenditure not represented by tangible assets) have been completely written off.

But a Banking Company need not —

- (a) write off depreciation in the value of its investments in approved securities in any case where such depreciation has not actually been capitalized or otherwise accounted for a loss;
- (b) write off depreciation in the value of its investments in shares, debentures or bonds (other than approved securities) in any case where adequate provision for such depreciation has been made to the satisfaction of the auditor;
- (c) write-off bad debts in any case where adequate provisions for such debts has been made to the satisfaction of the auditors of the banking company.

Reserve Fund/Statutory Reserve (Sec. 17): According to Sec. 17, every banking company incorporated in India shall, before declaring a dividend, transfer a sum equal to 20% of the net profits of each year (as disclosed by its Profit and Loss Account) to a reserve fund. The Central Government may, however, on the recommendation of RBI, exempt it from this requirement for a specified period. The exemption is granted if its existing reserve fund together with Share Premium Account is not less than its paid-up capital. If it appropriates any sum from the reserve fund or the share premium account, it shall, within 12 days from the date of such appropriation, report the fact to the Reserve Bank, explaining the circumstances relating to such appropriation.

Cash Reserve (Sec. 18): Under Sec. 18, every banking company (not being a Scheduled Bank) shall, if Indian, maintain in India, by way of a cash reserve in cash, with itself or in current account with the Reserve Bank or the State Bank of India or any other bank notified by the Central Government in this behalf, a sum equal to at least 3% of its time and demand liabilities in India. The Reserve Bank has the power to regulate the percentage also between 3% and 15% (in case of Scheduled Banks). Besides the above, they are to maintain a minimum of 25% of its total time and demand liabilities in cash, gold or unencumbered approved securities. But every banking company's asset in India should not be less than 75% of its time and demand liabilities in India at the close of last Friday of every quarter.

Liquidity Norms (Sec. 24): According to Sec. 24 of the Act, banking companies must maintain sufficient liquid assets in the normal course of business. The section states that every banking company has to maintain in cash, gold or unencumbered approved securities, an amount not less than 20% of its demand and time liabilities in India. This percentage may be changed by the RBI from time to time according to economic circumstances of the country. This is in addition to the average daily balance maintained by a bank.

Accounts and Audit (Secs. 29 to 34A): The above Sections of the Banking Regulation Act deal with the accounts at audit. Every banking company, incorporated in India, at the end of financial year expiring a period of 12 months as the Central Government may by notification in the Official Gazette specified, must prepare a Balance Sheet and a Profit and Loss Account as on the last working day of that year or according to the Third Schedule or as circumstances permit. At the same time, every banking company, which is incorporated outside India, is required to prepare a Balance Sheet and also a Profit and Loss Account relating to its branch in India also. We know the Form A of the Third Schedule deals with form of Balance Sheet and Form B of the Third Schedule deals with form of Profit and Loss Account.

1.4 PREPARATION AND PRESENTATION OF FINAL ACCOUNTS

The final accounts of banking companies include the Profit and Loss Account and the Balance Sheet. The financial year ends on 31st March, every year. The Banks also prepare half-years accounts on 30th September, every year. The final accounts must be audited by a person who is duly qualified under the law. Every banking company must obtain the approval of the RBI regarding appointment of an Auditor. Three copies of the Balance Sheet and Profit and Loss account, together with auditor's report must be submitted to the RBI within three months from the end of the period. Every banking company must file three copies of the final accounts and auditor's report with the Registrar of Companies. These accounts are also presented in the Annual General Meeting for the approval of the shareholders. The Banking Companies Rules 1949 also prescribe that the accounts and auditor's report should be published in a newspaper circulating at a place where the banking company has its principal office, within six months from the end of the period. The RBI can conduct inspection of the books of accounts of the banking company at any time or on receiving direction from the Central Government.

1.5 FORM OF FINAL ACCOUNTS

The formats of preparation of final accounts are given in the third schedule of the Banking Regulation Act. The revised formats are in the vertical form. The formats are given below:

FORM 'A': FORM OF BALANCE SHEET

Balance Sheet of _____ (here enter the name of the Banking Company)
as on 31st March ____ (Year)

	Schedule	As on 31.3. — (Current year)
CAPITAL AND LIABILITIES		
Capital	1	
Reserves and Surplus	2	
Deposits	3	
Borrowings	4	
Other Liabilities and Provisions	5	
TOTAL ₹		
ASSETS		
Cash and Balances with Reserve Bank of India	6	
Balance with banks and money at call and short notice	7	
Investments	8	
Advances	9	

Fixed Assets		10	
Other Assets		11	
	TOTAL ₹		
Contingent Liabilities			
Bills for collection		12	

SCHEDULE 1—CAPITAL

Particulars	As on..... Current Year
I. FOR NATIONALIZED BANKS	
Capital (Fully owned by Central Government)	
II. FOR BANKS INCORPORATED OUTSIDE INDIA	
Capital	
(i) (The amount brought in by banks by way of start-up capital as prescribed by RBI should be shown under this head)	
(ii) Amount of deposit kept with the RBI under Section 11(2) of the Banking Regulation Act, 1949	
TOTAL ₹	
III. FOR OTHER BANKS	
Authorized Capital (shares of ₹ each)	
Issued Capital (shares of ₹ each)	
Subscribed Capital (shares of ₹ each)	
Called-up Capital (shares of ₹ each)	
Less: Calls Unpaid	
Add: Forfeited Shares	
TOTAL ₹	

SCHEDULE 2—RESERVES AND SURPLUS

Particulars	As on Current Year
I. Statutory Reserves	
Opening Balance	
Additions during the year	
Deductions during the year	
II. Capital Reserves	
Opening Balance	
Additions during the year	
Deductions during the year	
III. Share Premium	
Opening Balance	
Additions during the year	
Deductions during the year	
IV. Revenue and other Reserves	
Opening Balance	
Additions during the year	
Deductions during the year	
V. Balance in Profit and Loss Account	
TOTAL ₹	
(I, II, III, IV and V)	

SCHEDULE 3—DEPOSITS

Particulars	As on..... Current Year
A. I. Demand Deposits	
(i) From Banks	
(ii) From Others	
II. Savings Bank Deposits	
III. Term Deposits	
(i) From Banks	
(ii) From Others	
TOTAL ₹	
(I, II and III)	
B. (i) Deposits of branches in India	
(ii) Deposits of branches outside India	
TOTAL ₹	

SCHEDULE 4—BORROWINGS

Particulars	As on Current Year
I. Borrowing in India	
(i) Reserve Bank of India	
(ii) Other Banks	
(iii) Other Institutions and Agencies	
II. Borrowing outside India	
TOTAL ₹	
(I and II)	

SCHEDULE 5—OTHER LIABILITIES AND PROVISIONS

Particulars	As on Current Year
I. Bills Payable	
II. Inter-office Adjustments (net)	
III. Interest accrued	
IV. Others (including provisions)	
TOTAL ₹	

SCHEDULE 6—CASH AND BALANCES WITH RESERVE BANK OF INDIA

Particulars	As on Current Year
I. Cash in Hand (including foreign currency notes)	
II. Balance with Reserve Bank of India	
(i) In Current Account	
(ii) In Other Accounts	
TOTAL ₹ (I & II)	

SCHEDULE 7—BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE

Particulars	As on Current Year
I. In India	
(i) Balance with banks	
(a) in Current Accounts	
(b) in Other Deposit Accounts	
(ii) Money at call and short notice	
(a) with Banks	
(b) with other Institutions	
TOTAL ₹	
II. Outside India	
(i) in Current Accounts	
(ii) in other Deposit Accounts	
(iii) Money at call and short notice	
TOTAL ₹	

SCHEDULE 8—INVESTMENTS

Particulars	As on Current Year
I. Investments in India in	
(i) Government securities	
(ii) Other approved securities	
(iii) Shares	
(iv) Debentures and Bonds	
(v) Subsidiaries and/or joint ventures	
(vi) Others (to be specified)	
TOTAL ₹	
II. Investments outside India in	
(i) Government securities (including local authorities)	
(ii) Subsidiaries and/or joint ventures abroad	
(iii) Other investments (to be specified)	
TOTAL ₹	
GRAND TOTAL ₹ (I & II)	

SCHEDULE 9—ADVANCES

Particulars	As on..... Current Year
A. (i) Bills purchased and discounted	
(ii) Cash Credits, Overdrafts and Loans payable on demand	
(iii) Term Loans	
TOTAL ₹	
B. (i) Secured by tangible assets	
(ii) Covered by Bank/Government Guarantees	
(iii) Unsecured	
TOTAL ₹	
C. I. Advances in India	
(i) Priority Sectors	
(ii) Public Sectors	
(iii) Banks	
(iv) Others	
TOTAL ₹	
II. Advances outside India	
(i) Due from Banks	
(ii) Due from others	
(a) Bills purchased and discounted	
(b) Syndicated Loans	
(c) Others	
TOTAL ₹	
GRAND TOTAL ₹ (C. I & II)	

SCHEDULE 10 – FIXED ASSETS

Particulars	As on Current Year
I. Premises	
At cost as on 31 st March of the preceding year	
Additions during the year	
Deductions during the year	
Depreciation to date	
II. Other fixed assets (including Furniture and Fixtures)	
At cost on 31 st March of the preceding year	
Additions during the year	
Deductions during the year	
Depreciation to date	
TOTAL ₹ (I & II)	

SCHEDULE 11 – OTHER ASSETS

Particulars	As on..... Current Year
I. Inter-office adjustments (net)	
II. Interest Accrued	
III. Tax paid in advance/Tax deducted at source	
IV. Stationery and Stamps	
V. Non-banking assets acquired in satisfaction of claims	
VI. Others @	
TOTAL ₹	
@ In case there is any unadjusted balance of loss, the same may be shown under the item with appropriate footnote.	

SCHEDULE 12 – CONTINGENT LIABILITIES

Particulars	As on Current Year
I. Claims against the bank not acknowledged as debts	
II. Liability for partially paid investments	
III. Liability on account of outstanding forward exchange contracts	
IV. Guarantees given on behalf of constituents	
(a) In India	
(b) Outside India	
V. Acceptances, endorsements and other obligations	
VI. Other items for which the bank is contingently liable	
TOTAL ₹	

FORM 'B'
FORM OF PROFIT AND LOSS ACCOUNT

Profit and Loss Account for the year ended 31st March, ...

	Schedule No.	Current Year	Previous Year
I. INCOME:			
Interest earned	13		
Other income	14		
TOTAL ₹			
II. EXPENDITURE			
Interest expended	15		
Opening expenses	16		
Provisions and Contingencies			
TOTAL ₹			
III. PROFIT/LOSS			
Net Profit/Loss for the year (I – II)			
Profit/Loss (+) brought forward			
TOTAL ₹			
(-) IV. APPROPRIATIONS			
Transfer to Statutory Reserves			
Transfer to other Reserves			
Transfer to Government/Proposed dividend			
Balance carried over to Balance Sheet			
TOTAL ₹			

SCHEDULE 13 – INTEREST EARNED

Particulars	As on..... Current Year
I. Interest/discount on advance/bills	
II. Income on investments	
III. Interest on balances with Reserve Bank of India and other inter-bank funds	
IV. Others	
TOTAL ₹	

SCHEDULE 14 – OTHER INCOMES

Particulars	As on Current Year
I. Commission, Exchange and Brokerage	
II. Profits on sale of investments Less: Loss on sale of investments	
III. Profit on revaluation of investments Less: Loss on revaluation of investments	
IV. Profit on sale of land, building and other assets Less: Loss on sale of land, building and other assets	
V. Profit on exchange transactions Less: Loss on exchange transactions	
VI. Income earned by way of dividends etc. from subsidiaries/companies and/or joint ventures abroad/in India.	
VII. Miscellaneous Income	
TOTAL ₹	
Note: Under items II to V Loss, figures may be shown in brackets.	

