Module-B

JAIIB PAPER-3 (AFM)

Financial Statements and Core Banking Systems

JAIIB AFM Module B: Financial Statements and Core Banking Systems

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JAIIB AFM Module B Unit -1 Balance Sheet Equation

Balance Sheet Equation

An Accounting Equation is also called the Balance Sheet Equation. We all know that we record all the business transactions using the Dual Aspect concept. This means that each debit has an equal credit and vice-versa.

- **Capital:** It means the amount which the owner of business has invested in the firm and can claim from the firm.
- **Liability:** It means the amount which the firm owes to outsiders. Long term liabilities are those liabilities which are payable after a long term. Current liabilities are those liabilities which are payable in near future (generally within one year).
- **Asset:** Assets are things of value owned. Fixed assets are those assets which are purchased for the purpose of operating the business but not for resale, e.g. Land, building, Plant and Machinery, etc. Current assets are those assets which are kept for short term for converting into cash or for resale, e.g, unsold goods, debtors, cash, bank balance, etc.

Assets = Liabilities + Capital (Owner's Equity)

Liabilities = Assets- Capital or Capital = Assets – Liabilities

Example:

ABC starts the food truck. He puts ₹ 50,000 as a capital fund. He further loans ₹ 25,000 from a local credit vendor. Now, he has a total of ₹ 75,000, he then purchases a fully furnished truck for ₹ 45,000.

Below is the ABC balance sheet for December 2017.

Balance Sheet December 31, 2017			
Assets		**Liabilities**	
Cash	30,000	Loan from credit union	25,000
Food truck	45,000	Owner's equity	50,000
Total assets	**75,000**	**Total Liabilities and Owner's equity**	**75,000**

Computation Of Balance Sheet Equation

If there is any change in the amount of the assets or the liabilities, the owners' claim or the capital is bound to change correspondingly. If assets increase and liabilities do not, the capital will increase; a reduction in the amount of assets or an increase in the amount of liabilities will mean a reduction in the amount of capital. Such balance sheet equations will be clearer by the various transactions given below:

Assets		*Capital + Liabilities*
Cash		
Bank		Capital + reserves and surplus
Bills Receivable		Creditors
Debtors		Bills payable
Stock in trade	=	Outstanding expenses
Furniture		Bank Overdraft
Machinery		
Building		

1. He commences his business with ₹ 20,000 as capital.

This means that the firm has assets totalling ₹ 20,000 in the form of cash and claims against the firm are also ₹ 20,000 in the form of capital. The balance sheet stands as follows:

Balance Sheet 1

Liabilities	₹	Assets	₹
R's Capital	20,000	Cash	20,000

2. The business purchased a machinery of ₹ 1,000. The effect of this transaction is that amount of cash in hand is lower by ₹ 1,000, but a new asset (machinery) has been acquired leaving the total assets unchanged. The balance sheet after this transaction will appear as follows:

Balance Sheet 2

Liabilities	₹	Assets	₹
R's Capital	20,000	Cash (20,000 – 1,000)	19,000
		Machinery (0 + 1,000)	1,000
Total	20,000	Total	20,000

3. The business purchases goods for ₹ 2,000 for cash.

The effect of this transaction is that amount of cash in hand is lower by ₹ 2,000, but a new asset (stock of goods) has been acquired leaving the total assets unchanged. The balance sheet after this transaction will appear as follows:

Balance Sheet 3

Liabilities	₹	Assets	₹
R's Capital	20,000	Cash (19,000 – 2,000)	17 ,000
		Machinery (1,000 + 0)	1,000
		Goods (0 + 2,000)	2,000
Total	20,000	Total	20,000

4. The business purchases goods for ₹ 5,000 on credit. Because of this transaction, the stock of goods increased by ₹ 5,000 making the total assets ₹ 25,000. Now ₹ 5,000 is payable to the supplier of goods (creditor).

The balance sheet after this transaction will appear as follows:

Balance Sheet 4

Liabilities	₹	Assets	₹
R's Capital	20,000	Cash (17,000 – 0)	17,000
Creditor (0 + 5,000)	5,000	Machinery (1,000 + 0)	1,000
		Goods (2,000 + 5,000)	7,000
Total	25,000	Total	25,000

JAIIB AFM Module B Unit 2- Preparation of Final Accounts

Preparation of Trial Balance

The first step in the preparation of final accounts is the preparation of trial balance. So it is absolutely essential that we prepare the trial balance perfectly, so our **final accounts do not contain any errors.** Let us learn more about the methods and procedures of preparation of trial balance.

Trial Balance

A trial balance is a bookkeeping worksheet-like account that **reflects all the credit and debit balances of all the ledger accounts.** Once we prepare this statement, we can prepare the final accounts of the company on the basis of this trial balance.

One other important use of the trial balance is that it can determine the arithmetic accuracy of the accounts. So if both columns of the trial balance tally, we can be reasonably assured of the accuracy of the accounts. It does not ensure that the accounts are free of all errors but it can at least establish mathematical accuracy.

Trial Balance (ABC Trading as at 30 June 2018)

General ledger A/C	Dr. Debit	Cr. Credit
Cash at bank	10000	
Inventory	40000	
Vehicles	30000	
Fixtures and Fitting	32000	
Accounts Receivable	15000	
Credit card Payment		12000
Account payable		15000
Bank Loan		50000
Sales		175,000
Purchases	60,000	
Advertising	5000	
Wages	65000	
Rent	15000	
Electricity	5000	
Owner Capital		25000
Total	277,000	277,000

Adjustment Entries

An accountant or a bookkeeper makes adjustment entries either before preparation of trial balance or after preparation of trial balance.

Usually, adjustment entries are made after preparation of trial balance. In a case when he makes the adjustment entries after preparation of trial balance, he needs to treat each of the adjustment twice while preparing trading and profit and loss account and balance sheet.

In case adjustment entries made before preparation of trial balance, such adjustment appears in the trial balance. Also, such adjustments appear only once in the preparation of final accounts.

Adjustment Entries Relating to Income and Expendure

Some of the expenses may have been incurred but not paid: For example- Salary for the month of March has been incurred during the month but will be paid in April. For this, adjusting entries, will be passed in the ledger by debit to charges (salary) account and credit to "Salary payable" account.

Some of the expenses may have been paid in advance but not incurred: If a payment has been made in advance i.e. it does not pertain to the accounting period in question, it is not treated as an expense, and the person who received the amount is treated as a debtor.

Some income may have accrued but not received: For example, interest accrued on a fixed deposit with the bank which will be paid by the bank on maturity along with the principal. For accounting the interest income, credit 'Interest income' 'account and debit' 'interest receivable' account.

Some incomes may have been received but not accrued: If an income has been received but not accrued, it should not be accounted for. For example, advance payment of rent by a tenant. This should not be taken into account. Therefore, rent account should be debited and 'Advance rent Received' account should be debited.

Preparation of Financial Statements from Trial Balance

If we have recorded all the transactions, their arithmetical accuracy has been checked by the trial balance and the required adjusting entries have been made, we should be able to find out the results of the operations during the accounting period (day year) and also know the financial position of the business at the close the year.

This is done through preparing the Profit and loss account and the Balance sheet (Both these are called the financial statements).

Entries Relating to Depreciation of Fixed Assets

Before we can start preparing the financial statements, it is important to pass entries for depreciation to include it in the records as an expense.

Entries Relating to closing stocks

Every sales transaction results in reduction in available stocks and every purchase transaction increases the stocks available in the godown. However, the entries passed in the ledger, do not affect the stocks account:

Example-

Purchase of goods worth Rs 2000 results in the following postings in the ledger-

Dr. Purchase A/C Rs. 2000

Cr. Cash A/c Rs. 2000

Similarly, sales of goods for Rs. 500 result in the following posting in the ledger-

Dr. Cash A/c Rs. 5000

Cr. Sales A/c Rs 5000

As no entry is passed in the stocks account during the year, the balance in it remains the same as in the beginning of the year, i.e. the opening balance of the stock (this is a debit balance and is shown in the balance sheet of the last year as closing stock)

As we will see in our discussion in the **P/L account, the Profit= sales- (purchases+ opening stock-closing stock+ expenses)**

In the above formula, all items, except the closing stock, are available from the ledger. As the amount of the closing stock in not available from the ledger, we will have to actually verify the available stock at the close of the year and value it. This is called 'Inventory Valuation' and has its impact on the Profit of loss of the firm during that year.

Entries Relating to other items

Other adjustments pertain to provision for bad and doubtful debts, writing off part fictitious assets like preliminary expanses etc. provisioning for contingent events etc.

Preparation of Profit and loss account

Closing Entries

At the end of each accounting period, al; the income and expenses accounts should be closed by transferring the balance to the P & L account. The entries passed for this purpose are called Closing Entries.

Example: If the salary account is showing the debit balance of Rs 300000 a credit entry 'By transfer to P&L account will be posted in this account and debit entry will be posted to P & L account. Thus balance in the salary account will become Nill.

Trading Account

This is not a necessary step for preparation of the P & L account but many accountants prefer to prepare it. It forms part of the P & L account. A trading account takes into account only the direct costs associated with the materials in which the firm is dealing. The operating costs are not included. This means that we calculate the '**Cost of Goods Sold'** and subtract it from the Revenue to arrive at what is **called 'Gross Profit'**. It is important to note here that under 'Cost of Goods Sold', we calculate the cost of only those goods which are sold and not the cost of entire goods purchased. If we have only purchased the goods during a year and not sold anything, there will be no cost associated with selling of goods as the purchase resulted in only increasing the inventory (**Closing stock).**

Cost of Goods Sold= (purchases + opening stock)- closing stock + expenses

Preparation of Profit and Loss account

There are prescribed formats for preparing Profit and loss accounts for all the companies in India. Such form is either provided in the Companies Act 2013 or the Banking Regulation Act or some other Act for specific types of companies. However, for other business entities, there is no prescribed format, Traditionally, all the formats used put sales and other incomes on the credit side and all the expenses on the debit side and arrive at the profit figure. This is achieved by passing the closing entries in respect of all the earnings and expenses accounts in the General Ledger so that the balances in all the remaining accounts in the GL, form the balance sheet, discussed in the next paragraphs. A typical format of a P & L account may be as under if the practice of preparation a Trading account is followed:

Profit and Account of ……..

