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Yearly balance sheet and the account for profit and loss made by the banking societies

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ABSTRACT. The banking societies, as economical entities with specific activities inside the economy, draw up yearly financial situations, as well as in the situations designedly specified by the lawgiver. The financial yearly situations which the banking companies are compelled to draw up and at the same time to assure their publication, are made up of a unitarian documents system, namely: balance sheet, account of profit and loss, situation of modifications of proper capitals, situation of cash ebbs and flows and explanatory notes. To ensure a whole conformity with the European practice, as well as the assurance of comparability of yearly synthesis information presented by the Romanian banking companies with those of European banking companies, the contents, the structure and the way of drawing up of these documents has been designedly regulated by the Romanian authorities. These situations are presented as a unity whole and in a clearer manner in order to reflect the faithful image of the assets, debts, financial position, profit or loss and also of treasury ebbs and flows of the concerned bank.. The indicators presented inside the yearly financial situations made by the banking companies, have s synthesis character, reflecting different states or components of their acitivity, and the knowledge of content and their significance is being essential both in drawing papers and subsequently in the analysis of grouped or individual indicators or the ensemble activity of one or another of the banking societies. The balance sheet and the account of profit and loss have a central place in the ensemble of these yearly sinthesis documents, for which reason our analysis should focus on their presentation.

1. General aspects and specific regulations

In accordance with the general and specific accountancy regulatings, banking societies make yearly financial situations by means of which reflects their situation out of accountancy and financial point of view. Yearly financial situations are meant to give a tenacious copy image of the assets, of the involved bank financial position as well as the profit and loss coming from the development of activity. The yearly financial situations offer at the same time an image on the treasury flows of the involved banking society.

To ensure some complex information but at the same time in concordance with the financial situations made by the European banking societies, with a view to assure a comparison of information at European level, the Romanian accountancy regulatings have been in keeping with the European ones.

Therefore, nowadays, the form and contents of yearly financial situations, general accountancy principles and rules of evaluation of elements presented in the yearly financial situatins, as well as the rules of drawing up, approval, audit and publication of yearly financial situations and consolidated financial yearly situations of banking societies are regulated by a series of accountancy regulations according to the European directives applicable to credit institutions.¹ The regulations are meant to ensure the comparison and transparence of

¹Accountancy regulations in accordance with European directives applicable to credit institutions approved by Order no.5/22.12.2005 of the governor of the National Bank of Romania, modified and completed by Order of the National Bank of Romania no.24/21.12.2006.

accountancy information and of those of financial nature supplied by Romanian banking societies through the yearly financial situations. A convergence is assured, of form and contents of yearly financial situations, of the principles of general accountancy and of valuation rules of elements presented in the yearly financial situations, as well as the rules for drawing up, approval, audit and publication both of yearly financial situations and consolidated yearly financial situations.

The regulations issued by Romanian authorities are applicable to banking societies which are Romanian juristic persons and to branches from Romania of the foreign banking institutions. In accordance with these regulations, the yearly financial situations that are compulsory for the banking societies are made up of: balance sheet; account for profit and loss; situation of modification for proper capitals; situation of cash flow; explanatory note.

These situations must be presented as a whole unit and very clearly, in order to show the tenacious image of the assets, debts, financial position, profit or loss and of treasury flows of the involved bank. In order to ensure a very retentive image, additional information can be presented as compared to the compulsory ones imposed on by means of regulations.

One must specify that the subunits without juristic personality, belonging to a banking society, a Romanian juristic person, organizes and manage the proper accountancy till the level of verifying balance sheet, without having the obligation of drawing up the financial situations, this obligation devolving upon the central administration of the respective bank.

In the case when a banking society, a Romanian juristic person, develops an activity also abroad by means of some subunits having no juristic personality, their activity is included in the financial situations of the bank Romanian juristic person and reported on the territory of Romania.

