FINANCIAL AND ACCOUNTING MANUAL FOR RURAL BANKS

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By:

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KEY DEFINITIONS

RURAL BANK

Rural Bank can be defined as rural financial institution/ cooperative/ community bank or deposit taking MFI that provides customised financial services to rural communities.

BUDGET

Budget is a projection of the income and expenditure from business activities of an institution in for a set time period. In other wards it is the quantification of an institution's business plan in monetary terms. The Annual Budget of the Rural Bank includes a Statement of Financial Position (often also referred to as balance sheet) and Profit & Loss targets for the financial year approved by the Board of the Rural Bank.

BANKING SOFTWARE

The Banking Software which can also be referred to as core banking software is the information system covering the whole enterprise used for timely processing and recording of transactions and the production of financial statements.

CASH FLOW STATEMENT

It shows how changes in the Statement of Financial Position and Income Statements affect cash and cash equivalents of the Rural Bank. It reports cash receipts and payments as well as the net change resulting from operating, investment and financing activities.

CHART OF ACCOUNTS

This is the list of the general ledger accounts used by the Rural Bank that represent each category or class of transaction for which money or the equivalent is spent or received. The Chart of Accounts is to be created in the RURAL BANK. An account is identified for each transaction for posting in the system. The Chart of Accounts is structured in the form of a parent and subsidiary relationship.

FINANCIAL STATEMENTS

This is a term that is used to mean, Statement of Comprehensive Income, Statement of Financial Position, Cash Flow Statement and Statement of Changes in Equity and Notes to the Financial Statements. The statements are explained in detail below.

FIXED ASSET (CAPITAL EXPENDITURE)

Fixed assets are tangible assets or property plant and equipment (as defined by IAS 16) which generate economic benefits for the entity for a period greater than one year.

NOTES TO THE FINANCIAL STATEMENTS

These explain the items presented in the main body of the financial statements. They are explanatory notes on the financial statements' items and the accounting policies used.

STATEMENT OF COMPREHENSIVE INCOME

It shows the operating performance (incomes & expenses – *including non-cash items such as depreciation & provisions*) during the time period.

STATEMENT OF EQUITY

It shows the business owners' (shareholders) interest/stake in the company.

STATEMENT OF FINANCIAL POSITION (STATEMENT OF FINANCIAL POSITION)

This shows the financial position of the institution. It records the Bank's assets & liabilities, and the capital/equity.

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INTRODUCTION

The purpose of the Financial and Accounting Manual is to outline the accounting and budgeting policies of the rural banks (RB)**.** It also seeks to provide a framework and specific guidelines to ensure accuracy, consistency and efficiency in carrying out accounting and financial procedures in the bank. This manual also provides a reference for the Rural Financial Institutions (RFI's) staff for the various tasks performed on a routine basis as well sample vouchers, reporting template etc. The document can also serve as a training manual for newly recruited bank's accounting staff. It also establishes the conceptual framework for the customisation of core banking software of the RB. The Manual should comply with the statutory requirement of the central bank's regulation.

This manual cannot address all aspects of the RB's accounting and budget operations. Guidance from Management should be obtained when such situations arises. This manual should be reviewed and updated occasionally to conform to international best practice. When changes are to be made, the applicable section(s) or paragraph number(s) must be quoted in a **Policy Amendment Memorandum (PAM – Annex A),** indicating the effective date of the amendment. Any changes made by the Regulator for regulatory purposes have to be reflected in this manual and an amendment is required for the same. This PAM will be attached to the manual. At the beginning of each calendar year, an updated Accounting and Finance Manual will be issued, which shall incorporate all policy amendments in the previous year.

GENERAL POLICIES AND PRINCIPLES

A. The Rural Bank's accounting process will comply with Generally Accepted Accounting Principles (GAAP), the laws of the country and the regulatory requirements of the Central Bank. In order to comply with GAAP, the following concepts must be reflected:

   Accruals Concept: Accrual accounting will be used whereby expenditure and revenue are recorded as they become due, rather than when they are either paid or received. Transactions are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

   Matching Concept: This concept is based on the assumption that periodic costs are expensed as incurred and matched against related revenue in the same period. This concept is linked to accrual accounting.

   Recognition Concept: This is based on the assumption that revenue is recognized when the earnings process is virtually complete and can be matched against costs incurred in creating those earnings. Earnings and revenue can both be included in the reporting period even though the transaction may not be complete.

Historical Cost Concept: This is based on the assumption that GAAP normally requires assets and liabilities to be accounted for and reported on the basis of acquisition cost, except where the replacement cost or net realisable value of the asset is less than the historical cost on a semi-permanent basis.

Stable Money Concept: It is based on the assumption that the monetary unit is relevant, simple, universally available, understandable, and useful.

Going Concern Concept: It is based on the assumption that the business enterprise will continue operations for the foreseeable future without curtailing or scaling down its operations.

Materiality Concept: This is based on the assumption that an item is material if its omission or inclusion would influence or change the economic judgment of a user on the basis of the financial statements as a whole. Materiality is determined based on the item's nature, size, and/or the surrounding circumstances.

Cost/Benefit Concept: is based on the assumption that the costs of providing information must be weighed against the benefits that can be derived from using that information.

Flexibility: The accounting policies and procedures must undergo regular review and revision when changes in corporate policy or governing accounting principles deem it appropriate.

B. Time period- A critical point in monitoring is ensuring that transactions are recorded in the correct time period. In accrual accounting, items are recorded or 'brought to account' as soon as they are earned or incurred. (NOTE: In cash accounting, items are only recorded or 'brought to account' when actual monies are received or paid.) Implying in accrual accounting, transactions are included in the financial statement for the period in which they occurred—not when monies were received or paid.

C. Non-cash transactions - In addition, accrual accounting entails recording non-cash transactions such as depreciation, provisions, revaluations adjustments etc. Non-cash transactions have a monetary value and contribute to the Bank's financial position.

