



# Accounts of Banking Companies

## ■ DEFINITION OF BANKING

The Indian Banking Companies are governed by Banking Regulation Act, 1949. Section 5 (b) of the Act defines banking as "the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise". A company engaged in banking business is called "Banking Company".

## ■ BANK BOOK-KEEPING OR BANK'S WORKING

The bank accounts are maintained using 'double entry system'. For successful operation of banking business, such a system of accounting is required with which the day-to-day transactions can be accounted for properly. Main features of book-keeping in a bank are as follows :

**Slip System :** A bank must keep its ledger accounts especially those of its customers always upto date. A cheque may be presented to the bank for payment by a customer at any moment and unless the customer's accounts are maintained up-to-date, bank will not be able to decide whether to honour or dishonour the cheque. As such the transactions in the bank are recorded as soon as they have taken place.

For the purpose of quick posting, 'slip system of ledger posting' is adopted. Under this system, posting of transactions in personal ledgers is made directly from slips rather than from subsidiary books or journal. A slip is also called a voucher. The important slips used in a bank are pay-in-slips, withdrawal form, cheques etc. These are filled up by the clients of the bank themselves or by the bank staff on the printed form of the bank.

Under book keeping the following three types of slips are used :

(1) Pay-in-slip (2) Withdrawal slip or cheque , (3) Dockets

**(1) Pay-in-slip :** For making deposit with a bank, the customer has to fill-up 'pay-in-slip' form and submit it to the receiving cashier of the bank along with cash. The form of 'pay-in-slip' has two parts. The left-hand-side portion of it is called 'counterfoil'. It is returned by the receiving cashier after counting the cash. The counterfoil bears signature of receiving cashier and it is duly stamped with rubber-stamp of the bank. It serves as an acknowledgement of deposit made by the customer with the bank. Now, the right-hand-side part of the slip remains with the bank which serves as voucher for bank. The receiving cashier makes entry in cash book and, then passes on this slip to the 'personal accounts ledger keeper' for posting in the ledger account of the customer. The proforma of pay in slip is given below :

**(2) Withdrawal Slip or Cheque :** For withdrawing an amount from a bank, the customer has to fill-up 'cheque' or 'withdrawal-form' and submit it to 'personal accounts ledger keeper' who gives a token to the customer. Now, ledger keeper checks the slip for signature of customer and for adequacy of amount in his ledger account. He also makes posting of withdrawal in ledger account of customer. Now, the slip (voucher) is passed on to 'paying cashier' of the bank who makes payment to customer after receiving the token from him. The specimen are given ahead :



**REVISED FORMAT OF PROFIT AND LOSS ACCOUNT**  
**The Third Schedule**  
**(See Section 29)**

**Form 'B'**

**PROFIT AND LOSS ACCOUNT**  
*for the year ended 31st March (Year)*

Particulars	Schedule No.	Year ended 31.03.. (Current Year)	Year ended 31.03.. (Previous Year)
<b>I. Income</b>			
Interest Earned	13		
Other Income	14		
Total :			
<b>II. Expenditure</b>			
Interest Expended	15		
Operating Expenses	16		
Provisions and Contingencies			
Total :			
<b>III. Profit/loss</b>			
Net Profit/Loss (-) for the year			
Profit/Loss (-) brought forward			
Total :			
<b>IV. Appropriations</b>			
Transfer to Statutory Reserves (See Note 1)			
Transfer to Other Reserves			
Transfer to Government/Proposed Dividends			
Balance Carried Over to Balance Sheet			
Total			

**Note : (1)** In accordance with section 17 of Banking Regulation Act, 25% of current year's profit must be transferred to reserve fund. It should be noted that this limit has been increased from 20% to 25% from financial year 2004-05. The new limit (25%) has been applied in present edition.