SCHEDULE 15—INTEREST EXPENDED

Particulars	As on..... Current Year
I. Interest on deposits	
II. Interest on Reserve Bank of India/inter-bank borrowings	
III. Others	
TOTAL ₹	

SCHEDULE 16—OPERATING EXPENSES

Particulars	As on Current Year
I. Payments to and provisions for employees	
II. Rent, Taxes and Lighting	
III. Printing and Stationery	
IV. Advertisement and Publicity	
V. Depreciation on Bank's property	
VI. Director's fees, allowances and expenses	
VII. Auditor's fees and expenses (including branch auditors)	
VIII. Law Charges	
IX. Postages, Telegrams, Telephones, etc.	
X. Repairs and Maintenance	
XI. Insurance	
XII. Other expenditure	
TOTAL ₹	

1.6 IMPORTANT ITEMS OF THE FINAL ACCOUNTS

(i) Inter-office Adjustments: The inter-office adjustments balance, if in debt, should be shown under this head. Only net position of inter-office accounts, inland as well as foreign, should be shown here. For arriving at the net balance of inter-office adjustment accounts, all connected inter-office accounts should be aggregated and the net balance, if in debit, only should be shown representing mostly items in transit and unadjusted items.

(ii) Rebate on Bills Discounted: It is also known as Discount Received in Advance, or, Unexpired Discount or, Discount Received but not Earned. Its treatment is same as we do in the case of Interest Received in Advance. Thus,

- (a) If it is given only in the Trial Balance:** The same will be shown as a liability and will appear in the liability side of the Balance Sheet.
- (b) If it is given in adjustment:** In that case, the same is deducted from the income from Interest and Discount in Profit and Loss Account and the same will also appear in the liability side of the Balance Sheet.

(iii) Money at Call and Short Notice: The deposits made by bank with other banks and withdrawable only after giving a notice is called money at call and short notice. These deposits can be withdrawn by giving 24 hours' notice. Money at short notice can also be withdrawn with 7 days' notice.

(iv) Bad Debts and Provision for Bad Debts: Entries are passed for writing off bad debts and for making provisions for doubtful debts in the books of banks. However, these entries should not be reflected in the final account of the bank, because it may damage the reputation of the banks and the confidence of the public may be lost. The Banking Regulation Act allows banks not to disclose the amount of Bad Debts written off and provision for bad debts. The amount of provision for doubtful debts is merged with "provisions and contingencies" while debiting it to Profit and Loss Account. The said amount is deducted from the advances shown in the balance sheet. It is necessary for banks to disclose the fact about existence of provision in the statement of Accounting Policies.

1.7 NON-PERFORMING ASSETS

The RBI has issued guidelines for provision for loss on advances or credit facilities granted by the banks. These guidelines are known as prudential norms. Non-performing Assets (NPA) means a credit facility in respect of which the interest and/or installments has remained past due for a specified period. Thus, a credit facility that ceases to generate income for the bank is termed as Non-performing Asset.

Accordingly, any loan facility which is overdue for interest or installment for a period of 180 days is considered as NPA. This period applies for term loan, overdraft as well as other advances. However, for agricultural loans, overdue for two harvest seasons is considered as NPA. With effect from March 2004, banks have to classify their assets as NPAs if they fail to recover either a portion of principal or interest within 90 days instead of 180 days applicable earlier.

Classification of Advances:

As per prudential norms, the advances of a bank are classified as under:

(i) Standard Assets: The advance which is not NPA is called Performing Asset or Standard Asset. Such an asset does not create any problem to the bank. It does not earn more than normal risk attached to the business.

(ii) Sub-standard Assets: The amount of advance which is NPA for a period not exceeding 18 months is considered as Sub-standard Asset. The security available to the bank is inadequate. There is a distinct possibility that the bank will suffer some loss if deficiencies are not corrected immediately in future.

(iii) Doubtful Asset: The amount of advance which is NPA for a period of exceeding 18 months is considered as doubtful asset. This type of an asset is considered as weak because its collection is considered as highly improbable. For this purpose, the unsecured and secured portions are to be considered separately. The unsecured portion has to be fully provided. Provision is also to be made against secured portion as per certain percentages.

(iv) Loss Asset: The amount of advance which is identified by the bank or the auditor but which is not yet written off. The bank must write it off even though there is remote possibility of recovery of certain amount.

Provisioning for Advances:

The provision to be made against the advances as per guidelines is given below:

Types of Asset	Provision to be made
(i) Standard Asset	: 0.40% of the Balance
(ii) Sub-standard Asset	: 10% of the Balance
(iii) Doubtful Asset	
(a) On Unsecured Portion	: 100%
(b) On Secured Portion:	
Doubtful for up to 1 years	: 20%
Doubtful for 1 to 3 years	: 30%
Doubtful beyond 3 years on 31-3-2004	: 50%
Doubtful beyond 3 years on 31-3-2005	: 60%
Doubtful beyond 3 years on 31-3-2006	: 75%
Doubtful beyond 3 years on 31-3-2007	: 100%
(iv) Loss Assets	: 100%

Note:

- (i) In case of doubtful asset, unsecured portion means the balance reduced by the value of tangible assets and claim receivable under DICGC or ECGC.
- (ii) Advances against term deposits, NSC, KVP and Life Insurance Policies are exempt from provisioning requirement. These advances are not considered as NPAs.
- (iii) The interest due on NPA should not be recognized as income unless it is realized. The interest due should be credited to Interest Suspense Account and charged to NPA. On actual receipt, it should be recognized as interest income.
- (iv) Credit facilities where government guarantees are available although overdue should not be treated as NPA. However, such exemption is not available for recognition of income.
- (v) In the case of advances guaranteed by Export Credit and Guarantee Corporation or by Deposit Insurance and Credit Guarantee Corporation, provision is required to be made only for the balance in excess of the amount guaranteed by these corporations.
- (vi) In case the advance is covered by CGTSI guarantee becomes NPA, no provision needs to be made towards the guaranteed portion. The amount outstanding in excess of the guaranteed portion should be provided for as per the existing guidelines of provisions for NPA.

Preparation of Profit and Loss Account

Illustration 1: From the following information, prepare Profit and Loss Account of Yes Bank Ltd. for the year ended 31-3-2014.

	₹ Lakhs
Interest on Loans	25.90
Interest on Fixed Deposits	27.50
Commission	0.82
Rebate on Bills Discounted	4.90
Salaries and Allowances	5.40
Discount on Bills Discounted (Net)	14.60
Interest on Cash Credit	22.30
Depreciation on Bank's Property	4.00
Rent and Rates	1.80
Interest on Overdraft	15.40
Director's Fees	0.30
Audit Fees	0.50
Interest on Saving Deposits	6.80
Postage	0.14
Printing and Stationery	0.29
Sundry Expenses	0.15

Bad debts to be written off amounted to ₹ 3.80 lakhs. Provision for taxation may be made at 35%. Transfer 20% of profits to Statutory Reserve and provide ₹ 3 lakhs for dividends.

Solution:

Yes Bank Ltd.
Profit and Loss Account for the year ended 31-3-2014

Particulars	Schedule No.	(₹ Lakhs)
1. Income:		
Interest Earned	13	78.20
Other Income	14	0.82
Total ₹		<u>79.02</u>
2. Expenditure:		
Interest Expended	15	34.30
Operating Expenses	16	12.58
Provisions and Contingencies		13.72
Total ₹		<u>60.60</u>
3. Profit and Loss Account		
Net Profit for the Year		18.42
4. APPROPRIATIONS:		
Statutory Reserve		3.68
Proposed Dividend		3.00
Balance Carried to Balance Sheet		11.74
Total ₹		<u>18.42</u>

SCHEDULE 16: OPERATING EXPENSES

Particulars	(₹ Lakhs)
Salaries and Allowances	5.40
Rent and Rates	1.80
Printing and Stationery	0.29
Depreciation	4.00
Director's Fees	0.30
Audit Fees	0.50
Postage	0.14
Sundry Expenses	0.15
Total ₹	12.58

Working:

Particulars	(₹ Lakhs)
(1) Provision and Contingencies:	
Bad Debts	3.80
Provision for Taxation	9.92
	<u>13.72</u>
(2) Provision for Taxation:	
Total Income	79.02
Less: (1) Interest Expense 34.30	
(2) Operating Expenses <u>12.58</u>	<u>46.88</u>

Less: Bad Debts	32.14
Profit Before Tax	<u>3.80</u>
Less: Provision for Tax	28.34
Profit After Tax	<u>9.92</u>
	18.42

(3) Rebate on bill discounted is deducted from interest and discount.

Illustration 2: From the following information, prepare Profit and Loss Account of South Bank Ltd. as on 31st March 2014.

Particulars	₹ (in '000)
Interest and Discounts	3045
Income from Investments	115
Interest on Balances with RBI	820
Commission, Exchange and Brokerage	110
Profit on Sale of Investments	1225
Interest on Deposits Interest to RBI	161
Payment to and Provision for Employees	1044
Rent, Taxes and Lighting	210
Printing and Stationery	180
Advertisement and Publicity	95
Depreciation	92
Director's Fees	220
Auditor's Fees	120
Law Charges	20
Postage, Telegram and Telephones	70
Insurance	56
Repairs and Maintenance	48

Other Information:

(i) Interest and discount mentioned above is after adjustment for the following:

Particulars	₹ ('000)
Tax provision for the year	2,20
Provision during the year for doubtful debts	1,02
Loss on sale of investments	12
Rebate on bills discounted	58

(ii) 20% of profit is transferred to Statutory Reserves.

5% of profit is transferred to Revenue Reserve.

Profit brought forward from last year 16,000.

Solution:

In the books of South Bank
Profit and Loss Account for the year ended 31st March 2014

Particulars	Schedule No.	As on 31.3.2014 Current Year
1. Income		
Income Earned	13	37,32
Other Income	14	9,18
		46,50
2. Expenditure		
Interest Expended	15	13,86
Operating Expenses	16	23,65
Provision and Contingencies		3,80*
		41,31
3. Profit/Loss		
Net Profit for the year		5,19
Profit brought forward		16
		5,35
Total		5,35
4. Appropriations		
Transfer to Statutory Reserve (₹ 5,19 × 20/100)		1,04
Transfer to Revenue Reserve (₹ 5,19 × 5/100)		26
Balance carried over to Balance Sheet		4,05
		5,35
Total		5,35

* ₹ 380 (i.e., 220 + ₹ 102 + ₹ 58)

SCHEDULE 13– INTEREST AND DISCOUNT

Particulars	As on 31.3.2014 Current Year
Interest and Discount	34,37
Income on Investment	1,15
Interest on RBI Deposit	1,80
Others	Nil
	37,32

SCHEDULE 14– OTHER INCOME

Particulars	As on 31.3.2014 Current Year
Commission, Exchange and Brokerage	8,20
Profit on Sale of Investment (Net) (1,10 – 12)	98
	9,18

SCHEDULE 15– INTEREST EXPENDED

Particulars	As on 31.3.2014 Current Year
Interest paid on Deposits	12,25
Interest to RBI	1,61
	13,86

SCHEDULE 16– OPERATING EXPENSES

Particulars	As on 31.3.2014 Current year
(i) Payment to and provisions for employees	10,44
(ii) Rent, Taxes and Lighting	2,10
(iii) Printing and Stationery	1,80
(iv) Advertisement and Publicity	95
(v) Depreciation on Bank's Property	92
(vi) Directors' Fees, Allowances and Expenses	2,20
(vii) Auditor's Expenses	1,20
(viii) Law Charges	2,30
(ix) Postage, Telegram and Telephones	70
(x) Repairs and Maintenance	48
(xi) Insurance	56
(xii) Other Expenditure	—
	23,65

Illustration 3: From the following information, prepare a Balance Sheet with necessary Schedules of the Citizen Bank Ltd. as on 31st March 2014 and ascertain Cash Reserves and Statutory Liquid Reserves required:

(₹ in Lakhs)

Particulars	Dr. ₹	Cr. ₹
Share Capital: 20,00,000 Shares of ₹ 10 each		200.00
Statutory Reserves		230.00
Net Profit before Appropriation		150.00
Profit and Loss Account		410.00
Fixed Deposit Accounts		520.00
Saving Deposit Accounts		450.00
Current Accounts		520.00
Bills Payable	30.00	1.00
Cash Credit		110.00
Borrowing from other Banks	813.00	
Cash in hand	160.00	
Cash with RBI	40.00	
Cash with other Banks	156.00	
Money at call and Short Notice	210.00	
Gold	55.00	
Government Securities	110.00	
Premises	156.00	
Furniture	70.00	
Term Loan	791.00	
	2,591.00	2,591.00

Additional Information:

Particulars	₹
Bills for collection	20,00,000
Acceptances and endorsements	15,00,000
Claims against the bank not acknowledged as debts	60,000
Depreciation charges: Premises	1,00,000
Furniture	80,000

50% of the Term Loan is secured by Government Guarantees. 10% of Cash Credit is unsecured.