D. Financial reports - In accrual accounting, there are three very key financial reports. Each report provides a set of information that assists managers in their decision-making.

a. **Income Statement**- The Income Statement reports the operating performance during the time period. It records the income and expenses for the period. In addition, it records non-cash transactions such as depreciation, revaluations and movements in provisions. The Statement presents the financial outcome of operating activities for the period and allows managers to monitor that operating performance.

b. **Statement of Financial Position** - the Statement of Financial Position reports the financial position of the Rural Bank. It records the values of the Bank's assets and liabilities and reports the 'capital or net equity position'. The Statement of Financial Position should include accumulated depreciation on asset purchases, the loan loss reserve, the provisions accumulated to meet annual and long service leave, Accounts Receivable (debtors who have not paid interest on the debt or other amounts fallen due) and Accounts Payable (creditors who have not been paid by the Bank).

c. **A Cash Flow Statement** (also known as **Sources and Uses of Funds Statement**) is a financial statement that shows how changes in Statement of Financial Position accounts and the income for the period affect cash and cash equivalents. The statement is divided into three categories namely operating, investing, and financing activities. Essentially, the cash flow statement is concerned with the flow of cash in and out of the business. The statement captures both the current operating results and the accompanying changes in the Statement of Financial Position.

E. Rural Banks will comply with the statutory reporting requirements of the Central Bank.

F. Rural Banks will conduct its accounting activities and prepare financial statements based on a chart of accounts.

G. Rural Bank's accounting method will use the accrual basis. Under accrual accounting, transactions are recorded when they occur, not when cash is received or paid.

H. Rural Bank will use the National Procurement Act/ policy.

I. Rural Bank financial year will be from *date/month* to *date/month*.

CHART OF ACCOUNTS

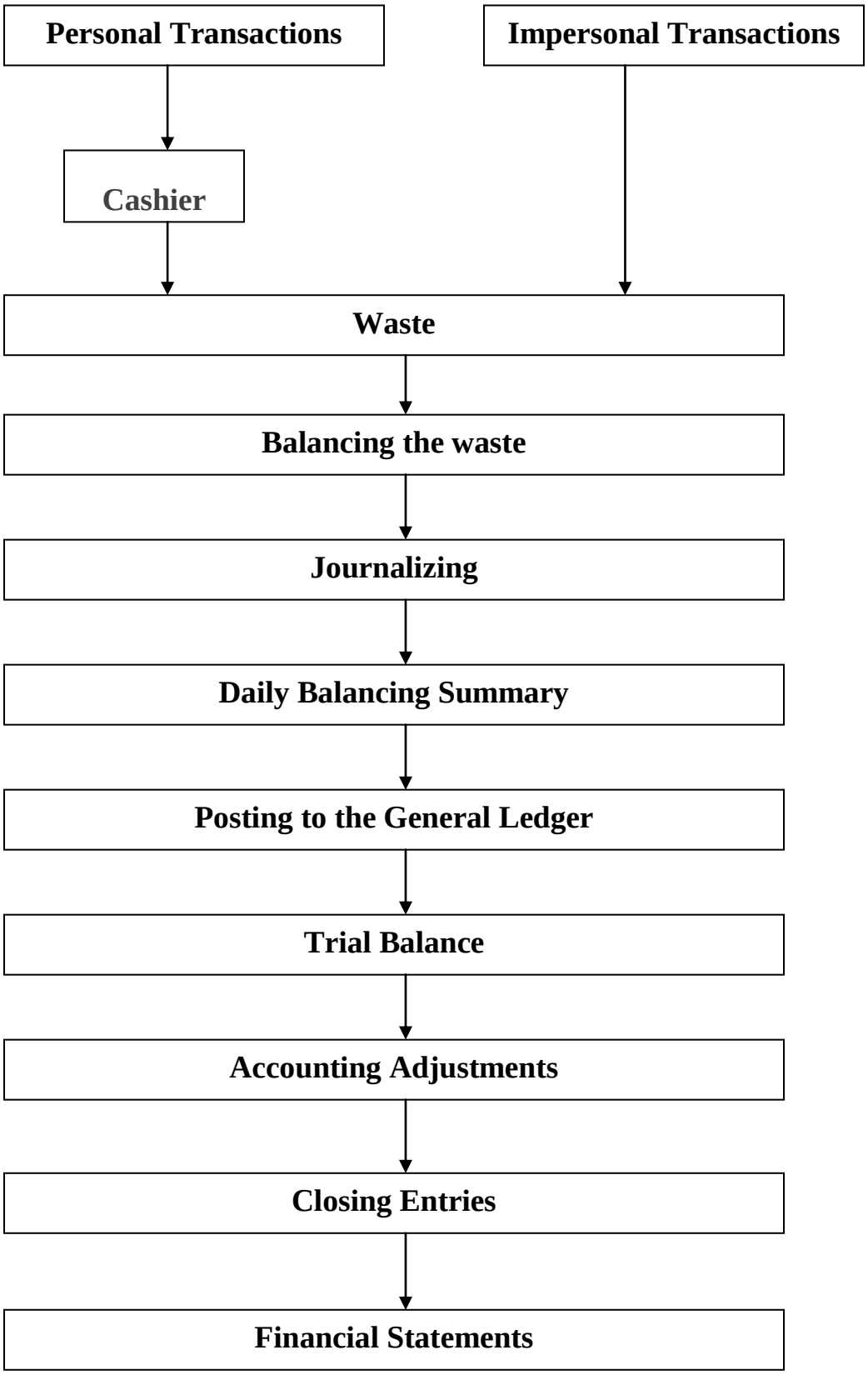
The Rural Bank chart of accounts provides the foundation and structure for recording transactions in different accounts. It determines what type of financial information can be accessed, analyzed and reported in the financial statements. A sample chart of account is attached in Annexure B.

