

UNIT – 6: PREPARATION OF FINANCIAL STATEMENTS OF BANKS

LEARNING OUTCOMES

- ☐ Learn how to prepare profit and loss account of a bank.
- ☐ Compute tax provision, transfer to statutory reserve, provisions on non-performing assets, income recognition on NPA, depreciation on current investments
- ☐ Learn how to prepare Balance-sheet

6.1 INTRODUCTION

While preparing financial statements, banks have to follow various guidelines / directions given by RBI/Government of India governing the Financial Statements. Profit and Loss Account and Balance Sheet are prepared as on 31st March every year by all the Banks. They contain 18 schedules as under

Schedules forming part of Form A – Balance Sheet Schedule -

1. Capital Schedule
2. Reserves & Surplus Schedule
3. Deposits Schedule
4. Borrowings Schedule
5. Other Liabilities and Provisions Schedule
6. Cash and balances with RBI Schedule
7. Balances with Banks and money at call and short notice.
8. Investments

9. Advances
10. Fixed Assets
11. Other Assets
12. Contingent Liabilities / Bills for Collection

Schedules forming Part of Form B – Profit and Loss Account.

13. Interest Earned.
14. Other Income.
15. Interest Expended.
16. Operating Expenses.
17. Schedules forming Part of Annual Report
18. Significant Accounting Policies.
19. Notes forming part of accounts.

The Assets side of the Balance Sheet has been arranged in such a manner that liquid assets such as Cash, Balances with Banks and Investments are shown in that order. This enables the investor to quickly identify how much the Bank is liquid enough to meet its commitment towards its customers. This arrangement of Assets is from liquid to fixed assets in contrast to corporate balance sheets where the arrangement is from fixed to liquid. While preparing financial statements, banks have to follow various guidelines / directions given by RBI/Government of India governing the Financial Statements.

Forms for the preparation and presentation of financial statements of banking companies have been given in Annexure I & II along with compliance guidelines of RBI given in Annexure III at the end of this chapter. In this unit we shall straightaway go to the problems relating to preparation of final accounts of banks.

Illustration 1

From the following information, prepare a Balance Sheet of ADT International Bank as on 31st March, 20X1 giving the relevant schedules and also specify at least four important Principal Accounting Policies:

₹ in lakhs

| | Dr. | Cr. |
|---------------|------------|------------|
| Share Capital | | 198.00 |

| | | |
|---------------------------------|----------|----------|
| 19,80,000 Shares of ₹ 10 each | | |
| Statutory Reserve | | 231.00 |
| Net Profit before Appropriation | | 150.00 |
| Profit and Loss Account | | 412.00 |
| Fixed Deposit Account | | 517.00 |
| Savings Deposit Account | | 450.00 |
| Current Accounts | 28.00 | 520.12 |
| Bills Payable | | 0.10 |
| Cash credits | 812.10 | |
| Borrowings from other Banks | | 110.00 |
| Cash in Hand | 160.15 | |
| Cash with RBI | 37.88 | |
| Cash with other Banks | 155.87 | |
| Money at Call | 210.12 | |
| Gold | 55.23 | |
| Government Securities | 110.17 | |
| Premises | 155.70 | |
| Furniture | 70.12 | |
| Term Loan | 792.88 | |
| | 2,588.22 | 2,588.22 |

Additional Information:

| | |
|--|-----------|
| Bills for collection | 18,10,000 |
| Acceptances and endorsements | 14,12,000 |
| Claims against the Bank not acknowledged as debt | 55,000 |
| Depreciation charges—Premises | 1,10,000 |
| Furniture | 78,000 |

50% of the Term Loans are secured by Government guarantees. 10% of cash credit is unsecured. Transfer 25% of its profit to the reserve fund.

Solution

**Balance Sheet of ADT International Bank
As on 31st March, 20X1**

(₹ in lacs)

| Capital and Liabilities | Schedule | As on 31.3.13 | As on 31.3.12 |
|---|----------|------------------|---------------|
| Share Capital | 1 | 1,98.00 | |
| Reserves and Surplus | 2 | 7,93.00 | |
| Deposits | 3 | 14,87.12 | |
| Borrowings | 4 | 1,10.00 | |
| Other liabilities and provisions | 5 | 0.10 | |
| | | 25,88.22 | |
| Assets | | | |
| Cash and balances with RBI | 6 | 219.63 | |
| Balances with banks and money at call and short notice | 7 | 344.39 | |
| Investments | 8 | 1,65.40 | |
| Advances | 9 | 16,32.98 | |
| Fixed Assets | 10 | 2,25.82 | |
| Other Assets | 11 | – | |
| | | 25,88.22 | |
| Contingent liabilities | 12 | 14.67 | |
| Bills for collection | | 18.10 | |

Schedule 1— Capital

| | |
|---|---------|
| Authorised Capital | – |
| Issued, Subscribed and Paid up Capital | |
| 19,80,000 Shares of ₹ 10 each | 1,98.00 |

Schedule 2— Reserves and Surplus

| | | | |
|-----|--|---------|---------|
| (1) | Statutory Reserve- Opening balance | 2,31.00 | 268.50 |
| | Additions during the year | 37.50 | |
| (2) | Balance in Profit & Loss Account (W.N. 1) | | 524.50 |
| | | | 7,93.00 |

Schedule 3— Deposits

| | | |
|-------|-----------------------------|----------|
| (i) | Demand deposits from others | 5,20.12 |
| (ii) | Saving bank deposits | 4,50.00 |
| (iii) | Fixed Deposits | 5,17.00 |
| | | 14,87.12 |

Schedule 4— Borrowings

| | |
|------------------------------------|---------|
| Borrowing in India- Other banks | 1,10.00 |
|------------------------------------|---------|

Schedule 5— Other Liabilities and Provisions

| | |
|---------------|------|
| Bills Payable | 0.10 |
|---------------|------|

Schedule 6— Cash and balances with RBI

| | | |
|------|--|---------|
| (i) | Cash in hand | 1,60.15 |
| (ii) | Balances with RBI In current account (W.N. 2) | 59.48 |
| | | 219.63 |

Schedule 7—Balances with banks and money at call and short notice

| | | |
|----|-------------------------------------|---------|
| 1. | In India | |
| | (i) Balances with banks | |
| | (a) in current accounts (W.N. 3) | 1,34.27 |
| | (ii) Money at call and short notice | 2,10.12 |
| | | 344.39 |

