FINAL ACCOUNTS OF BANKING COMPANIES

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INTRODUCTION

- Prior to 1949, banks were governed by the Indian Companies Act. But to safeguard interest of the depositors, Banking Regulation Act was passed in 1949 which regulated banking companies in banking matters.
- Final Accounts which are to be maintained by banking companies are given in the Banking Companies Act, 1949.
- Balance Sheet is given in Section 29 Form ‘A’.
- Profit and Loss Account is given in Section 29 Form ‘B’.

DEFINITION OF BANKING COMPANY (SECTION 5)

- There are three definitions given by the act and they are as follows:
- **As per section 5(b) :-** 'Banking' means the accepting for the purpose of lending or investment of deposits of money from public, repayable on demand or otherwise and withdrawable by cheque, draft, order or there wise.
- **As per section 5(d) :-** 'Company' means any company defined in section 3 of the companies act, 1956 and includes a foreign company within meaning of section 591 of that Act.
- **As per section 5(c):-**Banking Company means any company which transacts the business of banking in India.

LEGAL PROVISIONS

- The legal provisions are given in Section 6 of Banking Regulation Act, permits bank to carry on the following businesses in addition to its banking business:

1. Prohibition of Trading (Section 8)
2. Non- Banking Assets. (Section 9)
3. Management. (Section 10)
4. Minimum Capital and Reserves. (Section 11)
5. Capital Structure. (Section 12)

LEGAL PROVISIONS

6. Payment of Commission, Brokerage, etc. (Section 13)
7. Reserve Fund/ Statutory Reserve. (Section 17)
8. Cash Reserves (Section 18)
9. Liquidity Norms. (Section 24)
10. Restrictions on Loans and Advances.
11. Accounts and Audit.

MANAGEMENT

- These are following important terms which should be followed by banks and they are as follows:
- **Accounting Year**: On account of amended provisions of Income Tax Act, 1961 requiring every company its accounts on 31st March every year, w.e.f financial year ending 31st March 1989. A banking company also closes its accounts on 31st March every year. So our financial year is **1st April to 31st March**.
- **Control:** A banking companies work as per guidelines of RBI, so control is given to RBI i.e. Reserve Bank of India.
- **Non – Banking Assets:** A banking company may have to take possession of certain asset charged in its favor on account of the failure of debtor to repay loan on time. This is called as Non – Banking Assets it should be disposed within 7 years and profit or loss on sale of such assets should be shown separately.

MANAGEMENT

- **Reserve Fund / Statutory Reserve (Section 17):** Every banking company should create **at least 20% of reserve fund of its annual profit** which is to be disclosed in Profit and Loss Account prepared by Banking Company.
- **Cash Reserve (Section 18):** Every banking company, which is not a scheduled bank has to maintain **cash reserve of 3% of its total demand and time liabilities** in India as on last Friday of the second preceding fortnight. In India such as **cash, gold and unnumbered securities**, are also maintained which shall not be **less than 25% of its time and demand liabilities.** This is known as 'Statutory Liquidity Ratio' **RBI has a power to increase till 40%.**

MANAGEMENT

- Also with this the treatment should be given to the following terms also:
- Bad Debts and Provision for Bad and Doubtful Debts.
- Provision for Taxation.
- Rebate on Bills Discounted or Unexpired Discount.
- Branch Adjustment Account.
- Acceptances, Endorsements and Other Obligations.
- Bills for collection.
- Provisions and Contingencies.

PREPARATION OF BANK FINAL ACCOUNTS WITH THEIR SCHEDULES.

THE THIRD SCHEDULE

(See Section 29)

Form 'A'

Form of Balance Sheet

Balance Sheet of .....