For the year ending …..2019…..

To salary	……….	By Gross profit carried over From Trading a/c	………………
To electricity charges	…………	Gross Loss	………………
To conveyance charges	……………..		
To depreciation			
To office charges	……………		
To other charges	…………..		
To Taxes			
Net Profit	…………..		

If the practice of preparing the Trading account is not followed, the format may look as under.

Profit and loss Account of …………

For the year ending …….2019……

To opening stock	…………..	By sales	………..
To purchases	………. …………	Less returns	…………
Less returns	……….	By closing stock	………..

To carriage inwards	…………	Gross loss	……….
To cartage	………..		
To dock charges	…………		
To Wages	………..		
To duty	…………		
To Freight	………..		
To clearing charges	………..		
To salary	……….		
To electricity			
To telephone charges			
To conveyance charges			
To office charges	……….		
To other charges	……….		
To taxes			
Net Profit	…………		

Profit and loss Appropriation account

Net profit, as arrived at in the P&L A/c, is utilized by the company, **for providing dividend, dividend distribution tax, adjustments to income tax and transfer to reserves etc**. This is done through the profit and loss Appropriation account.

Profit and loss Appropriation account is different from profit and loss account and is normally **put before the net profit figure in the same statement**. The net profit is transferred to the credit side of profit and loss appropriation account. Profit and loss account shows only the net profit or net loss from operations of business while the profit and loss appropriation accounts shows all non- operational adjustment.

A typical format of this account is given below. The items included may vary from company to company.

Particulars	Amount	Particulars	Amount
To transfer to reserves	…………..	By last year's balance brought down	…………..
To debenture redemption reserve	…………..	By net profit of the year brought down	…………..

To additional income tax provision for earlier year	....	By excess income tax provision of earlier years	....
To interim dividend	....		
To dividend/ Proposed dividend	....		
To surplus carried over to the balance sheet	....		
Total	....	Total	....

Preparation of Balance Sheet

Below are the steps mentioned to prepare a balance sheet.

Compose a trial balance- It is a regular report included in any accounting programme. If it is a manual mode, then create a trial balance by transferring every general ledger account's ending balance to a spreadsheet.

Arrange the trial balance- It is important to arrange the initial trial balance to assure that the balance sheet similar to the relevant accounting structure. While using adjusting entries to adjust the trial balance all the entry should be completely recorded so the auditors can understand why it was made.

Discard all expense and revenue accounts- The trial balance includes expenses, revenue, losses, gains, liabilities, equity, and assets. Delete all from the trial balance except equity, liabilities, and assets. However, the deleted accounts are used to create an income statement.

Calculate the remaining accounts- In this stage, sum up all the trial balance account used to create a balance sheet. The typical line items used in the balance sheet are:

- Cash
- Accounts receivable
- Inventory
- Fixed assets
- Other assets
- Accounts payable
- Accrued liabilities
- Debt
- Other liabilities
- Common stock

- Retained earnings

Validate the balance sheet- The total for all assets recorded in the balance sheet should be similar to the liabilities and stockholders' equity accounts.

Present in the required balance sheet format

Liabilities	Amount	Asset	Amount
Capital	………………	Fixed Asset-land, Bldg	…………
Loan Taken	…………….	Current Assets	………..
Current Liabilities	……………..	Cash/Bank B/s	…………
Outstanding Expenses	………………	Accounts Receivable (Debtors)	…………
Bank Overdraft	…………...	Bills Receivable	………..
Account Payable (Creditors)	……………	Inventories (stock)	………..
	XYZ		**XYZ**

JAIIB AFM Module B Unit 3- Company Accounts-1

Company

A company is an association of persons who contribute money or money's worth to a common stock and uses it for a common purpose. It is created by law and effected by law. It is a legal person just as much as much as an individual but with no physical existence.

Section 20 of the Companies Act, 2013, defines a company as A company incorporated under this act, or under any previous company law.

Features of a Joint stock Company

- Incorporated association
- Artificial person
- Perpetual succession
- Common seal
- Limited liability
- Separation of management from ownership
- Transferability of shares

- Separate legal status
- Large membership
- Minimum paid up capital: It is Rs 1 lakh Private LTD. Company and 5 lakhs for a Public LTD company.

Types of companies

On the basis of incorporation	On the basis of ownership	On the basis of liability
Chartered company	Private company	Company limited by shares
Statutory company	Public company	Company Ltd. by guarantee
Registered company	Government company	Company with unlimited liability
Foreign company	Holding company	

- **Chartered company:** A chartered company is one that is established under a special charter issued by the King or Emperor or a Head of State. Such companies are not found in India. Chartered companies established in European countries are East India Company, Bank of England.
- **Statutory company:** A statutory company is one that is created or incorporated by a special Act passed by the Central or State Legislature. The Statutory companies are owned by Government and are given independent legal status, e.g. Life Insurance Corporation of India, Air India, Food Corporation of India, etc.
- **Registered company:** A company registered under the provisions of Companies Act is known as a registered company. In India, examples of companies registered under the Indian Companies Act are Tata Consultancy Services Ltd., WIPRO Ltd., Videocon International Ltd., Reliance Industries Ltd., and so on.
- **Foreign company:** A Foreign company is a company which is incorporated outside India but has a place of business in India, e.g. Hongkong and Shanghai Banking Corporation Ltd.
- **Private company:** A private company is a company that by its articles: (a) except in case of one person company limits the number of its members to two hundred, (b) restricts the right to transfer its shares, and (c) prohibits any invitation to the public to subscribe for any security of the company.
- **Public company:** Section 2 (71)(Chapter I) of the Indian Companies Act, 2013, defines a public company as a company which is not a private company. This means there is no restriction on the number of members and shares are freely transferable.

- **Government company:** Any company in which not less than 51 per cent of the paid-up share capital is held by the Central Government or by any State Government or partly by Central Government and partly by one or more State Governments, is a Government Company.
- **Holding company:** Section 2 (46) (Chapter I) of the Companies Act 2013: a Holding company, in relation to one or more subsidiary companies, means a company of which such companies are subsidiary companies.
- **Associate Company:** In relation to another company, Associate Company means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company.
- **One Person Company**: One Person Company means a company which has only one person as a member.
- **Subsidiary company:** Section 2(87) (Chapter I) of the Companies Act, 2013 defines a subsidiary company as a company in which the Holding Company (i) controls the composition of the Board of Directors: or. (ii) exercises or controls more than one-half of the total share capital either at its own or together with one or more of its subsidiary companies.
- **Company limited by shares:** It is a company in which liability of its members is limited by memorandum to the amount, if any, unpaid on the shares respectively held by them. Most of the companies in India are companies with limited liability.
- **Company limited by guarantee:** It is a company in which liability of a member is fixed to a certain amount and he is liable to pay that much amount in the event of winding up of the company. This amount is called the '**Guarante**e'. Such companies are generally floated for the promotion of sports, education, religion, fine art, etc., and are essentially non-profit making organisations.
- **Company with unlimited liability:** It is a company in which the liability of a member is unlimited. Such a company can be incorporated with or without share capital.

Partnership Vs Limited Liability Partnership (LLP)

BASIS FOR COMPARISON	PARTNERSHIP	LIMITED LIABILITY PARTNERSHIP (LLP)
Meaning	Partnership refers to an arrangement wherein two or more person agree to carry on a business and share profits & losses mutually.	Limited Liability Partnership is a form of business operation which combines the features of a partnership and a body corporate.
Governed By	Indian Partnership Act, 1932	Limited Liability Partnership Act, 2008
Registration	Optional	Mandatory

Charter document	Partnership deed	LLP Agreement
Liability	Unlimited	Limited to capital contribution, except in case of fraud.
Contractual capacity	It cannot enter into contract in its name.	It can sue and be sued in its name.
Legal Status	Partners are collectively known as firm, so there is no separate legal entity.	It has a separate legal status.
Name of firm	Any name	Name containing LLP as suffix
Maximum partners	100 partners	No limit
Property	Cannot be held in the name of firm.	Can be held in the name of the LLP.
Perpetual Succession	No	Yes
Audit of accounts	Not mandatory	Mandatory, only if turnover and capital contribution overreaches 40 lakhs and 25 lakhs respectively.
Relationship	Partners are agents of firm and other partners as well.	Partners are agents of LLP only.

