

# Banking Fundamentals – Day 2



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## Banking Fundamentals – Day 2

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# Inventory



# Session Plan

- Inventory Overview
- Process Flow



# Inventory Overview

- Inventory in banking parlance refers to items used for banking transactions. Inventory items such as DD, Cheques, deposit slips etc. require safe keeping.
- If these inventory reach wrong hands, there is a possibility of fraudulent transactions taking place.
- Inventory movement are handled by few identified bank staff. There are checks at each level of inventory management both at physical level as well as in the system level.

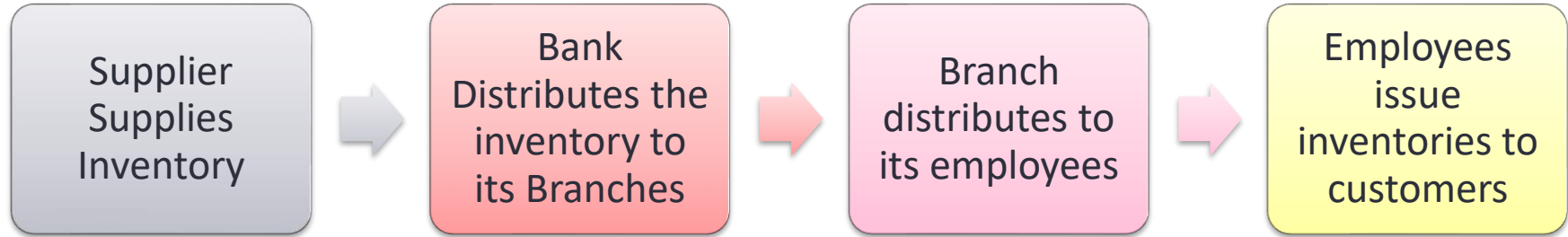
# Inventory Overview

- Types of Inventories
  - Cheques
    - SB Account Cheques
      - 10 leaves Cheque Books
      - 25 leaves Cheque Books
    - Current Account Cheques
      - 50 leaves Cheque Books
      - 100 leaves Cheque Books
  - Demand Drafts
    - INR DD Stationary/Inventory
    - USD DD Stationary/Inventory
  - FD Receipts

# Inventory Overview

- Location to store/safe keep inventories
  - Saferoom in Branches
    - Shelves for keeping the inventory
  - Employee custody
- Movement should be tracked

# Process Flow





# Interest and Taxes



# Session Plan

- Concept of Interest - Paid and Received
- Banks pay interest for the deposits and collect interest for the loans and advances
- The process of interest consists of accrual/booking and application
- Types of Interest
- Interest methods
- Taxes

# Types of Interest

- Base – Benchmark lending rate
- Normal - Interest on the balance within the limit/terms and conditions
- Penal - Violation of contract / Payments not in time
- Additional - Utilization above the sanction limit
- QIS - Quarterly Information statement not submitted
- Stock - Stock statement not submitted

# Interest methods

- Assume that interest is to be calculated for 10,000 for 1 month (say Feb with 28 days) @ 10 %.
- Daily method – interest calculation based on number of days
  - $(10,000 * 28 * 10) / 36500 = 76.71$
- Monthly method – Interest calculation based on number of months
  - $(10,000 * 1 * 10) / 1200 = 83.33$

# Interest Concepts

- EOD balance – based on end of day balance
- Monthly minimum balance - based on the minimum balance between specified dated of a month ( 10 – 31 )
- Average monthly balance – based on the weighted average balance between specified dates of a month

Sr. No	Date	Amount
1	01-01-2022	100
2	05-01-2022	300
3	17-01-2022	200
4	31-01-2022	150

# Tax on Interest Income

- Withholding Tax - Tax the individual interest from accounts.

Account	Int. Amount	Tax Rate	Tax Amount
TD01	INR 4000	10%	400
TD02	INR 1000	20%	200

- Customer Level Tax – Recognize all interest income of the customer for taxation.

Interest Amount	Tax Rate
0-40000	0%
Above 40000	10%

# Charges



# Charges Overview

- Source of Income for banks other than Interest
- Collect Charges for various services extended
- Charges can be flat/percentage/slab based
- Discount on Charges
- Waiver/Reversal
- Sharing of Charges



# Limits and Collaterals



# Session Plan

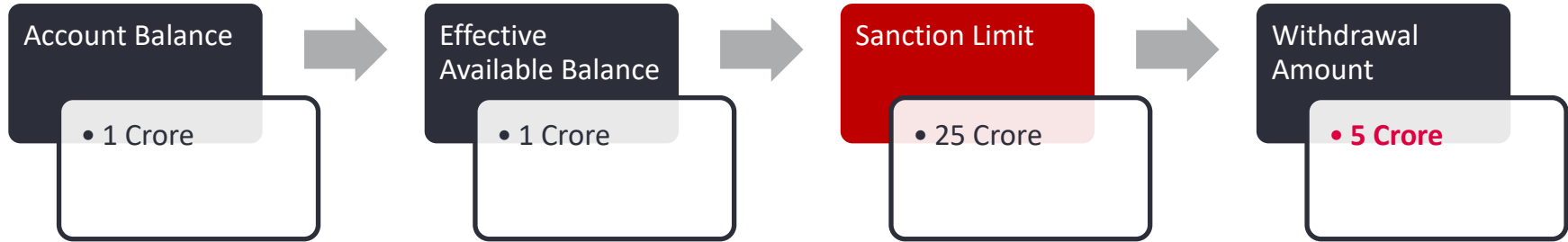
- Sanction Limits
- Drawing Power
- Security/Collateral
- Multiple credit facilities and monitoring
- Temporary Overdraft (TOD)