(here enter name of Banking Company)

Balance Sheet as on 31st March (Year)

(000's omitted)

CAPITAL and LIABILITIES	**SCHEDULE**	**AS ON 31.3. ..... (CURRENT YEAR)**	**AS ON 31.3. ..... (PREVIOUS YEAR)**
Capital	1		
Reserve and Surplus	2		
Deposits	3		
Borrowings	4		
Other Liabilities and Provisions	5		
		.....	.....
	Total	.....	.....
ASSETS			
Cash and Balance with RBI	6		
Balances with Banks and Money at call and Short Notice	7		
Investments	8		
Advances	9		
Fixed Assets	10		
Other Assets	11		
		.....	.....
	Total	.....	.....
Contingent Liabilities	12		
Bills for collection			

SCHEDULES OF BALANCE SHEET

1. CAPITAL

As on 31st March _____

Particulars	**Amount**
I] For nationalized banks (Capital)	
Total	_____
II] For Banks incorporated outside India	
III] <u>For other Banks</u> Authorized Capital (Shares of Rs. each) Issued Capital (Shares of Rs. each) Subscribed Capital (Shares of Rs. each) Called – up – capital (Shares of Rs. each) Less: Calls Unpaid Add: Forfeited shares	
TOTAL	_____

2. RESERVES AND SURPLUS

As on 31st March ____

Particulars	Amount
I] Statutory Reserve Opening Balance Additions during the year Deductions during the year	
II] Capital Reserve 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 Reserve Opening Balance Additions during the year Deductions during the year	
V] Balance in Profit and Loss Account	
TOTAL [I+II+III+IV+V]	_____

3. DEPOSITS

As on 31st March ____

Particulars	Amount
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+III]	
B. I] Deposits of branches of India II] Deposits of branches Outside India	
TOTAL [I+II]	

4. BORROWINGS

As on 31st March _____

Particulars	Amount
I] Borrowings in India i) Reserve Bank of India ii) Other Banks iii) Other Institutes and Agencies	
TOTAL[i+ii+iii]	
II] Borrowings in Outside India	
TOTAL [I+II]	_____

5. OTHER LIABILITIES & PROVISIONS

As on 31st March ____

Particulars	Amount
Bills Payable Inter – Office Adjustments Others (including provisions)	
TOTAL	_____

6. CASH & BALANCES WITH RBI

As on 31st March _____

Particulars	**Amount**
I] Cash – in –Hand II] Balance with RBI i) In Current Account ii) In Other Account	
TOTAL [I+II]	**_____**

7. BALANCES WITH BANKS & MONEY AT CALL & SHORT NOTICE

As on 31st March _____

Particulars	**Amount**
I] **In India** i) Balances with Banks In Current Accounts In Other Deposits Accounts ii) Money at call and short notice	
TOTAL[i+ii]	
II] Outside India i) In Current Accounts ii) In Other Deposits Accounts iii) Money at call and short notice	
TOTAL[i+ii+iii]	
TOTAL [I+II]	

8. INVESTMENTS

As on 31st March _____

Particulars	Amount
I] Investment in India II] Investment in Outside India	
TOTAL [I + II]	

9. ADVANCES
As on 31st March ___

Particulars	Amount
A] i)Bills Purchased and Discounted ii)Cash, Credits, Overdrafts and Loans Payable iii)Term Loans	
TOTAL [i+ii+iii]	
B] i)Secured by Tangible Assets ii) Covered by Bank / Government Guarantees iii) Unsecured	
TOTAL [i+ii+iii]	
C] Public Sector Banks Others	
TOTAL	
D] Advances in Outside India	
TOTAL	
TOTAL [A+B+C+D]	_____

10. FIXED ASSETS

As on 31st March ____

Particulars	Amount
I] Premises At cost (as on 31st March) Additions during the year Deductions during the year Depreciation	
TOTAL	
II] Other Fixed Assets At cost (as on 31st March) Additions during the year Deductions during the year Depreciation	
TOTAL	
TOTAL [I+II]	_____

11. OTHER ASSSETS

As on 31st March ____

Particulars	Amount
Other Assets	
TOTAL	_____

12. CONTINGENT LIABILITIES

As on 31st March ___

Particulars	Amount
I. Claims against the bank not acknowledged as debts II. Liability for partly 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

for the year ended 31st March (Year)

