Unit 6 Banking Companies [Corporate Accounting]

① Difference between balance sheet of banking and Non banking company.

② Prudential Norms. * What is banking and Non banking company?

③ Asset structure of a commercial bank.

④ Non-performing Assets (NPA).

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① Balance sheet of Banking and Non Banking Company (incl. NBFC)

* Banking Company -

According to Sec 5 of the Banking Regulation Act, 1949, a banking company means the accepting for the purpose of lending or Investment, of deposits of money from the public, repayable on demand or otherwise and withdrawn by cheque, Draft, order or otherwise.

Non Banking Company or Non Banking Financial Company (NBFC) is a company registered under the companies Act, 1956 engaged in the business of Loans and advances, aquisition of shares / stocks / bonds / debentures / securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire purchase, insurance etc.

① Difference between ~~balance sheet of~~ Banking and Non Banking companies —

① Governing Act – Banking companies are governed by Banking companies Act, 1949. Non banking companies are governed by RBI Act.

② License – Banking companies must obtain license from RBI for commencement. No license is required for NBCs.

③ Ceiling on deposits – No ceiling on deposits mobilization in banking company. whereas for NBCs, there is a ceiling on acceptance of deposits which is based on the net worth of the company.

④. Capital structure – For a banking company, capital structure is decided by RBI, which has a two-tier; ① core capital and ② Risk weighted capital. But for NBCs, capital structure is decided by RBI, which is purely based on business such as lending or Hire Purchase finance or leasing etc,

⑤ Balance Sheet – The Balance sheet proforma should be as per the format provided by RBI for a banking company. But for Non banking company, the balance sheet is as per the Companies Act.

⑥ Negotiable Instruments – There is use of negotiable instruments such as cheque, bill of exchange for various transactions in a bank. But Negotiable instruments cannot be used for withdrawal of money from Non-Banks.

(7) Credit Rating — Credit Rating is not required for accepting deposits in a banking company. But NBCs has a mandatory requirement of credit rating for accepting deposits from the Public.

(8) Types of Accounts — Different types of Account can be opened by a bank for the benefit of customers in a banking company. A non banking company can only accept deposits of different duration as prescribed by RBI.

(9) Interest on deposit — The interest charged by a bank on deposits is decided by the banks themselves. It is based on Prime Lending Rate (it is the interest rate charged by the banks while lending on Government securities which have no risks.) But for a non banking company, the interest rate on deposits is decided by RBI.

(10) Suspension of operations — Banking companies operations can be suspended only by RBI. But for NBCs, RBI will only notify the cancellation of registration from accepting deposits in leading newspapers.

(11) Appointment of Chairman and Directors — Appointment of chairman and Managing directors in a banking company requires prior approval of RBI. But no such approval is required from RBI for a NBC.

(12) Audit — Commercial Banks will come under Statutory Audit, in addition to RBI audit. For a non banking company audit is as per the companies Act.

(ii) Doubtful Assets - An asset would be classified as doubtful if it has remained in the substandard group/category for a period of 12 months.

(iii) Loss Asset - As per RBI, Loss asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted, although there may be some salvage or recovery value.

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* Difference between Bank balance sheet and company balance sheet.

(1) Definition – Bank balance sheet is prepared as per the mandate by the regulatory authorities.

Company balance sheet is prepared as per the regulation of International Accounting Standard board. (IASB)

(2) Objective – The main objective is to showcase an accurate tradeoff between banks profit and risk.

The main objective is to reflect the accurate financial picture of an organisation to the stakeholders.

(3) Scope – The scope of bank balance sheet is limited since its applicable only for banks.

The scope of company balance sheet is much broader since it is applicable for all sorts of companies.

(4) Equation – Bank – Asset = Liabilities + shareholders Equity (Banks assets and liabilities are much different than any regular company)

Asset = Liabilities + Sh. holders Equity.

(5) Complexity – Bank complex since bank need to calculate net loan.

Company B/S is much simpler.

(6) Time consumption – Bank – More times.

Company – less time.

(7) Key concept – Loans, short term Investment, Allowances for loss on loans.

Assets, liabilities & Sh. holders Equity.

(8) Mentionable documents –

BBS mention reference throught schedules

CBS – – via notes.

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(9) Type of Balance – ~~average~~ Type of balance is average balance, and ending balance.