

Acc 250: Accounting for Banking

Course: Concentration
LHs: 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 conceptual foundation of different banking activities. It also comprises banking rules and regulation, accounting for deposit, bills for collection, guarantee, letter of credit, remittance, credit and treasury management etc. Similarly, it focuses on new banking technologies, BASEL, anti-money laundering, financial statement and its analysis.

Course Details

Unit 1: Introduction

8 LHs

Concept of bank account, Rules and classifications of accounts; Accounting assumptions, principles and conventions; Evolution of banking industry, Development of banking industry in Nepal; Banks: 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; Concept and importance of GAAP, Nepalese Accounting Standards (NAS), International Accounting Standards (IAS), Nepal Financial Reporting Standard (NFRS) and International Financial Reporting Standard (IFRS), Relative aspects of NAS, IAS, NFRS and IFRS

Unit 2: Accounting for Deposit

7 LHs

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

7 LHs

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

7 LHs

Guarantee: 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)

7 LHs

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

7LHs

Remittance: concept, importance and types; Services rendered by 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

9 LHs

Credit: Concepts, importance and types: 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**7 LHs**

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

Unit 9: Accounting for Treasury Management**7 LHs**

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**9 LHs**

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:**7 LHs**

Concept and importance; Principles of capital measurement and capital standard

Unit 12: Anti Money Laundering (AML)**6 LHs**

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

Unit 13: Accounting for Decision Making**12 LHs**

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

Unit 14: Preparation of Financial Statements**20 LHs**

Concept and importance; General ledger: concept, needs and procedures of maintaining general ledgers, Comparison with commercial accounting, Daily trail balance: concept, needs and preparation; Transaction list verification and operational procedures; 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; Disclosures required for Financial Statement

Unit 15: Financial Statements Analysis

20 LHs

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; Earning 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

10 LHs

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.

Suggested Readings:

Accounting Manual of banks
Bank and Financial Institutions Act, 2063
Circulars issued by NRB (Banks and Financial Institution Regulation department and Foreign Exchange Management Department)
Indian Institute of Banking and Finance, (2008), *Accounting and Finance for Bankers*,
Macmillan India Ltd. Chennai India
International Chamber of Commerce and the UCPDC 600
Jain, S. P. & Narang, K. L., (2014), *Advanced Accounting, Corporate Accounting, Vol. 11*,
Kalyani Publishers, New Delhi
Negotiable Instrument Act, 2034
Nepal Rastra Bank Act, 2058
Unified Directives issued by NRB