	SCHEDULE	AS ON 31.3. ….. (CURRENT YEAR)	AS ON 31.3. …… (PREVIOUS YEAR)
I. INCOME			
Interest Earned	13		
Other Income	14		
		…….	…….
Total		…….	…….
II. EXPENDITURE			
Interest Expended	15		
Operating Expenses	16		
Provisions for Contingencies			
		……...	……...
Total		…….	……...
III. PROFIT / LOSS			
Net Profit / Loss (-) for the year			
Profit / Loss (-) bought forward			
		…….	…….
Total		…….	…….
IV. APPROPRIATIONS			
Transfer to statutory reserves			
Transfer to other sources			
Proposed dividend/ Balance Carried over to Balance Sheet			
		…….	…….
Total		…….	…….

SCHEDULES OF PROFIT & LOSS ACCOUNT

13. INTEREST EARNED

As on 31st March ____

Particulars	**Amount**
I. Interest / discount on advances / bills II. Income on Investments III. Interest on balances with RBI and Other Inter – Banks funds IV. Others	
TOTAL	_____

14. OTHER INCOME

As on 31st March ____

Particulars	Amount
I. Commission, Exchange, and Brokerage II. Profit 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 of transactions Less: Loss on exchange of 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 figure may be shown in brackets

15. INTEREST EXPENDED

As on 31st March _____

Particulars	**Amount**
I. Interest on deposits II. Interest on Reserve Bank of India/ Inter – Bank Borrowings III. Others	
TOTAL	

16. OPERATING EXPENSES

As on 31st March _____

Particulars	Amount
I. Payments to and provisions for employees II. Rent, Taxes and Lighting III. Printing and Stationery IV. Advertisement and Publicity V. Depreciation on Banks Property VI. Directors fees, allowances and expenses VII. Auditor's fees and expenses (including branch auditors) VIII. Law charges IX. Postage, telegrams, telephones, etc. X. Repairs and Maintenance XI. Insurance XII. Other Expenditure	
TOTAL	

SOLVED EXAMPLE

- The following is the Trial Balance of Poona City Bank Ltd. as on 31st December 2015.

Particulars	Debit Rs.	Credit Rs.
Share Capital (3,000 share of Rs.10 each)		3,00,000
Statutory Reserve		4,00,000
Deposits- Fixed Saving Current		2,78,000 4,50,000 3,74,000
Cash in hand	2,90,000	
Cash with RBI	4,20,000	
Interest and discount		3,00,000
Commission and Brokerage		50,000
Interest on Fixed Deposit	30,000	
Interest on Saving Deposit	20,000	
Interest on Current Deposit	12,500	
Salaries (including Rs.12,000 to Manager)	1,31,000	
Rent, Insurance and Taxes	4,000	
Postage and Telegrams	900	
Printing and Stationery	7,000	

Audit Fees	4,000	
Depreciation	3,300	
Investment on shares	84,000	
Loans, Cash credit and Overdrafts	4,90,000	
Bills discounted and Purchased	1,80,000	
Government Bonds	1,60,000	
Furniture	40,000	
Premises	3,00,000	
Branch Adjustment Account		24,700
	21,76,700	21,76,700

Additional Information:

1. Rebate on Bills discounted Rs.27,000.
2. Create RDD of Rs.11,000.
3. Acceptances on behalf of customers Rs.80,000.

You are required to prepare Profit and Loss Account for the year ended 31st December 2015 and Balance Sheet as on that date.