2. Balance sheet

The balance sheet drawn up by the banking societies is defined, according to book-keeping regulatings conformable to European directives, as being a synthesis accountancy document by means of which the assets elements are presented, also debts and proper capital of a bank at a certain date, which is the end of a financial exercise, as a rule. The balance sheet is also drawn up in other situations, not only at the end of a financial exercise. These types of situations are designedly stipulated by means of legal regulations.

Inside the group of balance sheet elements is to be applied the principle of liquidation (for assets) and the principle of exigibility, for liabilities elements. Thus, the grouping of assets elements in a balance sheet is made following their type and the degree of liquidation, from the liquid to the less liquid, and the debts are grouped according to type and exigibility, from the shortest to the ones with longer exigibility. The balance sheet indicators are to be presented as follows, accompanied by a presentation of their contents.

2.1. Description of assets elements of balance sheet

The patrimonial elements of assets which are implies in the activity of a bank are grouped, in a balance sheet, as follows:

Cash, money supply , comprises: cash which is to be found at the bank pay office, banknotes and Romanian and foreign coins which have a legal rate of exchange; the cash in ATMs and ASVs; travel cheques bought and not handed for cashing to the issuers; balances of money supplies accounts at central banks and issue institutions from Romania and/or from the countries where they are put, provided that these should be easily available an dat any moment;

Public effects and other titles accepted for refunding at central banks , comprise: treasury certificates and debentures on public organisms issued in Romania, as well as the instruments of the same kind issued abroad in the situation they are accepted for refunding by the National Bank of Romania and/or by the central bank of the country where is the bank concerned; other titles accepted for refunding by the National Bank of Romania and/or central bank of the country where the bank concerned finds itself.

Debts on the credit institutions , referring to the debts that come from bank transactions, held by the involved bank which makes the financial situations , on the national or foreign credit institutions, central banks and international and national official banking organizations. Here they are not included debts represented by bonds or any other titles.

Debts on clients, comprise debts for foreign and national clients, others than credit institutions, whatever their name may be, except for the debts represented by debentures or any other title, that presents itself separately.

Debentures and other titles with fixed income comprise the obligations and other titles with negotiable fixed income, issued by the credit institutions, by other societies or public bodies. Debentures and other titles with fixed income issued by public bodies included within this position referred only to those which were not accepted for refunding by the National Bank of Romania and/or central bank of the country where the bank concerned finds itself, which is to be registered in a separate position. Negotiable and refunded proper debentures are separately pointed out.

Shares and other titles with variable revenue , comprise shares or other titles with variable revenue that the bank holds, others beside those held inside legate trade companies, which are distinctly pointed out.

The interests, comprise the interest titles or other titles having similar contents held by the bank The interests at the credit institutions are separately pointed out.

Parties inside legate trade companies comprise fixed values represented by shares or other titles with variable revenue held by the bank at its branches on which it has control, materialized in the authority to lead operational and financial policies of the concerned company ,with a view to get benefits

Intangible assets, comprise net value of the elements of intangible assets held by the bank.

Tangible assets, comprise net value of the elements of tangible assets, held by the bank.

Other assets, comprise other assets that are not comprised in other positions.(posts)

Expenses registered in advance and unengaged revenues, comprise the expenses made in advance which are to be paid at intervals as expenses, on the basis of a bills payable book, during the periods or future financial exercises (subscriptions, rents, insurance policy, interests and commissions paid in advance etc) and which are not to be found in debts accounts and attached debts, as well as the debts coming from revenues to receive ascertained as a rule, at the end of the year and which are not to be found in the attached debts accounts.

2.2. Description of liabilities positions of the balance sheet

Balance sheet comprised in the liabilities of the accountancy balance sheet concluded by the banking companies, group the following elements, which we try to characterize concisely:

Debts concerning credit institutions, comprise all debts that result from banking transactions of the bank that draws up the financial situations, as compared to the national and foreign credit institutions, central banks and international and national official banking

organizations. Subordinated debts and the ones representing bonds or any other title that presents itself in separate positions/ posts.