PROCEDURES FOR CREATION OF NEW CHART OF ACCOUNTS

The creation of new Chart of Accounts, or the opening of a new account, shall be requested by the Accountant, Accounts department, verified by the Head, Accounts department and must be approved by the Managing Director. The approved request has to be forwarded to the IT/ MIS Dept. for the creation of the accounts. If any other department wants any account to be added, a formal request from the respective department is sent to the Budget and Accounts Department explaining the rationale for the account and type of account. The copy of approved request(s) is to be filled both at the Budget and Accounts department as well as at the IT/ MIS Department.

Also, the IT/ MIS department shall issue an internal circular to all the departments, when the account is created. The request form is attached in Annex C.

ACCOUNTING FLOW



A. Personal transactions are transactions that pass through the cashier while impersonal transactions do not pass through the cashier and are recorded directly to the waste/ journal.

B. All the day's transactions and vouchers are recorded in the waste (Annex D) under the various accounts columns as debit or credit. The debit and credit totals must agree (balancing the waste).

C. The next stage is journalizing. Transactions are recorded in the various journals as debit or credit entries.

D. Once the journal entries have been made, the account balances or total debit and total credit for each ledger account are determined. All debits and credits by ledger account are then listed in a daily balancing summary (Annex E) where the total debits equal the total credits. The daily balancing summary figures are compared to the figures in the waste and the two must agree. Different bank personnel must handle the balancing of the waste and the daily balancing summary as a means of control and verification for accuracy.

E. The next step is posting to the general ledger. Posting is the process of copying journal entry information to the general ledger. In the posting process, journal debits become ledger debits and journal credits become ledger credits.

F. Once all journal entries have been made and posted in the general ledger, it is necessary to verify that debits and credits are in balance. A trial balance (Annex F) is prepared by taking the account balances from the general ledger and listing debit balances in one column and credit balances in another column. The sum of the debit balances must be equal to the sum of the credit balances in order for the trial balance to be balanced.

   If the trial balance does not balance, account balances must be verified and checked if properly transferred.

G. Once the trial balance is balanced, accounting adjustments are made to record transactions that have not been previously recorded such as depreciation, loan loss provision, charges on bank accounts, accrued interest receivable, accrued interest payable, etc. Once accounting adjustments are recorded and trial balance remains balanced, the trial balance becomes an adjusted trial balance.

H. The next stage involves closing entries where revenue and expense accounts are cleared to zero and net income is transferred to equity. This is also called closing the books or closing the ledger.

I. Financial statements (Statement of Financial Position, income statement and statement of cash flow) are then prepared monthly.

Other important guidelines:

a. All transactions must be conducted within internal control policies and procedures of Rural Banks. The Board of Directors and the Manager may adopt all or any of the following control measures:

1. Segregation of duties – involves separation of responsibilities for two or more tasks that could result in error or encourage dishonest behaviour if only handled by one employee. This also ensures that each person's work is checked by another, an application of the 'four eyes principle'. .

2. Approval Limits – this involves the setting of parameters for various staff of the bank according to their levels of responsibilities.

3. Signature requirements – to protect the institution from unauthorized transactions, approval is given by the Board to key management staff of the bank as signatories for the purpose of operating the bank's account with other banks.

4. Physical controls – is risk a management concept through instituting physical control such as locks, key to prevent unauthorised access to the assets or property of the bank. Also physical control review involves the verification of the existence of assets reported in the accounting books

5. Crosschecks/Spot Checks – a risk a management concept which provides an assurance that policies and procedures are adhered to. When it is done spontaneously or unannounced it is termed Spot Check.

6. Dual controls – is a risk management concept that prevents the institution from losses by ensuring two employees having two sets of control over a process or activity.

b. All transactions must be supported by vouchers (Annex G) and other appropriate supporting documents to create/establish an audit trail.

Important: The vouchers are prepared by an Account Clerk. The vouchers must be verified by the Accountant or a designated officer and approved by the Manager.

c. All transactions must be recorded at the time they occur or batched for end of day processing. In any event, the day's activities will be posted on the day they occur, verified for authorization and balanced.

d. Responsibility for the correctness and reliability of recorded transactions remains with the Accountant.

COMMITTEES AND APPROVING AUTHORITY LIMIT

COMMITTEES

Rural Bank is being governed by its Board of Directors. The Directors are selected by shareholders at the Annual General Meeting. This is to ensure ownership and the provision of oversight necessary for the bank's overall operation.
To foster bank efficient and effective oversight of the bank's operations by the Board, the following Committees should be established by yhe Board of Directors:

- Finance Committee
- Loans Committee
- Procurement Committee

FINANCE COMMITTEE

This Committee reviews the financial performance of the bank through the review of the proposed budget for next fiscal year and provides feedback and directions to Management for final approval from Board of Directors. The Board of Directors appoints the members of this Committee and the Chairperson from its members. This Committee consists of 2-3 Board Members and the Bank Manager as Secretary. The Bank Manager will have no voting authority in this Committee.

Amount	Approving Authority
USD ----	Bank Manager
USD	Finance Committee
USD ----	Board of Directors

If the expense is urgent and will exceed the Manager's limit, the Manager will request verbal or written approval from the Chairman of Finance Committee for the payment of the said expense and ratification must be obtained in the next Board meeting.

LOANS COMMITTEE

This Committee reviews the loan portfolio and its performance in terms of recovery, revenue generation and portfolio diversification. It reviews the loan application together with supporting documents. This Committee can approve those loans that falls within its approving limit and refer to the whole Board for approval for those above their limit. The Board of Directors appoints the members of this Committee and the Chairperson from among these members. This Committee consists of 2-3 Board Members and the Bank Manager as Secretary. The Bank Manager will have no voting authority in this Committee.

Amount	Approving Authority
USD -------	Management Committee
USD -------	Loan Committee
USD-------	Board of Directors

PROCUREMENT COMMITTEE

The Rural Bank may procure services from outside consultants, construct a new building, purchase plant & machineries and purchase vehicles etc. This process will be overseen by a subcommittee of the Board to review bids, quotations from service providers, suppliers etc. This Committee will finally recommend its findings for procurement decision making on behalf of the Board of Directors. The Board of Directors appoints the members of this Committee and the Chairperson from among these members. This Committee consists of 2-3 Board Members and the Bank Manager as Secretary. The Bank Manager will have no voting authority in this Committee.

