



Module-A Unit-9

JAIIB PAPER-3

Accounting & Financial Management for Bankers(AFM)



JAIIB AFM Module A Unit 9 - Operational Aspects Of Accounting Entries

Introduction

- Ultimate objective of recording the financial transactions is to prepare the balance sheet and the P&L account
- Purpose: All the stakeholders get a fair picture of results of the operations of the enterprise during the accounting period as also the financial position at the end of the accounting period.
- Always in terms of number of monetary units.
- **Debit or credit entry:** The accounting entry could be a debit entry or a credit entry.
- **Double entry system:** Every credit/debit accounting entry should have one or more corresponding debit/credit entry. Each such pair of accounting entries affects two (or more) accounts in the ledger.

For example, if a customer deposits cash of Rs. 2,000 in a bank branch for credit to his account, the pair of accounting entries:

Bank a/c (Customer a/c) Dr. 2000

To Cash A/c 2000

- Branch level operations in the bank result in initiating a large number of accounting entries and it is very important to know how these should be dealt with.

A peculiar feature of accounting entries in the bank is that these are :

- 1st entered in the ledger accounts concerned and then in the journal.
- In manual operations, the entries are entered in the physical ledgers by the staff concerned.
- After that, all the entries in a particular ledger head are entered in the journal (day book) and
- finally, the total is entered in the control account concerned of the General Ledger which is used in preparing the balance sheet and the P&L account.

Any accounting entry in manual operations can only be made based on a physical voucher which is authenticated by the authorised officer of the branch.

In case of computerised operations, the accounting entry in the system is made by the staff concerned and authenticated by the official concerned. The system takes care of the remaining operations affecting the day books and the GL.

The branch staff has only to enter the accounting entry, originated at the branch, to the accounts concerned and all other operations till the **preparation of financial statements are automatically performed by the system.**

But, it is still important to understand the manual system of accounting so that the staff concerned is clear about the process involved and is able to reply to the queries of the customers and auditors instead of claiming ignorance of the systems and procedures.

Peculiar Features Of Accounting System In Banks

- 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.
- A bank cannot afford to ignore its ledgers particularly those containing the accounts of its customers and has to enter every transaction into the ledgers as soon as it takes place.
- 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 afterwards.
- Banks follow the accounting procedure of '**voucher posting**' under which the vouchers are straightaway posted to the individual accounts in the subsidiary ledgers.
- At the end of each day, the debit and credit vouchers relating to a particular type of transaction (e.g. savings bank accounts, current accounts, demand loans, cash credit accounts, etc.) are entered on separate voucher summary sheets and the total thereof is posted to the respective control account in the general ledger.
- The general ledger trial balance is prepared every day.

Types of Transactions

- Transactions in a bank are of two types, cash and non-cash. In the latter case, also called 'transfer transactions', one or both of the accounts concerned may be of the customers or the internal accounts of the bank.
- For example, if 'A' deposits a cheque drawn in his favour by 'B', who is also a customer of the branch, the accounts of the two customers will be affected. On the other hand, if 'A' deposits a draft drawn on the branch, the 'Draft' account, an internal account of the bank, will be debited. Likewise, on payment of interest on deposit accounts, the 'Interest Account' at the branch will be debited and many personal accounts credited.

Vouchers

Both debit and credit operations on all accounts, either by customers or by the bank itself, are made by means of vouchers. There are two kinds of vouchers, one, which evidences only debit or credit to an account, and the other, which contains both debit and credit to different accounts. For the sake of convenience, the latter kind of vouchers may be called 'composite vouchers'.

The debit vouchers are, broadly the following:

- Cheques issued by the customers.
- Cheques/pay orders issued by the bank.
- Withdrawal forms received from the savings bank account holders.
- Drafts issued by other branches of the bank payable at the branch.
- Drafts issued by other banks on the branch, in terms of an approved arrangement between the two banks.
- Dividend/interest warrants issued by the bank's customers and payable by the branch in terms of an approved arrangement.
- Travellers' cheques issued by any branch of the bank which are presented to the branch for payment.
- Drafts/pay orders issued by the branch itself which are cancelled at the request of the customer and amount is refunded to him.
- . Instruments like traveller's cheques/gift cheques, etc., of other banks which are paid by the branch in terms of an approved arrangement.
- Letters of authority signed by the customers, containing standing instructions.
- Debit vouchers prepared by the branch on its printed stationery which are authorised by a designated official of the bank and may also carry authority from the customers in some cases, if the debit is to his account at the branch.
- In respect of realisation of collection instrument sent to other branches of the bank, a debit advice (which may be known by different names in different banks) prepared by the other branch may itself act as a debit voucher.
- Term deposit receipts presented for payment, renewal or premature closure.