Schedule 8— Investments

| | | |
|-----|---------------------------|---------|
| (1) | Investment in India in | |
| | (i) Government securities | 1,10.17 |
| | (ii) Others—Gold | 55.23 |
| | | 1,65.40 |

Schedule 9— Advances

| | | | |
|----|-------|--|-----------------|
| A. | (i) | Cash credits, overdrafts (includes Dr Bal in Current A/c as ODs) | 8,40.10 |
| | (ii) | Term Loans | <u>7,92.88</u> |
| | | | <u>16,32.98</u> |
| B | (i) | Secured by tangible assets (balancing fig) | 11,52.53 |
| | (ii) | Secured by bank/government guarantees | 3,96.44 |
| | (iii) | Unsecured | 84.01 |
| | | | 16,32.98 |

Schedule 10— Fixed Assets

| | | |
|----|----------------------|---------|
| 1. | Premises | |
| | At cost | 156.80 |
| | Depreciation to date | 1.10 |
| | | 155.70 |
| 2. | Other Fixed Assets | |
| | Furniture at cost | 70.90 |
| | Depreciation to date | 0.78 |
| | | 70.12 |
| | Total (1 + 2) | 2,25.82 |

Schedule 11— Other Assets**Nil****Schedule 12— Contingent Liabilities***(₹ in lakhs)*

| | | |
|------|---|-------|
| (i) | Claims against bank not acknowledged as debts | 0.55 |
| (ii) | Acceptances, endorsements | 14.12 |
| | | 14.67 |

Working Note:

- (1) Balance in Profit & Loss Account: (₹ in lakhs)

| | |
|---|---------|
| Profit and Loss Account | 4,12.00 |
| Add : Net Profit before appropriation (Profit for the year) | 1,50.00 |
| | 5,62.00 |
| Less : Transfer to statutory reserve (25% of 150.00) | (37.50) |
| | 524.50 |

- (2) Transfer from Cash with other banks to Cash with RBI (when CRR is required to be maintained at 4% of deposits w.e.f. January 29, 2013)

| | |
|--|---------|
| Cash reserve required (14,87.12 x 4%) | 59.48 |
| Cash with RBI | (37.88) |
| Transfer needed to maintain cash reserve | 21.60 |

- (3) Liquid Assets:

| | |
|--|---------|
| Cash on hand | 1,60.15 |
| Cash with other Banks | 1,55.87 |
| Money at call and short notice | 2,10.12 |
| Gold | 55.23 |
| Government securities | 1,10.17 |
| | 6,91.54 |
| Excess liquidity [6,91.54 – (1487.12 x 23%)] or (6,91.54 – 342.04) | 349.50 |

The excess liquidity enables the transfer as per (2) above.

After the transfer, Cash with other Banks = ₹ (in lakhs) (1,55.87 - 21.60) = ₹ (in lakhs) 134.27.

Principal Accounting Policies:**(a) Foreign Exchange Transactions**

- (i) Monetary assets and liabilities have been translated at the exchange rate prevailing at the close of year. Non-monetary assets have been carried in the books at the historical cost.

- (ii) Income and Expenditure items in respect of Indian branches have been translated at the exchange rates on the date of transactions and in respect of foreign branches at the exchange rates prevailing at the close of the year.
- (iii) Profit or Loss on foreign currency position including pending forward exchange contracts have been accounted for at the exchange rates prevailing at the close of the year.

(b) Investment: Permanent category investments are valued at cost. Valuation of investment in current category depends on the nature of securities. While valuation of government securities held as current investments have been made on yield to maturity basis, the investments in shares of companies are valued on the basis of book value.

(c) Advances: Advances due from sick nationalised units under nursing programmes and in respect of various sticky, suit filed and decreed accounts have been considered good on the basis of–

- (i) Available estimate value of existing and prospective primary and collateral securities including personal worth of the borrowers and guarantors.
- (ii) The claim lodged/to be lodged under various credit guarantee schemes.
- (iii) The claim lodged/to be lodged under various credit guarantee schemes.
- (iv) Pending settlement of claims by Govt.

Provisions to the satisfaction of auditors have been made and deducted from advances. Tax relief available when the advance is written off will be accounted for in the year of write-off.

(d) Fixed Assets: The premises and other fixed assets except for foreign branches are accounted for at their historical cost. Depreciation has been provided on written down value method at the rates specified in the Income Tax Rules, 1962. Depreciation in respect of assets of foreign branches has been provided as per the local laws.

Illustration 2

From the following information, prepare Profit and Loss A/c of Dimple Bank as on 31-3-20X3 :

| ₹ '000 | Item | ₹ '000 |
|---------|--|---------|
| 20X1-X2 | | 20X2-X3 |
| 14,27 | Interest and Discount | 20,45 |
| 1,14 | Income from investment | 1,12 |
| 1,55 | Interest on Balances with RBI | 1,77 |
| 7,22 | Commission, Exchange and Brokerage | 7,12 |
| 12 | Profit on sale of investments | 1,22 |
| 6,12 | Interest on Deposits | 8,22 |
| 1,27 | Interest to RBI | 1,47 |
| 7,27 | Payment to and provision for employees | 8,55 |
| 1,58 | Rent, taxes and lighting | 1,79 |
| 1,47 | Printing and stationery | 2,12 |
| 1,12 | Advertisement and publicity | 98 |
| 98 | Depreciation | 98 |
| 1,48 | Director's fees | 2,12 |
| 1,10 | Auditor's fees | 1,10 |
| 50 | Law charges | 1,52 |
| 48 | Postage, telegrams and telephones | 62 |
| 42 | Insurance | 52 |
| 57 | Repair & maintenance | 66 |

Also give necessary Schedules.

Other Information:

(i) The following items are already adjusted with Interest and Discount (Cr.):

| | |
|---------------------------------------|------|
| Tax Provision ('000 ₹) | 1,48 |
| Provision for Doubtful Debts ('000 ₹) | 92 |
| Loss on sale of investments ('000 ₹) | 12 |
| Rebate on Bills discounted ('000 ₹) | 55 |

(ii) *Appropriations:*

25% of profit is transferred to Statutory Reserves

5% of profit is transferred to Revenue Reserve.