Solution:

**In the books of Citizen Bank Ltd.
Balance Sheet of Citizen Bank Ltd. as on 31st March 2014**

Particulars	Schedule	As on 31.3.14 Current year
Capital and Liabilities		
Capital	1	200.00
Reserve and Surplus	2	790.00
Deposits	3	1,490.00
Borrowings	4	110.00
Other Liabilities and Provisions	5	1.0
		2,591.00
Assets:		
Cash and Balance with RBI	6	200.00
Balance with Banks and Money at Call and Short Notice	7	366.00
Investments	8	165.00
Advances	9	1,634.00
Fixed Assets	10	226.00
Other Assets	11	—
		2,591.00
Contingent Liabilities	12	15.60
Bills for Collection	13	20.00

SCHEDULE 1: CAPITAL

Particulars	As on 31.3.2014 Current Year ₹ Lakhs
For Other Bank:	
Authorized Capital:	—
Shares of ₹ 10 each	
Subscribed Called-up and Paid-up capital:	
20,00,000 shares of ₹ 10 each	200.00
	200.00

SCHEDULE 2: RESERVES & SURPLUS

Particulars	As on 31.3.2014 Current Year ₹ Lakhs
I. Statutory Reserves:	
Opening Balance	230.00
Add: Additions during the year (20% of ₹ 150 lakh)	30.00
Less: Deduction during the year	260.00
	Nil
	260.00
II. Capital Reserves	—
III. Share Premium	—
IV. Revenue and Other Reserves	530.00
V. Balance in Profit and Loss A/c	790.00

SCHEDULE 3: DEPOSITS

Particulars	As on 31.3.2014 Current Year ₹ Lakhs
A. I. Demand Deposits, i.e., Current Account	520.00
II. Saving Bank Deposits	450.00
III. Term Deposits, i.e., Fixed Deposit Account	520.00
Total	1490.00

SCHEDULE 7: INVESTMENTS

Particulars	As on 31.3.2014 Current Year ₹ Lakhs
I. Investment in India	—
(i) Govt. Securities	110.00
(ii) Other, i.e., Gold	55.00
II. Borrowings Outside India	—
Total	165.00

SCHEDULE 4: BORROWINGS

Particulars	As on 31.3.2014 Current Year ₹ Lakhs
I. Borrowings in India:	
(i) Reserve Bank of India	—
(ii) Other Bank	110.00
(iii) Other Institutions and Agencies	—
II. Borrowings Outside India	—
Total	110.00

SCHEDULE 8: ADVANCES

Particulars	As on 31.3.2014 Current Year ₹ Lakhs
A. I. Bills Discounted and Purchased	
II. Cash Credit, Overdrafts and Loans Payable on Demand:	
Cash Credits	813.00
Overdrafts	30.00
III. Term Loans	791.00
Total	1,634.00
B. I. Secured by Tangible Assets (90% of 813 + 50% of 791)	1,127.20
II. Covered by Bank/Govt. Guarantors (50% of 791)	395.50
III. Unsecured (10% of 813 + 100% of 30)	111.30
Total	1,634.00

SCHEDULE 5: CASH AND BALANCES WITH RBI

Particulars	As on 31.3.2014 Current Year ₹ Lakhs
I. Cash in hand	160.00
II. Cash Balance with RBI	40.00
Total	200.00

SCHEDULE 9: FIXED ASSETS

Particulars	As on 31.3.2014 Current Year ₹ Lakhs
I. Premises	156.00
II. Other Fixed Assets (Including Furniture)	70.00
Total	226.00

**SCHEDULE 6: BALANCE WITH BANKS AND
MONEY AT CALL AND SHORT NOTICE**

Particulars	As on 31.3.2014 Current Year ₹ Lakhs
I. In India:	
(i) Balance with Bank (i.e., Cash with other Banks)	156.00
(ii) Money at Call and Short Notice	210.00
II. Borrowings Outside India	—
Total	366.00

SCHEDULE 10: OTHER ASSETS

Particulars	As on 31.3.2014 Current Year ₹ Lakhs
I. Inter-office Adjustments	—
II. Interest Accrued	—
III. Tax Paid in Advance/Tax Deducted at Source	—
IV. Stationery and Stamps	—
V. Non-banking Assets	—
VI. Others	—
Total	—

SCHEDULE 11: CONTINGENT LIABILITIES

Particulars	As on 31.3.2014 Current Year ₹ Lakhs
I. Claims against the Bank not acknowledged as Debts	0.60
II. Acceptance and Endorsements	15.00
Total	15.60

Notes: (i) Net Profit to be transferred to Statutory Reserve as per Sec. 17: 20% of Net Profit, i.e., ₹ 150 lakhs × 20/100 = ₹ 30 lakhs. Thus, the Balance of Profit and Loss Account which is transferred to Balance Sheet:

= Opening Balance + Net Profit – Statutory Reserve

= ₹ 410 + ₹ 150 – ₹ 30 lakhs

= ₹ 530 lakhs

(ii) It has been assumed that 90% of the Cash Credit and 50% of the Term Loans are fully secured by tangible assets.

Illustration 4: From the following particulars, prepare the final accounts of Barnali Bank Ltd.:

Balance Sheet as on 31st March 2014

Particulars	Dr. ₹	Cr. ₹
Share Capital:		
1,00,000 Shares of ₹ 10 each, ₹ 5 paid up		5,00,000
Reserve Fund		10,00,000
Fixed Deposits		20,00,000
Savings Bank Deposits		30,00,000
Current Accounts		70,00,000
Borrowed from Bank		2,00,000
Investments	30,00,000	
Premises	12,00,000	
Cash in hand	60,000	
Cash at bank	28,00,000	
Money at Call and Short Notice	3,00,000	
Interest Accrued and Paid	2,00,000	
Salaries	80,000	
Rent	30,000	
Profit and Loss Account (1.4.08)		1,60,000
Gross Profit for the year		4,50,000
Bills Discounted	5,00,000	
Bills Payable		8,00,000
Loans, Advances, Overdrafts and Cash Credits	70,00,000	
Unclaimed Dividend		30,000
Sundry Creditors		30,000
	1,51,70,000	1,51,70,000

The Bank has the bills for ₹ 14,00,000 as collection for its constituents and also acceptances and endorsements for them amounting to ₹ 4,00,000.

Solution:

**In the Books of Barnali Bank Ltd.
Profit & Loss Account for the year ended 31st March 2014**

Particulars	Schedule No.	As on 31.3.14 Current Year ₹
I. Income		
Interest Earned	13	4,50,000
Other Incomes	14	—
Total		4,50,000
II. Expenditure		
Interest Expended	15	2,00,000
Operating Expenses	16	1,10,000
Provision and Contingencies	—	Nil
Total		3,10,000
III. Profit/Loss		
Net Profit/Loss for the Year (I – II)		1,40,000
Profit/Loss brought forward		1,60,000
Total		3,00,000
IV. Appropriations		
Transfer to Statutory Reserve (20% of Net Profit)		28,000
Balance carried over to Balance Sheet		2,72,000
Total		3,00,000

Balance Sheet of Barnali Bank Ltd. as at 31st March 2014

Particulars	Schedule No.	As on 31.3.14 Current Year ₹ Lakhs
Capital and Liabilities		
Capital	1	5,00,000
Reserves and Surplus	2	13,00,000
Deposits	3	1,20,00,000
Borrowings	4	2,00,000
Other Liabilities and Provisions	5	8,60,000
Total		1,48,60,000
Assets		
Cash and Balance with RBI	6	60,000
Balance with other Bank and Money at Call and Short Notice	7	31,00,000
Investments	8	30,00,000
Advances	9	75,00,000

Fixed Assets	10	12,00,000
Other Assets		—
Total		1,48,60,000
Contingent Liabilities	11	4,00,000
Bills for Collection	12	4,50,000

SCHEDULE 1: CAPITAL

Particulars	As on 31.3.2014 Current Year ₹ Lakhs
Authorised Capital: Shares of ₹ 10 each	
Called-up Capital 1,00,000 Shares of ₹10 each, ₹ 5 paid-up	5,00,000
Total	5,00,000

SCHEDULE 4: BORROWINGS

Particulars	As on 31.3.2014 Current Year ₹ Lakhs
Borrowings in India:	
(1) RBI	—
(2) Others	—
Borrowings outside India	2,00,000
Total	2,00,000

SCHEDULE 2: RESERVES & SURPLUS

Particulars	As on 31.3.2014 Current Year ₹ Lakhs
Statutory Reserve: Opening Balance	10,00,000
Add: Transfer from current year's profit	28,000
Capital Reserve	—
Profit & Loss Account	2,72,000
Total	13,00,000

SCHEDULE 5: OTHER LIABILITIES AND PROVISIONS

Particulars	As on 31.3.2014 Current Year ₹ Lakhs
Bills Payable	8,00,000
Others (including Provisions):	
Sundry Creditors	30,000
Unclaimed Dividends	30,000
Total	8,60,000

SCHEDULE 3: DEPOSIT

Particulars	As on 31.3.2014 Current Year ₹ Lakhs
Demand Deposits:	
(1) From Banks	70,00,000
(2) From Others	—
Savings Bank Deposits	
Term Deposits:	
(1) From Banks	30,00,000
(2) From Others	20,00,000
Total	1,20,00,000

SCHEDULE 6: CASH AND BALANCE WITH RBI

Particulars	As on 31.3.2014 Current Year ₹ Lakhs
Cash in hand (including foreign currency notes)	60,000
Balances with RBI in:	
(I) Current Account	—
(II) Other Accounts	—
Total	60,000

SCHEDULE 7: BALANCE WITH BANK AND MONEY AT CALL AND SHORT NOTICE

Particulars	As on 31.3.2014 Current Year ₹ Lakhs
In India	
(i) Balances with bank	28,00,000
(a) in Current Accounts	—
(b) in Other Deposit Accounts	—
(ii) Money at Call and Short Notice	3,00,000
Outside India	—
Total	31,00,000

SCHEDULE 8: INVESTMENTS

Particulars	As on 31.3.2014 Current Year ₹ Lakhs
Investment in India	30,00,000
Investment outside India	—
Total	30,00,000

SCHEDULE 9: ADVANCES

Particulars	As on 31.3.2014 Current Year ₹ Lakhs
Bills Discounted and Purchased	—
Cash Credits, Overdrafts and Loans	5,00,000
Payable on demand	70,00,000
Term Loans	—
Total	75,00,000

SCHEDULE 10: FIXED ASSETS

Particulars	As on 31.3.2014 Current Year ₹ Lakhs
1. Premises	12,00,000
2. Other Fixed Assets	—
Total	12,00,000

SCHEDULE 11: CONTINGENT LIABILITIES

Particulars	As on 31.3.2014 Current Year ₹ Lakhs
Acceptances, Endorsements and Other Obligations	4,00,000
Total	4,00,000

SCHEDULE 12: INTEREST EARNED

Particulars	As on 31.3.2014 Current Year ₹ Lakhs
Bills Discounted and Purchased	—
Interest and Discount Received	4,50,000
Total	4,50,000

SCHEDULE 13: INTEREST EXPENDED

Particulars	As on 31.3.2014 Current Year ₹ Lakhs
Interest on Deposits	—
Interest on RBI/Inter-bank Borrowings	2,00,000
Others	—
Total	2,00,000

SCHEDULE 14: OPERATING EXPENSES

Particulars	As on 31.3.2014 Current Year ₹ Lakhs
Bills Discounted and Purchased	—
Payment to and Provision for Employees	80,000
Rent, Taxes and Lighting	30,000
Total	1,10,000

Illustration 5: From the following information, prepare the Profit and Loss A/c of Trinity Bank Ltd. for the year ended 31st March 2014.

