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The Accounting Times

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Volume No. 06 Issue No. 23 FEBRUARY 2021

NEW ASSET RECONSTRUCTION COMMITTEE: BANKS LIKELY TO ASK RBI TO RELAX NORMS

Lenders, backed by government, could approach the Reserve Bank of India (RBI) for relief on provisioning for assets sold to the proposed asset reconstruction committee (ARC). They are expected to seek a relaxation of the September 1, 2016, circular which requires them to provide for an asset, assigned to ARCs, as if it were still on their books. Moreover, they are likely to ask the ARC to be exempt from making future provisions for the assets it buys.

Experts observed that given banks are already holding a fairly high level of provisions incentives were needed to push banks to sell loans via a 15:85 model. The model implies that the sellers get 15% as upfront cash payments and security receipts (SR) for the remaining 85% of the value.

Should these exemptions be granted, it will give the new institution an upper hand over existing players, experts said. Finance minister Nirmala Sitharaman said in her Budget speech on Monday an ARC would be set up to help banks deal with bad loans and later clarified the government would not be funding it. However, financial services secretary Debasish Panda has hinted at provisioning relief being offered through a government guarantee. Panda told reporters on Tuesday sales to the new ARC would be a cash-neutral transaction for banks. Since the regulator may insist on provisioning to support this arrangement, banks may request the government for a guarantee that could satisfy the regulator, Panda said.

RBI's September 2016 circular mandated that, with effect from April 2018, banks would need to continue providing for loans sold as if they still were on the books. The rule was applicable if the SRs received in the sale comprised more than 10% of bank's own bad loans. Consequently, hybrid cash-and-SR deals have dried up and banks have been offering bad loans to ARCs almost exclusively on an all-cash basis.

The new ARC will have the advantage of the loan exposures being clubbed across banks, although this, too, is prone to challenges. Industry executives FE spoke to said banks hold varying levels of provisions against the same asset and that would complicate the process. A senior executive in the stressed assets market believes private banks may not want to transfer the asset at book value. Implementation issues apart, he pointed out that no lender would want to make additional provisions if the asset is to be transferred in a 15:85 structure.

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AUTOMATED ACCOUNTING PROCESSES:

In recent years, automation of processes has been important but has become even more essential now most of the people are working remotely. Automated accounting processes are one of the most important trends in the field of accounting as automation leads to less confusion and fewer errors. Consequently, many clients are willing to invest more money in automation because of those advantages. Since automation depends entirely on network technology and computers, there will be a risk that business can affect a great risk of cyber-attacks.

It is essential to make sure that management and accountants understand the process of automation and they are familiar with ensuring the outcome. Accountants and management both need to make sure that their business continues, and cyber insurance is reviewed regularly.

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BLOCK CHAIN IN FINANCE AND ACCOUNTING

The applications of block chain present one of the most exciting technology trends in accounting. While there has been an overwhelming focus on how businesses can use block chain to track the movement of valuable assets along a supply chain, experts are beginning to explore innovative applications to streamline the accounting firms of tomorrow.

'Block chain' or 'Distributed Ledger Technology' refers to the use of a network of independent computers to record, share and synchronize transactions into an immutable ledger. The core benefit is to string together a transparent and fully trace able chain of events into a trustworthy database that cannot be altered.

The accountancy sector can embrace block chain to track the ownership of assets and establish an unobstructed perspective over their internal workflows to maximize operational efficiency and stay within budget.

Crucially, forward-thinking accountants are excited about the use of Distributed Ledger Technology to conduct in-depth audits and improve the traceability of historic events. Whether it's using smart contracts to break down administrative barriers or embracing oracles to feed real-life events into recorded chunks of data on a block chain, this cutting-edge technology has the potential to fundamentally change the face of accounting.

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CONCEPT OF ACCOUNTING PERIOD

This concept requires that the life of business should be segregated into equal parts which are termed as Accounting Periods OR Account Time**.** This concept requires consistency of accounting periods. It helps in estimating the profit or loss and financial position of a business for a particular period. If there are different accounting periods then various problems can arise like in the calculation of profits, comparability of various incomes & expenses etc. Thus, to study the results of a business, the life of a business is divided into short periods of equal length. Each such period is known as accounting period.

Generally, an accounting period is one year. Hence, an income statement shows the financial performance over one year while a balance sheet shows the financial position at the end of a year. This year may not necessarily be a calendar year. It may run from January to December, or from July of one year to June of the next, or from October to September. The fact that financial statements are prepared in relation to an accounting period necessitates certain adjustments. For example, when a car is bought its cost must be apportioned over the various accounting periods in which the said will be used. The accounting period principle requires that such adjustments be judicially made and accounting record of them made accordingly.

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