Solution

Dimple Bank Profit and Loss Account for the year ended 31-3-20X3

| | | Schedule No. | Year ended 31-3-20X3 | (₹ 000's) Year ended 31-3-20X2 |
|------|---|-----------------|-------------------------|--------------------------------------|
| I. | Income | | | |
| | Interest Earned | 13 | 25,86 | 16,96 |
| | Other Income | 14 | 8,22 | 7,34 |
| | Total | | 34,08 | 24,30 |
| II. | Expenditure | | | |
| | Interest Expended | 15 | 9,69 | 7,39 |
| | Operating Expenses | 16 | 20,96 | 16,97 |
| | Provisions and Contingencies | | 2,40 | |
| | Total | | 33,05 | 24,36 |
| III. | Profit/Loss | | | |
| | Net Profit/Loss (—) for the year | | 1,03 | (6) |
| | Profit/Loss (—) brought forward | | (6) | |
| | Total | | 97 | (6) |
| IV. | Appropriations | | | |
| | Transfer to Statutory Reserve | | 25.75 | |
| | Transfer to Other Reserve, Proposed Dividend | | 5.15 | |
| | Balance carried over to Balance Sheet | | 66.10 | |
| | Total | | 97.00 | |

Schedule 13 - Interest Earned

(₹ 000's)

| | Year ended 31-3-20X3 | Year ended 31-3-20X2 |
|--|--------------------------------|--------------------------------|
| I. Interest/Discount | 22,97 | 14,27 |
| II. Income on Investments | 1,12 | 1,14 |
| III. Interest on Balances with RBI and other inter-bank fund | 1,77 | 1,55 |
| IV. Others | | — |
| Total | 25,86 | 16,96 |

Schedule 14 - Other Income

(₹ 000's)

| | Year ended 31-3-20X3 | Year ended 31-3-20X2 |
|--|--------------------------------|--------------------------------|
| I. Commission, Exchange and Brokerage | 7,12 | 7,22 |
| II. Profit on Sale of Investments | 1,22 | 12 |
| Less: Loss on sale of Investments | (12) | - |
| Total | 8,22 | 7,34 |

Schedule 15 - Interest Expended

(₹ 000's)

| | Year ended 31-3-20X3 | Year ended 31-3-20X2 |
|--|--------------------------------|--------------------------------|
| I. Interest on Deposits | 8,22 | 6,12 |
| II. Interest on RBI/inter-bank borrowings | 1,47 | 1,27 |
| Total | 9,69 | 7,39 |

Schedule 16 - Operating Expenses

(₹ 000's)

| | Year ended <i>31-3-20X3</i> | Year ended <i>31-3-20X2</i> |
|--|---------------------------------------|---------------------------------------|
| I. Payments to and provision for employees | 8,55 | 7,27 |
| II. Rent, taxes and lighting | 1,79 | 1,58 |
| III. Printing and stationery | 2,12 | 1,47 |
| IV. Advertisement and Publicity | 98 | 1,12 |
| V. Depreciation on the Bank's Property | 98 | 98 |
| VI. Director's fees, allowances and expenses | 2,12 | 1,48 |
| VII. Auditor's fees and expenses (including branch auditors) | 1,10 | 1,10 |
| VIII. Law charges | 1,52 | 50 |
| IX. Postage, telegrams, telephones etc. | 62 | 48 |
| X. Repairs and maintenance | 66 | 57 |
| XI. Insurance | 52 | 42 |
| XII. Other Expenditure | | — |
| Total | 20,96 | 16,97 |

Illustration 3

From the following information, prepare Profit and Loss A/c of KC Bank for the year ended 31st March, 20X1:

| <i>Items</i> | <u>₹ 000</u> |
|---|--------------|
| <i>Interest on cash credit</i> | <i>18,20</i> |
| <i>Interest on overdraft</i> | <i>7,50</i> |
| <i>Interest on term loans</i> | <i>15,40</i> |
| <i>Income on investments</i> | <i>8,40</i> |
| <i>Interest on balance with RBI</i> | <i>1,50</i> |
| <i>Commission on remittances and transfer</i> | <i>75</i> |

| | |
|--|-------|
| <i>Commission on letters of credit</i> | 1,18 |
| <i>Commission on government business</i> | 82 |
| <i>Profit on sale of land and building</i> | 27 |
| <i>Loss on exchange transactions</i> | 52 |
| <i>Interest paid on deposit</i> | 27,20 |
| <i>Auditors' fees and allowances</i> | 1,20 |
| <i>Directors' fees and allowances</i> | 2,50 |
| <i>Advertisements</i> | 1,80 |
| <i>Salaries, allowances and bonus to employees</i> | 12,40 |
| <i>Payment to Provident Fund</i> | 2,80 |
| <i>Printing and stationery</i> | 1,40 |
| <i>Repairs and maintenance</i> | 50 |
| <i>Postage, telegrams, telephones</i> | 80 |

Other Information:

(i) *Interest on NPA is as follows*

| | <i>Earned (₹ '000)</i> | <i>Collected (₹ '000)</i> |
|--------------------|------------------------|---------------------------|
| <i>Cash credit</i> | 8,20 | 4,00 |
| <i>Overdraft</i> | 450 | 1,00 |
| <i>Term Loans</i> | 750 | 2,50 |

(ii) *Classification of Non Performing Advances ('000 ₹)*

| | |
|---|-------|
| <i>Standard</i> | 30,00 |
| <i>Sub-standard</i> | 11,20 |
| <i>Doubtful assets not covered by security</i> | 2,00 |
| <i>Doubtful assets covered by security for one year</i> | 50 |
| <i>Loss Assets</i> | 2,00 |

(iii) *Investments* 27,50

Bank should not keep more than 25% of its investment as 'held-for-maturity' investment. The market value of its rest 75% investment is ₹ 19,75,000 as on 31-3-20X1.