**Schedule 13 : Interest Earned**

Particulars	Year ended 31.03.. (Current Year)	Year ended 31.03.. (Previous Year)
<b>I.</b> Interest on Advances and Discount on Bills		
<b>II.</b> Income on Investments		
<b>III.</b> Interest on balances with Reserve Bank of India and other Inter-Bank Funds		
<b>IV.</b> Others		
Total		



**Schedule 14 : Others Income**

Particulars	Year ended 31.03.. (Current Year)	Year ended 31.03.. (Previous Year)
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, buildings and other assets Less : Loss on sale of land, buildings and other assets		
V. Profit on exchange transactions Less : Loss on exchange transactions		
VI. Income earned by way of dividends etc. I from subsidiaries/companies and/or joint ventures abroad/in India		
VII. Miscellaneous Income		
Total		

**Note :** Under items II to V loss figures may be shown in brackets.

**Schedule 15 : Interest Extended**

Particulars	Year ended 31.03.. (Current Year)	Year ended 31.03.. (Previous Year)
I. Interest on deposits		
II. Interest on Reserve Bank of India/Inter-bank borrowings		
III. Others		
Total		

**Schedule 16 : Operating Expenses**

Particulars	Year ended 31.03.. (Current Year)	Year ended 31.03.. (Previous Year)
I. Payments to/and provisions for employees		
II. Rent, Taxes and Lighting		
III. Printing & Stationery		
IV. Advertisement and Publicity		
V. Depreciation on Bank's Property		
VI. Director's Fees, Allowances and Expenses		
VII. Auditors' Fees and Expenses (Including branch auditors)		
VIII. Law Charges		
IX. Postage, Telegrams, Telephones, etc.		
X. Repair and Maintenance		
XI. Insurance		
XII. Other Expenditures		
Total		

**Note :** Schedules prescribed by the Act alongwith format are integral part of it, therefore, while solving the question, schedules shall also be prepared.



## Explanation of Schedules Given in Profit and Loss Account

### Schedule 13 : Interest Earned

Interest earned by the bank is included in this schedule and is classified into the following heads given in this schedule :

- I. **Interest on advances and discount on bills :** The most important income for the banks is the interest earned on all types of loans like cash credit, demand loans, overdrafts, term loans etc. Likewise, customers may discount the bills from the bank and the amount of discount deducted by the bank from the amount of such bills is also an income for the bank. Such amount of discount is also shown here.
- II. **Income on investments :** It includes all income derived from the investment portfolio by way of interest and dividend.
- III. **Interest on balances with Reserve Bank of India and other inter-bank funds.**
- IV. **Others :** It includes any other interest/discount income not included in the above heads.

### Schedule 14 : Other Income

This schedule includes all income except interest :

- I. **Commission, Exchange and Brokerage :** It includes all remuneration on services rendered by the bank to its customers such as commission on collections, commission or exchange on remittances and transfers, commission on letters of credit, letting out of lockers and guarantees, brokerage on securities purchased on behalf of its customers etc.
- 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, buildings and other assets less loss on sale of land, buildings and other assets.
- V. Profit on exchange transactions less loss on exchange transactions : It includes all incomes earned by way of foreign exchange, commission and charges on foreign exchange transactions excluding interest which will be shown under interest.
- VI. Income earned by way of dividends etc. from subsidiary companies, joint-ventures etc.
- VII. Miscellaneous income.

### Schedule 15 : Interest Expended

It includes interest paid and is classified as follows :

- I. Interest on deposits : It includes interest paid on all types of deposits such as Interest on current deposits, interest on saving deposits and interest on term deposit.
- II. Interest on borrowings from Reserve Bank of India or from other banks.
- III. Others : It includes interest on all other borrowings.

### Schedule 16 : Operating Expenses

- I. Payment to and provisions for employees : It includes staff salaries, wages, allowances, bonus or other staff benefits like provident fund, pension, gratuity etc.
- II. Rent, taxes and lighting
- III. Printing and stationery
- IV. Advertisement
- V. Depreciation on bank's property : It includes depreciation on bank's own property, motor cars, furniture, non-banking assets etc.
- VI. Directors' fees, allowances and expenses



- VII. Auditor's fees and expenses
- VIII. Law charges
- IX. Postage, telegrams and telephones etc.
- X. Repair and maintenance
- XI. Insurance
- XII. **Other expenditure** : It includes all expenses which have not been included in any of the other heads, like licence fees, donations, subscriptions to papers, periodicals, entertainment expenses, travel expenses, etc.

### Provision and Contingencies

This head is just below schedule 16 and the following provision are shown under this head.