Particulars	₹
Interest on Loan	25,90,000
Interest on Fixed Deposits	27,50,000
Rebate on Bills Discounted	4,90,000
Commission	82,000
Establishment Charges	5,40,000
Discount on Bills Discounted (Net)	14,60,000
Interest on Cash Credits	22,30,000
Interest on Current Account	4,20,000
Rent and Rates	1,80,000
Interest on Overdraft	15,40,000
Director's Fees	30,000
Auditor's Fees	12,000
Interest on Saving Bank Deposits	6,80,000
Postage and Telegrams	14,000
Printing and Stationery	29,000
Sundry Charges	17,000

Bad debts to be written off amounted to ₹ 4,00,000

Provision for taxation may be made at 55% of net profit. Show your workings.

Solution:

Form B

Profit and Loss Account for the year ended 31st March 2014

Particulars	Schedule	₹
I. Income		
Interest Earned	13	73,30,000
Other Income	14	82,000
Total		74,12,000
II. Expenditure		
Interest Expended	15	38,50,000
Operating Expenses		12,22,000
Provisions and Contingencies		12,87,000
Total		63,59,000
III. Profit:		
Net profit for the year		10,53,000
Total		10,53,000
IV. Appropriations:		
Transfer to Statutory Reserve (20%)		2,10,600
Transfer to other Reserves		—
Proposed Dividend		—
Balance carried over to Balance Sheet		8,42,400
Total		10,53,000

Note: As particulars given in the question are not balances, it has been assumed that Rebate on Bills discounted is yet to be adjusted and hence it has been deducted from discount on bills discounted.

SCHEDULE 13: INTEREST EARNED

Particulars	₹
Interest Discount (Refer to W.N.)	73,30,000
Total	73,30,000

SCHEDULE 14: OTHER INCOME

Particulars	₹
Commission, Exchange and Brokerage	82,000
Total	82,000

SCHEDULE 15: INTEREST EXPENDED

Particulars	₹
I. Establishment Charges	5,40,000
II. Rent and Taxes	1,80,000
III. Director's Fees	30,000
IV. Auditor's Fees	12,000
V. Postage and Telegrams	14,000
VI. Printing and Stationery	29,000
VII. Sundry Charges	17,000
VIII. Bad Debts	4,00,000
Total	12,22,000

Working Notes:

I. Interest/Discount is calculated as follows:

Particulars	₹
Interest on Loans	25,90,000
Interest on Cash Credit	22,30,000
Interest on Overdraft	15,40,000
Discount on Bills (Net)	14,60,000
	78,20,000
Less: Rebate on Bills Discounted	4,90,000
Total	73,30,000

II. Provision for taxation at 55% is calculated as follows

$$= 74,12,000 - 50,72,000 = ₹ 23,40,000$$

$$\text{Tax provision} = 23,40,000 \times 55/100 = ₹ 12,87,000/-$$

Illustration 6: From the following details, prepare the profit and loss account of Triveni Bank Ltd. for the year ended 31st March, 2014.

Particulars	₹
Interest paid on deposits, borrowings etc.	79,26,660
Interest and discount	1,83,74,725
Rentals received	78,000
Net profit on sale of investments	2,27,000
Salaries, allowances, bonus and provident fund (Including remuneration of the Chairman and Managing Director)	97,79,925
Commission and brokerage	42,00,000
Law charges	72,000
Rates and taxes	46,300
Postage and telegrams	3,26,070
Audit fees	60,000
Director's fees	36,000
Printing and stationery	2,92,000
Depreciation on Bank's property	8,20,000

Miscellaneous receipts	40,006
Miscellaneous expenditure	1,65,406
Repairs to property	32,400
Telephones and stamps	4,83,200
Advertisement	2,76,000
Insurance and lighting	3,45,000
Bad debts written off	72,700
Unexpired discount (1 st April, 2013)	5,70,000
Provision for bad debts (1 st April, 2013)	16,10,000
Provision for taxation (1 st April, 2013)	24,00,000

During the year Income Tax proceedings of the previous years were concluded and the liability on this account worked out to ₹ 22,40,000

The Bank has made an evaluation at the end of the year of the recoverability of its advances and finds itself in the following position:

- Unsecured advances to the extent of ₹ 60,000 would be full irrecoverable.
- Unsecured loans to the extent of ₹ 40,00,000 would be doubtful of recovery to the extent of 40%.
- Cash credit accounts to the extent of ₹ 25,00,000 have been left without the margin due to fall in the value of securities and the accounts to the extent of 10% are likely to become bad.

It is the Bank's policy to provide fully against the contingency of bad debts.

Provision for taxation to remain at 55% of the current profits.

Unexpired discount and interest on bills discounted as on 31st March, 2014 was ₹ 7,25,000.

Solution:

**In the Books of Triveni Bank
Profit and Loss A/c for the year ended 31st March 2014**

Particulars	Schedule No.	Year ended 31-3-2014
I. Income		
Interest Earned	13	1,82,19,725
Other Income	14	45,45,006
Total		2,27,64,731
II. Expenditure		
Interest Expended	15	79,26,660
Operating Expenses	16	1,27,34,301
Provisions of Contingencies		11,64,789
Total		2,18,25,750
III. Profit/Loss		
Net Profit/Loss (-) for the year		9,38,981
Profit/Loss (-) brought forward		10,00,000
Total		19,38,981

SCHEDULED 13: INTEREST EARNED

Particulars	Year ended 31-3-2014
I. Interest and Discount	1,83,74,725
Add: Unexpired Discount (opening)	5,70,000
	1,89,44,725
Less: Unexpired Discount (Closing)	7,25,000
Total	1,82,19,725

SCHEDULE 14: OTHER INCOMES

Particulars	Year ended 31-3-2014
Commission, Exchange and Brokerage	42,00,000
Profit on Sale of Investments	2,27,000
Miscellaneous Income Rent	78,000
Sale of forms	40,006
Total	45,45,006

SCHEDULE 15: INTEREST EXPENDED

Particulars	Year ended 31-3-2014
Interest paid on Deposits	79,26,660
Total	79,26,660

SCHEDULE 16: OPERATING EXPENSES

Particulars	Year ended 31-3-2014
I. Payments to and Provisions for Employees	97,79,925
II. Rent, Taxes, Insurance and Lighting	3,91,300
III. Printing and Stationery	2,92,000
IV. Advertisement and Publicity	2,76,000
V. Depreciation on Bank Property	8,20,000
VI. Director's Fees, Allowance and Expenses	36,000
VII. Auditor's Fees	60,000
VIII. Law Charges	72,000
IX. Postages, Telegrams and Telephones	8,09,270
X. Repair and Maintenance	32,400
XI. Other Expenditure	1,65,406
Total	1,27,34,301

Provisions and Contingencies	₹
Provision for Bad debts	3,72,700
Provision for Taxation	7,92,089
Total	11,64,789

Working Notes:

I. Provision for Bad Debts	
Unsecured advances (fully unrecoverable)	60,000
Unsecured Loan (partly unrecoverable) (40% of ₹ 40,00,000)	16,00,000
Cash credit (10 % of ₹ 25,00,000)	2,50,000
	19,10,000
Add: Bad debts written off	72,700
Total	19,82,700
Less: Provision for Bad Debts (Opening)	3,72,700
	16,10,000

II. Provision for Taxation	
Net Profit (before Provision for Taxation) (9,38,981 + 7,92,089)	17,31,070
Provision for taxation @ 55% (17,31,070 × 55/100)	9,52,089
Less: Existing provision (24,00,000 – 22,40,000)	1,60,000
Total	7,92,089

Illustration 7: After writing up the Profit and Loss Account, the General Ledger Balances of S.S. Bank Ltd. as on 31st March, 2014 were as under:

Particulars	₹
Share Capital	59,75,000
Bills for Collection	78,26,181
Cash in hand	1,05,30,783
Machinery acquired in satisfaction of a claim	45,600
Cash with RBI	1,30,25,300
Cash with SBI	50,11,837
Equity Shares of ACC Ltd.	3,81,700
4% Govt. of India Loan, 2007-08 of face value ₹ 3,00,000	2,40,90,000
Bengal Govt. Loan Bonds, 2003 of the face value ₹ 75,00,000	70,30,400
Punjab Govt. Loan Bonds, 2010 of the face value ₹ 38,00,000	39,56,100
Interest accrued on Investments	1,80,720
Profit for the year	11,30,240
Reserve Fund as on 1 st April, 2013	57,75,000
Unpaid dividend	30,700
Debenture	90,000
Borrowings from other Banks	15,00,000
Fixed Deposits	3,00,60,520
Saving Bank Deposits	2,60,97,616
Current Deposits	3,82,90,782
Provision for Taxation	10,00,000
Provision for Doubtful Debts	5,00,000
Balances with other Banks in Current A/c	10,70,640
Loans, Cash Creditors, Overdrafts	3,96,70,682
Bills Payable	4,77,679
Staff Provident Fund	9,60,785
Sundry Creditors	25,607
Unexpired Discount	20,410
Bills Discounted and Purchased	57,70,577
Building	11,70,577
Furniture	1,30,650
Dividend Recoverable	12,000

Profit and Loss A/c credit balance brought forward from the previous year was ₹ 12,60,780 out of which appropriations made were ₹ 3,58,000 for dividend and ₹ 6,12,000 for taxes paid.

The following further information is relevant:

- The Authorized Share Capital of the Bank was ₹ 1,00,00,000 divided into shares of ₹ 100 each, out of which 75,000 shares were issued and subscribed with ₹ 80 per share called up.
- During the year, additions of ₹ 1,20,077 were made to building and ₹ 29,620 to furniture, while ₹ 7,600 realized on sale of a part of furniture (Book value ₹ 7,600). Depreciation on furniture to 31st March 1998 was ₹ 30,600 and that on Building was ₹ 1,40,500.

Prepare the Balance Sheet of the Banks as on 31st March 2014.

Solution:

S.S. Bank Ltd.
Balance Sheet as on 31st March 2014

Particulars	Schedule No.	As on 31-3-14 (₹)
Capital	1	59,75,000
Reserves and Surplus	2	71,96,020
Deposits	3	9,44,48,918
Borrowings	4	15,00,000
Other Liabilities and Provisions	5	25,15,181
		11,61,35,119
Cash and Balances with RBI	6	2,35,56,083
Balance with Banks and Money at Call and Short Notice	7	60,82,477
Investments	8	3,55,48,200
Advances	9	4,49,08,812
Fixed Assets	10	13,01,227
Other Assets	11	2,38,320
		11,16,35,119
Contingent Liabilities	12	—
Bills for Collection		78,26,181

SCHEDULE 1: CAPITAL

Particulars	As on 31.3.2014
Authorized Capital (1,00,000 shares of ₹ 100/- each)	
Issued, Subscribed and Called-up Capital	1,00,00,000
75,000 shares of ₹ 100/-	60,00,000
Each ₹ 80/- called up	
Less: Calls in Arrears	25,000
Total	59,75,000

SCHEDULE 2: RESERVES AND SURPLUS

Particulars	As on 31.3.2014
I. General Reserve:	
Opening Balance	57,75,000
Add: Additions during the year	2,26,048
(i.e., 20% of ₹ 11,3,240)	60,01,048
II. Balance in Profit and Loss A/c	11,94,972
Total	71,96,020

SCHEDULE 3: DEPOSITS

Particulars	As on 31.3.2014
I. Fixed Deposits	3,00,60,520
II. Saving Bank Deposits	2,60,97,616
III. Current Deposits	3,82,90,782
Total	9,44,48,918

SCHEDULE 4: BORROWINGS

Particulars	As on 31.3.2014
Borrowings from other Banks	15,00,000
Total	15,00,000

SCHEDULE 5: OTHER LIABILITIES AND PROVISIONS

Particulars	As on 31.3.2014
Bills Payable	4,77,679
Staff Provident Fund	9,60,785
Sundry Creditors	25,607
Unexpired Discounts	20,410
Unpaid Dividend	30,700
Provision for Taxation	10,00,000
Total	25,15,181

SCHEDULE 6: CASH AND BALANCES WITH RBI

Particulars	As on 31.3.2014
I. Cash in Hand	1,05,30,783
II. Cash with RBI	1,30,25,300
Total	2,35,56,083

SCHEDULE 7: BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE

Particulars	As on 31.3.2014
I. Cash with SBI	50,11,837
II. Money at Call and Short Notice	NIL
III. Balance with other Banks in Current A/c	10,70,640
Total	60,82,477

SCHEDULE 8: INVESTMENTS

Particulars	As on 31.3.2014
I. Equity Shares of Ace Ltd.	3,81,700
II. 4% Govt. of India Loan, 2007-08 of face value ₹ 3,00,00,000	2,40,90,000
III. Bengal Govt. Loan Bonds, 2003 of the face value ₹ 75,00,000	70,30,400
IV. Punjab Govt. Loan Bonds, 2010 of the face value ₹ 38,00,000	39,56,100
V. Debenture	90,000
Total	3,55,48,2000

SCHEDULE 9: ADVANCES

Particulars	As on 31.3.2014
I. Loans, Cash Creditors, Overdrafts	3,91,70,682
II. Bills Discounted and Purchased	57,38,130
Total	4,49,08,812

SCHEDULE 10: FIXED ASSETS

Particulars	As on 31.3.2014
Building	
At Cost as on 31-3-97	11,91,000
Add: Addition during the year	1,20,077
	13,11,077
Less: Depreciation	1,40,500
	11,70,577
Furniture	
As Cost as on 31-3-97	1,39,230
Add: Addition during the year	29,620
	1,68,850
Less: Sales	7,600
Depreciation	30,600
	1,30,650
Total	13,01,227

SCHEDULE 11: OTHER ASSETS

Particulars	As on 31.3.2014
I. Interest assumed on Investments	1,80,720
II. Dividend Recoverable	12,000
III. Non-banking Assets – Machinery acquired in satisfaction of a claim	45,600
Total	2,38,320

Working Notes

Particulars	₹
Profit and Loss A/c	12,60,780
Profit as per last Balance Sheet	3,58,000
Less: Dividends	6,21,000
Tax	2,90,780
	11,30,240
Add: Current Year Profit	14,21,020
Less: 20% of Current Year's profit	2,26,048
Total	11,94,972

Illustration 8: Following are some of the balances as on 31st March, 2014 of Vaibhav Bank Ltd.