Solution

KC Bank
Profit and Loss Account
For the year ended 31st March, 20X1

| Particulars | Schedule | (₹ '000') Year ended 31-3-20X1 |
|------------------------------|----------|--------------------------------------|
| I Income | | |
| Interest earned | 13 | 38,30 |
| Other income | 14 | 2,50 |
| | | 40,80 |
| II Expenditure | | |
| Interest expended | 15 | 27,20 |
| Operating expenses | 16 | 23,40 |
| Provisions and Contingencies | | 6,80 |
| | | 57,40 |
| III Profit/Loss | | (16,60) |
| IV Appropriations | | Nil |

Schedule 13 - Interest Earned

| | | Year ended 31-3-20X1 (₹ '000') |
|------------|---------------------------------------|-----------------------------------|
| I | Interest/discount on advances/bills | |
| | Interest on cash credit ₹ (18,20-420) | 14,00 |
| | Interest on overdraft ₹ (750-350) | 4,00 |
| | Interest on term loans ₹ (15,40-500) | 10,40 |
| | | 28,40 |
| II | Income on investments | 8,40 |
| III | Interest on Balance with RBI | 1,50 |
| | | 38,30 |

Interest on NPA is recognised on cash basis, hence excess reduced

Schedule 14 - Other Income

| | | <i>Year ended 31-3-20X1 (₹ '000')</i> |
|-----|--|---|
| I | Commission, Exchange and Brokerage | |
| | Commission on remittances and transfer | 75 |
| | Commission on letter of credit | 1,18 |
| | Commission on Government business | <u>82</u> |
| | | 2,75 |
| II | Profit on sale of Land and Building | 27 |
| III | Loss on Exchange Transactions | <u>(52)</u> |
| | | <u>2,50</u> |

Schedule 15 - Interest Expended

| | | <i>Year ended 31-3-20X1</i> |
|---|----------------------|---------------------------------|
| I | Interest on Deposits | 27,20 |

Schedule 16 - Operating Expenses

| | | <i>Year Ended 31-3-20X1</i> |
|-----|--|---------------------------------|
| I | Payment and provision for employees | |
| | Salaries, allowances and bonus | 12,40 |
| | Provident Fund Contribution | <u>2,80</u> |
| | | 15,20 |
| II | Printing and Stationery | 1,40 |
| III | Advertisement and publicity | 1,80 |
| IV | Directors' fees, allowances and expenses | 2,50 |
| V | Auditors' fees and expenses | 1,20 |
| VI | Postage, telegrams, telephones etc. | 80 |
| VII | Repairs and maintenance | 50 |
| | | <u>23,40</u> |

Working Note:

| <i>Provisions and contingencies</i> | | (₹ '000) |
|--|-----------------------|----------|
| Provision for NPA : | | |
| Standard | $3,000 \times 0.40\%$ | 12 |
| Sub-standard | $1,120 \times 15\%^*$ | 1,68 |
| Doubtful not covered by security | $200 \times 100\%$ | 2,00 |
| Doubtful covered by security for one year | $50 \times 25\%$ | 12.5 |
| Loss Assets | $200 \times 100\%$ | 2,00 |
| | | 592.5 |
| <i>Depreciation on current investments</i> | | |
| Cost (75% of 27,50) | 2,062.50 | |
| Less : Market value | (1,975.00) | 87.5 |
| | | 680.00 |

Note: 25% of the total investments are held to maturity. In the case of Held to Maturity investments the valuation is done at cost and these are not marked to market value generally. Hence, depreciation on investments has been calculated only on other investments which can either be Held for Trading (HFT) or Available for Sale (AFS)

Illustration 4

The following are the ledger balances (in Rupees thousands) extracted from the books of Vaishnavi Bank as on March 31, 20X1 :

| | Dr. | Cr. |
|-------------------------------------|---------|----------|
| Share Capital | | 19,00,00 |
| Current accounts control | | 9,70,00 |
| Employee security deposits | | 74,20 |
| Investments in Govt. of India Bonds | 9,43,70 | |
| Gold Bullion | 1,51,30 | |
| Silver | 20,00 | |

* It is assumed that sub-standard asset is fully secured.

| | | |
|---|----------|----------|
| <i>Constituent liabilities for acceptances and endorsements</i> | 5,65,00 | 5,65,00 |
| <i>Borrowings from banks</i> | | 7,72,30 |
| <i>Building</i> | 6,50,00 | |
| <i>Furniture</i> | 50,00 | |
| <i>Money at call and short notice</i> | 2,60,00 | |
| <i>Commission & brokerage</i> | | 2,53,00 |
| <i>Saving accounts</i> | | 1,50,00 |
| <i>Fixed deposits</i> | | 2,30,50 |
| <i>Balances with other banks</i> | 4,63,50 | |
| <i>Other investments</i> | 5,56,30 | |
| <i>Interest accrued on investments</i> | 2,46,20 | |
| <i>Reserve Fund</i> | | 14,00,00 |
| <i>P & L A/c</i> | | 65,00 |
| <i>Bills for collection</i> | 4,35,00 | 4,35,00 |
| <i>Interest</i> | | 6,20,00 |
| <i>Loans</i> | 18,10,00 | |
| <i>Bills discounted</i> | 1,25,00 | |
| <i>Interest</i> | 79,50 | |
| <i>Discounts</i> | | 4,20,00 |
| <i>Rents</i> | | 6,00 |
| <i>Audit fees</i> | 50,00 | |
| <i>Depreciation reserve (furniture)</i> | | 2,00 |
| <i>Salaries</i> | 2,12,00 | |
| <i>Rent, rates and taxes</i> | 1,20,00 | |
| <i>Cash in hand and with Reserve Bank</i> | 7,50,00 | |
| <i>Miscellaneous income</i> | | 39,00 |
| <i>Depreciation reserve (building)</i> | | 8,00 |
| <i>Directors fees</i> | 10,00 | |
| <i>Postage</i> | 12,50 | |

| | | |
|-----------------------------|----------|----------|
| Loss on sale of investments | 2,00,00 | |
| Branch adjustments | 2,00,00 | |
| | 79,10,00 | 79,10,00 |

Other Information:

The bank's Profit and Loss Account for the year ended and Balance Sheet as on 31st March, 20X1 are required to be prepared in appropriate form. Further information (in Rupees thousands) available is as follows —

- (a) Rebate on bills discounted to be provided 40,00
- (b) Depreciation for the year
- | | |
|-----------|-------|
| Building | 50,00 |
| Furniture | 5,00 |
- (c) Included in the current accounts ledger are accounts overdrawn to the extent of 25,00.

Transfer to Statutory Reserve 25% of the Net Profits for the current year.