- Solution:

1. CAPITAL

As on 31st March 2015

Particulars	Amount
Share Capital (30,000 shares ×Rs.10 each)	3,00,000
TOTAL	3,00,000

2. RESERVES & SURPLUS

As on 31st March 2015

Particulars		Amount
Statutory Reserve		
Opening Balance	4,00,000	
Additions during the year	19,860	4,19,860
Balance in P&L Appropriation A/c (Surplus)		79,440
TOTAL		4,99,300

3. DEPOSITS

As on 31st March 2015

Particulars	Amount
Fixed Deposit	2,78,000
Savings Deposit	4,50,000
Current Deposit	3,74,000
TOTAL	11,02,000

4. BORROWINGS

As on 31st March 2015

Particulars	Amount
TOTAL	NIL

5. OTHER LIABILITIES & PROVISIONS

As on 31st March 2015

Particulars	Amount
Rebate on Bills discounted	27,000
Branch Adjustment Account	24,700
TOTAL	51,700

6. CASH & BALANCES WITH RBI

As on 31st March 2015

Particulars	Amount
Cash in Hand	2,90,000
Cash with RBI	4,20,000
TOTAL	7,10,000

7. BALANCES WITH BANKS & MONEY AT CALL & SHORT NOTICE

As on 31st March 2015

Particulars	Amount
TOTAL	NIL

8. INVESTMENTS

As on 31st March 2015

Particulars	Amount
Investment in shares	84,000
Government bonds	1,80,000
TOTAL	2,64,000

9. ADVANCES

As on 31st March 2015

Particulars	Amount
Loans, Cash credit and Overdraft	4,90,000
Bills Discounted and Purchased	1,60,000
Total	6,50,000
Less: R.D.D	11,000
TOTAL	6,39,000

10. FIXED ASSETS

As on 31st March 2015

Particulars	Amount
Furniture	40,000
Premises	3,00,000
TOTAL	3,40,000

11. OTHER ASSETS

As on 31st March 2015

Particulars	Amount
TOTAL	NIL

12. CONTINGENT LIABILITIES

As on 31st March 2015

Particulars	Amount
Acceptances on behalf of customers	80,000
TOTAL	80,000

13. INTEREST EARNED

As on 31st March 2015

Particulars		Amount
Interest and Discount	3,00,000	
Less: Rebate on bills discounted	27,000	2,73,000
TOTAL		2,73,000

14. OTHER INCOME

As on 31st March 2015

Particulars	Amount
Commission and Exchange	50,000
TOTAL	50,000

15. INTEREST EXPENDED

As on 31st March 2015

Particulars	Amount
Interest on Fixed Deposit	30,000
Interest on Saving Deposit	20,000
Interest on Current Deposit	12,500
TOTAL	62,500

16. OPERATING EXPENSES

As on 31st March 2015

Particulars	Amount
Salaries (including Rs.12,000 to Manager)	1,31,000
Rent, Insurance and Taxes	4,000
Postage and Telegram	900
Printing and Stationery	7,000
Audit Fees	4,000
Depreciation	3,300
TOTAL	1,50,200
Provision and contingency	
R.D.D	11,000

Poona City Bank Ltd.

STATEMENT OF PROFIT AND LOSS ACCOUNT

for the year ended 31st March 2015.

Particulars	Schedule No.	Amount
I] INCOME		
Interest Earned	13	2,73,000
Other Income	14	50,000
Total		3,23,000
II] EXPENDITURE		
Interest Expended	15	62,500
Operating Expenses	16	1,50,200
Provision and contingency		11,000
Total		2,23,700
III] PROFIT / LOSS		
Net Profit for the year		99,300
Total		99,300
IV] APPROPRIATIONS		
Transfer to Reserve Fund (20% of Profit)		19,860
Balance carried over to Balance Sheet		79,440
Total		99,300

STATEMENT OF BALANCE SHEET

Balance Sheet of: Poona City Bank Ltd

Balance Sheet as on 31st March 2015

CAPITAL AND LIABILITIES	SCHEDULE NO.	AMOUNT
Capital	1	3,00,000
Reserves and Surplus	2	4,99,300
Deposits	3	11,02,000
Borrowings	4	-
Other Liabilities and Provisions	5	51,700
Total		19,53,000
ASSETS		
Cash and Balance with RBI	6	7,10,000
Balances with Banks & Money at call & Short Notice	7	-
Investments	8	2,64,000
Advances	9	6,39,000
Fixed Assets	10	3,40,000
Other Assets	11	-
Total		19,53,000
Contingent Liabilities	12	80,000

THANK YOU