- (i) Provision for bad and doubtful debts
- (ii) Provisions for taxation
- (iii) Provision for diminution in the value of investment
- (iv) Transfer to contingencies and other similar items

### Illustration 1. (Profit and loss account of banking companies)

From the following information, prepare Profit and Loss Account of Modern Bank Limited for the period ending 31st March, 2008 :

	₹
Interest on loans & advances	5,50,000
Discount on bills	1,75,000
Income from investments	1,25,000
Interest on balance with RBI	20,000
Interest on inter-bank funds	30,000
Commission, exchange & brokerage	75,000
Profit on sale of investments	40,000
Loss on sale of investments	5,000
Profit on sale of building	60,000
Loss on sale of land	80,000
Net profit on exchange transactions	25,000
Miscellaneous income	15,000
Interest on deposits	2,75,000
Interest on inter-bank borrowings	35,000
Salaries and allowances	1,50,000
Bonus to employees	45,000
Rent, taxes and lighting	35,000
Printing and stationery	15,000
Advertisement and publicity	10,000
Depreciation on bank's property	25,000
Directors fees and allowances	50,000
Auditors fees and expenses	20,000
Law charges	15,000
Postage, telegrams, telephone	18,000
Repairs and maintenance	12,000
Insurance	16,000
Preliminary expenses to be written off	46,000

### Other informations

- (i) Provide ₹ 18,000 for bad-debts.
- (ii) Create a provision for income tax ₹ 95,000.
- (iii) Transfer ₹ 10,000 to general reserve.



Solution :

**Modern Bank Ltd.**  
**PROFIT AND LOSS ACCOUNT**  
for the year ended 31st March, 2008

(₹ in 000's omitted)

Particulars	Schedule No.	Year ended (31-3-08)
<b>I. Income</b>		
Interest earned	13	900
Other income	14	130
<b>Total</b>		<b>1030</b>
<b>II. Expenditure</b>		
Interest expended	15	310
Operating expenses	16	457
Provisions & contingencies <sup>2</sup>		113
<b>Total</b>		<b>880</b>
<b>III. Profit / Loss</b>		
Net Profit for the year		150
Profit/Loss (-) brought forward		—
<b>Total</b>		<b>150</b>
<b>IV. Appropriations</b>		
Transfer to Statutory Reserve (25% of ₹ 150)		37.50
Transfer to General Reserve		10.00
Balance carried over to Balance Sheet		102.50
<b>Total</b>		<b>150</b>

**Schedule 13 : Interest Earned**

(₹ 000's omitted)

I. Interest on advances and discount on bills	725 <sup>1</sup>
II. Income from investments	125
III. Interest on balances with RBI	20
Interest on inter bank funds	30
<b>Total</b>	<b>900</b>

**Schedule 14 : Others Income**

(₹ 000's omitted)

I. Commission; exchange and brokerage	40	75
II. Profit on sale of investments	(5)	35
Less : Loss on sale investments	60	
IV. Profit on sale of building	(80)	(20)
Less : Loss on sale of land		25
V. Profit on exchange transactions		15
VII. Miscellaneous income	<b>Total</b>	<b>130</b>

**Schedule 15 : Interest Extended**

(₹ 000's omitted)

I. Interest on Deposits	275
II. Interest on Inter-bank Borrowings	35
<b>Total</b>	<b>310</b>

**Schedule 16 : Operating Expenses**

(₹ 000's omitted)

I. Payments to and Provisions for employees (150 + 45)	195
II. Rent, Taxes and Lighting	35
III. Printing & Stationery	15
IV. Advertisement and Publicity	10
V. Depreciation on Bank's Property	25

VI. Director's Fees, Allowances and Expenses	50
VII. Auditors' Fees and Expenses	20
VIII. Law Charges	15
IX. Postage, Telegrams, Telephones, etc.	18
X. Repair and Maintenance	12
XI. Insurance	16
XII. Other Expenditures	46
Total	457

**Note :** (1) Computation of Interest and Discount :

Interest on Loans and Advances  
Discount on Bills.

₹

550

175

725

(2) Calculation of Provision and Contingencies :

Provision for Bad Debts  
Provision for Income Tax

₹

18

95

113

(3) All amount should be shown nearest thousand rupees