Solution

**Balance Sheet of Vaishnavi Bank
as on 31st March, 20X1**

(₹ '000)

| Capital and Liabilities | Schedule | As on 31-3-20X1 | As on 31-3-20X0 |
|----------------------------------|----------|--------------------|--------------------|
| Capital | 1 | 19,00,00 | |
| Reserves & Surplus | 2 | 20,24,00 | |
| Deposits | 3 | 13,75,50 | |
| Borrowings | 4 | 7,72,30 | |
| Other liabilities and provisions | 5 | 1,14,20 | |
| Total | | 61,86,00 | |

(₹ '000)

| Assets | Schedule | As on 31-3-20X1 | As on 31-3-20X0 |
|---|----------|--------------------|--------------------|
| Cash and balance with Reserve Bank of India | 6 | 7,50,00 | |
| Balances with bank and Money at call and short notice | 7 | 7,23,50 | |
| Investments | 8 | 16,71,30 | |
| Advances | 9 | 19,60,00 | |
| Fixed Assets | 10 | 6,35,00 | |
| Other Assets | 11 | 4,46,20 | |
| Total | | 61,86,00 | |
| Contingent liabilities | 12 | 5,65,00 | |
| Bills for collection | | 4,35,00 | |

Vaishnavi Bank**Profit and Loss Account for the year ended 31-3-20X1**

(₹ '000)

| | | |
|------------------------------|----|----------|
| I. Income | | |
| Interest & Discount | 13 | 10,00,00 |
| Other income | 14 | 98,00 |
| | | 10,98,00 |
| II. Expenditure | | |
| Interest Expended | 15 | 79,50 |
| Operating Expenses | 16 | 4,59,50 |
| Provisions and Contingencies | | - |
| | | 5,39,00 |
| III. Profits/Loss | | |
| Net profit for the year | | 5,59,00 |
| Profit b/f | | 65,00 |
| | | 6,24,00 |

| | | |
|---------------------------------------|--|----------------|
| IV. Appropriations | | |
| Transfer to Statutory Reserve | | 1,39,75 |
| Balance carried over to Balance Sheet | | 4,84,25 |
| | | <u>6,24,00</u> |

Schedule 1 - Capital

(₹'000)

| | As on 31-3-20X1 |
|----------------------|-----------------|
| I. For Other Banks | |
| Authorised Capital | |
| Shares of ₹ ... each | — |
| Issued Capital | |
| Shares of ₹ ... each | — |
| Subscribed Capital | |
| Shares of ₹ ... each | — |
| Called up capital | |
| Shares of ₹ ... each | <u>19,00,00</u> |
| | <u>19,00,00</u> |

Schedule 2 - Reserves & Surplus

| | As on 31-3-20X1 |
|--|-----------------|
| I. Statutory Reserves | |
| Opening Balance | 14,00,00 |
| Additions during the year | <u>1,39,75</u> |
| | 15,39,75 |
| II. Balance in Profit and Loss Account | 4,84,25 |
| Total | <u>20,24,00</u> |

Schedule 3 - Deposits

(₹'000)

| | As on 31-3-20X1 |
|--------------------------|-----------------|
| A. I. Demand Deposits | 9,95,00 |
| II. Saving Bank Deposits | 1,50,00 |

| | |
|--------------------|----------|
| III. Term Deposits | 2,30,50 |
| | 13,75,50 |

Current Accounts Control A/c shows a Credit Balance of ₹ 9,70,000/-. In the additional information it is mentioned that in the above balance an OD of ₹ 25,000/- is included. Hence for presentation of the Balance Sheet the entries will be as under:

Current Accounts 9,95,000 to be shown under deposits

ODs in Current Accounts To be shown as Advances along with cash credits & T Loans

Schedule 4 - Borrowings

| | <i>As on 31-3-20X1</i> |
|------------------------|------------------------|
| I. Borrowings in India | |
| (ii) Other banks | 7,72,30 |
| Total | 7,72,30 |

Schedule 5 - Other liabilities and provisions

| | <i>As on 31-3-20X1</i> |
|--|------------------------|
| I. Other liabilities including provisions: | |
| Rebate on bills discounted | 40,00 |
| Employees Security Deposit | 74,20 |
| Total | 1,14,20 |

Schedule 6 - Cash and Balances with Reserve Bank of India

| | <i>As on 31-3-20X1</i> |
|--|------------------------|
| I. Cash in hand (including foreign currency notes) | 3,50,00 |
| II. Balances with Reserve Bank of India: | |
| (i) In Current Account | 3,20,00 |
| (ii) In Other Account | 80,00 |
| Total | 7,50,00 |

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

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

| | <i>As on 31-3-20X1</i> |
|--|------------------------|
| I. (i) In India Balances with banks | |
| (a) in Current accounts | |
| (b) in Other accounts | 2,63,50 |
| (ii) Money at call and short notice | 2,00,00 |
| (a) with banks | 2,30,00 |
| (b) with other institutions | 30,00 |
| Total (i + ii) | 7,23,50 |

Schedule 8 - Investments

(₹ '000)

| | <i>As on 31-3-20X1</i> |
|-----------------------------------|------------------------|
| I. Investments in India in | |
| (i) Government securities | 9,43,70 |
| (ii) Shares (assumed) | 5,56,30 |
| (iii) Gold | 1,51,30 |
| (iv) Silver | 20,00 |
| Total | 16,71,30 |

Schedule 9 - Advances

| | <i>As on 31-3-20X1</i> |
|---|------------------------|
| A. (i) Bills purchased and discounted | 1,25,00 |
| (ii) Cash credits, overdrafts and loans repayable on demand | 18,35,00 |
| | 19,60,00 |
| B. (i) Secured by tangible assets | 12,00,00 |
| (ii) Secured by Bank/Govt. Securities | 2,00,00 |
| (iii) Unsecured | 5,60,00 |
| | 19,60,00 |

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

(Details are assumed)

Schedule 10 - Fixed Assets

| | | <i>As on 31-3-20X1</i> |
|------------|--|------------------------|
| I. | Premises | |
| | At cost as on 31st March, 20X0 | 6,42,00 |
| | Depreciation to date | <u>(50,00)</u> |
| | | 5,92,00 |
| II. | Other fixed articles (including Furniture and Fixture) | |
| | At cost as on 31st March, 20X0 | 48,00 |
| | Depreciation to date | <u>(5,00)</u> |
| | | 43,00 |
| | Total (I & II) | 6,35,00 |

Schedule 11 - Other Assets

| | | <i>As on 31-3-20X1</i> |
|------------|--------------------------------|------------------------|
| I. | Inter-office adjustments (net) | 2,00,00 |
| II. | Interest accrued | 2,46,20 |
| | | 4,46,20 |

Schedule 12 - Contingent Liabilities

| | | <i>Year ended 31-3-20X1</i> |
|-----------|---|---------------------------------|
| I. | Acceptances, endorsements and other obligations | 5,65,00 |
| | Total | 5,65,00 |