TRANSACTION PROCESSING

The appropriate chart of accounts shall be selected to record the transactions. The operations department shall ensure objectivity and appropriateness while selecting chart of accounts.

DEPOSIT

Rural Bank could have the following types of deposits:

- Savings Account (Compulsory)
- Savings Account (Voluntary)
- Current Account
- Fixed Deposits

When clients make deposits:

Debit : cash
Credit : the relevant depositor's account

When clients make a withdrawal:

Debit : the relevant depositor's account
Credit : cash

When interest is paid:

Debit : interest expense
Credit : the relevant depositor's account

However, for fixed deposits where amounts are accepted for a specific period with an agreed interest rate as stated in the contract or certificate, interest should be accrued at the end of an accounting period or on monthly basis.

Debit : interest expense
Credit : accrued interest payable

When interest is paid upon maturity of the fixed deposit:

Debit : accrued interest payable
Credit : the relevant deposit account

When a fixed deposit is terminated before maturity period, reverse the accrued interest payable:

Debit : accrued interest payable
Credit : interest expense

If the terminated fixed deposit account is entitled to interest earning for a non-fixed deposit account.

Debit : interest expense
Credit : the relevant deposit account

LOAN PORTFOLIO

Principal

When a loan is disbursed:

Debit : loan portfolio
Credit : the relevant deposit account of borrowing client

When principal is paid:

Debit : cash
Credit : loan portfolio

Interest
When interest on loan is due but not paid
(Interest income is recorded when earned not when payment is received)

Debit : accrued interest receivable
Credit : interest income

When payment is received:

Debit : cash
Credit : accrued interest receivable

When interest payment is received

Debit : cash
Credit : interest income

Penalty charges and other fees on loans

When penalty is collected on late payments or fee-income (commitment fee or assurance fee) is earned after loan disbursements and before repayment:

Debit : cash/customers account
Credit : the relevant income account (penalty charges, commitment fee or Assurance fee)

Important: Rural Bank shall not extend or grant loan to a single borrower in excess of 0.5% of the institution's net worth and to group of borrowers in excess of 1% of the institution's net worth (Total assets-Total Liability).

Note

The amount of loan granted by Rural Bank to a single or group borrower depends on the limit established by Regulatory body in the regulatory guidelines.

LOAN LOSS PROVISION

A loan loss provision is the amount expensed in a period to increase the loan loss reserve to an adequate level. The loan loss reserve represents the amount of outstanding loan principal that is not expected to be recovered. The loan loss reserve is computed based on the aging of the portfolio at risk (PaR) and loan loss reserve rates prescribed by the regulator. A sample Loan loss computation sheet is shown in Annex H.

The loan loss provision is a non-cash expense but treated as a direct expense in the income statement. After computing the required loan loss reserve for the period, it must be compared to the existing reserve. If the existing reserve amount is lower, then the difference will be recorded as a loan loss provision.

Debit : loan loss provision (an expense account)
Credit : loan loss reserve (Statement of Financial Position account)

When there is no existing reserve, then the amount of loan loss provision is equal to the required loan loss reserve.

WRITE-OFF

Actual loan losses or write-offs are reflected on the Statement of Financial Position only as a reduction of the loan loss reserve and the gross loan portfolio.

Debit : loan loss reserve
Credit : loan portfolio

When a loan that has been written off is recovered:

Debit : cash
Credit : other income

INVESTMENTS

Investments should be classified as either short-term investments or long-term investments. Short-term investments include money market instruments and marketable securities with a maturity of up to one year and where the principal purpose of investment is liquidity management and therefore readily convertible into cash. Investments which are not readily available for sale in the market should be classified as long-term investments.

Investments are reported at cost, and gains and losses are recognized when the investments are sold.

At the time of purchase (at the cost incurred during acquisition):

Debit : short-term investments or long-term investments
Credit : cash-in-bank

Interest income on investment will be recognized on accrual basis, or monthly, over the life of the investment.

Debit : accrued interest receivable
Credit : interest on investments

When interest on investment is received in cash:

Debit : cash-in-bank
Credit : accrued interest receivable

Important:
Approval from the Board of Directors must be obtained for all types of investments. In exceptional circumstances, approval from the Chairman of the Board may be obtained subject to ratification in the next board meeting.

Rural Bank will invest only for liquidity purposes on marketable securities like treasury bills and treasury bearer bonds which generate interest income during initial days of operations. In the event that Rural Bank will invest in instruments where the principal amount increases or decreases, or the market value fluctuates, accounts pertaining to gain and loss from securities trading should be opened in the chart of accounts.

When investments are sold with a gain (in principal or value):

Debit : cash
Credit : short-term investments or long-term investments
Credit : gain from securities trading (an income account)

When investments are sold with a loss (in principal or value):

Debit : cash
Debit : loss from securities trading (an expense account)
Credit : short-term investments or long-term investments

STOCKS

Due to the substantial cost involved in printing of chequebooks, stocks of chequebooks are capitalized instead of expensed:

For any additions to stocks:

Debit : stocks of chequebooks
Credit : cash/bank

For any sale of chequebooks:

Debit : cash/bank
Credit : stocks of chequebooks

Stocks should be periodically recorded by the Accountant using the format in Annex I.

FIXED ASSETS

Fixed assets are tangible assets that are used for more than one year and are not intended for sale in the course of business operations.

Acquisition

1. Acquisition or construction of fixed assets above USD_____ must have prior approval from the Board of Directors unless this has been budgeted and the date of acquisition or construction has already been determined by the Board.