Classes of Share Capital

Share capital of a company limited by shares can be two kinds

- Equity share
- Preference share

Equity share capital means that part of share capital which is not preference share capital. Preference shares can be further classified as under:

- Cumulative
- Redeemable
- Participating

Share capital can be classified in a different way as to:

- Authorised capital
- Issued capital
- Subscribed Capital
- Called up capital
- Paid-up capital

Issue of Shares

Issue Of Share At Par

• Bank • Share application	Debited …………	…………. credited
• Share application • share capital	Debited ………….	……… Credited
Over subscription • share application • share capital • bank (refund) • share allotment	Debited ………. ………… …………	………. Credited Credited Credited

Share Allotment/Share Call

• Share allotment a/c • Share capital a/c	Debited ……………	………. Credited
• Bank a/c • Share allotment a/c	Debited …………	………… Credited
• Share call a/c • Share capital a/c	Debited ………….	………… Credited
• Bank a/c • Share call a/c	Debited …………	……… Credited
• Calls in arrears a/c • Share allotment a/c • Share call a/c	Debited ………… …………….	…………. Credited Credited

Issue of shares at premium

• Share application/ allotment a/c • Share capital A/c • Share premium A/c	Debited …………… ……………	…………… Credited Credited

Issue of shares at discount

• Share allotment A/c • Discount on issue of shares A/c • Share capital A/c	Debited Debited ……………	…………. ……….. Credited

Forfeiture of shares

• Share capital A/c • Call in arrears A/c • Forfeited shares A/c	Debited ………. ………	……… Credited Credited

Re-issue of shares

• Bank A/c • Forfeited shares A/c • Share capital A/c • Capital reserve A/c	Debited Debited ………. ……….	………. ………. Credited Credited

Issue of Bonus shares

• Capital Redemption Reserve A/c • Share premium A/c • Capital reserve A/c • Gen Reserve A/c • Profit & Loss A/c • Bonus to shareholders A/c	Debited Debited Debited Debited Debited ……….	………. ………. ………. ………. ………. credited
• Bonus to shareholders A/c • Equity share capital A/c	Debited …………	………… credited

Non- Voting Shares

Section 43 of the Companies Act 2013, Provided that share capital of the company shall consist of the following:

- Equity shares with voting rights
- Equity shares with differential rights as to dividend, voting or otherwise in accordance with such rules as may be prescribed; and

- Preference share capital

The demand for non-voting equity shares has been made by several sections of the industry basically on the ground that they do exist in many other countries and also provide a measure to the management to tap a class of investors who are interested in higher dividend against absence of voting rights.

There are some conditions for issue of non-voting equity share follow:

- Issue of non-voting equity shares shall be authorized by the Articles of Association of the company and approved by the shareholders at their general body meeting by passing a special resolution.
- Special resolution must state the price at which the shares can be issued and higher rate of dividend which non-voting equity shares shall carry.
- Such shareholders are entitled to all rights and bonus shares but do not enjoy voting rights.
- Only 25% of the paid-up capital of the company can be issued as equity shares without voting rights.
- Only a public company limited by shares can issue non-voting equity shares.
- Non company will be permitted to convert shares with voting rights into shares without voting rights.

JAIIB AFM Module B Unit 4 - Company Accounts – II

Part II—Statement of Profit and Loss

- Name of the Company……………………. Profit and loss statement for the year ended ……………………….(Rupees in…)

Particulars	Note No.	Figure as at the end of current reporting period	Figure as at the end of previous reporting period
1	2	3	4
I. Revenue from operations			
II. Other income			
III. Total Revenue (I + II)			
IV. Expenses:			
Cost of materials consumed			
Purchases of Stock-in-Trade			
Changes in inventories of finished goods work-in-progress and Stock-in-Trade			
Employee benefits expense			
Finance costs			
Depreciation and amortisation expense			
Other expenses			
Total expenses			
V. Profit before exceptional and extraordinary items and tax (III–IV)			
VI. Exceptional items			
VII. Profit before extraordinary items and tax (V–VI)			
VIII. Extraordinary items			
IX. Profit before tax (VII–VIII)			
X. Tax expense:			
(1) Current tax			
(2) Deferred tax			
XI. Profit (Loss) for the period from continuing operations (VII-VIII)			
XII. Profit/(loss) from discontinuing operations			
XIII. Tax expense of discontinuing operations			
XIV. Profit/(loss) from Discontinuing operations (after tax) (XII-XIII)			
XV. Profit (Loss) for the period (XI + XIV)			
XVI. Earnings per equity share:			
(1) Basic			
(2) Diluted			

General Instructions for Preparation of Statement of Profit and Loss

i)Apply to the income and expenditure a/c referred to in subclause (ii) of clause (40) of section 2 in like manner as they apply to a statement of profit and loss.

ii)In respect of a company other than a finance company revenue from operations shall disclose separately in the notes revenue from:

- Sale of products;
- Sale of services;
- Other operating revenues;

Less:

- Excise duty.

In respect of a finance company, revenue from operations shall include revenue from:

- Interest; and
- Other financial services.

Revenue under each of the above heads shall be disclosed separately by way of notes to accounts to the extent applicable.

iii)Finance Costs

Finance costs shall be classified

- Interest expense;
- Other borrowing costs;
- Applicable net gain/loss on foreign currency transactions and translation.

iv)Other income

- Interest Income (in case of a company other than a finance company);
- Dividend Income;
- Net gain/loss on sale of investments;
- Other non-operating income (net of expenses directly attributable to such income).

v)Additional Information

***A Company shall disclose by way of notes additional information regarding aggregate expenditure and income on the following items*:**

(a) Employee Benefits Expense [showing separately

- Salaries and wages,
- Contribution to provident and other funds,
- Expense on Employee Stock Option Scheme (ESOP) and Employee Stock Purchase Plan (ESPP),
- Staff welfare expenses].

(b) Depreciation and amortization expense;

(c) Any item of income or expenditure which exceeds one per cent. of the revenue from operations or Rs. 1,00,000, whichever is higher;

(d) Interest Income;

(e) Interest expense;

(f) Dividend income;

(g) Net gain/loss on sale of investments;

(h) Adjustments to the carrying amount

(i) To the auditor as

Auditor; Net gain or loss on foreign currency transaction and translation (other than considered as finance cost);

(j) Payments

- for taxation matters;
- for company law matters;
- for management services;
- for other services; and
- for reimbursement of expenses;

(k) In case of Companies covered under section 135, amount of expenditure incurred on corporate social responsibility activities;

(l) Details of items of exceptional and extraordinary nature;

(m) Prior period items;

(ii) (a) In the case of manufacturing companies,

- Raw materials under broad heads.
- Goods purchased under broad heads

(b)In the case of trading companies, purchases in respect of goods traded in by the company under broad heads.

(c)In the case of companies rendering or supplying services, gross income derived from services rendered or supplied under broad heads.

(d)In the case of a company, which falls under more than one of the categories mentioned in (a), (b) and (c) above, it shall be sufficient compliance with the requirements herein if purchases, sales and consumption of raw material and the gross income from services rendered is shown under broad heads.

(e)In the case of other companies, gross income derived under broad heads.

(iii)**In the case of all concerns having works in progress, works-in-progress under broad heads.**

iv)

- The aggregate, if material, of any amounts set aside or proposed to be set aside, to reserve, but not including provisions made to meet any specific liability, contingency or commitment known to exist at the date as to which the balance sheet is made up.
- The aggregate, if material, of any amounts withdrawn from such reserves.

(v)

- The aggregate, if material, of the amounts set aside to provisions made for meeting specific liabilities, contingencies or commitments.

- The aggregate, if material, of the amounts withdrawn from such **provisions, as no longer required.**

(vi) ***Expenditure incurred on each of the following items, separately for each item*:**

- Consumption of stores and spare parts;
- Power and fuel;
- Rent;
- Repairs to buildings;
- Repairs to machinery;
- Insurance;
- Rates and taxes, excluding, taxes on income;
- Miscellaneous expenses

(vii)

- Dividends from subsidiary companies.
- Provisions for
- losses of subsidiary companies.

(*viii) The profit and loss account shall also contain by way of a note the following information, namely:*

(a)Value of imports calculated on C.I.F basis by the company during the financial year in respect of

- Raw materials;
- Components and spare parts;
- Capital goods.

(b)Expenditure in foreign currency during the financial year on account of royalty, know- how, professional and consultation fees, interest, and other matters;

(c)Total value if all imported raw materials, spare parts and components consumed during the financial year and the total value of all indigenous raw materials, spare parts and components similarly consumed and the percentage of each to the total consumption;

(d)The amount remitted during the year in foreign currencies on account of dividends with a specific mention of the total number of non-resident shareholders, the total number of shares held by them on which the dividends were due and the year to which the dividends related;

(e)Earnings in foreign exchange classified under the following heads, namely:

- Export of goods calculated on F.O.B. basis;
- Royalty, know-how, professional and consultation fees;
- Interest and dividend;
- Other income, indicating the nature thereof**.**

General Instructions for the Preparation of Consolidated Financial Statements

Where a company is required to prepare Consolidated Financial Statements, i.e.,

Consolidated balance sheet and consolidated statement of profit and loss,

the company shall mutatis mutandis follow the requirements of this Schedule as applicable to a company in the preparation of balance sheet and statement of profit and loss.

In addition, the consolidated financial statements shall disclose the information

- Profit or loss attributable to "minority interest" and to owners of the parent in the statement of profit and loss shall be presented as allocation for the period.
- Minority interests" in the balance sheet within equity shall be presented separately from the equity of the owners of the parent**.**

Impact Of Ind as On Financial Statements

Indian Accounting Standard-1 (Ind AS-1), is about the presentation of financial statements. Ind AS-1 lists the following as a complete set of financial statements:

- A balance sheet as at the end of the period
- A statement of profit and loss for the period
- Statement of changes in equity for the period
- Statement of cash flows for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information
- Comparative information in respect of the previous accounting period and
- A balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively.

