

ACC 250: Accounting for Banking

Lecture Hours: 150

Full Marks: 100

Pass Marks: 35

Course Objectives

The objectives of the course are to provide the students with the basic knowledge required to handle the accounting functions of banks. On completion of this course the students will be able to gain the knowledge of total banking accounting practices of the banks. The course further aims at providing knowledge required to analyze financial statements of banks.

Course Description

This course contains introduction, accounting for deposit, accounting for bills for collection, accounting for guarantee and margin deposit, letter of credit (LC), accounting for remittance, accounting for credit and advances, accounting for cash transactions, accounting for treasury management, banking technology products, concept of BASEL framework, anti money laundering (AML), accounting for decision making, accounting for control, preparation of financial statements, financial statements analysis.

Course Details

Unit 1: Introduction

LH 8

Concept of bank account; Rules and classifications of accounts ; Accounting assumptions, principles and conventions ; Evolution of banking industry, Development of banking industry in Nepal; Meaning, nature, objectives, importance and functions of banks; Types of Banks: Central Bank, Commercial Banks, Development Banks, Financial Institutions, Micro Finance Institutions and Co-operative Banks ; Opportunities and Challenges of Nepalese Banking Sector; Legal provisions under Banking and Financial Institutions Act (BAFIA), 2063; Unified directives issued by Nepal Rastra Bank.

Unit 2: Accounting for Deposit

LH 8

Account Opening, operations and closure of bank account; Concept and types of deposit: current, saving, time or fixed account, hybrid or flexi deposit, calls deposit account, margin account, foreign currency account, special foreign currency account; Process of opening accounts; Inter bank borrowing from other banks and short term borrowing from NRB; Substitutes for vouchers – pay in slip and its meaning; Cheques: meaning and types of cheques; Electronic cheque clearing (ECC); Service charges- concepts and accounting procedures.

Unit 3: Accounting for Bills for Collection

LH 8

Bills for collection: concept, types and necessity for banking business; Outward bills for collection (OBC): concept and types; Service charges and accounting records for OBC; Endorsement: meaning and accounting procedures; Procedures used in bills for collection; Inward bills for collection (IBC): concept and importance; Document required for IBC; Service charges and accounting records for inward bills for collection; Debit note and required reversal entry; Outgoing debit advice for uncollected or dishonored bills.

Unit 4: Accounting for Guarantee and Margin Deposit**LH 7**

Concept, and types of guarantee deposit; Concept, needs and types of guarantee: Bid bond, Performance bond, Advance payment guarantee, Counter guarantee, Financial guarantee, Standby letter of credit, Bonded warehouse guarantee; Banker's liabilities and customer's liabilities toward guarantee issuance ; Accounting treatment of guarantee issue (voucher and ledger); Margin deposit: concept, process and evaluation ; Service charges and accounting treatment.

Unit 5: Letter of Credit (LC)**LH 8**

Letter of credit: concept, needs and types of LC; Parties involved in LC; Documents in LC; Trade finance; International Chambers of Commerce and Universal Custom and Practices (UCP) for documenting credit; NRB regulations for LC; Accounting treatment.

Unit 6: Accounting for Remittance**LH 8**

Remittance: concept and importance; Services rendered by remittance ; Types of remittance; Parties involved in remittance ; Demand draft, accounting for advice received and un-received demand draft; Account payee draft; Books of original entry for advice received and un-received; Telegraphic transfer and mail transfer; Branch reconciliation.

Unit 7: Accounting for Credit and Advances**LH 10**

Credit creation; Concepts and importance of credit; Types of credit: Cash credit, Overdraft, Secured loan, Micro credit, and other loans: auto, home, credit card, education and social; Security: types and procedures/valuation of securities; Evaluation of feasibility study; Industry risk analysis and Business risk analysis (using six C's of credit); Accounting treatment of different types of credit; Loan processing charges, interest and commission and their accounting treatment; Collection and recovery of loans method applied and accounting treatment; Credit risk management; Credit creation.