2. Assets with a cost of USD_____ and below even if it has a useful life of more than one year will be expensed instead of booked as fixed assets. Expensed assets with a cost above USD_____ to USD_____ require prior approval from the Finance Committee and reported to the Board for ratification.

3. The Procurement Committee (composed of the Manager, Accountant and Loans Officer, or the Management Committee) must submit its recommendation or minutes to the Finance Committee of the Board together with a tender of three (3) pro forma invoices from different vendors for comparison when requesting approval of fixed assets acquisition for procurement up to USD_____ and five (5) pro forma invoices from different vendors for comparison for procurement above USD_____. All the procurements must be in line with National Procurement Act.

Valuation

Fixed assets are booked at their original cost which includes the purchase price plus all the costs incurred during transportation and installation as well as taxes.

The cost of fixed assets being built or constructed includes the cost of labour and building materials and other additional expenses as well as fees paid to the contractor.

Assets acquired as a donation shall be recorded at their market value. All assets acquired as a donation must be reported to the Board.

Fixed assets are stated in the books of accounts at historical cost less accumulated depreciation as stated by IAS 16.

Administration

1. All assets, whether expensed or capitalized, should be tagged with an identification number.

2. The Accountant shall maintain a fixed assets register (annex H) which indicates the following:

    - Description of asset
    - Identification no.
    - Location of asset/Assigned Person
    - Acquisition date
    - Cost
    - Depreciation rate
    - Monthly depreciation
    - Monthly cumulative
    - Net book value (historical cost less accumulated depreciation)

3. Expensed assets, or those fixed assets with a cost of USD_____ and below, are listed separately which indicates only the following:

    - Description of asset
    - Identification no.
    - Location of asset
    - Acquisition date
    - Cost

4. A register of assets by office location should be maintained to facilitate periodic physical verification.

5. All fixed assets and expensed assets should be physical verified at least annually by the Accountant using the format in annex J.

To book a fixed asset:

Debit : the relevant fixed asset account
Credit : cash or cash-in-bank (if paid in full)

When partially paid:

Debit : the relevant fixed asset account
Credit : cash or cash-in-bank (amount paid)
Credit : accounts payable or other short-term liabilities (the balance)

DEPRECIATION

Depreciation shall be calculated over the estimated useful life of the fixed asset using the following straight line depreciation rates:

Building	-	50 Years
Plant and Machinery	-	10 Years
Furniture & Office Equipment	-	10 Years
Motor Vehicles/ Motor Bikes	-	4 years

The depreciation rate shall reflect auditor's view or general industry standard.

Depreciation shall be calculated each month and recognized in the current reporting period:

Debit : depreciation expense
Credit : accumulated depreciation

CAPITALIZATION OF REPAIR COST

In accordance with IAS 16 modifications to an asset made to extend its useful life or to increase its capacity should be capitalized. In other words modification, other than day to day repairs which will result in incremental benefit above the asset initial anticipated economic benefit should warrant capitalising the cost of modification.

If this is incurred:

Debit : the relevant fixed asset account
Credit : cash

WRITE-OFF AND DISPOSAL OF ASSETS

Write-off or disposal of any fixed asset must be recommended by the Procurement/ Management Committee and approved by the Board. Disposal of assets will be made through public auction or bidding.

When an asset is fully depreciated but still in use no accounting treatment relating to depreciation is required.

If a fully depreciated asset is sold:

Debit : accumulated depreciation
Credit : fixed assets (original cost)

Subsequently
Debit : cash
Credit : gain on disposal of asset or other income

When an asset that has not been fully depreciated is written off without resale value

Debit : asset disposal (amount is equivalent to net book value)
Debit : accumulated depreciation (with the asset accumulated depreciation)
Credit : fixed assets (original cost)

When an asset that has not been fully depreciated is sold at a price equal to the net book value:

Debit : cash (selling price or net book value)
Debit : accumulated depreciation (with the asset accumulated depreciation)
Credit : fixed assets (original cost)

When an asset that has not been fully depreciated is sold at a price higher than its net book value:

Debit : cash (selling price)
Debit : accumulated depreciation (with the asset accumulated depreciation)
Credit : fixed assets (original cost)
Credit : gain on disposal of asset or other income (difference between selling price and net book value)

When an asset that has not been fully depreciated is sold at a price lower than its net book value:

Debit : cash (selling price)
Debit : accumulated depreciation (with the asset accumulated depreciation)
Debit : loss on disposal of asset (an expense account for the difference between the selling price and net book value)
Credit : fixed assets (original cost)

BORROWINGS

In the event that Rural Bank will obtain loans, these borrowings must be classified as follows:

Loans: commercial
Loans: central bank
Loans: subsidized

Loans from the central bank and other financial institutions will not be made without the prior approval or authorization from the Board of Directors. Total loans of the bank must not exceed an amount equal to __% of the net worth of the institution as per the bank's Memorandum and Articles of Association and also in compliance with the statutory regulations of central banks.

Upon receipt of the loan:

Debit : cash-in-bank
Credit : the relevant loans account

When principal payment on the loan is made:

Debit : the relevant loans account
Credit : cash-in-bank

When interest is incurred but not yet paid:

Debit : interest on loans
Credit : accrued interest payable

When interest is paid:

Debit : accrued interest payable
Credit : cash-in-bank

SHARE CAPITAL

When a Rural Bank's share capital is sold:

Debit : cash
Credit : share capital

When a decision is made during the Annual General Meeting (AGM) of shareholders to distribute dividends from the financial year's profit:

Debit : retained earnings (profit/loss-prior years plus profit/loss-current year)
Credit : dividends payable

When the dividends are paid in cash:

Debit : dividends payable
Credit : cash/bank

A detailed record of shareholding and dividends paid (annex K) shall be maintained for each shareholder.

When a shareholder purchases additional share capital using the dividends received:

Debit : dividends payable
Credit : share capital

GRANTS

Rural Bank may receive grants from various donors for loan capital, fixed assets or operating cost. Grants received may be for a single period or multi-period, and may also be a restricted grant or an unrestricted grant. Restricted grants are grants wherein certain conditions have to be met before the grant can be utilized, and thereafter as stipulated in the grant agreement.