# Concept of Sanction Limit



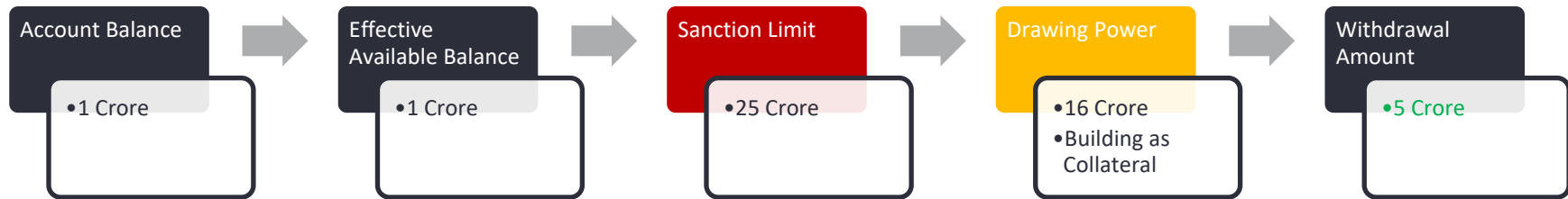
# Concept of Sanction Limit(Contd.)

DP Linked to Collateral and Collateral Value is Zero



# Concept of Sanction Limit(Contd.)

Collateral Value = 20 crore  
Margin = 80%



# Temporary Overdraft

- Granted when effective limit is not available
- To take care of immediate needs
- Usually charged at a higher rate



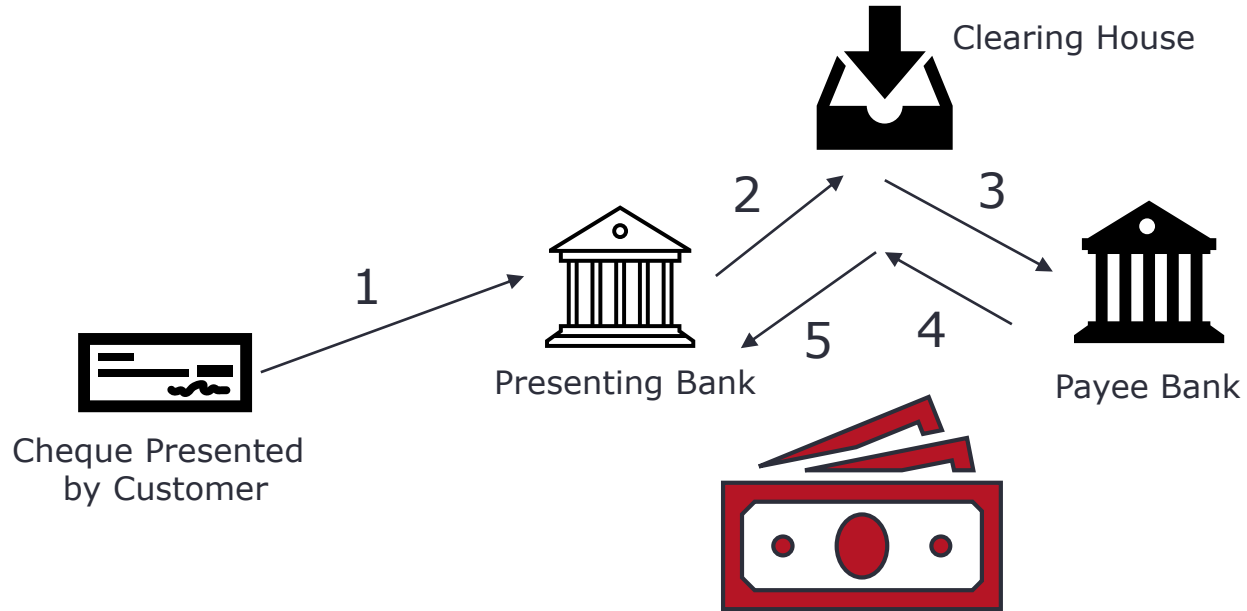
Clearing

# Session Plan

- Clearing
- Inward Clearing
- Outward Clearing
- Inward Reject
- Outward Reject
- Shadow Balance



# Clearing Process



# Clearing Terminologies

- Inward Clearing - The process where instruments are received at the branch for payment/debit to their customer accounts is inward clearing.
- Outward Clearing - The process where instruments are sent for collection to other Bank/Branches.
- Inward Reject - Any instrument that is received as a part of inward clearing and returned to the presenter Bank/Branch because of non-payment for any reason.
- Outward Reject - Any instrument that is sent for collection as a part of outward clearing and returned unpaid.

# Clearing Terminologies (Contd.)

- Shadow Balance – Amount is credited to customer account, but customer will not be able to utilize that money.
- CTS – Cheque Truncation System

# Thank you for your time...

## Why we exist

To inspire better banking so that billions of people and businesses can save, pay, borrow, and invest better.

## How we do it

Our solutions and people help banks to engage, innovate, operate and transform better, so that they can improve their customers' financial lives, better.

## What we offer

A comprehensive suite of industry-leading digital banking solutions and SaaS services that help banks engage, innovate, operate and transform better.