Presentation of Balance sheet;

Ind AS-1 prescribes that the balance sheet shall include line items that present the following amounts:

- Property, plant and equipment;
- Investment property;
- Intangible assets;
- financial assets (excluding amounts shown under (e), (h) and (i));
- Investments accounted for using the equity method;
- Biological assets within the scope of Ind AS 41 Agriculture;
- Inventories;
- Trade and other receivables;
- Cash and cash equivalents;

- The total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations;
- Trade and other payables;
- Provisions;
- Financial liabilities (excluding amounts shown under (k) and (l));
- Liabilities and assets for current tax, as defined in Ind AS 12, Income Taxes;
- Deferred tax liabilities and deferred tax assets, as defined in Ind AS 12;
- Liabilities included in disposal groups classified as held for sale in accordance with Ind AS 105;
- Non-controlling interests, presented within equity; and
- Issued capital and reserves attributable to owners of the parent.

It also provides the following guidelines regarding the balance sheet:

i)When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet, it shall not classify deferred tax assets (liabilities) as current assets (liabilities**).**

ii)Current assets: An entity shall classify an asset as current when:

- it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;
- it holds the asset primarily for the purpose of trading;
- it expects to realise the asset within twelve months after the reporting period; or
- the asset is cash or a cash equivalent (as defined in Ind AS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

iii)Current liabilities: An entity shall classify a liability as current when:

- it expects to settle the liability in its normal operating cycle;
- it holds the liability primarily for the purpose of trading;
- the liability is due to be settled within twelve months after the reporting period; or
- it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

iv) An entity shall disclose, either in the balance sheet or in the notes, further sub-classifications of the line items presented, classified in a manner appropriate to the entity's operations.

v**)An entity shall disclose the following, either in the balance sheet or the statement of changes in equity, or in the notes:**

(a)for each class of share capital:

- The number of shares authorised;
- The number of shares issued and fully paid, and issued but not fully paid;
- Par value per share, or that the shares have no par value;
- A reconciliation of the number of shares outstanding at the beginning and at the end of the period;
- The rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;
- Shares in the entity held by the entity or by its subsidiaries or associates; and
- shares reserved for issue under options and contracts for the sale of shares, including terms and amounts: and

(b) A description of the nature and purpose of each reserve within equity.

Presentation of Statement of Profit and Loss

- An entity should present a single statement of profit and loss, with profit or loss and other comprehensive ‘income presented in two sections.
- The sections shall be presented together, with the profit or loss section presented first followed directly by the other comprehensive income section.
- Ind AS-1 prescribes certain line items amount of which should appear in this statement, at the minimum.

It also provides the following guidelines regarding this Statement:

- An entity shall present additional line items, headings and subtotals in the statement of profit and loss when such presentation is relevant to an understanding of the entity's financial performance.
- An entity shall not present any items of income or expense as extraordinary items, in the statement of profit and loss or in the

Statement of Change in Equity

- **Paragraph 10 of Ind AS-1 :** An entity is required to present a statement of changes in equity, as one of the financial statements.
- Ind AS-1 prescribes the following information to be presented in the statement of changes in equity

(a)Total comprehensive income for the period, showing separately the total amounts attributable to owners of the Parent and to non-controlling interests.

(b)for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with Ind AS 8; and

(c)for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately (as a minimum) disclosing changes resulting from:

- Profit or loss;
- Other comprehensive income; and

- Transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.
- Any item recognised directly in equity such as amount recognised directly in equity as capital reserve with paragraph 36A of Ind AS.

Statement of Cash Flows

- This is also part of the set of financial statements as prescribed in Paragraph 10 of Ind AS-1.
- Cash flow information provides users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows.
- Ind AS 7 sets out requirements for the presentation and disclosure of cash flow information.

Notes

- Paragraph 10 of Ind AS-1: Notes are part of the set of financial statements as prescribed
- **This Standard mentions the following guidelines regarding Notes:**

i)The notes shall:

- Present information about the basis of preparation of the financial statements and the specific accounting policies used;
- Disclose the information required by Ind ASs that is not presented elsewhere in the financial statements; and
- Provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

ii)An entity shall present notes in a systematic manner. An entity shall cross-reference each item in the balance sheet and in the statement of profit and loss and in the statements of changes in equity and of cash flows to any related information in the notes.

iii)An entity normally presents notes in the following order, to assist users to understand the financial statements and to compare them with financial statements of other entities:

- Statement of compliance with Ind ASs
- Significant accounting policies applied
- Supporting information for items presented in the balance sheet and in the statement of profit and loss and in the statements of changes in equity and of cash flows, in the order in which each statement and each line item is presented; and
- Other disclosures, including:

a)Contingent liabilities (see Ind AS 37) and unrecognised contractual commitments; and

b)Non-financial disclosures, e.g. the entity's financial risk management objectives and policies (Ind AS 107).

Disclosure of accounting policies

***An* entity shall disclose in the summary of significant accounting policies:**

- The measurement basis (or bases) used in preparing the financial statements, and
- The other accounting policies used that are relevant to an understanding of the financial statements.

Presentation of Comparative Information

Paragraphs 38, 38A and 38B of Ind AS-1, prescribe the minimum comparative information in respect of preceding period, as under:

- **Para 38 of Ind AS-1:** Except when Ind ASs permit or require otherwise, an entity shall present comparative information in respect of the preceding period for all amounts reported in the current period's **financial statements.**

Para 38A: An entity shall present, as a minimum,

- **2** balance sheets,
- 2 statements of profit and loss,
- 2 separate statements of profit and loss,
- 2 statements of cash flows and
- 2 statements of changes in equity, and related notes**.**

- **Para 38B:** In some cases, narrative information provided in the financial statements for the preceding period(s) continues to be relevant in the current period.

- **For example**, an entity discloses in the current period details of a legal dispute, the outcome of which was uncertain at the end of the preceding period and is yet to be resolved.

- Users may benefit from the disclosure of information that the.

Uncertainty existed at the end of the preceding period and from the disclosure of information about the steps that have been taken during the period to resolve the uncertainty.

Change in Accounting Policy, Retrospective Restatement or Reclassification

Para 40A of Ind AS-1 : An entity shall present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements required in paragraph 38A if:

- it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; and
- the retrospective application, retrospective restatement or the reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period.

Para 41 of Ind AS-1 mentions that if an entity changes the presentation or classification of items in its financial statements, it shall reclassify comparative amounts unless reclassification is impracticable.

- When an entity reclassifies comparative amounts, it shall disclose (including as at the beginning of the preceding period):
- The nature of the reclassification.
- The amount of each item or class of items that is reclassified; and
- The reason for the reclassification.

Para 42 states that when it is impracticable to reclassify comparative amounts, an entity shall disclose:

- The reason for not reclassifying the amounts, and
- The nature of the adjustments that would have been made if the amounts had been reclassified.

Preparation of Consolidated Financial Statements

- Ind AS-110 requires an entity (the parent) that controls one or more other entities (subsidiaries) to present consolidated financial statements.
- It defines the principle of control, and establishes control as the basis for consolidation;
- It further sets out the accounting requirements for the preparation of consolidated financial statements; and defines an investment entity and sets out an exception to consolidating particular subsidiaries of an investment entity.
- This Ind AS does not deal with the accounting requirements for business combinations and their effect on consolidation including goodwill arising on a business combination.

JAIIB AFM Module B Unit 5: Cash Flow and Funds Flow

Introduction

- A cash flow statement, prepared for a period, tells us the position of cash at the beginning and end of that period.
- Cash also includes Cash equivalents.

- Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
- Information about the cash flow of an enterprise is useful in providing users of financial statements a basis to assess the ability of the enterprise to generate cash and cash equivalents.

Components Of Cash Flow

- ***Let us take the example of a simple trading enterprise which starts its business on 1/04/2022 with its assets and liabilities as under:***

BALANCE SHEET AS AT THE END OF 1/04/2022

LIABILITES		ASSETS	
Capital	₹ 1,00,000	Cash	₹ 1,00,000

- ***On 2/04/2022, the firm buys wheat for Rs. 90,000 for cash and sells it for Rs. 95,000 on cash basis. Its balance sheet changes as under:***

BALANCE SHEET AS AT THE END OF 2/04/2022

LIABILITES		ASSETS	
Capital	₹ 1,00,000	Cash	₹ 1,05,000
P& L account	₹ 5,000		

It is easy to see that there is a cash inflow of ` 5,000 during the day, due the trading activity, which we call "Operating activity" in Accounting parlance. On 3/04/2022, the firm buys wheat for ` 80,000 for cash and sells it for ` 85,000 on cash basis. It also purchases a weighing machine for ` 15,000 to facilitate its operations. Its balance sheet changes as under:

BALANCE SHEET AS AT THE END OF 3/04/2022

LIABILITES		ASSETS	
Capital	₹ 1,00,000	Cash	₹ 95,000
P& L account	₹ 10,000	Fixed assets	₹ 15,000

We can see that there is a cash outflow of Rs. 10,000 during the day, despite trading activity earning a profit of Rs. 5,000 and cash inflow of Rs. 5,000. This is because there was a cash outflow of Rs. 15,000 for purchasing fixed assets. So, the net result was an outflow of Rs. 10,000. This falls among the items which we group under "**Investing activity"** in Accounting parlance.