To be consistent with International Accounting Standards (IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*), grants should be recorded as income on the income statement but separated or below the operating profit/loss line. The grants are then transferred to the Statement of Financial Position separated from other equity sources.

When an unrestricted and single period grant is received:

Debit : cash-in-bank
Credit : grant income

When a multi-period or restricted grant is received, the grant should be recorded first as deferred income:

Debit : cash-in-bank
Credit : deferred income (a liabilities account)

When the conditions are met, that portion for which Rural Bank has utilized will be recorded as follows:

Debit : deferred income
Credit : grant income (for operating cost or loan capital)

Grants for depreciable fixed assets are recognized as grant income on a systematic basis over the useful life of the asset.

When a grant for fixed assets is received:

Debit : cash-in-bank
Credit : deferred income

When the fixed asset is purchased:

Debit : fixed assets
Credit : cash-in-bank

On monthly basis depreciation expense should be recorded and at the same time the portion of the grant related to the fixed asset should be recognized.

Debit : depreciation expense
Credit : accumulated depreciation

Debit : deferred income (amount equivalent to the depreciation expense)
Credit : grant income (amount equivalent to the depreciation expense)

OTHER OPERATING REVENUES

Besides interest income on loans and investments, the following could be the other income accounts of Rural Bank for other financial services:

Commission on turn-over (COT)
Commission on cheque clearing
Commission on Money Transfer (MT)
Bank charges (sale of ledger cards, ID cards, extra signature cards and paying-in books)

When income is earned:

Debit : cash
Credit : the relevant income account

EXPENSES

The bank's expenses will be classified as follows:

Financial Expense – This includes interest paid on deposit liabilities (savings and fixed deposits), and interest, fees and commissions on commercial borrowings, subsidized loans or loans from Central Bank. It includes accrued interest as well as cash payment of interest.

Loan Loss Provision Expense – This is a non-cash expense that is used to increase the loan loss reserve.

Personnel Expense – This includes staff basic salaries, allowances, and other benefits paid to staff. It may also include the cost of recruitment and/or initial orientation. It does not include ongoing or specialized trainings which are part of administrative expense.

Administrative Expense – This includes expenses directly related to the provision of financial services or other services that form an integral part of the bank's relationship with clients.

When administrative expenses are incurred:

Debit : the relevant expense account
Credit : cash or cash-in-bank

Kindly refer to Savings, Loans, Loan portfolio, Loan Loss Provision and Other Expenses.

INSURANCE

Insurance on Funds

The Manager and the Accountant must see to it that funds within the bank and in transit are covered by insurance. The cash-in-vault and in the teller's cage, or cash-in-transit should not exceed the insured limits. The Manager and the Accountant are jointly responsible in complying with the terms of the insurance coverage.

Insurance on Fixed Assets

A fire insurance cover must be secured for fixed assets particularly the bank building and office equipment. The amount of insurance cover must at least be equal to the net book value of these fixed assets. In case the RB wants to be in a position to replace insured items at market value, this value must be insured accordingly.The Manager and the Accountant are again jointly responsible in obtaining adequate insurance for these assets and in complying with the terms of the insurance coverage.

PAYROLL MANAGEMENT

The Accounting Department or unit is responsible for preparing a payroll spreadsheet and to ensure that salaries are paid at least every 25th of each month for permanent staff.

From the payroll spreadsheet, salary amounts, allowances and deductions must be transferred to individual pay slips (annex L). The pay slips must be prepared in two copies, one for the employee and one for the bank's file.

Payment of salaries and allowances must be credited to the respective staff's deposit or current account.

After computation and verification of monthly payroll:

For salaries and allowances payments

Debit : Salaries and allowances
Credit : Staff's deposit accounts

For payment of statutory deductions

Debit: Payroll Tax/Social Security expense accounts
Credit: Cash-in-Bank

(Cheque payment should be used for Payroll Tax and Social Security expense cheque payment)

Pay As You Earn (PAYE) must be deducted based on the Income Tax Act.

For certain allowances that are not paid together with the monthly payroll:

Debit : allowances
Credit : employee's deposit account

ACCOUNT RECONCILIATION

GENERAL INFORMATION

- All bank accounts must be reconciled to the general ledger/cash book on a monthly basis. To the extent practicable, individuals that prepare bank reconciliation statements should

not have cash receipt or cash disbursement responsibilities, nor have access to unused cheque supplies.

- Bank statements and adjustment items must be delivered unopened to the person responsible for the bank reconciliation.
- Bank reconciliation statements must be prepared in a standardized format in order to provide consistency within the Bank.
- All bank reconciliation statements must be reviewed by the designated accounting official.
- Copies of all bank reconciliation statements must be forwarded to the Manager for each month.
- Designated officers (reconcilers) who perform bank reconciliation statements should not have approval authorities and recording responsibilities.
- All reconcilers should use an easily understandable format of reconciliation.
- Reconciling items should be clearly identified and fully supported by documents.
- Review reconciliation items for appropriateness and ensure that all items meeting the scope of the reconciliation are supported.

DEFINITION OF BANK RECONCILIATION

Bank reconciliation involves agreeing on the balance of cash as shown by the bank statement(s), with that as shown by the cash book(s). It is to be prepared at the beginning of each month, on the bank balance and cash book(s) balance as at the close of the previous month.

PREPARATION OF BANK RECONCILIATION

Naturally if there are no transactions by the Rural Bank with respect to their bank account(s) e.g. cheque payments to suppliers, contractors etc. and subsequently, if there are no transaction by the Bank's partner Bank regarding charges, direct lodgement etc., the Rural Bank cash book balance should agree with their bank statement balance with their bank. In this vein no adjustments will be required. However, this does not give comfort for non-reconciliation, as reconciliation is a risk a management concept that prevents financial losses.

