उत्तर प्रदेश सहकारी ग्राम विकास बैंक लि0,
प्रशिक्षण केन्द्र, 10 माल एवेन्यू, लखनऊ।

बैंक के शाखा प्रबन्धक / आंकिक / सहायक आंकिक

हेतु

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What is a Balance Sheet ?

A balance sheet is a statement of financial position or status of a business on a given date.

It depicts the various resources of funds of Bank(Commercial Organisation) and their deployment in various assets on particular date. As it indicates the financial position on a particular date it is static in nature.

What is a Profit and Loss A/C ?

The profit and loss a/c of a bussiness for a given period of time of a bank(Commercial Orginisation) indicates the extent of success achieved by a business in earning profits. It reports the results of business activities, and indicates for the profitability position and reasons for improvement / deterioration thereof.

Concepts of Balance sheet.

1. The balance sheet is prepared on a specific date.
2. The balance sheet has two sides - Liabilities & Assets.

3. **Liabilities comprise :**

(a) Paid up capital
(b) Reserves
(c) Provisions
(d) Deposits
(e) Borrowings
(f) Other liabilities
(g) Liabilities-suspense & sundries
(h) Branch Adjustment a/c (Credit balance)
(i) Credit balance in P & L a/c (Accumulated profit)
(J) Contigent liabilities if any.

4. **Assets comprise:**

(a) Cash on hand
(b) Bank balances
(c) Investments
(d) Loans and advances
(e) Other assets- fixed assets(Vehicals, Furniture & Fixtures, Stationery)
(f) Branch Adjustments(Dr balance)
(h) Dr balance in profit and loss a/c (accumulated losses)

Concepts of Profit and Loss A/C

(a) Profit and loss account of a bussiness is a specific period - generally a year/half year. All heads of A/C of income and expenditure are accounted under this head of A/C.

(b) Profit and loss a/c can be prepared on any date / for any given period.

(c) All revenue expenditures and incomes are debited and credited to profit and loss a/c.

(d) Profit earned by a bank are appropriated and are duly approved by its general body in the annual General Body meeting.

Concepts of Reserves

(a) Reserves are created out of profit earned by the business to strengthen the financial position of the business / organisation. However some statutory/obligatory reserves are created even when the business is making loss e.g. gratuity fund, provident fund etc.

(b) Reserves once created cannot be ploughed back without the permission of RCS in case of Co.op. banks and without explicit permission of RBI in case of other banks.

Provisions

(a) Provisions are created so that the profit and loss account of the bank (financial / Commercial organisation) indicates correct position of net profit or loss of the organisation during the period.

(b) The provisions are created by debiting the profit and loss a/c or through appropriation a/c on some rational (basis) and to meet some objective / purpose.

(c) Provisions are increased or decreased depending upon the circumstances/rules in vogue by the concurrence of the Board of Directors. Expenses can be made from the provisions with the permission of the Board of Directors.

Provision is required to be made for estimated erosion in assets on the basis of realisability of assets as per the prudential norms promulgated by RBI. Accordingly banks are required to provide for impaired assets irrespective of the fact whether the bank is in profit or loss.

Necessity of creating provisions

It is necessary to creat provisions and come to correct position of profit and loss so that the dynamic situation of funds flow can be estimated/worked out for the bussiness.

In the case of profit earning organisation or bussiness some part of profit could be retained by the bussiness for further expansion or future expenditure and the remaining could be used for distribution of the profits to its share holders.

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PROFIT & LOSS ACCOUNT & BALANCE SHEET

The aim of profit and loss account is to ascertain the net profit or net loss for a particular period.

For earning net profit a business man has to incur many more expenses in addition to the direct expenses. These expenses are deducted from gross profit and the resultant figure is net profit. 'Net profit is the surplus remaining after charging against gross profit all the expenses.' When such expenses are more than gross profit, the result is net loss and if gross profit exceeds these expenses, the result is net profit.

Dr. side of P&L A/c

It shows that only indirect expenses are taken to profit and loss account and deducted from gross profit (as direct expenses have already been taken in trading account).

Such expenses are of following types :-

(i) Selling and distribution Expenses i.e., Godown rent, advertisement, agent salaries, commission and bad debts etc.

