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B.Com Honours | Semester III | Calicut University

Corporate Accounting

Course Code: COM3CJ202 • Module 4 Notes

Module IV: Accounting of Banking and Life Insurance Companies

Specialized financial institutions operate under dedicated statutory rules—Banking Regulation Act, 1949 and Insurance Act, 1938 (IRDAI).

Unit 10: Accounting of Banking Companies – Meaning, Slip System, Terms, Revenue Recognition, Rebate on Bills, Interest on Doubtful Debts, NPA Classification & Provisions

Rebate Formula: (Rebate = Discount Amount imes ⮝rac{Unexpired Days}{365}).

Practical Problem 1 (Rebate on Bills Discounted): On 31st March 2024, National Bank Ltd. holds bills discounted of Rs. 10,00,000. Discount received in advance includes a bill of Rs. 2,00,000 discounted at 12% p.a. which matures on 14th May 2024. Calculate the Rebate on Bills Discounted.

Solution: Unexpired period from 31st March to 14th May = April (30 days) + May (14 days) = 44 days.

> **Rebate = 2,00,000 × 12% × (44 / 365) = Rs. 2,893**

Journal Entry: Debit Interest & Discount A/c Rs. 2,893 | Credit Rebate on Bills Discounted A/c Rs. 2,893.

Practical Problem 2 (NPA Asset Classification & RBI Provision Calculation): Calculate total provisioning required for Canara Bank as per RBI norms from the following loan data:
Standard Assets: Rs. 10,00,000 | Sub-standard Assets (Secured): Rs. 4,00,000 | Doubtful Assets (D1 - up to 1 yr secured): Rs. 2,00,000 | Doubtful Assets (D2 - 1 to 3 yrs secured): Rs. 1,00,000 | Loss Assets: Rs. 50,000.

RBI Provision Calculation Table:

Asset Category	Amount (Rs.)	RBI Provision Rate (%)	Provision Amount (Rs.)
Standard Assets	10,00,000	0.40%	4,000
Sub-Standard Assets (Secured)	4,00,000	15.00%	60,000
Doubtful D1 (Secured ≤ 1 yr)	2,00,000	20.00%	40,000
Doubtful D2 (Secured 1-3 yrs)	1,00,000	30.00%	30,000
Loss Assets	50,000	100.00%	50,000
TOTAL PROVISION REQUIRED			**Rs. 1,84,000**

Unit 11: Accounting of Life Insurance Companies – Meaning, Features, Types, Terms, Life Fund, & Valuation Balance Sheet

Surplus Allocation Rule: 95% to Policyholders (Bonus), 5% to Shareholders.

Practical Problem 3 (Valuation Balance Sheet & Bonus Allocation): The Life Assurance Fund of Star Life Insurance Co. stood at Rs. 50,00,000 on 31st March 2024. The actuarial valuation revealed net liability to policyholders as Rs. 42,00,000. An interim bonus of Rs. 1,00,000 had already been paid. Prepare the Valuation Balance Sheet and show the distribution of net surplus.

Valuation Balance Sheet as on 31st March 2024:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
To Net Actuarial Liability	42,00,000	By Life Assurance Fund	50,00,000
To Net Surplus (Balance)	8,00,000		
TOTAL	**50,00,000**	**TOTAL**	**50,00,000**

Surplus Distribution Calculation:

- Surplus as per Valuation Balance Sheet = Rs. 8,00,000. Add: Interim Bonus already paid = Rs. 1,00,000. Total Gross Surplus = Rs. 9,00,000.
- **Policyholders' Share (95%):** (95% imes 9,00,000 = ext{Rs. 8,55,000}). Less Interim Bonus (Rs. 1,00,000) = **Rs. 7,55,000 Net Bonus Payable**.
- **Shareholders' Share (5%):** (5% imes 9,00,000 = extbf{Rs. 45,000}).