However, if there have been transactions from the Rural Bank and its bank(s) there may be differences in the Rural Bank balance and that of its bank balance as per bank statement, which will warrant investigation. These differences could be due to un-presented cheques, un-credited payments, direct debits by the bank etc.

For **un-presented cheques**, these cheques that have been issued for payments and recognised in the Rural Banks' books but not yet recognised in the bank statement.

Un-credited items may include cash in transit or cheques deposited but not yet reflected in the Rural Bank's bank Account.

Furthermore, there could be direct debit or credit into the Rural Bank's bank account not recorded in the cash book of the Rural Bank.

These differences can be easily identified by ticking transactions in the cash book details against the same transactions in bank statement. Upon completion of this ticking exercise the bank

reconciliation statement can be prepared by using the sample Bank reconciliation statement is shown in ANNEX M will reconcile the Bank's cash book balance with bank statement balance.

In the event of the reconciliation failing to balance at the first attempt, the following checks should be applied:

Re-check that all items in the bank statement are in the cashbook, except in respect of adjustments such as "payments in not yet credited" and "cheques drawn but not yet presented" brought forward from the previous month. Check especially that:

a. all non cheque debits on the bank statement are in the cash book and included in the totals.
b. all receipts on the bank statements are in the cash book, or are in respect of the "payments in not yet credited" figure of the previous months' bank reconciliation.

Check that all items in the cashbook are in the bank statement except for the "payments in not yet credited" and "cheques drawn but not yet presented" adjustments.

Check the addition of the cashbook, and the cumulative figures are correctly brought forward and added on from the previous month.

Check the corrections of the payments cash book total for the month by adding up the totals of the cheque schedules for the month and then adding on any direct bank debits. If this reveals a discrepancy, check the adding up of each individual cheque schedule, and then if necessary check item by item from the schedules into the cashbook.

PREPARING THE FINANCIAL STATEMENTS

According to IAS 1 the general purpose of the financial statements is to provide information on the financial position (assets, liabilities, equity), financial performance (income and results of operations), and changes in the financial position (cash flows) of the bank to a wide range of users to make economic decision. On this note the financial statement assists management and the Board in making decisions.

<u>Principles of preparing the financial statements</u>:

1. The form of the financial statements, account names and other accounting terms must be simple, clear and understandable.

2. The financial statement data must be consistent to enable the comparison of the financial statements over the current, past and future time periods.

3. The Rural Bank will prepare its financial statements on the going concern concept, or the continuity assumption that it will continue to operate in the future.

4. The financial statements should contain material information that can influence the decision of users.

5. The financial statements will be prepared by using the double entry bookkeeping method.

6. Accounting transactions will be recorded on the accrual basis.

STATEMENT OF POSITION

1. All assets, liabilities and equity will be expressed in monetary terms and shown in the Statement of Financial Position.

2. The statement of financial position will be prepared according to the format in annex N.

3. The statement of financial position items will be expressed on a cumulative basis from the beginning of the reporting year, and the beginning balance is not the beginning balance of the monthly reporting period but the reporting financial year.

4. The assets, liabilities and equity are valued and reported on the statement of financial position as explained under (Transaction Processing).

5. Assets and liabilities are shown on the statement of financial position in sequence of their liquidity terms and repayment time frame, respectively, starting with short term funds and then stating longer term funds.

6. Various transactions affecting equity (grants, share capital, retained earnings) will be shown on the statement of financial position separately.

INCOME STATEMENT

7. Income and expenses of the current accounting period shall be recorded on accrual basis. Under this method, incomes are recorded when they are earned and become measurable, and expenses when they are incurred and become measurable.

8. Income statement items will be shown at their amounts. Items that do not have income and expense characteristics will not be included here.

9. The income statement will be prepared according to the format in annex M. It will show operating revenues, financial expenses, loan loss provision expense, personnel expenses,

administrative expenses, operating income, grant income, other non-operational income and net income before and after taxation.

CASH FLOW STATEMENT

1. The cash flow statement will be prepared using the direct method and using the format in annex N.

2. The direct method uses the major classes of cash receipts and cash payments.

3. The cash flow statement will consist of the following components:

    a. cash flow from operating activities
    b. cash flow from investing activities
    c. cash flow from financing activities

4. Cash flow from operating activities includes cash receipts and cash payments related to the bank's core operations of providing financial services.

5. Cash flow from investing activities includes cash receipts and cash payments that have been made for creating assets and resources intended to increase future income and cash flows. It will show cash flows from short-term and long-term investments, and acquisition or sale of fixed assets.

6. Cash flow from financing activities relates to the changes in the bank's liabilities and equity. It will show cash inflows and outflows from loans (commercial, subsidized or from central bank), other long-term liabilities, grants, share capital, dividends and other capital accounts.

7. The net change in cash balance is determined as the sum of net cash flows from operating, investing and financing activities. It is also equal to the difference between the cash balance at the end of the accounting period and the cash balance at the beginning of the accounting period. Cash balance means cash and due from banks plus reserves in central bank.

LIQUIDITY MANAGEMENT

Rural Bank will comply with the statutory requirements of the central bank and will report its cash and liquidity ratios. The Manager and the Accountant are jointly responsible for monitoring the liquidity position of the bank versus required cash reserves (primary reserves) and liquidity reserves (secondary reserves).

In most cases it is required under prudential return for Rural Banks; the following sample format could be used:

1	Demand Deposits
2	Time or Fixed Deposits
3	Savings Deposits
4	Quasi Money (2+3)
5	Total Deposit (1+4)
6	Cash in Till (vault)
7	Current Account with Central Bank
8	Other Eligible Cash Balance
9	Total Cash (6+7+8)
10	Treasury Bills
11	Other Approved Securities (TBB)
12	Total Non Cash Reserve Assets (10+11)
13	Total Liquid Assets (9+12)
14	Actual Cash Ratio (9 as a % of 5)
15	Required Cash Reserve (____% of 5)
16	Excess/(Deficit) (9-15)
17	Required Liquidity for Demand Deposit (___% of 1)
18	Required Liquidity for Quasi Money (___% of 4)
19	Required Liquidity (17+18)
20	Excess/(Deficit) (13-19)

TREASURY MANAGEMENT

1. The accountant is responsible for monitoring the treasury position of the bank versus disbursements. S/he must ensure that amount of idle funds in the treasury and in non-interest bearing accounts with other banks are reduced yet have at the same time enough cash available to achieve full liquidity at all times.