The credit vouchers which are also of many kinds broadly encompass the following:

- Pay-in-slips filled by the customers (depositors as well as borrowers) for deposit of amounts in their accounts. Generally, the pay-in-slips are in a standard format adopted by the bank but there may be cases of a special kind of pay-in-slips in respect of some customers pursuant to a formal agreement between the bank and the customer.
- Applications for issue of term deposits, demand drafts, RTGS/NEFT, banker's cheques, pay orders, gift cheques, travellers' cheques and other similar instruments. Some of these applications may be made on behalf of the branch itself for the payments it has to make.
- Challans for deposits into the accounts of Central/State Government, e.g. on account of direct/ indirect taxes or under schemes like public provident fund, etc.
- Credit vouchers prepared by the branch on its printed stationery which are authorised by an official of the bank. Normally, these vouchers are signed on behalf of the branch only but there may be some instances where the customer concerned also signs on the voucher as evidence that the transaction actually pertains to him. Examples are: deposit of locker charges (credit to an income account of the bank), deposit of money with the bank for purchase of non-judicial stamps required for execution of documents in favour of the bank, etc.

- On payment of collection instruments from other branches of the bank, a credit advice (which may be known by different names in different banks) or a copy of the collection schedule received from the other branch may itself be treated as a credit voucher.

Accounting Systems of Different Banks

- It is difficult to identify a single accounting system that describes all the features of systems in operation in different banks as the accounting systems of different banks vary in terms of hardware configuration, software capabilities, levels of hardware and software security, and nature of transactions processed.
- The accounting system in a bank is designed keeping in view the nature and volume of operations and information needs of the stakeholders.
- Every big bank has customized banking software as per its own requirement and as such, the accounting systems differ amongst different banks.

Illustration

PB branch of bank ABC Ltd. has a number of deposit accounts.

Mr. A also has his SB account in that branch.

On February 28, 2022, Mr. A had the following transactions concerning his account:

- Deposited Rs. 2,000 by cash
- Deposited cheque of Rs. 5,000 issued on the same branch by another customer, Mr. B
- Cheque of Rs. 3,000 deposited earlier is paid through clearing
- Cheque of Rs. 4,000 issued to Mr. C is received at the branch in clearing
- Purchased draft for Rs. 6,000 on an outstation branch of the bank (Draft issued at par by the branch)

(a) What will be the different entries in the account of Mr. A (assume opening balance of Rs. 9,000) ?

(b) Which other accounts will be affected by each of the other entries?

(c) How the control account pertaining to Savings Bank, in the General Ledger, will be affected by the transactions in the account of Mr. A?

(a) The entries in the account of Mr. A, due to the above transactions, are given in the following table:

Date	Particulars	Debits	Credits	Balance
February 28	B/F			9,000
February 28	By cash		2,000	11,000
February 28	By transfer		5,000	16,000
February 28	By clearing		3,000	19,000
February 28	To clearing	4,000		15,000
February 28	To Draft issued	6,000		9,000

(b) The accounts affected by the transactions in the account of Mr. A will be as under:

- Deposit of Rs. 2,000 by cash will be credited to Mr. A's account and result in a debit entry of Rs. 2,000 in the cash account. This entry is part of the cash scroll of the cashier concerned. The total of the cash scroll is taken in the cash book.
- Deposit of the cheque of Rs. 5,000 issued on the same branch by another customer, Mr. B, will result in a transfer credit entry of Rs.5000 in the account of Mr. A. The corresponding debit entry will be a transfer entry of Rs. 5,000 in the account of Mr. B.
- Payment received through clearing for a Cheque of Rs. 3,000 deposited earlier will result in a credit entry (clearing-in) in the account of Mr. A and a debit entry of Rs. 3,000 in the account of the bank conducting the clearing house.
- Cheque of Rs 4,000 issued to Mr. B is received at the branch in clearing will result in debit to his account (clearing -out) and a credit entry of Rs 4,000 in the account of the bank conducting the clearing house.
- Purchase of a draft for Rs. 6,000 on an outstation branch of the bank at par, will result in debit entry of Rs. 6,000 in the account of Mr. A and credit entry of Rs. 6,000 in Inter- Office account/ Draft account

(c) At the end of the day, all the vouchers pertaining to the transactions in all the Savings Bank accounts at the branch, including those pertaining to the transactions in the account of Mr. A, will be entered in the SB Day Book.

The credit and debit summations of the Day Book will be entered in the respective columns of the SB control account in the GL and the balance derived.

Separate vouchers are not prepared for ATM/Internet Banking/Mobile banking/system triggered standing instructions/interest application, transactions. Such transactions are processed and recorded by the system.)

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