Debt	₹	Credit	₹
Unissued Capital	2,00,000	Authorized Capital	5,00,000
Uncalled Capital	11,50,000	(Equity Shares of ₹ 100 each)	
Interest paid on Deposits and Borrowings	48,000	Commission Exchanged and Brokerage	49,400
Loss on Sale of Investment	12,600	Profit on Sale of Gold	35,900
Provident Fund Contribution	9,200	Short Loans	2,20,000
Director's fees	5,500	Reserve Fund (Invested Kerala Government Bonds)	80,000
Stationery and Printing	5,600	Investment Fluctuation Reserve	20,000
Auditor's Fees	1,200	Current Accounts	5,00,000
General Expenses	2,700	Contingency Accounts	1,00,000
Owing by Foreign Correspondents	20,000	Profit and Loss A/c on 1-4-98	25,000
Overdrafts, Loans, Cash Credits	3,80,000	Interest and Discount	1,70,000
Bank Premises	60,000	Savings Bank Deposits	3,55,000
Kerala Government Bond	80,000		
Government of India Securities	4,20,000		
Money at Call and Short Notice	70,000		
Bills Discounted	73,000		
Shares of Other Companies	17,000		
Cash in hand and with RBI	1,10,000		
Cash at Banks	3,00,000		
Income Tax Paid	9,000		
Salaries and Allowances	73,500		
Interim Dividend Paid	7,500		
	20,55,300		20,55,300

Additional Information:

- (i) Interest Account on Investments ₹ 750.
- (ii) Market value of Investments in Government Securities was ₹ 4,75,000 and increase corresponding Fluctuation Reserve with necessary amount.
- (iii) The Bills discounted mature at 20th May average date and at bills are discounted at 10% p.a.
- (iv) Premises added during the year ₹ 10,000 and provide 5% depreciation on Opening Balance.
- (v) Provision for Taxation on 1-4-98 stood at ₹ 15,000 which is to be increased to ₹ 28,000.
- (vi) Out of the loans and advances ₹ 2,50,000 are secured and ₹ 1,00,000 are guaranteed by government.

Solution:

**Vaibhav Bank Ltd.,
Balance Sheet as on 31-03-2014**

Particulars	Schedule No.	₹
Capital and Liabilities		
Capital	1	1,50,000
Reserves and Surplus	2	2,83,250
Deposits	3	8,55,000
Borrowings	4	2,20,000
Other Liabilities and Provision	5	20,000
Total		15,28,250
Assets		
Cash and balances with RBI	6	4,10,000
Balance with Banks and Money at call and Short Notice	7	90,000
Investments	8	5,17,000
Advances	9	45,300
Fixed Assets	10	57,500
Other Assets	11	750
Total		11,20,550
Contingent Liabilities		Nil

Profit & Loss Statement for the year ended 31-3-2014

Particulars	Schedule No.	₹
Income		
Interest earned	12	1,69,750
Other Income	13	72,700
Total		2,42,450
Expenditure		
Interest Expended	14	48,500
Operation Expenses	15	1,00,200
Provisions and Contingencies		13,000
Total		1,61,700
Profit and Loss for the year		80,750
Appropriations		
Transfer to Statutory Reserve (20%)		16,150
Interim Dividend		7,500
Balance Transferred to Balance Sheet		57,100

SCHEDULE 1: CAPITAL

Particulars	₹
A. Authorized Capital 5,000 Equity shares of ₹ 100 each	5,00,000
B. Issued Capital 3,000 Equity Shares of ₹ 100 each	3,00,000
C. Subscribed Capital 3,000 Equity Shares of ₹ 100 each	3,00,000
D. Called up Capital 3,000 Equity Shares of ₹ 100 each, ₹ 50 called up capital	1,50,000
Total	12,50,000

SCHEDULE 2: RESERVES AND SURPLUS

Particulars	₹
Statutory Reserve	16,150
Reserve Fund	80,000
Investment Fluctuation Reserve	20,000
Contingency Accounts (1,00,000 – 15,000)	85,000
Profit & Loss A/c (25,000 + 57,100)	82,100
Total	2,83,250

SCHEDULE 3: DEPOSITS

Particulars	₹
Saving Bank Deposits	3,55,000
Current Accounts	5,00,000
Total	8,55,000

SCHEDULE 4: BORROWINGS

Particulars	₹
Short Loan	2,20,000
Total	2,20,000

SCHEDULE 5: OTHER LIABILITIES AND PROVISIONS

Particulars	₹
Rebate	1,000
Provision for Tax (28000 - 9000)	19,000
Total	20,000

SCHEDULE 6: CASH AND BALANCES WITH RBI

Particulars	₹
Cash in hand and with RBI	1,10,000
Cash at Banks	3,00,000
Total	4,10,000

SCHEDULE 7: BALANCE WITH BANKS AND MONEY-AT-CALL AND SHORT NOTICE

Particulars	₹
Money at Call and Short Notice	70,000
Owing by foreign correspondents	20,000
Total	90,000

SCHEDULE 8: INVESTMENTS

Particulars	₹
Kerala Government Bond	80,000
Government of India securities (Market Value 4,75,000)	4,20,000
Shares of other companies	17,000
Total	5,17,000

SCHEDULE 9: ADVANCES

Particulars	₹
Bills Discounted	73,000
Overdrafts, Cash Credit, Loans	3,80,000
Total	4,53,000

SCHEDULE 10: FIXED ASSETS

Particulars	₹
Bank Premises (50,000 + 10,000) less dep. 2,500	57,500
Total	57,500

SCHEDULE 11: OTHER ASSETS

Particulars	₹
Interest accrued	750
Total	750

SCHEDULE 12: INTEREST EARNED

Particulars	₹
Interest and Discount (1,70,000 + 750 – 1,000)	1,69,750
Total	1,69,750

SCHEDULE 13: OTHER INCOME

Particulars	₹
Commission, Exchange and Brokerage	49,400
Less: Loss on sale of investment	(12,600)
Profit on sale of gold	35,900
Total	72,700

SCHEDULE 14: INTEREST EXPENDED

Particulars	₹
Interest paid on Deposits and borrowings	48,500
Total	48,500

SCHEDULE 15: OPERATING EXPENSES

Particulars	₹
Salaries and Allowances	73,500
Provident Fund	9,200
Stationery and Printing	5,600
Depreciation on Bank Premises	2,500
Director's Fees	5,500
Auditor's Fees	1,200
General Expenses	2,700
Total	1,00,200

Illustration 9: The following Trial Balance was extracted from the books of the Global Bank Ltd. as on 31-03-2014.

Particulars	Debit ₹	Credit ₹
Share Capital		30,00,000
Cash in hand and with RBI	46,350	
Investment in GOI Securities	1,9,370	
Other Investments	1,55,630	
Gold Bullion	15,130	
Interest accrued on Investments	24,620	
Security deposits of employees		15,000
Saving Accounts Balance		7,420
Current Ledger Control Account		97,000
Fixed Deposits		23,050
Share Premium Account		90,000
Statutory Reserve		1,40,000
Silver Bullion	2,000	
Constituent's Liability for acceptances and endorsements	56,500	
Buildings	65,000	
Furniture	5,000	
Borrowing from banks		77,230
Money at Call and short notice	25,000	
Advances	2,00,000	
Profit and Loss Account balance		6,500
Bills discounted and purchased	12,000	
Bills for Collection		43,500
Acceptances and Endorsements		56,500
Interests	7,950	72,000
Commission and Brokerage		25,300
Discounts		42,000
Bills receivable being bills for collection	43,500	
Audit Fees	5,000	

Loss on sale of furniture	1,000	
Director's Fees	1,200	
Postage	50	
Rents		600
Profit on Bullion	1,200	
M.D. Remuneration	12,000	
Miscellaneous Income		2,700
Loss on sale of Investments	30,000	
Deposit with other banks	75,000	
Branch Adjustments	20,000	
Depreciation Reserve on Building		20,000
Total	10,20,000	10,20,000

You are required to prepare Profit and Loss Account for the year ended 31-3-2014 and also the Balance Sheet as on that date after considering the following:

- Provide rebate on bills discounted to ₹ 5,000.
- A security of the Current A/c ledger reveals that there are accounts overdrawn to the extent of ₹ 25,000 and the total of credit balance of ₹ 1, 22,000.
- Claims by employees for bonus amounting to ₹ 15,000 is pending award of arbitration.
- Out of profit for the year, 20% was transferred to statutory reserve and the Directors proposed dividend of 8%.

Solution:

Balance Sheet of Global Bank Ltd. as on 31st March 2014

Particulars	Schedule No.	₹ (in '000)
Capital and Liabilities		
Capital	1	300
Reserves and Surplus	2	268
Deposits	3	152
Borrowings	4	77
Other Liabilities and Provisions	5	44
Total		841
Assets		
Cash and balances with RBI	6	46
Balance with banks and Money at Call and short notice	7	100
Investments	8	365
Advances	9	238
Fixed assets	10	45
Other assets	11	47
Total		841
Contingent Liabilities	12	72

Profit and Loss Account for the year ended 31st March 2014

(₹ in '000)

Particulars	Schedule No	₹
1. Income		
Interest Earned	13	109
Other Income	14	(1)
Total		108
2. Expenditure		
Interest Expended	15	8
Operating Expenses	16	44
Total		52
3. Profit/Loss		
Net Profit/Loss (-) for the year		55
Profit/Loss (-) brought forward		7
Total		62
4. Appropriations		
Transfer to Statutory reserves		11
Proposed Dividend (8%)		24
Balance Carried over to Balance Sheet		27
Total		62

SCHEDULE 1: CAPITAL

Particulars	(₹ in '000)
Authorized, Issued and Subscribed Capital (... Shares of each)	
Called up Capital (... Shares of each)	300
Total	300

SCHEDULE 2: RESERVES AND SURPLUS

Particulars	(₹ in '000)
I. Statutory Reserves:	
Opening Balance	151
Addition during the year	
II. Share Premium Opening Balance	90
III. Balance in P&L A/c	27
Total	268

SCHEDULE 3: DEPOSITS

Particulars	(₹ in '000)
I. Demand Deposits	
From Bank	122
Saving Bank Deposits	7
II. Term Deposits	
From Others	23
	152
Deposits of Branches in India	152
Deposits of Branches Outside India	—
Total	152