Schedule 13 - Interest Earned

| | <i>Year ended 31-3-20X1</i> |
|--|---------------------------------|
| I. Interest/discount on advances, bills (6,20,00 + 4,20,00 –40,00) | 10,00,00 |
| Total | 10,00,00 |

Schedule 14 - Other Income

| | | | <i>Year ended 31-3-20X1</i> |
|------|---|-----------|---------------------------------|
| I. | Commission, Exchange and Brokerage | 2,53,00 | 53,00 |
| II. | Profit on sale of investments Less : Loss on sale on investments | (2,00,00) | |
| III. | Miscellaneous Income | | 45,00 |
| | Rent and Other Receipts | | 98,00 |
| | Total | | |

Schedule 15 - Interest Expended

| | | <i>Year ended 31-3-20X1</i> |
|----|----------------------|---------------------------------|
| I. | Interest on Deposits | 79,50 |
| | Total | 79,50 |

Schedule 16 - Operating Expenses

| | | <i>Year ended 31-3-20X1</i> |
|------|--|---------------------------------|
| I. | Payments to and provisions for employees | 2,12,00 |
| II. | Rent, Taxes and Lighting | 1,20,00 |
| III. | Depreciation on Bank's property | 55,00 |
| IV. | Director's fees, allowances and expenses | 10,00 |
| V. | Auditor's fees and expenses | 50,00 |
| VI. | Postage, Telegrams, Telephones etc. | 12,50 |
| | Total | 4,59,50 |

SUMMARY

- Banks in India and their activities are regulated by the Banking Regulation Act, 1949.
- The book-keeping system of a banking company is substantially different from that of a trading or manufacturing enterprise. A bank maintains a large number of accounts of various types for its customers.
- Every bank should maintain a minimum capital adequacy ratio based on capital funds and risk assets.
- As per the prudential norms, all Indian scheduled commercial banks (excluding regional rural banks) as well as foreign banks operating in India are required to maintain capital adequacy ratio (or capital to Risk Weighted Assets Ratio) which is specified by RBI from time to time.
- Capital is divided into two tiers according to the characteristics/qualities of each qualifying instrument.
- Tier I capital consists mainly of share capital and disclosed reserves and it is a bank's highest quality capital because it is fully available to cover losses.
- Tier II capital on the other hand consists of certain reserves and certain types of subordinated debt.
- With reference to Bills, a banking company performs the following functions: Discounting of bills; Collection of bills; Acceptances on behalf of customers
- The banks have to classify their advances into four broad groups (i) standard assets, (ii) sub-standard assets, (iii) doubtful assets and (iv) loss assets.

- **Rates of Provisioning for Non-Performing Assets**

| Category of Advances | Revised Rate (%) |
|--|------------------|
| Standard Advances | |
| (a) direct advances to agricultural and SME | 0.25 |
| (b) advances to Commercial Real Estate (CRE) Sector | 1.00 |
| (c) all other loans and advances not included in (a) and (b) above | 0.40 |
| Sub-standard Advances | |
| (a) Secured Exposures | 15 |

- | | |
|--|----|
| (b) Unsecured Exposures | 25 |
| (c) Unsecured Exposures in respect of Infrastructure loan accounts where certain safeguards such as escrow accounts are available. | 20 |
- Doubtful Advances

| | |
|--|-----|
| (a) Unsecured Portion | 100 |
| (b) Secured Portion | |
| For Doubtful upto 1 year | 25 |
| For Doubtful > 1 year and upto 3 years | 40 |
| For Doubtful > 3 years | 100 |
| Loss Advances | 100 |
 - The secured value of an asset is the realizable value of its security and not its face value or book value.
 - The provisions on standard assets should not be reckoned for arriving at net NPAs.
 - While preparing financial statements, banks have to follow various guidelines / directions given by RBI/Government of India governing the Financial Statements.
 - The provisions towards Standard Assets need not be netted from gross advances but shown separately as 'Contingent Provisions against Standard Assets' under 'Other Liabilities and Provisions' in Schedule 5 of the balance sheet.

TEST YOUR KNOWLEDGE

MCQs

1. A banking company can pay dividend on its shares
 - (a) After writing off all its capitalized 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 capitalized expenses.
2. On 1.4.20X1 Bills for collection were ₹ 10,000. During 20X1-20X2 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 bills for collection (assets) account as on 31.3.20X2?
- (a) 25,000.
(b) 30,000.
(c) 35,000.
(d) None of the above.
3. Rebate on bill discounted is shown in the
- (a) Assets side of the balance sheet.
(b) Liabilities side of the balance sheet.
(c) Income side of the income statement.
(d) Expense side of the income statement.
4. Bills for collection are shown
- (a) On Assets side of the balance sheet.
(b) On liabilities side of the balance sheet.
(c) On the income side of the income statement.
(d) As note below the balance sheet.
5. What percentage of provision is required on standard assets?
- (a) 10
(b) 40
(c) 0.40
(d) 25.
6. As per the Banking Regulations 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.
7. When income is to be recognized 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.
8. For the year ended 31st March, 20X1 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.

Theoretical Questions

Question 1

Write short notes on Slip system of posting and double voucher system.

Question 2

What are the restrictions imposed by the Banking Regulations Act, 1949 on payment of dividend in case of banking companies?

Question 3

Write short note on Classification of investments by a banking company.

Question 4

Write short note on Non-Performing Assets.

Question 5

Write short note on Classification of advances in the case of a Banking Company.