(ii) Management or office Expenses: These are the expenses paid from office for whole of the business. It includes office salaries and wages, insurance, rent, printing and stationery, postage and telephone, auditor's fee, legal expenses, bank charges etc.

(iii) Financial Expenses: - The expenses which are incurred to obtain necessary finances for the business are called financial expenses. These include-

Interest on capital, interest on loans, cash discount, etc.

(iv) Maintenance and Depreciation Expenses :- Under this heading we record following expenses.–

Repairs to building, machinery and furniture, depreciation of fixed assets.

All the above expenses are shown on the debit side of profit and loss account. represents the cost of earning the net profits.

CREDIT SIDE OF PROFIT & LOSS ACCOUNT :-

On the credit side of profit and loss account we record various incomes, such as Discount received, commission received, rent received, interest received, income from investments, profit on sale of assets, bad debts recovered and dividends received.

PREPARATION OF PROFIT AND LOSS ACCOUNT :-

The gross profit from trading account is transferred to profit and loss account, with the result that trading account shall be closed and profit and loss account is opened. Then the profit and loss account is debited with all indirect expenses which results in the closing of all accounts relating to indirect expenses. The profit and loss account is then credited with the accounts of incomes by which all income accounts are closed.

After debiting all indirect expenses and crediting the incomes the difference of two sides of profit and loss account shall be net profit or net loss. If credit side is more, the result is net profit and if debit exceeds, the result is net loss.

It makes very clear that after the transfer of indirect expenses accounts and income accounts, all the nominal accounts are closed. Now only two types of accounts remain in books, i.e. real and personal which are to be shown in the balance sheet.

BALANCE SHEET :-

A balance sheet is a statement of financial position of a concern at a given data. It is clear from the definition that (a) balance sheet shows 'the financial position of a concern, and (b) it shows its financial position on a given date, usually the last date of accounting period. The situation may be entirely different on the following day and, indeed, might have been quite different a day earlier.

A balance sheet mays therefore, be defined as "a statement prepared with a view to measure the true financial position of a business on a certain fixed date."

It is prepared from the trial balance, after all the balances of nominal accounts ar transferred to trading and profit and loss account and the corresponding accounts in the ledger are closed. The balances now left in the trial balance represent either personal or real accounts. In other words they either represent assets or liabilities existing at the dat of the financial close.

All these assets and liabilities are displayed in the balance sheet according to certain principles such as :-

(a) All real and personal accounts having debit balances should be shown on the asse side of balance sheet which is on the right hand side.
(b) All the real and personal accounts having credit balances should be shown on the liabilities side of the balance sheet, which is on left hand side. The excess of ass over liabilities represents the capital of the owner. This figure of capital must ta with the closing balance of the capital account in the ledger after the net profit or los has been transferred therein.

It shows that when real and personal accounts are placed on the oppoosite side of balance sheet according to the nature of balances the asset side shall be equal to the liabilities side.

As stated, real and personal accounts having debit balances are called assets. actually a traders property and possession and debts owing to him (Sundry debtros and bills receivable) are the assets.

The real and personal accounts having credit balance alongwith owner's capital are shown as liabilities. So liabilities are the debts owing by abusiness to third parties and the/owner of business.

Assets have been classified as follows :-

(a) **Fixed Assets** :-The assets of a durable nature which are used in business and are acquired and intended to be retained permanently for the purpose of carrying on the business, such as land, building, machinery and furniture etc. They are also sometimes called as capital assets or fixed capital expenditures or long living assets Fixed assets are collectively known as 'Block'.

(b) **Floating or Circulating Assets** :- Those temporarily held assets which are meant for resale or which frequently undergo change e.g. cash, stock, stores, debtros and bills receivable. Liquid assets are those which can be readily converted into cash without appreciable loss. Cash in hand and cash at bank are the examples of such assets.

Other assets which cannot be readily converted into cash, or not without appreciable loss, are called non-liquid assets e.g. stock, stores.

(c) **Ficititious Assets** :- Those assets which are not represented by any thing concrete or tangible. Preliminary expenses, debit balance of profit and loss account are the examples of such assets. Thes are also called as 'nominal' or 'imaginary' assets.