On 4/04/2022, the firm buys wheat for ` 75,000 for cash and sells it for ` 80,000 on cash basis. On the same day the proprietor withdraws capital of ` 10,000. Its balance sheet changes as under:

BALANCE SHEET AS AT THE END OF 4/04/2022

LIABILITES		ASSETS	
Capital	₹ 90,000	Cash	₹ 90,000
P& L account	₹ 15,000	Fixed assets	₹ 15,000

- We can see that there is a cash outflow of Rs. 5,000 during the day, despite trading activity earning a profit of Rs. 5,000 and cash inflow of Rs. 5,000.
- This is because there was a cash outflow of Rs. 10,000 by way of reduction in capital. So, the net result was an outflow of Rs. 5,000
- This falls among the items which we group under "**Financing activity**" in Accounting parlance.
- Such an activity will also affect the net cash flow of the firm

The activities of a business entity are grouped under 3 categories

- **Operating activities**: These are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities. Operating activities consist of inflows and outflows of cash resulting from transactions that affect a firm's net profit or loss.
- **Investing activities**: These include acquisition and disposal of long-term assets and other investments not included in cash equivalents. (Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.)
- **Financing activities**: These include activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

Cash Flow from Investing Activities

- If an enterprise keeps on having positive cash flows from its operating activities for a very long time, its cash balance will become very high. We have to remember that while cash is a very desirable asset for liquidity, it is also the most unproductive asset and no enterprise would like to have huge cash balances.
- Investment of cash in fixed assets or financial assets is a way to deploy this cash. Cash outflows due to investing activities represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Cash inflows from investing activities means that there is a net decrease in such assets.

Examples of cash flows arising from investing activities are:

- Cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalised development costs and self-constructed property, plant and equipment;
- Cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;
- Cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);
- Cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);
- Cash advances and loans made to other parties (other than advances and loans made by a financial institution);
- Cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution);
- Cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and
- Cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

Cash Flow from Financing Activities

Financing activities can be useful in utilising the cash generated through operating of investing activities. These can also be utilises for increasing cash inflows in times of need. ***Examples of cash flows arising from financing activities are:***

- Cash proceeds from issuing shares or other equity instruments;
- Cash payments to owners to acquire or redeem the entity's shares;
- Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short-term or long-term borrowings;
- Cash repayments of amounts borrowed; and
- Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

Legal Requirement Of Preparation Of Cash Flow Statement

Those business entities which are required to follow the Accounting Standards, have to prepare the cash flow statement also as it forms part of the set of financial statements. AS-3 and Ind AS-7 provide detailed guidelines for preparing this statement. Cash flows are shown separately for each of the three categories of activities. As per the Ind AS- 7, which sets out requirements for the presentation and disclosure of cash flow information, an entity shall report cash flows from operating activities using either:

- The direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or
- The indirect method, whereby profit or loss is adjusted for the effects of transactions of a non- cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

Other Important Points Mentioned in Ind AS-7

Some of the other important points mentioned in Ind AS-7 are as under:

- Cash flows exclude movements between items that constitute cash or cash equivalents because these components are part of the cash management of an entity rather than part of its operating, investing and financing activities. Cash management includes the investment of excess cash in cash equivalents.
- A single transaction may include cash flows that are classified differently. For example, when the cash repayment of a loan includes both interest and capital, the interest element may be classified as an operating activity and the loan element is classified as a financing activity.
- The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity have generated sufficient cash flows to repay loans, maintain the operating capability of the entity, pay dividends and make new investments without recourse to external sources of financing. Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.
- The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities
- The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the entity.
- Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow. The cash flows of a foreign subsidiary shall be translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows. Cash flows denominated in a foreign currency are reported in a manner consistent with Ind AS 21.
- Cash flows from interest and dividends received and paid shall each be disclosed separately. These cash flows shall be classified in a consistent manner from period to period as either operating, investing or financing activities. The total amount of interest paid during a period is disclosed in the

statement of cash flows whether it has been recognised as an expense in profit or loss or capitalised in accordance with Ind AS 23, Borrowing Costs.
- Cash flows arising from taxes on income shall be separately disclosed and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.
- The aggregate cash flows arising from obtaining or losing control of subsidiaries or other businesses shall be presented separately and classified as investing activities.
- Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a statement of cash flows. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.
- An entity shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in the balance sheet.

Format For Preparation Of Cash Flow Statement

- For preparing this statement, items available in the Balance Sheet and the Profit and Loss Account can be used.
- There is no prescribed format for preparation of cash flow statement. It may be different for different entities depending upon the peculiar nature of the activities.

An indicative format of the Statement of cash flows is as under:

1.Cash flows from Operating Activities

(a) Operating income (EBIT)

(b) Add: Depreciation

(c) Subtract/add: profit/loss on sale of long term assets

(d) Add decrease in accounts receivables

(e) Subtract Decrease in accounts payable

(f) Add/subtract decrease/increase in other items of current assets

(g) Add/subtract increase/decrease in other items of current liabilities

Net cash flow from operating activities (A)

2. Cash flows from Investing Activities

(h) Sale of Long term assets

(i) Subtract Purchase of Long term assets

Net cash flow from operating activities (B)

3. Cash flows from Financing Activities

(j) Payment of dividend (-)

(k) Increase in equity (+)

(l) Decrease in borrowings (-)

Benefits Of Cash Flow Information

- Useful in understanding clearly the sources of an enterprise's cash inflows and how this cash is being uitilised.
- A statement of cash flows, when used in conjunction with the rest of the financial statements, provides information that enables users to evaluate the changes in net assets of an entity.
- its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities.
- Useful in assessing the ability of the entity to generate cash and cash equivalents and enables users to develop models to assess its future prospects.
- Suppliers can use it to assess the liquidity position of an enterprise which is important to fund its operating expenses and pay its debts.
- Bankers and other creditors can use it to decide the repayment schedules of their loans and advances and also stipulate covenants putting restrictions on certain expenses and investments.

Funds Flow Statements

- Each item in the balance sheet represents either source of funds or use of funds.
- Source of funds: All items on the liabilities side
- Use of funds: all items on the assets side (except cash)
- Cash in the balance sheet represents the unutilized portion of funds, available to the enterprise.
- If cash is also perceived as a use of funds, then all the uses of funds are equal to all the sources of funds.
- This perception of available cash, as a use of funds, is what causes the

Difference between Cash Flow Statement and Funds Flow Statement

Cash Flow Statement	Funds Flow Statement
1. Integral part of financial statements and is mandatory	1. Not a mandatory requirement and not a part of financial statements
2. Cash flows from operating, financing and investing activities to be shown separately	2. No such segregation is required.
3. Determines the cash position at the end of the accounting period	3. Determines the changes in working capital through a specified period.
4. Uses the cash system of accounting	4. Uses the accrual system of accounting
5. Helps in understanding the liquidity position of a business	5. Helps in assessing the long term financial strategy of a business

Preparation Of Funds Flow Statements

For the purpose of preparing the funds flow statement, the information contained in the two subsequent balance sheets is organized into two principal groups;

- Sources of funds and
- Applications of the funds.

As mentioned in the previous paragraph, sources of funds are indicated by decrease in assets and increase in liabilities (including shareholder's equity) over the previous year while applications of funds are associated with the increase in assets and decrease in liabilities (including shareholder's equity) over the previous year. A funds flow statement can be prepared in various ways depending upon the end use and purpose. Bankers, normally, further classify both sources and uses of funds into Long term and Short term. This enables them to know if long term funds have been diverted for short term uses.

So, an indicative format of funds flow statement, for the bankers, may be as under:

SOURCES OF FUNDS	USES OF FUNDS
1. LONG TERM SOURCES:	1. LONG TERM USES:
a. Increase in equity	a. Decrease in equity
b. Increase in Reserves	b. Decrease in Reserves
c. Increase in long term borrowings	c. Decrease in long term borrowings
d. Decrease in Non-current assets	d. Increase in Non-current assets
Sub-total	**Sub-total**
2. SHORT TERM SOURCES:	2. SHORT TERM USES:
a. Increase in Short term borrowings	a. Decrease in Short term borrowings
b. Decrease in current assets	b. Increase in current assets
Sub-total	**Sub-total**
TOTAL	**TOTAL**

While preparing the funds flow statement, we have to take special care of the following two aspects:

- **Changes in fixed assets**: While comparing the figures of two successive balance sheets, we have to take into account the depreciation charge during the year. We should also know if any assets have been sold during the year. For example: Assume that the figures of fixed assets shown in the balance sheets of 31/3/21 and 31/3/22 are same at ` 5,00,000. This may give the impression that there has been no long term source and use of funds on this account, during the year. But this is not correct. If the depreciation charged during the year is ` 60,000, it means that additional fixed assets of the same amount have been purchased during the year. So, in both sources and uses of funds, an amount of ` 60,000 is to be shown. Similarly, the amount received from sale of fixed assets is to be shown as a source.
- **Change in Net worth**: While comparing the figures of two successive balance sheets, we have to take into account the outgo on account of dividend or withdrawal of capital. For example: If the company has reduced its equity capital through buy back of shares, it may not be reflected correctly as the profit has been added to the reserves. Also, withdrawal of profits through dividend is to be shown as a use of funds while the entire net profit should be shown as a source of funds.

JAIIB AFM Module B Unit 6 - Final Accounts of Banking Companies

Introduction

- A banking company is generally governed by the provisions of the Companies Act, 2013 and specifically by the Banking Regulation Act.
- The Banking Regulation Act of 1949 came into force on 16th March, 1949 as a result of the long-felt need to regulate the banking business in India and protect the interests of number of depositors

The major institutions carrying on banking business, in India, include:

- Nationalised banks
- State Bank of India
- Foreign banks having branches in India
- Co-operative banks
- Regional Rural banks
- Private sector banks
- Small Finance Banks (h)
- Payments Banks

Definition and Functions of a Bank

- Section 5 of the Banking Regulation Act and means: accepting of deposits of money from the public, for the purpose of lending or investment and the deposits are repayable on demand or otherwise by cheque, draft, order or otherwise.

Requirements Of Banking Companies As To Accounts And Audit

Preparation of Financial Statements and Accounting Date (Section 29)

- A Company registered under the Companies Act, 2013 is required to present its financial statements, i.e. balance sheet and profit and loss account in the formats laid down in the Schedule III annexed to the Companies Act. Similarly, banking company, (since it is a company) is also required to prepare and submit its accounts in a specified format.