Practical Problems

Question 1

From the following information find out the amount of provisions required to be made in the Profit & Loss Account of a commercial bank for the year ended 31st March, 20X1:

- (i) Packing credit outstanding from Food Processors ₹60 lakhs against which the bank holds securities worth ₹ 15 lakhs. 40% of the above advance is covered by ECGC. The above advance has remained doubtful for more than 3 years.
- (ii) Other advances:

| Assets classification | ₹ in lakhs |
|-----------------------|------------|
| Standard | 3,000 |
| Sub-standard | 2,200 |
| Doubtful : | |
| For one year | 900 |
| For two years | 600 |
| For three years | 400 |
| For more than 3 years | 300 |
| Loss assets | 600 |

Question 2

From the following information find out the amount of provisions to be shown in the Profit and Loss Account of a Commercial Bank:

| Assets | (₹ in lakhs) |
|--------------------------------|--------------|
| Standard | 4,000 |
| Sub-standard | 2,000 |
| Doubtful upto one year | 900 |
| Doubtful upto three years | 400 |
| Doubtful more than three years | 300 |
| Loss Assets | 500 |

Question 3

From the following information, compute the amount of provisions to be made in the Profit and Loss Account of a Commercial bank:

| | Assets | ₹ in lakhs |
|-------|--|------------|
| (i) | Standard (Value of security ₹ 6,000 lakhs) | 7,000 |
| (ii) | Sub-standard | 3,000 |
| (iii) | Doubtful | |
| | (a) Doubtful for less than one year (Realisable value of security ₹ 500 lakhs) | 1,000 |
| | (b) Doubtful for more than one year, but less than 3 years (Realisable value of security ₹ 300 lakhs) | 500 |
| | (c) Doubtful for more than 3 years (No security) | 300 |

Question 4

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

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

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

Question 5

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

| | ₹ in lacs |
|------------------|-----------|
| Current accounts | 700 |
| Saving accounts | 500 |

| | |
|------------------------------|-----|
| Fixed deposits | 700 |
| Cash credits | 600 |
| Term Loans | 500 |
| Bills discounted & purchased | 800 |

Additional information:

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

Question 6

The following figures are extracted from the books of KLM Bank Ltd. as on 31-03-20X2:

| | ₹ |
|------------------------------------|-----------|
| Interest and discount received | 38,00,160 |
| Interest paid on deposits | 22,95,360 |
| Issued and subscribed capital | 10,00,000 |
| Salaries and allowances | 2,50,000 |
| Directors Fees and allowances | 35,000 |
| Rent and taxes paid | 1,00,000 |
| Postage and telegrams | 65,340 |
| Statutory reserve fund | 8,00,000 |
| Commission, exchange and brokerage | 1,90,000 |
| Rent received | 72,000 |
| Profit on sale of investment | 2,25,800 |
| Depreciation on assets | 40,000 |
| Statutory expenses | 38,000 |
| Preliminary expenses | 30,000 |
| Auditor's fee | 12,000 |

The following further information is given:

- (1) A customer to whom a sum of ₹ 10 lakhs was advanced has become insolvent and it is expected only 55% can be recovered from his estate.
- (2) There was also other debts for which a provisions of ₹ 2,00,000 was found necessary.
- (3) Rebate on bill discounted on 31-03-20X1 was ₹ 15,000 and on 31-03-20X2 was ₹ 20,000.
- (4) Income tax of ₹ 2,00,000 is to be provided.

The directors desire to declare 5% dividend and transfer 25% of its profit to the reserve fund

Prepare the Profit and Loss account of KLM Bank Ltd. for the year ended 31-03-20X2 and also show, how the Profit and Loss account will appear in the Balance Sheet if the Profit and Loss account opening balance was NIL as on 31-03-20X1

ANSWERS/ HINTS

MCQs

1. (a), 2. (a), 3. (b), 4. (d), 5. (c), 6. (d),
7. (d), 8. (c),

Theoretical Questions

Answer 1

Slip system of posting: Under this system used in banking companies, entries in the personal ledgers are made directly from vouchers instead of being posted from the day book. Pay-in-slips (used by the customers at the time of making deposits) and the cheques are used as slips which form the basis of most of the transactions directly recorded in the accounts of customers. As the slips are mostly filled by the customers themselves, this system saves a lot of time and labour of the bank staff. The vouchers entered into different personal ledgers are summarised on summary sheets every day, totals of which are posted to the different control accounts which are maintained in the general ledger.

Double voucher system: In a bank, two vouchers are prepared for every transaction not involving cash—one debit voucher and another credit voucher. This system is called double voucher system. The vouchers are sent to different clerks

who make entries in books under their charge. This is designed to increase the quality of internal check.

Answer 2

Refer para 1.7 of unit 1

Answer 3

Refer para 4.4 of unit 4

Answer 4

Refer para 4.2 of unit 4

Answer 5

Refer para 4.2 of unit 4

Practical Problems

Answer 1

(i)

Packing Credit

| | (₹ in lakhs) | |
|--|--------------|------|
| Amount outstanding (packing credit) | 60 | |
| Less: Realisable value of securities | (15) | |
| | 45 | |
| Less: ECGC cover (40%) | (18) | |
| Balance being unsecured portion of packing credits | 27 | |
| Required provision : | | |
| Provision for unsecured portion (100%) | | 27.0 |
| Provision for secured portion (100%)* | | 15.0 |
| | | 42.0 |

(ii) Other advances:

| (₹ in lakhs) | | | |
|--------------|--------|-----------|-----------|
| Assets | Amount | % of | Provision |
| | | provision | |
| Standard | 3,000 | 0.40 | 12 |
| Sub-standard | 2,200 | 15 | 330 |

| | | | |
|---------------------------|-----|-----|------------|
| Doubtful : | | | |
| For one year | 900 | 25 | 225 |
| For two years | 600 | 40 | 240 |
| For three years | 400 | 40 | 160 |
| For more than three years | 300 | 100 | 300 |
| Loss | 600 | 100 | <u>600</u> |
| Required provision | | | 1,867 |

Note: Sub-standard and Doubtful advances have been assumed as fully secured. However, in case, the students assume that no security cover is available for these advances, provision will be made for @ 25% for sub-standard and 100% for doubtful advances.

Answer 2

Computation of provision in the Profit & Loss Account of the Commercial Bank:

| Assets | Amount (₹ in lakhs) | % of Provision | Provision (₹ in lakhs) |
|---------------------------------|------------------------|-------------------|---------------------------|
| Standard | 4,000 | 0.40 | 16 |
| Sub-standard* | 2,000 | 15 | 300 |
| Doubtful upto one year* | 900 | 25 | 225 |
| Doubtful upto three years* | 400 | 40 | 160 |
| Doubtful more than three years* | 300 | 100 | 300 |
| Loss | 500 | 100 | <u>500</u> |
| | | | <u>1,501</u> |

- * Sub-standard and doubtful assets are assumed as fully secured as it is logical for a commercial bank to cover itself by adequate security in the making of loans and advances in the ordinary course of business.