Debts regarding the clients, comprise the amounts the clients have to receive, other than the credit institutions mentioned before. Subordinate debts are not to be included in this position, as well as those represented by bonds or any other title which is presented in separate positions.

The debts concerning the clients are presented grouped, on debts made from deposits, at sight and at term, and other debts, at sight and at term, too. The deposit certificates are not comprised in this position, which are negotiable titles, presented in other position.

Debts made by titles, comprise both bonds and debts for which the negotiable certificates have been issued, especially deposit certificates that are negotiable titles, interbanking market titles and negotiable debts titles, bonds and other titles having fixed revenue, as well as the debts which result from proper acceptances and bills payable to order in circulation, except for the subordinate debts. One may understand by proper acceptances exclusively those issued by the respective bank for its proper financing and in which it appears through debtor (drawn).

Other liabilities, comprise other liabilities elements which are not to be found in other positions of liabilities in the balance sheet.

Incomes registered in advance and engaged debts, comprise the incomes registered in advance (discount,agio and commission of administration for factoring operations, interests, commissions, rents cashed in advance, premii of issue negative, etc. that are to be allocated for incomes during the future periods and which are not found in the receivable claims and attached debts, as well as the debts afferent to payment expenses ascertained, as a rule, at the end of the year and that cannot be found in the accounts of attached debts.

Provisions, comprise those ones made by the bank in accordance with the legal regulations.

The subordinate debts, comprise the funds coming from the issue of titles or from subordinate loan, whose reimbursement, in case of liquidation of the involved bank, is possible only after the payment of other debtors;

Subscribed capital,comprise all the amounts, no matter their naming, which, depending on the juridical form, are regarded as being subscribed parties by the shareholders or partners, in accordance with the national legislation.

Capital premii, comprise capital premii made by the bank, coming from the issue, fusion, new contributions of capital, division, conversion and other premii, according to legal regulations.

Reserves, comprise legal reserves, reserves for banking risks , statutory or contracting reserves and other ones, except those reserves for revaluation, which present themselves separately.

Reserves from revaluation, comprise the reserves from the revaluation made in accordance with the legal provisions of patrimonial elements.

Proper actions, comprise the value of proper actions rebought, according to the legal regulations.

Reported result, comprises the result or partie from the result of the preceding financial exercise that were not distributed by the general essembly of the shareholders as well as other elements specially mentioned.

Result of financial exercise, comprises the profit or loss achieved by the bank in the current financial exercise.

2.3. Elements outside the balance sheet

The specific of banking activity, determines the registering of a huge volume of operations outside the balance sheet, grouped into:

- **Contingent debts**, comprise all the transactions through which the bank has guaranteed the obligations of a third party. The engagements representing endorsements of rediscount effects, as well as the acceptances - others than the proper ones. As for the guarantees and the assets charged, which present themselves as a distinct element, that comprises all the assumed guarantees and assets warranted in the account of a third party, especially the bills and irrevocable letters of credit. The significant guarantees in comparison with the ensemble of bank activity, issued by this one, present themselves in explanatory notes, as kind and value of engagement type.
- **Engagements**, extrabalance sheet element, that comprises all the irrevocable engagements of the bank which may cause a risk. The significant engagements as reported to the ensemble of the bank activity present themselves in explanatory notes.

3. The account for profit and loss

The account for profit and loss is a synthetic picture in which the elements of incomes and expenses are pointed out, as determining elements of the result obtained from the activity developed by a bank for the administration period to which it refers, concretized in the registered profit or loss.