Signatures

- Section 29 of the Act requires that the financial statements of banking companies incorporated in India should be signed by the manager or principal officer of the banking company and by at least three directors (or all the directors in case the number is less than three).
- The financial statements of a foreign banking company are to be signed by the manager or agent of the principal office in India. The provisions of section 29 are also applicable to nationalised banks, State Bank of India, regional rural banks, private sector banks, small finance banks and payments banks.

Audit (Section 30)

- Accounts must be audited by a person, duly qualified under any law, for the time being in force, to be an auditor of companies. However, every banking company is, before appointing, reappointing or removing any auditor, required to obtain the prior approval of the Reserve Bank of India.

Submission of Accounts (Secs 31 and 32)

- **Three copies of the balance sheet and profit and loss account prepared under Section 29 together with auditors' report under Section 30** must be submitted to the Reserve Bank of India within three months from the end of the period to which they refer. However, it can be extended up to a further period of three months by RBI (Section 31).
- Section 32 of the Act requires a banking company (but not other types of banks) to furnish three copies of its annual accounts and auditor's report thereon to the Registrar of Companies at the same time when it furnishes these documents to the RBI.

Publication of Accounts

- Rule 15 of the Banking Regulating (Companies) Rules, 1949 prescribes that accounts and auditors' report shall be published in a newspaper circulating in a place where a banking company has its principal office, **within six months from the end of the period to which they relate.**

Significant Features Of Accounting Systems Of Banks

- System of recording, classifying and summarising the transactions in a bank is in substance no different from that followed in other entities having similar volume of operations.
- However, in the case of banks, the need for the ledger accounts, especially those of customers, being accurate and up-to-date is much stronger than in most other types of enterprises.
- In the case of banks, relatively lesser emphasis is placed on books of prime entry such as cash books or journals.
- This is unlike most other types of enterprises where books of prime entry are generally kept up-to-date while ledgers, including the general ledger and subsidiary ledgers for debtors, creditors, etc. are written up afterwards.
- Banks follow the accounting procedure of '**voucher posting'.**

Bankers' Books

- **According to Section 2 (3)** of the Bankers' Books Evidence Act, **'Bankers' Books'** include ledgers, day book, cash books, account books and all other books used in the ordinary business of a bank.
- Generally, the following books are maintained by a bank to keep up-to-date records of its customers.

Cash Book

- All cash receipts and payments are recorded in the receiving cashier's cash book and paying cashier's cash book respectively.
- After this, on the basis of pay-in slips received by the receiving cashier and cheques and withdrawals slips by the paying cashier, these transactions are entered first in the accounts of customers and after that Day Books are written. This is called the 'Slip System' of posting.

Ledger Book

General Ledger contains the total accounts of each ledger. Besides the GL, the following ledger books are maintained:

- Current Accounts Ledger
- FD Accounts Ledger
- RD Accounts Ledger
- Loan Ledger
- Investment Ledger
- Bills discounted and purchased Ledger

Other Books

- Clearing Register

- Securities Register
- Draft Register
- Bills for collection Register
- Safe deposit vault Register
- Dishonoured cheques Register
- Letter of credit Register

Principal Books of Account

The principal books of account, subsidiary books and statistical records generally maintained by banks are described in the following paragraphs.

General Ledger

- Contains the control accounts of all personal ledgers, the profit and loss account and different assets and liabilities accounts.
- There are certain additional accounts also (known as contra accounts) which are kept with a view to keeping control over transactions which have no direct effect on the assets and liabilities of the bank and represent the agency business handled by the bank on which it earns service charges, e.g. letters of credit opened, bills received or sent for collection, guarantees given, etc.

Profit and Loss Ledger

- Some banks maintain a profit and loss account in the general ledger and maintain separate books for each revenue or expense head/sub-head.
- Some banks maintain columnar books having separate columns for each revenue and expense head/sub-head, while others maintain separate books for revenue and expense heads/sub-heads.
- These books are prepared from vouchers.
- The totals of debits and credits each day are posted to the profit and loss account in the general ledger from voucher summary sheets.
- In some banks, the revenue accounts too are maintained in the general ledger itself,
- while in others, broad revenue heads are kept in the general ledger and their details are kept in subsidiary ledgers
- For example, there are separate accounts for basic salary, dearness allowance and various other allowances, which are grouped together in the published accounts.
- Similarly, various accounts comprising general charges, interest paid, interest received, etc. are maintained separately in the profit and loss ledgers.

Subsidiary Books

Personal Ledgers

Each control account in the general ledger is supported by a subsidiary ledger (or more than one subsidiary ledger if the number of accounts is large).

Thus, in respect of control accounts relating to accounts of customers, subsidiary ledgers are maintained for:

- Various types of deposit accounts (savings bank, current account, recurring deposits, etc.) which contain accounts of individual customers. Each account holder is allotted a separate folio in the ledger;
- Various types of loan and related accounts (cash credit, term loans, demand loans, bills purchased and discounted, letters of credit, bank guarantees issued etc.) wherein the liability of each customer is reflected. Generally, there is no separate ledger for overdraft accounts which are granted in a current account.
- Banks generally do not allot separate folios to each customer. The register is divided into various sections, each section for a particular period of deposit and/or the rate of interest payable on deposits.
- The voucher summary sheets are prepared in the department which originates the transactions, by persons other than those who write the ledgers.
- They are subsequently checked with the vouchers by persons generally unconnected with the writing of ledgers/registers or the voucher summary sheets.

Bills Registers

- Details of different types of bills are kept in separate registers which have suitable columns.
- For example, bills purchased, inward bills for collection, outward bills for collection etc. are entered serially on a daily basis in separate registers.
- In the case of bills purchased or discounted, party-wise details are also kept in a normal ledger form. This is done to ensure that the sanctioned limits of parties are not exceeded.
- Entries in these registers are made by reference to the original documents.
- A voucher for the total amount of the transactions of each day is prepared in respect of each register. This voucher is entered in the day book.
- When a bill is realised or returned, its original entry in the register is marked off.
- A daily summary of such realisations or returns is prepared in separate registers whose totals are taken to vouchers which are posted in the day book.
- In respect of bills for collection, contra vouchers reflecting both sides of the transaction are prepared at the time of the original entry, and this entry is reversed on realisation.
- Outstanding entries are summarised at stipulated intervals and their totals agreed with the balances of the respective control accounts in the general ledger.

Other Registers/Records

There are different registers/records to record detailed particulars of various types of transactions.

These registers/records do not form part of the books of account but support the entries/balances in the various accounts. Some of the important registers/records relate to the following:

a)Drafts issued (separate registers may be maintained for drafts issued by the branch on other branches of the same bank and those on the branches of its correspondents in India or abroad

b)Drafts paid

c)Issue and payment of:

- Remittances
- Bankers cheques/Pay orders/Traveller's cheques/Gift cheques
- Letters of credit
- Letters of guarantee Entries in these registers

Preparation And Presentation of Financial Statements Of Banks

A banking company is required to prepare financial statements in accordance with Schedule III of the Companies Act, 2013.

Banking Regulation Act has prescribed Form A, the format of a balance sheet and form B, the format of a profit and loss account.

Preparation of Balance Sheet

Third Schedule: Form 'A' Form of Balance Sheet Balance Sheet as on 31st March,...

Capital and Liabilities.	Schedule No.	₹
Capital	1	....
Reserves and Surplus	2	....
Minorities Interest	2A	
Deposits	3	....
Borrowings	4	....
Other Liabilities and Provisions	5	....
Total		

Assets	Schedule No.	₹
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	....
Goodwill on consolidation[1]		
Debit balance of Profit and Loss account		
Total		....
Contingent Liabilities	12	....
Bills for collection		

Schedule 1: Capital

i)For Nationalised banks: Capital

ii)For banks Incorporated outside India:

- Capital (the amount brought in by banks by way of start-up capital as prescribed by RBI should be shown under this head)
- Amount of deposit kept with RBI under Section 11(2) of the Banking Regulation Act, 1949

Total

III. For other banks:

Authorised 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	....

Schedule 2: Reserves and Surplus		**Rs.**	
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		....	
Addition during the year	....		
Deduction during the year			
(IV) Foreign Currency Translation reserve			
Opening balance		....	
Additions during the year	....		
Deductions during the year	....		....
(V) Investment reserve			
Opening balance		....	
Additions during the year	....		
Deductions during the year	.....		...
(VI) Special Reserve Under Income Tax Act			
Opening balance		....	
Additions during the year	....		
Deductions during the year	....		....
(VII) Revenue and other reserves			
Opening balance		....	
Additions during the year	....		
Deductions during the year	**....**		**....**
(VIII) Capital Reserve on consolidation			

Opening Balance ....

Additions during the year ....

Deductions during the year ....

(IX) Balance in profit and loss account ....

Total (I + II + III + IV + V+VI+VII+VIII+IX)

- Opening balances, additions and deductions since the last consolidated balance sheet shall be shown under each of the specified heads.
- Where there is more than one subsidiary aggregation results in goodwill in some cases and Capital Reserves in other cases, net effect to be shown in Schedule 2 or Assets side after giving separate notes.

Schedule 2A: Minorities Interest **Rs.**

Minority interest at the date on which the parent

subsidiary relationship came into existence ....

Subsequent increase/ decrease ....

Minority interest on the date of balance sheet .....

Schedule 3: Deposits **Rs.**

(a)(I) Demand deposits

- From banks ....
- From others ....

(II) Savings bank deposits: ....

(III) Term deposits

- From banks ....
- From others ....

Total (I, II and III)

B. (i) Deposits of branches in India

(ii) Deposits of branches outside India ....