SCHEDULE 4: BORROWINGS

Particulars	(₹ in '000)
Borrowing in India (Secured)	77
Other Banks	—
Total	77

SCHEDULE 5: OTHER LIABILITIES AND PROVISIONS

Particulars	(₹ in '000)
Other (Including Provisions)	44
Total	44

SCHEDULE 6: CASH AND BALANCES WITH RBI

Particulars	(₹ in '000)
Cash in Hand (Including Foreign Currency Notes)	46
Total	46

SCHEDULE 7: BALANCE WITH BANKS AND MONEY AT CALL AND SHORT NOTICE

Particulars	(₹ in '000)
In India	
Balance with Bank	75
Money at Call and Short Notice	25
Total	100

SCHEDULE 8: INVESTMENTS

Particulars	(₹ in '000)
Investment in India in:	
Government Securities	194
Other Investments	156
Gold Bullion	15
Total	365

SCHEDULE 9: ADVANCES

Particulars	(₹ in '000)
Bills Discounted and Purchased	13
Cash, Credit, Overdraft, Loans Payable on Demand	225
Total	238

SCHEDULE 10: FIXED ASSETS

Particulars	(₹ in '000)
Premises	
At cost as on 31 st March Previous year	65
Less: Depreciation to Date	(25)
Furniture	5
Total	45

SCHEDULE 11: OTHER ASSETS

Particulars	(₹ in '000)
Inter-office Adjustment (Net)	20
Interest Accrued	25
Silver Bullion	2
Total	47

SCHEDULE 12: CONTINGENT LIABILITIES

Particulars	(₹ in '000)
Claims against the Bank net acknowledged as Debt	15
Acceptance, Endorsement and other obligations	57
Total	72

SCHEDULE 13: INTEREST EARNED

Particulars	(₹ in '000)
Income on Investment	109
Total	109

SCHEDULE 15: INTEREST EXPENDED

Particulars	(₹ in '000)
Interest on Deposits	8
Total	8

SCHEDULE 14: OTHER INCOME

Particulars	(₹ in '000)
Commission Exchange and Brokerage	25
Profit on Sale of Investment (Bullion)	1
Less: Loss on Sale of Investment	(30)
Less: Loss on Sale of Furniture	(1)
Miscellaneous Income/Rent	3
Total	(2)

SCHEDULE 16: OPERATING EXPENSES

Particulars	(₹ in '000)
Payment to and Provision for Employees (21 + 12)	33
Depreciation on Bank Property	5
Director's fees, Allowances and Expenses	1
Auditor's fees	5
Total	44

Illustration 10: On 31st March, 2014, the following balances stood in the books of New Bank Ltd. after preparing final accounts

Particulars	₹ '000
Share Capital	7,000
Reserve fund	4,900
Fixed Deposit accounts	13,300
Saving bank accounts	42,000
Current Accounts(credit)	1,12,000
Money at Call and Short Notice	4,200
Investments at costs	42,000
Profit and Loss Account (credit 1-4-2004)	2,940
Dividend for 2004	700
Land and Buildings (after depreciation upto 31-3-2014)	14,890
Cash in hand	840
Cash with RBI	21,000
Loans, overdrafts and Cash Credits	98,000
Cash with other banks	18,200
Borrowings from other banks	8,800
Bills discounted and purchased	8,400
Sundry creditors	420
Bills payable	11,200
Unclaimed Dividend	420
Bills of Exchange	1,960
Acceptances on behalf of customers	2,800
Net profit for 2013-14	3,360

The net profit is after deducting provisions for bad debts ₹ 4, 20,000, tax provision ₹ 14,00,000 and Rebate on bills discounted ₹ 70,000.

Prepare Balance sheet of the bank as on 31-3-2014.

(T.Y. BBI, Modified, Nov. 2006, M.U.)

Solution:

Balance Sheet of New Bank Ltd. as on 31st March, 2014 (₹ in '000)

Particulars	Schedule No.	Current Year ₹
CAPITAL AND LIABILITIES		
Share Capital	1	7,000
Reserve and Surplus	2	10,500
Deposits	3	1,67,300
Borrowings		8,800
Other Liabilities and Provisions	4	13,930
Total ₹		2,07,530
ASSETS		
Cash and Balance with RBI	5	21,840
Money at Call and Short Notice	6	22,400
Investments	7	42,000

Advances	7	1,06,400
Fixed Assets		14,890
Other Assets		-
Total ₹		2,07,530
Contingent Liabilities	8	4,760

SCHEDULE 2: RESERVES AND SURPLUS
(All ₹ in '000)

	₹	₹
Opening Balance	4,900	
Add: Transfer during the year (#1)	672	5,572
Profit and Loss (#2)		4,928
Total ₹		10,500

SCHEDULE 3: DEPOSITS (All ₹ in '000)

	₹
Fixed Deposits	13,300
Saving Bank A/c	42,000
Current A/c	1,12,000
Total ₹	1,67,300

SCHEDULE 4: OTHER LIABILITIES AND PROVISIONS (All ₹ in '000)

	₹
Sundry Creditors	420
Bills Payable	11,200
Unclaimed Dividend	420
Provision:	
Bad Debts	420
Tax	1,400
Rebate on Bill Discount	70
Total ₹	13,930

SCHEDULE 5: CASH AND BALANCE WITH RBI
(All ₹ in '000)

	Previous Year
Cash in Hand (including Foreign Currency Notes)	840
Cash with RBI	21,000
Total ₹	21,840

SCHEDULE 7: ADVANCES (All ₹ in '000)

	Previous Year
Loans, Overdraft and Cash Credit	98,000
Bills Discounted	8,400
Total ₹	1,06,400

SCHEDULE 6: BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE
(All ₹ in '000)

	Previous Year
Money at Call and Short Notice	4,200
Cash with Other Banks	18,200
Total ₹	22,400

SCHEDULE 8: CONTINGENT LIABILITIES
(All ₹ in '000)

	Previous Year
Bill Sent for Collection	1,960
Acceptances on Behalf of Customers	2,800
Total ₹	4,760

Working (All ₹ in '000)

Notes: (#1) Transfer in Statutory Reserve (Reserve and Surplus)

Net Profit for the Year	= ₹ 3,360
∴ Transfer to Statutory Reserve	= ₹ 20% of 3,360
	= ₹ 672

(#2) Balance in Profit and Loss A/c as on 31st March, 2005

Opening Balance in Profit and Loss A/c (1-4-2004)	= ₹ 2,940
Add: Net Profit during the year	= ₹ 3,360
	<hr/>
	= ₹ 6,300
Less: Transfer to Reserve and Surplus (#1)	= ₹ 672
Less: Dividend Paid	= ₹ 700
	<hr/>
Closing Balance in Profit and Loss A/c (31-3-2005)	= ₹ 4,928

Illustration 11: From the following particulars, prepare the Profit and Loss Account of Andhra Bank Ltd. for the year ended 31st March, 2014:

Particulars	₹	Particulars	₹
Commission Charged	70,000	Interest on Current Account	4,50,000
Discount on bills discounted	21,00,000	Interest on Overdraft	6,00,000
Director's and Auditor's fees	50,000	Interest on Saving Bank Account	7,20,000
Establishment Expenses	6,00,000	Postage and Telegrams	20,000
Interest on Loan	28,00,000	Printing and Stationary	30,000
Interest on Fixed Deposits	29,00,000	Unexpired discount on bills discounted	5,50,000
Interest on Cash Credits	24,00,000	Rent and Taxes	2,20,000
Sundry Expenses	20,000		

Make a provision for doubtful debt ₹ 3,00,000.

(T.Y. BBI, Modified, April 2007, M.U.)

Solution:

**Andhra Bank Ltd.,
Profit and Loss Account for the year ended 31st March, 2014**

	Schedule No.	Current Year ₹
(I) Income:		
Interest Earned	9	73,50,000
Other Income	10	70,000
Total ₹		74,20,000
(II) Expenditure:		
Interest Expended	11	41,50,000
Operating Expenses	12	9,40,000
Provisions and Contingencies		3,00,000
Total ₹		53,90,000
(III) Profit and Loss Account:		
Net Profit/Losses for the Year (I – II)		20,30,000
Profit/Loss Brought Forward		—
Total ₹		20,30,000
(IV) Appropriations:		
Transfer to Statutory Reserve @ 20%		4,06,000
Balance Carried to Balance Sheet		16,24,000
Total ₹		20,30,000

SCHEDULE 9: INTEREST EARNED

Particulars		Current Year ₹
(I) Interest on Loan		28,00,000
(II) Discount on Bills Discounted	21,00,000	
Less: Rebate	5,50,000	15,50,000
(III) Interest on Cash Credit		24,00,000
(IV) Interest on Overdraft		6,00,000
Total ₹		73,50,000

SCHEDULE 10: OTHER INCOME

Particulars	Current Year ₹
Other Income:	
(I) Commission, exchange and brokerage.	70,000
Total ₹	70,000

SCHEDULE 11: INTEREST EXPENDED

Particulars	Current Year ₹
(I) Fixed Deposits	29,80,000
(II) Current Accounts	4,50,000
(III) Saving Accounts	7,20,000
Total ₹	41,50,000

SCHEDULE 12: OPERATING EXPENSES

Particulars	Current Year ₹
(I) Establishment Expenses	6,00,000
(II) Director's and Auditor's Fees	50,000
(III) Sundry Expenses	20,000
(IV) Postage and Telegrams	20,000
(V) Printing and Stationary	30,000
(VI) Rent and Taxes	2,20,000
Total ₹	9,40,000

Illustration 12: On 31st March, 2014, the following balance stood in the books of Vijaya Bank Ltd. after preparing Profit and Loss accounts.

Particulars	₹	Particulars	₹
Share Capital	34,000	Fixed Deposit Accounts	66,500
Reserve Fund	24,500	Saving Bank Accounts	2,10,000
Current Accounts (Credit)	5,60,000	Money at Call and Short Notice	21,000
Investments	2,10,000	Profit and Loss Account	
Dividends for 2013 (Paid)	3,500	(Credit as on 1/4/2013)	14,700
Cash in Hand	4,200	Land and Buildings	
Cash with other banks	91,000	(after depreciation upto 31/3/2013)	74,450
Borrowings from other banks	44,000	Cash with RBI	1,05,000
Sundry Creditors	2,100	Loans, Overdraft and Cash Credits	4,90,000
Unclaimed dividends	2,100	Bills discounted and purchased	42,000
Acceptances on behalf of Customers	14,000	Bills payable	56,000
		Bills for collection	9,800
		Net Profit for 2013-14	16,800

The net profit for the year is after deducting, provisions for bad debts ₹ 21,00,000, tax provisions ₹ 70,00,000 and rebate on bills discounted ₹ 3,50,000. (T.Y. BBI, Modified, April 2008, M.U.)

Solution:

**Vijaya Bank Ltd.,
Balance Sheet as at 31st March, 2014 (₹ '000)**

Particulars	Schedule No.	Current Year ₹
Capital and Liabilities		
Share Capital	1	35,000
Reserves and Surplus	2	52,500
Deposits	3	8,36,500
Borrowings	4	44,000
Other Liabilities and Provisions	5	69,650
Total ₹		10,37,650
Assets		
Cash and Balance with RBI	6	1,09,200
Money at Call and Short Notice	7	1,12,000

Investments	8	2,10,000
Advances	9	5,32,000
Fixed Assets	10	74,450
Other Assets	11	—
Total ₹		10,37,650
Contingent Liabilities	12	14,000
Bills for Collection		9,800

Working:**Schedules:**

Particulars	₹
(1) Schedule 2: Reserve Fund	
Reserve Fund (24,500 + 3,360)	27,860
Profit and Loss Account	24,640
Total	52,500
(2) Schedule 5: Other Liabilities and Provisions	
Rebate on Bills Discounted	350
Sundry Creditors	2,100
Bills Payable	56,000
Unclaimed Dividends	2,100
Provision for Tax	7,000
Provision for Bad Debts	2,100
Total	69,650
(3) Calculation of Surplus:	
Profit for the year	16,800
Balance of Profit	14,700
Total	31,500
Less Appropriations:	
Statutory Reserve (20%)	3,360
Dividend Paid	3,500
Balance c/d	24,640
Total	31,500

Illustration 13: From the following balances, prepare Profit and Loss Account of Azad Bank Ltd. for the year ended 31st March, 2014.