We shall present now some of the indicators belonging to the structure of account of profit and loss of a bank, namely:

Interests to receive and assimilated revenues, indicator which comprises incomes generated by banking activity, including:

- Achieved revenues generated by the patrimonial elements included in the following positions from the assets of banking balance sheet: cash and money supply at central banks, public effects and other titles accepted for refunding at central banks, debts on the credit institutions, debts on clients, debentures and other titles with fixed income and other assets, whatever they may be calculated;
- Revenues resulted from the operations at term, covered, spread out on the effective duration of operation and which have an interest character;
- Taxes and commissions to receive, with interest character and calculated in accordance with the duration or value of debt or given engagement;

Interests to pay and assimilated expenses, reflect the expenses generated by the developed banking activity, comprising:

- Expenses coming from patrimonial elements of a bank inscribed in the following positions of the liabilities of balance sheet : debts regarding credit institutions; debts concerning the clients; debts made by titles; other liabilities; subordinate debts, whatever these expenses may be calculated;
- Expenses resulted from the operations at term covered, spread out on the effective duration of the operation and which have an interest character;
- Taxes and commissions to pay, with an interest character and calculated depending on duration or value of debt or the received engagement;

Revenues concerning the titles, indicator that comprises the value of dividends and of other revenues afferent to shares, interests and parts detained inside the legate companies.

Revenues from commissions, comprise the revenues afferent to services given to third parties, without diminishing the revenues included in the indicator „Interests to receive and assimilated revenues”. The revenues from the commissions included in this type of indicator are:

- Commissions for guarantees, credits administration in the account of other creditors and for the transactions with titles in the account of a third party;
- Commissions for the payment of trade operations and other revenues that are afferent to these ones, commissions for the administration of accounts and commissions to keep in custody and administration of titles;
- Commissions perceived for the exchange operations and for sale and purchase of coins or precious metals in the clients' account;
- Commissions perceived in a capacity of intermediary for credit operations or disposal of agreements of economies and insurances;
- **Expenses from commissions**, comprise the expenses afferent to services made by thir parties, others beside those included in the indicator „Interests to pay and assimilated expenses”.

Profit or net loss out of financial operations, is made up of:

- Net result out of transactions with titles which have not character of financial fixed assets and the corrections and taking again from corrections on the value of these titles;
- Net result from the exchange operations, without causing a prejudice to the revenues from the interests to receive and the revenues assimilated and the expenses concerning the interests paid and expenses assimilated presented at the first two indicators above;
- Net result from other sale and purchase operations that imply financial instruments, including precious metals.

Other revenues from operation, comprise the other expenses of operation which are not comprised in the other positions of the balance sheet;

General administration expenses, include all the expenses with general character made to assure the bank operation, respectively the expenses with the staff and other administration expenses;

Current activity result, reflects the profile or loss resulted from the development of current activity, determined as a difference between revenues from current activity and current expenses.

Extra revenues, represent banking revenues with special character registered along the development of activity of subsidies nature for extraordinary events and other ones assimilated.

Special expenses, include the expenses resulted from events or extra transactions (taking over of assets, earthquakes or other acts of God).

Result of special activity, determined as a difference between the extra revenues and special expenses.

Total incomes, represent total revenues from the development of activity, determined by means of totalizing current and those special revenues.

Total expenses, represent total expenses made in order to ensure the development of activity, determined as an amount of current expenses and of those extra.

Raw profit, reflects the profile or loss resulted from the development of activity, determined as a difference between total revenues and total expenses, being registered a profit when total revenues are bigger than total expenses and a loss when total expenses are bigger than total revenues from the development of banking activity.

Tax on profit, represent the legal tax calculate on the profit obtained, which is owed to the budget of state.

Net result of financial exercise, represented by profit or loss, determined as a difference between raw profit/ raw loss and the tax on profit and other taxes according to legal regulations.

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1. Troacă V., Contabilitate bancară, Editura „Universitaria” Craiova, 2008.
2. * * * Accountancy regulations in accordance with European directives applicable to credit institutions approved by Order no.5/22.12.2005 of the governor of the National Bank of Romania, modified and completed by Order of the National Bank of Romania no.24/21.12.