Answer 3**Statement showing Provisions on various performing and non-performing assets**

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

Answer 4**In the books of ABC Bank Ltd.
Journal Entries**

₹ in crores

| <i>Particulars</i> | | <i>Debit</i> | <i>Credit</i> |
|--|-----|--------------|---------------|
| Rebate on bills discounted A/c | Dr. | 40 | |
| To Discount on bills A/c | | | 40 |
| (Being the transfer of opening balance in 'Rebate on bills discounted A/c' to 'Discount on bills A/c') | | | |
| Bills purchased and discounted A/c | Dr. | 5,000 | |
| To Discount on bills A/c | | | 280 |
| To Clients A/c | | | 4,720 |

| | | | |
|--|-----|-----|-----|
| (Being the discounting of bills of exchange during the year) | | | |
| Discount on bills A/c | Dr. | 14 | |
| To Rebate on bills discounted A/c | | | 14 |
| (Being the unexpired portion of discount in respect of the discounted bills of exchange carried forward) | | | |
| Discount on bills A/c | Dr. | 306 | |
| To Profit and Loss A/c | | | 306 |
| (Being the amount of income for the year from discounting of bills of exchange transferred to Profit and loss A/c) | | | |

Working Notes:

- Discount received on the bills discounted during the year**
 $\text{₹ } 5,000 \text{ crores} \times 14/100 \times 146/365 = \text{₹ } 280 \text{ crores}$
- Calculation of rebate on bill discounted**
 $\text{₹ } 500 \text{ crores} \times 14/100 \times 73/365 = \text{₹ } 14 \text{ crores}$
- Income from bills discounted transferred to Profit and Loss A/c would be calculated by preparing Discount on bills A/c.

Discount on bills A/c

₹ in crores

| Date | Particulars | Amount | Date | Particulars | Amount |
|-----------|------------------------------------|------------|----------|-----------------------------------|------------|
| 31.3.2015 | To Rebate on bills discounted | 14 | 1.4.2014 | By Rebate on bills discounted b/d | 40 |
| " | To Profit and Loss A/c (Bal. Fig.) | <u>306</u> | 2014-15 | By Bills purchased and discounted | <u>280</u> |
| | | <u>320</u> | | | <u>320</u> |

Answer 5**Relevant Schedules (forming part of the Balance sheet) of DVD Bank****Schedule 3: Deposits**

| | ₹ in lacs |
|----------------------------------|--------------|
| A Demand deposits (700 – 250) | 450 |
| B Saving bank deposits | 500 |
| C Term deposits (Fixed Deposits) | <u>700</u> |
| | <u>1,650</u> |

Schedule 9: Advances

| | ₹ in lacs |
|--|--------------|
| A (i) Bills discounted and purchased | 800 |
| (ii) Cash credits and overdrafts (600 + 250) | 850 |
| (iii) Term loans | <u>500</u> |
| | <u>2,150</u> |
| B. (i) Secured by tangible assets (bal. fig.) | 1,730 |
| (ii) Secured by Bank/Government guarantees (500 x 60%) | 300 |
| (iii) Unsecured (600 x 20%) | <u>120</u> |
| | <u>2,150</u> |

Schedule 5: Other Liabilities & Provisions

| | ₹ in lacs |
|---------------------------------------|-----------|
| Others (Provision for doubtful debts) | 10 |

Profit and Loss Account (an extract)

| | ₹ in lacs |
|-------------------------------------|-----------|
| Less: Provision for doubtful debts* | 10 |

Note: The overdrawn extent in Current Accounts will be shown as Overdrafts.

***Note:** It is assumed that the cash credit has been in 'doubtful' category for more than three years, hence provision made at 100%.

Answer 6**KLM Bank Limited****Profit and Loss Account for the year ended 31st March, 20X2**

| | | <i>Schedule</i> | <i>Year ended 31.03.20X2</i> |
|------|--|-----------------|----------------------------------|
| | | | ₹ |
| I. | Income: | | |
| | Interest earned | 13 | 37,95,160 |
| | Other income | 14 | <u>4,87,800</u> |
| | Total | | <u>42,82,960</u> |
| II. | Expenditure | | |
| | Interest expended | 15 | 22,95,360 |
| | Operating expenses | 16 | 5,70,340 |
| | Provisions and contingencies (4,50,000+2,00,000+2,00,000) | | <u>8,50,000</u> |
| | Total | | <u>37,15,700</u> |
| III. | Profits/Losses | | |
| | Net profit for the year | | 5,67,260 |
| | Profit brought forward | | <u>Nil</u> |
| | | | <u>5,67,260</u> |
| IV. | Appropriations | | |
| | Transfer to statutory reserve (25% of 5,67,260) | | 1,41,815 |
| | Proposed dividend | | 50,000 |
| | Balance carried over to balance sheet | | <u>3,75,445</u> |
| | | | <u>5,67,260</u> |

Profit & Loss Account balance of ₹ 3,75,445 will appear under the head 'Reserves and Surplus' in Schedule 2 of the Balance Sheet.

| | | |
|---------------------------------|-------------------------------|--|
| <i>Year ended 31.3.20X2 (₹)</i> | | |
| | Schedule 13 – Interest Earned | |

| | | |
|----------------------------------|---|------------------|
| I. | Interest/discount on advances/bills (Refer W.N.) | <u>37,95,160</u> |
| | | <u>37,95,160</u> |
| Schedule 14 – Other Income | | |
| I. | Commission, exchange and brokerage | 1,90,000 |
| II. | Profit on sale of investment | 2,25,800 |
| III. | Rent received | <u>72,000</u> |
| | | <u>4,87,800</u> |
| Schedule 15 – Interest Expended | | |
| I. | Interests paid on deposits | <u>22,95,360</u> |
| | | <u>22,95,360</u> |
| Schedule 16 – Operating Expenses | | |
| I. | Payment to and provisions for employees (salaries & allowances) | 2,50,000 |
| II. | Rent, taxes paid | 1,00,000 |
| III. | Depreciation on assets | 40,000 |
| IV. | Director's fee, allowances and expenses | 35,000 |
| V. | Auditor's fee | 12,000 |
| VI. | Statutory (law) expenses | 38,000 |
| VII. | Postage and telegrams | 65,340 |
| VIII. | Preliminary expenses* | <u>30,000</u> |
| | | <u>5,70,340</u> |

Working Note:

| | ₹ |
|--|------------------|
| Interest and discount received | 38,00,160 |
| Add: Rebate on bills discounted on 31.3. 20X1 | 15,000 |
| Less: Rebate on bills discounted on 31.3. 20X2 | <u>(20,000)</u> |
| | <u>37,95,160</u> |

* It is assumed that preliminary expenses have been fully written off during the year.