Particulars	₹	Particulars	₹
Interest on Loans	5,18,000	Interest on Fixed Deposits	5,50,000
Commission Received	16,400	Salaries and Allowances	1,08,000
Discount on Bill Discounted	84,000	Interest on Cash Credit	4,46,000
Interest on Current Account (Credit)	4,20,000	Rent and Taxes	36,000
Interest on Overdraft	3,08,000	Directors Fees	8,400
Interest on Saving Bank Accounts	1,36,000	Postage and Telegrams	8,600
Locker Rent	2,000	Transfer Fees	1,400
Sundry Charges	3,400		
Depreciation on Bank Properties	10,000		

Other Information: (a) Rebate on bills discounted ₹ 19,000, (b) Bad Debts ₹ 80,000 and (c) Provision for Tax ₹ 3,00,000. (T.Y. BBI, Modified, Nov. 2007, M.U.)

Solution:

Azad Bank Ltd.,
Profit and Loss Account for the year ended 31st March, 2014

Particulars	Schedule No.	Current Year ₹	Previous Year ₹
(I) Income:			
Interest Earned	13	17,57,000	—
Other Income	14	19,800	—
Total ₹		17,76,800	
(II) Expenditure:			
Interest Expended	15	6,86,000	
Operating Expenses	16	1,74,400	
Provisions and Contingencies		3,80,000	
Total ₹		12,40,400	
(III) Net Profit/Losses for the Year		5,36,000	
Profit/Loss Brought Forward		—	
Total ₹		5,36,000	
(IV) Appropriations:			
Transfer to Statutory Reserve @ 20%		1,34,000	
Transfer to other reserve		—	
Proposed Dividend		—	
Balance Carried to Balance Sheet		4,02,000	
Total ₹		5,36,000	

Schedules:

Particulars	₹
(1) Schedule 13: Interest Earned	
On Loans	5,18,000
Discount on Bills	84,000
On Overdraft	3,08,000
On Current A/c	4,20,000
On Cash Credits	4,46,000
	17,76,000
Less: Rebate on Bills Discounted	19,000
Total	17,57,000
(2) Schedule 14: Other Income	
Commission Received	16,400
Locker Rent	2,000
Transfer fees	1,400
Total	19,800

(3) Schedule 15: Interest Expended		
On Fixed deposits		5,50,000
On SB A/c		1,36,000
	Total	6,86,000
(4) Schedule 16: Operating Expenses		
Sundry charges		3,400
Salaries and allowances		1,08,000
Rent and Taxes		36,000
Director's fees		8,400
Postage		8,600
Depreciation		10,000
	Total	1,74,400
Provisions and Contingencies		
Bad Debt		80,000
Income Tax		3,00,000
	Total	3,80,000

Illustration 14: Following information is given from the books of Central Bank Ltd.

(i) Loans and Advances:

Bills Purchased and Discounted	₹ 25,00,000
Cash Credits and Overdrafts	₹ 1,42,50,000
Term Loans	₹ 1,27,50,000

(ii) Advances have been classified as under:

(₹ in '000)

Particulars	Cash Credits and Overdrafts ₹	Term Loans ₹
Standard Assets	10,000	9,750
Sub-standard Asset	?	?
Doubtful Assets –		
Upto one year	1,000	200
One to three years	1,200	500
More than three years	500	800
Loss Assets	300	?

(iii) Standard and sub-standard in bill portfolio are in the ratio of 9:1.

(iv) Term Loan comprise loss assets which are half of its sub-standard.

(v) Doubtful assets are secured to the extent of 50% of the dues.

You are required to compute the provision to be made on the assets on the basis of above information.

(T.Y. BBI, Modified, Nov. 2007, M.U.)

Solution:

Statement showing Classification of Assets (₹ '000)

Particulars Classification	Cash Credit	Term Loan	Bill Portfolio	Total
Standard Assets	10,000	9,750	2,250	22,000
Sub-standard Assets	1,250	1,000	250	2,500
Doubtful Assets				
Upto one year	1,000	200	—	1,200
One to three years	1,200	500	—	1,700
More than three years	500	800	—	1,300
Loss Assets	300	500	—	800
Total	14,250	12,750	2,500	29,500

(₹ in '000)

Particulars	₹	₹	₹
(1) Total Cash Credit and Overdraft as per para (1)			14,250
Less: Total of sub-standard		10,000	
Doubtful		2,700	
Loss		300	
Sub-standard			1,250
(2) Bills Portfolio – Total amount given			2,500
Proportion of standard and sub-standard	9:1		
∴ Sub-standard (1/10 of 2,500)			250
Standard (9/10 of 2,500)			2,250
			2,500
(3) Term Loan- Standard is double	2 + 1 = 3		
Term Loans total given			12,750
Less: Balance given – standard		9,750	
Doubtful		1,500	
Standard and Loss assets			1,500
(4) Standard 2/3		1,000	
(5) Loss 1/3		500	
			1,500
Total Doubtful advances		Secured	Unsecured
		50%	50%
1 year 1,200	600	600	
Upto 3 years	1,700	850	850
More than 3 years	1,300	650	650
	4,200	2,100	2,100

Provision to be made (₹ in '000)

	₹
Standard Assets – 0.25% of 22,000	55
Sub-standard Assets – 10% of 2,500	250
Doubtful –	
Unsecured (100% of 2,100)	2,100
Secured –	
1 year-20% of 600	120
Upto 3 years – 30% of 850	255
More than 3 years – 50% of 650	325
Loss Assets – 100%	800
Total	3,905

EXERCISE

Theory Questions

- Write a note on Statutory Reserves requirement under Banking companies.
- Write a note on Money at Call and Short Notice.
- Write a note on Contingent liabilities in respect of Banking Company Final Accounts.
- Write a note on Contra items in bank balance sheet.
- Write a note on Rebate on bills discounted.
- Write a note on Classification of Assets in case of a Bank.
- Write a note on Provisioning requirements of Banks.
- Explain:
 - Bills for Collection
 - Acceptances, Endorsements and Other Obligations
 - Rebate on Bills Discounted
 - Branch Adjustment
 - Provision for Doubtful Debts and Provision for Tax
 - Money at Call and Shot Notice

Objective Type Questions

(I) Fill in the Blanks

- Every banking company in India is required to transfer atleast _____ of its current year's profit to the reserve fund.
- Every non-scheduled bank has to maintain a cash reserve of atleast _____ of its demand and time liabilities in India.
- Amount of deposit kept with the RBI under Section 11(2) of Banking Regulation Act, 1949 is shown under Capital for _____ banks.
- Balances with RBI are shown in the final accounts of a Bank in Schedule No. _____.

5. Interest Accrued is shown in the final accounts of a Bank in Schedule No. _____.
6. Money at Call and Short Notice is shown in the final accounts of a Bank in Schedule No. _____.
7. A banking company is statutorily required to transfer _____ % of its profits to its Reserve Fund, each year before declaring dividends or transferring profit to the Central Government.
8. Demand drafts, telegraphic transfers, mail transfers and travellers' cheques issued by the bank but not presented for payment till the year end are known as Bills _____ (Receivable/Payable/Collected).
9. Banks should classify an account as NPA only if the interest charged during any quarter is not serviced fully within _____ days from the end of the quarter.
10. A _____ asset would be one which has remained NPA for a period less than or equal to 12 months.
11. Banks should make general provision for standard assets in the form of direct advances to agricultural and SME sectors at _____ per cent.
12. Banks should make general provision for standard assets in the form of residential housing loans beyond ₹ 20 lakhs at _____ per cent.
13. Banks should make general provision for standard assets in the form of personal loans (including credit card receivables) at _____ per cent.
14. Banks should make general provision for standard assets in the form of loans and advances qualifying as Capital Market exposures at _____ per cent.
15. Banks should make general provision for standard assets in the form of loans and advances to Non-deposit taking Systemically Important NBFCs at _____ per cent.
16. Banks should make general provision for standard assets at _____ per cent.
17. _____ percentage of provision is required on performing assets.
18. The Balance Sheet of Alpha Banking Co. has doubtful advances amounting ₹ 300 lakhs (classified as outstanding for more than three years on 31-03-2005). The provision will be made for ₹ _____ (lakhs).
19. ₹ _____ will be the amount of provision to be shown in Profit and Loss Account of Dena Bank Ltd. in respect of doubtful asset aging 1-3 years of ₹ 1,000.
20. For the year ended 31st March, 2010, non-performing assets classified as sub-standard in Centura Bank Ltd. will be classified as doubtful after _____ months.
21. On 1-4-2014, bills for collection were ₹ 10,000. During 2013-2014, bills received for collection amounted to ₹ 1,00,000, bills collected were ₹ 80,000 and bills dishonoured and returned were ₹ 5,000. ₹ _____ will be the amount of bill for collection (assets) to be shown in the Balance Sheet as on 31-3-2014.

[Ans.: (1) 20%; (2) 3%; (3) foreign; (4) 6; (5) 5; (6) 7; (7) 20; (8) Payable; (9) 90; (10) sub-standard; (11) 0.25; (12) 1; (13) 2; (14) 2; (15) 2; (16) 0.4; (17) 0.4; (18) 300; (19) 300; (20) 12; (21) 25,000.]

(II) State whether the following statements are True or False:

1. Only the requirements of the Banking Regulation Act, apply to the Balance Sheet and Profit and Loss Account of a banking company. The requirements of the Companies Act, 1956 relating to the Balance Sheet and Profit and Loss Account of a company shall not apply to a banking company at all.
2. The appointment of the auditor of a banking company is made as per the provisions of the Banking Regulation Act, 1949.

3. Powers, duties and liabilities of auditor of a banking company are also governed by the Banking Regulation Act, 1949.
4. The auditor's report on the accounts of a banking company must include only the particulars required under the Companies Act, 1956.
5. Three copies of the audited Balance Sheet and Profit and Loss Account together with the auditors' report shall be furnished as returns only to the Registrar of Companies.
6. Every banking company in India is required to transfer atleast 15% of its current year's profit to the reserve fund.
7. A banking company can pay dividend on its shares after writing off all its capitalised expenses except preliminary expenses.
8. Every non-scheduled bank has to maintain a cash reserve of atleast of its 1% demand and time liabilities in India.
9. The General Ledger of a bank contains all real and nominal accounts.
10. The first item under 'Assets' in the balance sheet of a Bank is Balances with Banks and money at call and short notice.
11. The items under 'Liabilities' in the balance sheet of a Bank are shown in the following order: Capital, Reserves and Surplus, Deposits and Borrowings.
12. Bills for collection are shown in the balance sheet of a Bank under both assets and liabilities.
13. The figures in the final accounts of a bank are shown to the nearest rupee.
14. Amount of deposit kept with the RBI under Section 11(2) of Banking Regulation Act, 1949 is shown under Capital for nationalized banks.
15. The items under 'Deposits' in Schedule 3 of the balance sheet of a Bank are shown in the following order: Savings bank deposits, Demand deposits and Term deposits.
16. The items under 'Reserves and Surplus' in Schedule 2 of the balance sheet of a Bank are shown in the following order: Statutory reserves, Capital reserves and Shares premium.
17. Bills payable are shown in the balance sheet of a Bank in the Schedule of Advances.
18. Bills Purchased and Discounted are shown in the balance sheet of a Bank in the Schedule of Advances.
19. Inter-office Adjustments (net) will appear in the balance sheet of a bank both under 'Other Liabilities' or 'Other Assets' as contra.
20. Discount on Bills is shown by a bank in Schedule of Other Income.
21. Loss on Revaluation of Investments is shown by a bank in Schedule of Operating Expenses.
22. Commission, Exchange and Brokerage is shown by a bank in Schedule of Operating Expenses.
23. Provisions for doubtful advances are deducted from the advances to the extent necessary.
24. Provisions for doubtful advances are made on a net basis, after deducting tax relief available for write off.
25. Contingency funds will appear in the notes forming part of balance sheet of a Bank under contingent liabilities.
26. Surplus on revaluation should be treated as Other Income.

