

Chapter 4

Financial Statements of Banking Companies

Question 1

In X Bank Ltd., the doubtful assets (more than 3 years) as on 31.3.2007 is Rs.1,000 lakhs. The value of security (including DICGC 100% cover of Rs.100 lakhs) is ascertained at Rs.500 lakhs. How much provision must be made in the books of the Bank towards doubtful assets?

(2 Marks) (May, 2007)

Answer

	(Rs. in lakhs)
Doubtful Assets (more than 3 years)	1,000
Less: Value of security (excluding DICGC cover)	<u>400</u>
	600
Less: DICGC cover	<u>100</u>
Unsecured portion	<u>500</u>
Provision:	
for unsecured portion @100%	500 lakhs
for secured portion @ 100% w.e.f 31.3.2007	<u>400 lakhs</u>
Total provision to be made	<u>900 lakhs</u>

Question 2

The following information is available in the books of X Bank Limited as on 31st March, 2007:

	Rs.
<i>Bills discounted</i>	1,37,05,000
<i>Rebate on Bills discounted (as on 1.4.2006)</i>	2,21,600
<i>Discount received</i>	10,56,650

Details of bills discounted are as follows:

Value of bill (Rs.)	Due date	Rate of Discount
18,25,000	5.6.2007	12%
50,00,000	12.6.2007	12%
28,20,000	25.6.2007	14%
40,60,000	6.7.2007	16%

Calculate the rebate on bills discounted as on 31.3.2007 and give necessary journal entries.

(8 Marks) (November, 2007)

Answer**Statement showing rebate on bills discounted**

Value	Due Date	Days after 31.3.2007	Rate of discount	Discount Amount
18,25,000	5.6.2007	(30+ 31+5) = 66	12%	39,600
50,00,000	12.6.2007	(30+31+12) = 73	12%	1,20,000
28,20,000	25.6.2007	(30+31+25) = 86	14%	93,021
<u>40,60,000</u>	6.7.2007	(30+ 31+ 30+ 6) = 97	16%	<u>1,72,633</u>
<u>1,37,05,000</u>	Rebate on bills discounted on 31.3.2007			<u>4,25,254</u>

In the books of X Bank Ltd.**Journal Entries**

(i) Rebate on bills discounted Account Dr. 2,21,600
 To Discount on bills Account 2,21,600
 [Being opening balance of rebate on bills discounted account transferred to discount on bills account]

(ii) Discount on bills Account Dr. 4,25,254
 To Rebate on bills discounted Account 4,25,254
 [Being provision made on 31st March, 2007]

(iii) Discount on bills Account Dr. 8,52,996
 To Profit and loss Account 8,52,996
 [Being transfer of discount on bills, of the year, to profit and loss account]

Credit to Profit and Loss A/c will be as follows: 10,56,650 + 2,21,600 – 4,25,254 = Rs.8,52,996

Question 3

What is the percentage of NPA provision to be made by banks in respect of fully secured doubtful advances of more than 3 years old?

(2 Marks) (November, 2007)

Answer

In case of Banking Companies, 100% NPA provision is made in respect of fully secured doubtful advances of more than 3 years. This provision is made irrespective of whether the advance is fully / partly secured or unsecured. However, in the case of government guaranteed advances this rate of provision will not apply.

Question 4

A loan outstanding of Rs.50,00,000 has DICGC cover. The loan guaranteed by DICGC is assigned a risk weight of 50%. What is the value of Risk-adjusted asset?

(2 Marks) (May, 2008)

Answer

Loan outstanding	Rs.50,00,000
Guaranteed by DICGC – Risk weight	50%
Value of risk adjusted asset $\text{Rs.50,00,000} \times 50\% =$	Rs.25,00,000

Question 5

In X Bank Ltd., the doubtful asset (more than 3 years) as on 31.3.2008 is Rs.1,000 lakhs. The value of security (including DICGC 100% cover of Rs.100 lakhs) is ascertained at Rs.500 lakhs. How much provision must be made in the books of the Bank towards doubtful assets?

(2 Marks) (November, 2008)

Answer

	<i>(Rs. in lakhs)</i>
Doubtful Assets (more than 3 years)	1,000
Less: Value of security (excluding DICGC cover)	<u>400</u>
	600
Less: 100% DICGC cover of Rs.100 lakhs	<u>100</u>
Unsecured portion	<u>500</u>
Provision thereon:	
for unsecured portion @ 100%	500 lakhs
for secured portion @ 100% w.e.f 31.3.2007	<u>400 lakhs</u>
Total provision to be made	<u>900 lakhs</u>

Question 6

From the following information of Great Bank Limited, compute the provisions to be made in the Profit and Loss account:

	<i>Rs. in lakhs</i>
<i>Assets</i>	
<i>Standard</i>	20,000
<i>Substandard</i>	16,000
<i>Doubtful</i>	
<i>For one year (secured)</i>	6,000
<i>For two years and three years (secured)</i>	4,000
<i>For more than three years (secured by mortgage of plant and machinery Rs.600 lakhs)</i>	2,000
<i>Non-recoverable Assets</i>	1,500

(4 Marks) (November, 2008)

Answer

Calculation of amount of provision to be made in the Profit and Loss Account

<i>Classification of Assets</i>	<i>Amount of advances (Rs. in lakhs)</i>	<i>% age of provision %</i>	<i>Amount of provision (Rs. in lakhs)</i>
Standard assets	20,000	0.40	80
Sub-standard assets	16,000	10*	1,600
Doubtful assets:			
For one year (secured)	6,000	20	1,200
For two to three years (secured)	4,000	30	1,200
For more than three years (unsecured)	1,400	100	1,400
(secured)	600	100	600
Non-recoverable assets (Loss assets)	1,500	100	<u>1,500</u>
Total provision required			<u>7,580</u>

Question 7

Find out the income to be recognised in the case of X Bank Ltd. for the year ended 31st March, 2009:

			(Rs. in lakhs)	
	Performing Assets		Non-performing Assets	
	Interest accrued	Interest received	Interest accrued	Interest received
Term loans	240	160	150	10
Cash credits and overdrafts	1,500	1,240	300	24

(2 Marks) (November, 2009)

Answer

Calculation of interest income of X Bank Ltd. to be recognised for the year ended 31.3.2009

	(Rs. in lacs)	
Term Loans		
Interest accrued on Performing Assets	240	
Interest received on Non - Performing Assets	<u>10</u>	250
Cash credit and overdraft		
Interest accrued on Performing Assets	1,500	
Interest received on Non - Performing Assets	<u>24</u>	<u>1,524</u>
Total interest to be recognised		<u>1,774</u>

* Sub-standards assets have been assumed as fully secured.