

B.Com. T.Y. V-Sem.

***ACCOUNTS OF BANKING
COMPANIES***

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ADVANCES :-

Advances appear on the Assets side as fourth head and include loans , cash credits , bank overdrafts and bills discounted and purchased . Banks generally advance money to their customers in the form of loans , cash credits , overdrafts and purchasing and discounting of bills .

PROVISIONS IN RESPECT OF DOUBTFUL ADVANCES ARE DEDUCTED FROM ADVANCES TO THE EXTENT NECESSARY AND THE EXCESS PROVISION FOR DOUBTFUL DEBTS IS INCLUDED UNDER “ OTHER LIABILITIES AND PROVISIONS” .

CASH CREDIT :-

It is an arrangement by which the customer is granted the right to borrow money from time to time upto a certain limit . Cash credit is usually given on hypothecation or pledge of stock . The bank usually charges a higher bank interest on the actual amount withdrawn than that charged on loan because the bank has to keep the amount allowed as cash credit .

OVERDRAFT :-

This facility is available to a customer who operates a current account with the bank . This facility is granted to customers who have high goodwill and need for honest dealings .

LOAN :-

Loan is advance of fixed amount to a customer to be withdrawn in lump sum by him . Interest is charged on the total amount of the loan agreed to be paid to a customer whether he uses the full amount of the loan or not . So , customers prefer to take cash credit and pay interest at a little higher rate .

DISCOUNTING OF BILLS :-

Discounting of a bill means making the payment of the bill before the maturity date of the bill . While making payment of the bill , the bank deducts the discount for the unexpired period for the amount of the bill discounted . The bank keeps the bill with it till the maturity date and get its payment for the customer on the due date.

PURCHASING AND DISCOUNTING OF BILLS :-

The bank may purchase or discount clean or documentary bills at the current rate of interest .

NON-BANKING ASSETS :-

A banking company is not allowed to deal directly or indirectly in the purchase or sale or barter of goods except in connection with its legitimate banking business . But a bank can always lend against the security of assets . The bank may have to take possession of the asset given as a security if the loanee fails to repay the loan .

REBATE ON BILLS DISCOUNTED OR UNEXPIRED DISCOUNTS :-

This item is like interest received in advance and represents unearned discounts for those bills which will mature after the closing of the financial accounts .

JOURNAL ENTERIES FOR REBATE ON BILLS DISCOUNTED .

PARTICULARS	Dr. AMT	Cr. AMT
<i>Rebate on bill discounted a/c Dr</i> <i> To discount earned</i>		
<i>Discount earned a/c Dr</i> <i> To P/L a/c</i>		

EXAMPLE

Ques . From the following trial balance of Excellent Bank Ltd. Prepare the balance sheet and P/L a/c making all the necessary provisions . You are required to provide the following :

- 1. Provision for taxation* *Rs 10,00,000*
- 2. Transfer to dividend Equalisation reserve*
Rs 3,00,000

Trial balance as on 31-3-2008

Particulars	amt .	Particulars	amt .
	(Rs. '000')		(Rs. '000')
Current deposits	45200	investment in govt. securities	45200
Saving bank deposits	14520	investment in shares	4700
Term deposits	37180	interest accrued on invest.	875
Sundry creditors a/c	1455	loans	43800
Debts due to banks secured by		bills purchased and discounted	33100
Investments	12200	furniture , fixtures and	
Rebate on bills discounted	15	equipment – depreciation	500
Branch adjustment (cr.)	4555	interest paid	1200
Statutory fund	10000	exchange and commission paid	100
Dividend Equalisation fund	2500	payment to employees	2400
Capital 2,00,000 shares of Rs.		Directors fees	100
100 each , Rs. 50 per share		printing and stationery	400
Paid up	10000	miscellaneous expenses	300
Interest and discount received	5800	furniture and fixture	1000
Exchange and commission	1700	premises	3000
General charges recovered	55	money at call and short notice	1500
P/L A/c bal. as on 1-4-2007	852	property acquired in satisfaction	
		of claims	50
cash in hand	438	cash with banks	6869

Additional information :-

Current accounts included ₹. 88,00,000 (debit balance) being overdrafts. One of the accounts ₹. 95,000 including ₹. 7,000 as interest for 2007-2008 is doubtful. During the year, property acquired in 2005 in satisfaction of defaulted debt of ₹. 25,000 was sold for ₹. 18,000. The amount of ₹. 18,000 was credited to the account no further adjustments having been made. Bills for collection with the bank are of ₹. 22,10,000.

Acceptances, endorsements and guarantees of the bank are ₹. 11,68,000.

**Profit and Loss a/c of excellent bank ltd .
for the year ended 31st march , 2008**

PARTICULARS	S.NO.	AMOUNT
INCOME :-		
INTEREST EARNED	13	5800
OTHER INCOME	14	1755
TOTAL		7555
EXPENDITURE:-'		
INTEREST EXPANDED	15	1300
OPERATING EXPENSES	16	3707
PROVISIONS & CONTINGENCIES		1095
TOTAL		6102
NET PROFIT = 1453		

PROFIT AND LOSS APPROPRIATION ACCOUNT

PARTICULARS	AMT.
NET PROFIT	1453
PROFIT OF LAST YEAR	852
TOTAL	<hr/> 2,305 <hr/>
STATUTORY RESERVE (25% OF 1453)	363
TRANSFER TO DIV. EQUILI. RESRVE	300
PROPASED DIVIDEND	1000
BALANCE CARRIED TO B/S	642
TOTAL	<hr/> 2305 <hr/>

BALANCE SHEET AS ON 31ST MARCH 2008

PARTICULARS	S.NO.	AMT
CAPITAL	1	10,000
RESERVE AND SURPLUS	2	13805
DEPOSITS	3	105700
BORROWINGS	4	12200
OTHER LIABILITIES AND PROVISIONS	5	7120
TOTAL		148825
CASH AND BANK BALANCE WITH RBI	6	438
BALANCE WITH BANKS AND MONEY AT CALL	7	8369
INVESTMENTS	8	49900
ADVANCES	9	85700
FIXED ASSTS	10	3500
OTHER ASSETS	11	918
TOTAL		148825
CONTINGENT LIABILITIES		3378