27. Credit balances in overdrafts are shown by a bank as Other Liabilities.
28. Inoperative current account balances are shown by a bank as Balances with Banks.
29. Interest payable on deposits which is accrued but not due is shown under Contingent liabilities.
30. Unclaimed dividend is shown by a bank under Contingent liabilities.
31. Endorsements are shown by a bank under Other Liabilities.
32. Rebate on bill discounted is shown in Expense side of the income statement.
33. Employee security deposit is shown by a bank under Deposits.
34. Building acquired in satisfaction of a claim is shown by a bank under Other assets.
35. Letters of credit are shown by a bank under Advances.
36. The heading 'Other Assets' does not include Gold.
37. Income from non-performing assets (NPA) is recognised on accrual basis.
38. Interest on advances against term deposits may be taken to income account on the due date, provided adequate margin is available in the accounts.
39. If Government guaranteed advances become NPA, the interest on such advances should not be taken to income account unless the interest has been realised.

[Ans.: True: 11, 16, 23, 34, 36, 38, 39

False: 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 12, 13, 14, 15, 17, 18, 19, 20, 21, 22, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 35, 37.]

(III) Match the Columns:

(A)	Column A Name of Enactment Governing Banks	Column B Year of Enactment
(a)	Banking Regulation Act	(i) 1949
(b)	Banking Companies (Acquisition of Transfer of Undertakings) Act	(ii) 1955
(c)	Banking Companies (Acquisition and Transfer of Undertakings) Act	(iii) 1976
(d)	State Bank of India Act	(iv) 1912
(e)	State Bank of India (Subsidiary Banks) Act	(v) 1970
(f)	Regional Rural Banks Act	(vi) 1956
(g)	Companies Act	(vii) 1959
(h)	Co-operative Societies Act	(viii) 1980

[Ans.: (a – i), (b – v), (c – viii), (d – ii), (e – vii), (f – iii), (g – vi), (h – iv).]

(B)	Group A Function of a Banks	Group B Feature
(a)	Receiving deposits	(i) securities and valuables
(b)	Lending of money	(ii) issue of shares by companies
(c)	Transferring money from place to place	(iii) purchasing or discounting of bills
(d)	Safe custody	(iv) withdrawable by cheque
(e)	Buying, selling and dealing in	(v) issue of demand drafts
(f)	Acting as Managers to	(vi) foreign exchange

[Ans.: (a – iv), (b – iii), (c – v), (d – i), (e – vi), (f – ii).]

(C)	Group A	Group B
	(a) 'Slip System' of posting	(i) Current accounts, Savings Accounts
	(b) Voucher Summary Sheets	(ii) Clearing Cheques Received Book
	(c) Double Vouchers	(iii) Entries in personal ledger are made directly from the vouchers
	(d) Personal Ledgers	(iv) Form A in third schedule to Banking Regulation Act
	(e) Subsidiary Register	(v) For transactions not involving cash
	(f) Memorandum Book	(vi) Form B in third schedule to Banking Regulation Act
	(g) Balance Sheet of a bank	(vii) Totals posted to the control accounts in the General Ledger
	(h) Profit and Loss Account of a bank	(viii) Register for Demand Drafts

[Ans.: (a – iii), (b – vii), (c – v), (d – i), (e – viii), (f – ii), (g – iv), (h – vi).]

(D)	Group A Account	Group B Shown in Bank Final Accounts
	(a) The first item under 'Assets' in the balance sheet of a Bank	(i) Schedule 6
	(b) Bills for collection	(ii) 1. Priority Sectors; 2. Public Sector; 3. Banks; 4. Others
	(c) Bills payable	(iii) Schedule of Other Income
	(d) Balances with RBI	(iv) Capital Reserve
	(e) Interest Accrued	(v) Cash and balance with Reserve Bank of India
	(f) Money at Call and Short Notice	(vi) Demand Deposits
	(g) Bills Purchased and Discounted	(vii) Schedule 5
	(h) Advances in India classified as	(viii) 1. Due from Banks; 2. Due from Other – (a) Bills purchased and discounted; (b) Syndicated Loans; (c) Others
	(i) Advances outside India classified as	(ix) Contingent Liabilities
	(j) Inter-office Adjustments (net)	(x) in the balance sheet of a bank under 'Other Liabilities and Provisions'
	(k) Discount on Bills	(xi) Other assets
	(l) Loss on Revaluation of Investments	(xii) Schedule of Other Liabilities and Provisions
	(m) Contingency funds will appear	(xiii) Schedule 7
	(n) Surplus on revaluation	(xiv) either under 'Other Liabilities' or 'Other Assets'
	(o) Credit balances in overdrafts are shown by a bank as	(xv) Gold
	(p) Building acquired in satisfaction of a claim	(xvi) Schedule of Interest Earned
	(q) The heading 'Other Assets' in a bank Balance Sheet does not include	(xvii) Schedule of Advances

[Ans.: (a – v), (b – ix), (c – xii), (d – i), (e – vii), (f – xiii), (g – xvii), (h – ii), (i – viii), (j – xiv), (k – xvi), (l – v), (m – x), (n – iv), (o – vi), (p – xi), (q – xv).]

(E)	Group A Schedule No. of Balance Sheet	Group B Heading in Balance Sheet
	(a) 1	(i) Borrowings
	(b) 2	(ii) Cash and balance with Reserve Bank of India
	(c) 3	(iii) Other Assets
	(d) 4	(iv) Investments

- | | |
|--------|---|
| (e) 5 | (v) Capital |
| (f) 6 | (vi) Other Liabilities and Provisions |
| (g) 7 | (vii) Fixed Assets |
| (h) 8 | (viii) Reserves and Surplus |
| (i) 9 | (ix) Contingent Liabilities |
| (j) 10 | (x) Advances |
| (k) 11 | (xi) Deposits |
| (l) 12 | (xii) Balance with Banks and Money at call and short notice |

[Ans.: (a – v), (b – vii), (c – xi), (d – i), (e – vi), (f – ii), (g – xii), (h – iv), (i – x), (j – vii), (k – v), (l – ix).]

(F)	Group A Heading in P&L Account	Group B Schedule No. of P&L Account
(a)	Interest Earned	(i) 16
(b)	Other Income	(ii) 13
(c)	Interest Expended	(iii) No Schedule No.
(d)	Operating Expenses	(iv) 15
(e)	Provisions and Contingencies	(v) 14

[Ans.: (a – ii), (b – v), (c – vi), (d – i), (e – iii).]

(G)	Group A Balance	Group B Will Appear in Schedule No.
(a)	Bills payable	(i) 5
(b)	Balances with RBI	(ii) 12
(c)	Bills Purchased and Discounted	(iii) 13
(d)	Stationery and Stamps	(iv) 9
(e)	Liability for partly paid Investments	(v) 16
(f)	Discount on Bills	(vi) 6
(g)	Printing and Stationery	(vii) 11

[Ans.: (a – i), (b – vi), (c – iv), (d – vii), (e – ii), (f – iii), (g – v).]

(IV) Multiple Choice Questions:

1. As per the Banking Regulation Act, 1949, a bank can engage in the following banking business.
 - (a) Borrowing and raising of money
 - (b) Dealing in bills of exchange, hundies, promissory notes, etc.
 - (c) Carrying on and transacting every kind of guarantee and indemnity business
 - (d) All of the above

2. A banking company can pay dividend on its shares _____.
 - (a) after writing off all its capitalised expenses including preliminary expenses
 - (b) after charging depreciation on its investments
 - (c) after charging bad debts where adequate provisions has been made to the satisfaction of the auditor
 - (d) before charging depreciation on its investments and writing off all its capitalised expenses

3. The General Ledger of a bank contains _____.
 - (a) all personal, real and nominal accounts
 - (b) all personal accounts
 - (c) all real and nominal accounts
 - (d) the control accounts of all personal, real and nominal ledgers
4. The items under 'Liabilities' in the balance sheet of a Bank are shown in the following order.
 - (a) Capital, Reserves and Surplus, Borrowings, Deposits
 - (b) Deposits, Capital, Reserves and Surplus, Borrowings
 - (c) Capital, Reserves and Surplus, Deposits, Borrowings
 - (d) Borrowings, Deposits, Capital, Reserves and Surplus
5. Bills for collection are shown
 - (a) in the balance sheet of a Bank under assets
 - (b) in the balance sheet of a Bank under liabilities
 - (c) in the balance sheet of a Bank under both assets and liabilities
 - (d) in the notes forming part of balance sheet of a Bank under contingent liabilities
6. The items under 'Deposits' in Schedule 3 of the balance sheet of a Bank are shown in the following order.
 - (a) Savings bank deposits, Demand deposits, Term deposits
 - (b) Demand deposits, Savings bank deposits, Term deposits
 - (c) Term deposits, Demand deposits, Savings bank deposits
 - (d) Demand deposits, Term deposits, Savings bank deposits
7. The items under 'Reserves and Surplus' in Schedule 2 of the balance sheet of a Bank are shown in the following order
 - (a) Statutory reserves, Capital reserves, Shares premium
 - (b) Capital reserves, Statutory reserves, Shares premium
 - (c) Statutory reserves, Shares premium, Capital reserves
 - (d) Shares, premium, Statutory reserves, Capital reserves
8. Discount on Bills is shown by a bank _____.
 - (a) In Schedule of Advances
 - (b) In Schedule of Interest Earned
 - (c) In Schedule of Other Income
 - (d) In Schedule of Interest Expended
9. Loss on Revaluation of Investments _____.
 - (a) is shown by a bank on the face of the main profit and loss account
 - (b) is shown by a bank in Schedule of Operating Expenses
 - (c) is shown by a bank in Schedule of Other Income
 - (d) is ignored being a mere book entry
10. Commission, Exchange and Brokerage is shown by a bank _____.
 - (a) on the face of the main profit and loss account
 - (b) in Schedule of Operating Expenses

- (c) in Schedule of Other Income
(d) in Schedule of Interest Earned
11. Contingency funds will appear _____.
- (a) in the balance sheet of a bank under 'Other Liabilities and Provisions'
(b) in the balance sheet of a bank under 'Reserves and Surplus'
(c) on the face of the main profit and loss account of a bank
(d) in the notes forming part of balance sheet of a Bank under contingent liabilities
12. Surplus on revaluation should be treated as _____.
- (a) Other Income (b) Capital Reserve
(c) Statutory Reserve (d) Revenue Reserve
13. Rebate on bill discounted is shown in the _____.
- (a) Assets side of the balance sheet (b) Liabilities side at the balance sheet
(c) Income side of the income statement (d) Expense side of the income statement
14. The heading 'Other Assets' does not include _____.
- (a) Silver (b) Interest accrued
(c) Interest accrued but not due (d) Gold
15. Demand drafts, telegraphic transfers, mail transfers and travellers' cheques issued by the bank but not presented for payment till the year end are known as _____.
- (a) Bills Receivable (b) Bills Payable
(c) Bills Collected (d) Bills Purchased and Discounted
16. What percentage of provision is required on performing assets?
- (a) 10 (b) 40
(c) 0.40 (d) 25
17. The Balance Sheet of Alpha Banking Co. has doubtful advances amounting ₹ 300 lakhs (classified as outstanding for more than three years on 31-03-2014). The provision will be made for ₹ _____.
- (a) 100 (b) 300
(c) 90 (d) 120
18. What will be the amount of provision to be shown in Profit and loss Account of Dena Bank Ltd. in respect of doubtful asset aging 1-3 years of ₹ 1,000?
- (a) 200 (b) 300
(c) 500 (d) 100
19. When income is to be recognised on cash basis by Safe Trust Bank, a distinction should be made between _____.
- (a) Banking and Non-banking assets (b) Monetary and Non-banking assets
(c) Current and Non-current assets (d) Performing and Non-performing assets

20. For the year ended 31st March, 2010, non-performing assets classified as sub-standard in Centura Bank Ltd. will be classified as doubtful after _____.
- (a) 24 months (b) 18 months
(c) 12 months (d) 180 days
21. On 1-4-2014, Bills for collection were ₹ 10,000. During 2013-2014, bills received for collection amounted to ₹ 1,00,000, bills collected were ₹ 80,000 and bills dishonoured and returned were ₹ 5,000. What will be the amount of bill for collection (assets) to be shown in the Balance Sheet as on 31-3-2014?
- (a) 25,000 (b) 30,000
(c) 35,000 (d) None of the above

[Ans.: (1-d), (2-a), (3-d), (4-c), (5-d), (6-b), (7-a), (8-b), (9-c), (10-c), (11-a), (12-b), (13-b), (14-d), (15-b), (16-c), (17-b), (18-b), (19-d), (20-c), (21-a).]