- Includes deposits of Indian branches of subsidiaries
- Includes deposits of foreign branches of subsidiaries

Schedule 4: Borrowings **Rs.**

Borrowings in India

- Reserve Bank of India ....
- Other banks ....
- Other institutions and agencies ....

(II) Borrowings outside India ....

- Total (I and II) ....
- Secured borrowings in I and II above: ....

Schedule 5: Other Liabilities and Provisions Rs.

- Bills payable ....
- Inter-office adjustments (net) ....
- Interest accrued ....
- Deferred Tax Liabilities ....
- Others (including provisions): ....
- Total:----------------------------

Schedule 6: Cash and Balances with RBI Rs.

Cash in hand (including foreign currency notes) ....

Balances with RBI in:

- Current account ....
- Other accounts ....
- Total (I and II)

Schedule 7: Balance with Banks and Rs

Money at Call and Short Notice

In India

Balance with banks:

- In Current accounts ....
- In other deposit accounts ....

(ii) Money at call and short notice:

- With banks ....

(b) With other institutions ....

- Total (I and II) ....

(II) Outside India

- In current accounts ....
- In other deposit accounts ....
- Money at call and short notice ....
- Total (i, ii and iii) ....

Grand Total (I and II)....

Schedule 8: Investments Rs.

(i)Investments in India in

- Govt. securities ....
- Other approved securities ....
- Shares ....
- Debentures and bonds ....
- Subsidiaries and/or joint ventures ....
- Others (to be specified) ....

Total:

....

(ii)Investment outside India in

- Govt. Securities (incl. local authorities) ....
- Subsidiaries and/or joint ventures abroad....
- Other investment (to be specified) ....

Total ....

Grand Total (I and II)

(iii) Investment in India

- Gross value of Investments ....
- Aggregate of Provisions for Depreciation ....
- Net Investment ....

(IV) Investments outside India

- Gross value of investments ....
- Aggregate of Provisions for Depreciation ....
- Other investments (to be specified) ....

Schedule 9: Advances **Rs.**

A)(i) Bills purchased and discounted ....

(ii) Cash credits, overdrafts and loans repayable on demand....

(iii) Term loans ....

Total: ....

B. (i) Secured by tangible assets ....

(ii) Covered by bank/Govt. guarantees ....

(iii) Unsecured ....

Total: ....

C. (I) Advances in India:

- Priority sectors ....
- Public sector ....
- Banks ....

- Others ....

Total:---------------

(II) Advances outside India:

Due from banks ....

Due from others: ....

- Bills purchased and discounted ....
- Syndicated loans ....
- Others ....

Total....

Grand Total (C.I and C.II)....

<u>Schedule 10: Fixed Assets</u> **Rs.**

(i)Premises

At cost as on 31st March of the preceding year

Additions during the year .....

Deductions during the year .....

Depreciation to date ....

(IA) Premises under construction

(II) Other fixed assets (incl. furniture and fixture)

At cost on 31st March of the preceding year ....

Additions during the year ....

Deductions during the year ....

Depreciation to Date ....

(IIA) Leased Assets

At cost as on 31st March of the preceding year ....

Additions during the year including adjustments ....

Deductions during the year including provisions ....

Depreciation to date ....

Total (I and II) ....

(IIIA) Capital-Work-in progress (Leased Assets)

net of Provisions ....

Total (I, IA, II, IIA & III) ....

Schedule 11: Other Assets **Rs.**

(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) Deferred Tax Assets ....

(VII) Others* ....

Total:

* In case there is any unadjusted balance of loss (i.e. when the loss exceeds the aggregate of capital, reserves and surplus), the same may be shown under this item under appropriate footnote.

Schedule 12: Contingent Liabilities **Rs.**

(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:

- In India ....
- Outside India ....

(V) Acceptances, endorsements and other obligations ....

(VI) Other items for which the bank is contingently liable

....

Total:

.....

Accounting Treatment Of Specific Items

Accounting treatment of some specific items in the profit and loss account and balance sheet are being explained

Bad Debts and Provisions for Doubtful Debts

- Charged under the heading 'Provision and Contingencies' in the Profit and Loss account.

- In the Balance Sheet, the advances are shown after deducting both bad debts and provision for bad debts.
- The Schedule of Advances to be filled in by the branches contains a separate column regarding doubtful debts in respect of 'bills purchased and discounted', cash-credits and overdrafts, and unsecured loans.
- However, while consolidating the Schedule of Advances at the head office level, for balance sheet purposes, the advances are shown net of any bad or doubtful debts.

Provision for Taxation

- Charged to the Profit and Loss Account under the heading 'Provisions and Contingencies', in the Balance Sheet, it will be shown under the heading 'Other Liabilities and Provisions', on the Liabilities side.

Rebate on Bills Discounted

- This refers to unexpired discount. A banking company charges discount in advance for the full period of the bill of exchange or promissory note discounted with it.

The accounting entry made is as follows:

- Bills discounted and purchased a/c Dr.
- To Customers' a/c
- To Discount a/c Customer's account is credited with the net amount remaining after deducting the amount of discount.
- The amount credited to the discount account represents the earning of the bank.
- However, it may be possible that the bills discounted may mature after the close ofthe financial year. It will not be appropriate to take to the credit of the Profit and Loss account, that part of the discount charged, which relates to next year. An accounting entry is, therefore, passed for unearned discount in the following manner:

Discount a/c Dr. To Rebate on Bills Discounted a/c (with the amount of unearned discount relating to the next period)

- Rebate on bills discounted, if already appearing in the trial balance, is taken to the balance sheet on the 'liabilities side'.
- However, if an adjustment has to be done after the preparation of the trial balance, in respect of rebate on bills discounted, the amount of such rebate (i.e. the unearned discount) will be deducted from the total discount in the profit and loss account and will also appear as a liability in the balance sheet.

Preparation Of Profit and Loss Account

- Form 'B' Third Schedule

- Form of Profit and Loss Account
- Profit and Loss Account for the Year Ended 31st March, 20......

	Schedule Number	Year Ended (₹)
I. Income:		
Interest Earned	13	....
Other Income	14	....
II. Expenditure:		
Interest Expended	15	....
Operating Expenses	16	....
Provisions and Contingencies	...	....
Total		....
III. Profit/Loss:		
Net Profit/(Loss) of the Year		....
Profit/(Loss) brought forward		....
Share of earnings/loss in Associates		....
Consolidated Net profit/(loss) for the year before deducting Minorities' Interest	17	....
Less: Minorities' Interest		....
Consolidated profit/(loss) for the year attributable to the group		....
Add: Brought forward consolidated profit/(loss) attributable to the group		....
Total		....
IV. Appropriations:		
Transfer to Statutory Reserves		....
Transfer to other Reserves		....
Transfer to Government/Proposed Dividend		....
Balance Carried over to Balance Sheet		....
Total		....
Earnings per Share[1]		....
Basic earnings per equity share		....
Diluted earnings per equity share		....

Schedule 13: Interest Earned Rs.

- Interest/Discount on Advances/Bills ....
- Income on Investments ....
- Interest on balances with RBI and other Inter-bank funds ....
- Others ....
- Total ....

Schedule 14: Other Incomes Rs.

(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 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) (a) Lease finance income ....

(b) Lease management fee ....

(c) Overdue charges ....

(d) Interest on lease rent receivables ......

(VIII) Misc. Income ....

Total ....

Note: Under Items II to V loss figures be shown in brackets.

Schedule 15: Interest Expended **Rs.**

- Interest on Deposits ....
- Interest on RBI/Inter-Bank Borrowings ....
- Others ....

Total ....

Schedule 16: Operating Expenses **Rs.**

- Payments to and Provisions for Employees ....
- Rent, Taxes and Lighting ....
- Printing and Stationery ....
- Advertisement and Publicity ....

(a) Depreciation on Bank's Property other than leased assets ....

(b) Depreciation on leased assets ......

- Depreciation on Bank's Property ......
- Directors' Fees, Allowances and Expenses ....

- Auditors' Fees and Expenses (Including Branch Auditors) ....
- Law Charges ....
- Postages, Telegrams, Telephones, etc. ....
- Repairs and Maintenance ....
- Insurance ....
- Amortisation of Goodwill, if any ......
- Other Expenditure ....

Total ....

Disclosure Requirements Of Banks To Be Added As Notes To Accounts

- In order to encourage market discipline, Reserve Bank has over the years developed a set of disclosure requirements which allow the market participants to assess key pieces of information on capital adequacy, risk exposures, risk assessment processes and key business parameters which provide a consistent and understandable disclosure framework that enhances comparability.
- Banks are also required to comply with the Accounting Standard 1 (AS 1) on Disclosure of Accounting Policies issued by the Institute of Chartered Accountants of India (ICAI).
- In addition to the 16 detailed prescribed schedules to the balance sheet, banks are required to furnish the information in the "Notes to Accounts", a gist of which is given below.