Unit 8: Accounting for Cash Transactions**LH 7**

Receiving cashier's counter cash book ; Paying cashier's counter cash book; General cash books, day books and denomination books.

Unit 9: Accounting for Treasury Management**LH 8**

Concept of treasury management; Dimensions of treasury management; Market risk management; Liquidity management; Investment portfolio management; Foreign exchange risk management; Assets liability management ; Maintenance of agency ledger (NOSTRO and VOSTRO).

Unit 10: Banking Technology Products**LH 9**

Banking software; Card operation ; Tele banking; Mobile banking; Internet banking and e banking; SWIFT (society for worldwide interbank financial telecommunication); Branch less banking.

Unit 11: Concept of BASEL Framework:**LH 7**

Concept and importance; Principles of capital measurement and capital standard

Unit 12: Anti Money Laundering (AML)**LH 5**

Concept, importance and AML Act; Know your customers (KYC)

Unit 13: Accounting for Decision Making**LH 11**

Capital Budgeting: Project evaluation on the basis of Pay-back period, Net Present Value, Profitability Index and Internal Rate of Return; Cost Volume Profit Analysis for project evaluation.

Unit 14: Accounting for Control**LH 8**

General ledger: concept, needs and procedures of maintaining general ledgers; Comparison with commercial accounting; Daily trail balance: concept, needs and preparation and tools for control of general ledgers; Transaction list verification and operational procedures.

Unit 15: Preparation of Financial Statements**LH 13**

Concept and importance; Statement of profit and loss and other comprehensive income (Income statement); Statement of financial position/balance sheet; Statement of cash flow statement; Statement of changes in equity.

Unit 16: Financial Statements Analysis**LH 18**

Concepts and importance; Ratio Analysis: concept, importance and limitations

Types of ratios

Profitability ratios: Net interest income growth (NII growth), Interest yield, Net Spread, Operating profit growth.

Shareholder ratios: Return on equity, Return on assets, Earning per share, Price earnings ratio, Market price per share, Dividend payout ratios.

Liquidity ratios: Net liquid assets, Net liquidity ratios, Statutory liquidity ratio (SLR), Cash reserve ratio (CRR), Gap analysis.

Activity ratios: Cost of fund, Base rate, Cost to income ratio, Credit deposit ratio, Net interest margin, Non-funded income as a percentage of total operating income, Operating expenses ratio (interest to total operating expense, office operating expense to total operating expenses and HR expenses to total operating expenses) Staff efficiency (per employee income, per employee business i.e. deposit plus loan)

Gearing and Financial ratios: Total borrowing to shareholder fund, Total external liabilities to total assets, Total assets growth, Net worth growth

Cash Flow ratios: Interest coverage ratio, Debt coverage ratio

Assets Quality ratios: Non-performing loans to total loans, Loan loss reserves to gross loan, Earning coverage to loan losses, Increase in loan loss reserve to gross income

Earnings ratios: Net interest margin, Non-funded income expenses as a percentage of total operating expenses

Capital Adequacy ratios: Capital fund as a percentage of risk weighted assets

Project Work**LH 10**

After the completion of fourth year concentration classes the students shall have to prepare and submit a project work in the area they have specialized. The subject teachers have to discuss with students on possible topics of the project work, availability and sources of literature, availability of data, data collection methods, appropriate tools of data analysis, etc relevant to the subject within 10 lecture hours.

References

Indian Institute of Banking and Finance, *Accounting and Finance for Bankers*, Macmillan India Ltd. Chennai India

Jain, S. P. & Narang, K. L., *Advanced Accounting, Corporate Accounting, Vol. 11*, New Delhi: Kalyani Publishers.

Battliboi, J. R. *Advanced Accounting*, Mumbai: Standard Accountancy Publication Pvt. Ltd. Nepal Rastra Bank Act, 2058

Accounting Manual of banks

Bank and Financial

Institutions Act, 2063

Negotiable Instrument

Act, 2034

Unified Directives issued by NRB

Circulars issued by NRB (Banks and Financial Institution Regulation department and Foreign Exchange Management Department)

International Chamber of Commerce and the UCPDC 600