Accounts of Banking Companies

The Banking business in India is largely governed by the Banking regulation act 1949. According to Sec. 5(b) of this act, "Banking means accepting of deposit from the public for lending or investment is the main function of banking Company.

- **Legal requirements :-**

The important provision relating to final A/cs of a banking company are as follows :-

1. Prescribed For → The Final A/cs of a banking Co. includes the profit & loss A/c and the Balance sheet. It may be noted that no P/L appropriation A/c is prepared in case of a banking Co. All appropriation are done in the profit & loss A/c itself. The Third schedule to the Banking Regulation Act gives the formats of the profit & loss A/c and the B/S. The Formats have been revised with effect from 1st April 1991. In otherwords, the Final A/c for the year ending 31st Mar. 1992 and onwards are to be prepared in the new format.

2. Accounting Year → An account of the abundant provision of Income Tax Act 1961 regarding every company to close its A/cs on 31st March each year with effect from Financial year ending 31st March 1989. Now a banking company always closes its A/cs on 31st Mar. each

year.

3. Non-banking Assets → A banking Co. may have to take possession of certain assets charged in its favour on account of the failure of a debtor to repay the loan on time. Such an asset is termed as non-banking asset. It must be desposed off by the banking Co. within seven years of its acquisition. Income from either profit or loss on sale of such an asset has to be shown seperately in profit & loss A/c of the banking Company.

4. Statutory Reserve → According to Sec 17 of the banking regulation Act 1949. It is obligatory for a banking company to create a reserve fund and trf. to it at least & 25% of its annual profits as disclosed by its profit & loss A/c before any appropriation.

5. Cash reserve → Every scheduled bank has to maintain a sum equal to at least 3% of its time & demand ~~deposit~~ liabilities as cash reserves with the RBI.

6. Statutory Liquidity Ratio → Over and above the cash reserve every banking company is required to maintain in India in cash, gold & ~~unc~~ unincumbered securities, an amt which shall not be less than 18.50% of its time & demand liabilities in

India. This is known as Statutory Liquidity Ratio
The RBI has the power to increase this ratio
upto 40 %.

* Accounts of Banking Company :-

1. Profit & loss A/c
2. Balance Sheet

At the expiration of each Finan-
cial year i.e at 31st March of every year, bank-
ing company in India in respect of all busines
transacted by it & every banking Co. incorpora-
ted outside India shall prepare a B/S and P/L
A/c as on last working day of the year in the
form set out in the third Schedule.