Summary of Significant Accounting Policies'

- Summary of Significant Accounting Policies' and 'Notes to Accounts' are to be shown under Schedule 17 and Schedule 18 respectively, to maintain uniformity.
- The details are given in RBI Master Circular of July 1, 2015 on "Disclosure in Financial Statements –Notes to Accounts" Summary of Significant Accounting Policies Banks should disclose the accounting policies regarding key areas of operations at one place (under Schedule 17)

Gist of information to be disclosed in 'Notes to Accounts' (Schedule 18)

- Capital
- Investments
- Derivatives
- Asset Quality
- Business Ratios
- Asset Liability Management
- Exposures (To real estate sector, capital market, country exposure, single/group borrower limit exceeded by bank, unsecured advances)

- Disclosure of penalties imposed by RBI
- Disclosure Requirements as per Accounting Standards where RBI has issued guidelines in respect of disclosure items for Notes to Accounts
- Provisions and Contingencies
- Floating Provisions
- Draw Down from Reserves
- Disclosure of complaints
- Disclosure of Letters of Comfort (LoCs) issued by banks
- Provisioning Coverage Ratio (PCR)
- Bancassurance Business
- Concentration of Deposits, Advances, Exposures and NPAs
- Sector-wise NPAs
- Movement of NPAs
- Overseas Assets, NPAs and Revenue
- Off-balance Sheet SPVs sponsored
- Unamortised Pension and Gratuity Liabilities
- Disclosures on Remuneration
- Disclosures relating to Securitisation
- Credit Default Swaps
- Transfers to Depositor Education and Awareness Fund (DEAF)
- Unhedged Foreign Currency Exposure

Illustration 1 From the following particulars, prepare the profit and loss account of ABC Bank Ltd., for the year ended 31st March, 2022.

Income/Expenses	₹	*Income/Expenses*	₹
Commission charged	7,000	Interest on overdrafts	60,000
Discount on bills discounted	1,65,000	Interest on savings bank accounts	72,000
Audit fees	5,000	Postage telegram	2,000
Establishment expenses	60,000	Printing and stationery	3,000
Interest on loan	2,80,000	Unexpired discount on bills discounted	55,000
Interest on fixed deposits	2,98,000	Rent and taxes	22,000
Interest on cash credits	2,40,000	Sundry expenses	2,000

Make a provision of Rs. 30,000 for doubtful debts

ABC Bank Ltd. Profit & Loss Account for the year ended 31st March, 2022

Dr. Cr.

		Schedule No.	₹
I.	Income		
	Interest Earned	13	6,90,000
	Other Income	14	7,000
	Total		6,97,000
II.	Expenditure		
	Interest Expended	15	3,70,000
	Operating Expenses	16	94,000
	Provision for Contingencies		30,000
	Total		4,94,000
III.	Profit:		
	Net profit for the year		2,03,000

Schedule 13: Interest Earned

- Discount on Bills discounted 1,65,000
- Interest on:
- ❑ Loans 2,80,000
- ❑ Cash Credits 2,40,000
- ❑ Overdrafts 60,000

5,80,000

Less: Unexpired Discount on Bills Discounted 55,000

6,90,000

Schedule 14: Other Income

Commission Charged 7,000

Schedule 15: Interest Expended

Interest paid on:

- ❑ Fixed Deposits 2,98,000
- ❑ Savings Bank Accounts 72,000

3,70,000

Schedule 16: Operating Expenses

- Establishment Expenses 60,000
- Audit Fees 5,000
- Rent and Taxes 22,000
- Postage and Telegrams 2,000

- Printing and Stationery 3,000
- Sundry Expenses 2,000

94,000

Illustration 2 Prepare the Profit and Loss account of Modern Bank Ltd. for the year ended 31st March, 2022, from the following:

the following:

	₹
Interest on Fixed Deposits	1,62,410
Rebate on Bills discounted	29,000
Interest on Loans	45,000
Commission Charged to Customers	62,500
Establishment	15,000
Discount on Bills Discounted	89,000
Interest on Cash Credit	24,000
Amount Charged against Current Accounts	71,500
Directors' Fees	10,000
Audit Fees	20,000
Postage and Telegram	2,000
Printing and Stationery	4,000
Rent and Taxes	22,500
Interest on Overdrafts	71,000
Sundry Charges	1,500
Interest on Savings Bank Deposits	57,780

Schedule 13: Interest Earned

- Interest on:
  - ❑ Loan 45,000
  - ❑ Cash Credit 24,000
  - ❑ Overdrafts 71,000

1,40,000

Discount on Bills discounted	89,000
Less: Rebate on Bill Discounted	29,000
	60,000
Amount charged against current accounts	71,500
	2,71,500

Schedule 14: Other Income

Commission charged to customers 62,500

Schedule 15: Interest Expended

- Interest paid on:
  - Fixed Deposits 1,62,410
  - Savings Bank Deposits 57,780

2,20,190

Schedule 16: Operating Expenses

- Establishment Expenses 15,000
- Director's Fees 10,000
- Audit Fees 20,000
- Rent and Taxes 22,500
- Postage and Telegrams 2,000
  Printingand Stationery 4,000
  SundryExpenses 1,500

75,000

Modern Bank Ltd. Profit & Loss Account for the year ended 31st March, 2022

	Schedule No.	₹
I. Income: Interest Earned	13	2,71,500
Other Income	14	62,500
Total		3,34,000
II. Expenditure: Interest Expended	15	2,20,190
Operating Expenses	16	75,000
Provision for Contingencies		
Total		2,95,190
III. Profit: Net Profit for the year		38,810

Illustration 3

The following are details of advances of Punjab Bank Ltd.,

- Bills Purchased and Discounted 15,00,000
- Cash Credits, Overdrafts and Loans Repayable on Demand 20,00,000
- Term Loans 5,00,000
- The following are the other details of the above advances:
- Secured by Tangible Assets 30,00,000

- Covered by Bank, Government and ECGC Guarantees 6,00,000
- Unsecured 2,00,000
  Doubtful Debts 2,00,000
- Show how these items will appear in the Bank's Final Accounts

Schedule 9: Advances	**Rs,**
A)1. Bills Purchased and Discounted	15,00,000
2. Cash Credits, Overdrafts and Loans Repayable on Demand	18,00,000
3. Term loans	5,00,000
Total (1, 2 and 3)	38,00,000
B)1. Secured by Tangible Assets	30,00,000
2. Covered by Bank Guarantee and ECGC Guarantee	6,00,000
3. Unsecured	2,00,000
Total (1, 2 and 3)	38,00,000

Profit & Loss Account as on ....

I.	Income	
II.	Expenditure	
III.	Provision and Contingencies	2,00,000

JAIIB AFB Module B Unit 7- Accounting in Computerized Environment

Computerised Accounting

An accounting system is one that performs the following functions:

- It captures business transactions in the form of accounting entries.
- The accounting entries are then used to prepare financial statements.
- The financial statements are prepared based on accounting standards.
- Various financial reports are prepared from the data available in the financial statements.

Features of Computerized Accounting

- Speed
- Accuracy

- Various informative reports can be generated
- Economy
- A Computerised system may be a single stand Along unit or a Multiple User, ie, LAN, WAN etc.

Terms used in Computerized Accounting

- Data
- Record
- Data file or file
- System

Advantages of Computerized Accounting

- Accurate, High speed and low cost or operation
- Availability of various reports from the same accounting data
- Error- free accounting
- Automatic completion of all records by feeding only one entry into the computer
- Multiple set of Printouts available

Disadvantages of Computerized Accounting

- Requirement of special Programme and Professional
- Qualified staff required for Operations
- Costly computer peripherals and stationery
- Regular back-up is required as Data may be lost for various reasons
- Computer viruses

Functions performed by computerized accounting software available in the market

- Tally versions such as 4, 4.5, 5, 5.4, 6.3, 7.2 and 8.2
- Ex, accounting software
- Bank 2000 for accounting needs for banks
- B@NKS-24-core banking solution
- A.U.D.I.T.O.R and A.U.D.I.T.I.M.E cash basis software for professionals and their accounts

- MEFCOMP accounting software for professional
- Quick FA

Difference Between Computerised And Manual Accounting

Basis For Comparison	Manual Accounting	Computerized Accounting
Meaning	Manual Accounting is a system of accounting that uses physical registers and account books, for keeping financial records.	Computerized Accounting is an accounting system that uses an accounting software, for recording financial transactions electronically.
Recording	Recording is possible through book of original entry.	Data content is recorded in customized database.
Calculation	All the calculation is performed manually.	Only data input is required, the calculations are performed by computer system.
Speed	Slow	Comparatively faster.
Adjusting entries	It is made for rectification of errors.	It cannot be made for rectification of errors.
Backup	Not possible	Entries of transactions can be saved and backed up
Trial Balance	Prepared when necessary.	Instant trial balance is provided on daily basis.
Financial Statement	It is prepared at the end of the period, or quarter.	It is provided at the click of button.

Core Banking Components

Core Banking is delivered as a set of integrated core banking components that are then tailored to fit the institution's individual business requirements. These components can be easily re-configured as business requirement change, protecting the orginisation's strategic investment and maintaining a unified business approach.

Core Bank components include

- Core Bank financial institution infrastructure
- Core Bank customer management and customer overview
- Core Bank Account Administration
- Core Bank Payments
- Core Bank Management Information

Advantages of Core Banking

- Makes the internal staff more competent.
- Minimises human intervention thereby limiting errors.
- Helps prevent frauds and thefts with real-time banking facilities.
- Reduces operational costs.
- Aids in studying changing customer demands.
- Facilitates decision making through reporting and analytics.

Information Security

Information Security is basically the practice of preventing unauthorized access, use, disclosure, disruption, modification, inspection, recording or destruction of information. Information can be physical or electrical one.

Information system Security

Information systems security provides essential information for managing the security of an organization where information technology is an important factor. It is mainly for all the staff, who are the first-line support, responsible for the daily, efficient operation of security policies, procedures, standards and practices. ***It cover***

- Logical Access Control
- Physical security
- Network Access Control
- Password management
- Asset Management
- E-mail security
- Internet security
- Mobile computing
- Network security
- Application security
- Operating system security
- Database administration and security
- Desktop security
- Malicious software
- Incident response and management
- Security of electronic delivery channels
- Wireless security
- Change Management
- Patch Management
- Remote access
- Backup and archival
- Capacity Management
- IT asset/media management
- Encryption

- Application/data migration

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