2. The Accountant must consult with other departments particularly the loans department and finance department so that forecasts of cash inflow and outflow can be prepared.

   The cash forecast should consider:

   a. Points in time when there could be shortage and excess of cash;
   b. effects of season and time of the year (holidays, start of the school year, etc.);
   c. projections on loan disbursements and repayments, large withdrawals, payment of salaries coursed through the bank, as well as cash expenditures (financial expenses, personnel expenses and administrative expenses).

The cash forecast is important because it ensures that adequate provision is made for inevitable cash outflow (in areas such as loan disbursements, loan repayments, etc.). This is crucial because failure to service both loan debtors and loans creditors will have consequences on the bank's profitability and credibility to depositors and lenders. Refer to Annex O in preparing the monthly cash forecast.

3. Excess of cash in treasury and current accounts with the central bank and other banks requires an investment decision, because if funds will be invested in short-term marketable securities the bank will realise income from it. Consequently, idle cash does will serve as cost to the bank directly or indirectly through charges or opportunity cost respectively.

The cash-in-vault should have a minimum balance of USD.....

THE BUDGET PROCESS

A budget is a tool to monitor, control, and plan activities to assist management in achieving the Bank's financial goals. The Rural Bank needs to prepare its annual budget for next fiscal year (i.e. if the Rural Bank follows calendar year as fiscal year) and should finalize it in the last month before the new budget year, at the latest, with the approval from the Board of Directors.

BENEFITS OF BUDGETING

A budget is a prediction of the financial condition of Rural Bank for a future time period, generally one year. A budget provides a plan so that everyone in Rural Bank has a similar vision of where Rural Bank is going during next year. The budget projects assets, liabilities and equity as well as revenue and expenses for the same time period. Generally, budgeted Statement of Financial Positions and Income Statements are produced on an annual basis whereas cash flow forecasts are produced on a more frequent basis.

A budget motivates Rural Bank to reach its goals and is a tool for monitoring progress towards those goals. It helps management make decisions about the organization, manage the financial resources of the organization and avoid certain problems before they occur. In addition, when the staff is involved in developing the budget, each employee feels a degree of ownership and is more committed to the success of Rural Bank.

To make the budget effective, the budget of Rural Bank should:

- state all of the assumptions;
- be understandable and simple
- represent the combined judgment of staff and management
- cover a period for which reliable estimates can be made
- be flexible to permit adjustments

- establish standards of performance
- provide motivation and guide performance
- guide management and staff toward objectives.

Generally, budgets should be based on the previous year's results (or other time period) with consideration for changes in the business structure and environment. Ratios can be used to create a budget as long as the period which the ratio is based on is fairly typical of future periods and did not include any extraordinary income/events. Each item on the Statement of Financial Position and Income Statement must be projected individually taking into account previous results, the internal and external environment and the goals of the organization.

While preparing its budget, Rural Bank should consider how their staffs are involved in budgeting process. Whether Rural Bank staffs feel that it is beneficial to them and their organization or not? Does affect their performance or not?

RESPONSIBILITY FOR COMPLETING THE BUDGET

To be effective, the budgeting process of a Rural Bank should involve everyone in the organization. Loans Officers must determine individually how many loans they will disburse and of what value, to forecast the Rural Bank largest asset – its loan portfolio. They must also determine how many loans will be repaid and when. The majority of the Rural Bank's revenue can then be budgeted, based on the loan portfolio.

By adding together each Loans Officers' budgeted portfolio, the management will able to consolidate the loan portfolio and determine the associated expenses and most importantly the finance needed to actualize the loan portfolio. The Accountant should prepare the budget for other income lines and administrative expenses including salary, allowances, other deductions and benefits of staff members, taking into consideration actual and proposed staff strength, any eventual salary increases, and changes in the cost of personnel due to changing legislation.

At each step, it is necessary to verify that the information is realistic and created in a consistent manner by all Loans Officers, Accountants and the Manager. The Accountant is the overall responsible person to consolidate the budget and put forward to the Manager for his/her final review. The Manager in consultation with all staff members prepare a budget proposal and submit to the Board of Directors for final approval.

The budget should be prepared in line with **Business Plan** of Bank. If the bank has signed an agreement with donor agencies to expand its outreach and branches, the responsible staff member (Accountant and Manager) should also include budget for these activities.

BUDGETING PROCESS

While preparing its budget, the Rural Bank staff member should always compare the actual result with projected cost so that next budget will be more realistic. The projected should be

compared to the actual results of that period and the variances analyzed. Was there a lot of variance? Are there valid reasons for the variances? Did the budget meet the organization's goals? This analysis gives Rural Bank room for further improvement of budgeting system.

Next, the external environment needs to be analyzed with a focus on competitive and economic information. Relevant competitive information should be based on what other banking organizations and microfinance institutions are doing in the district/region. Economic information should include the national and local economy, population trends, government legislation and policies, and of course central bank regulations.

By analyzing the internal environment, the Rural Bank's strengths and weaknesses can be determined. Looking at the financial picture of Rural Bank as a whole provides helpful information. Studying the client mix in terms of the number of years as clients and loan maturity, as well as staff requirements is also important.

Think of some examples of both external and internal events or policies that would affect the budgeting process. External examples: density and type of financial institutions or other credit providers, types of economic activities financed, cultural factors, market demand, legal environment, inflation/market rates for debt, foreign exchange issues for donor funds. Internal examples comprise for example: number of staff, communication between staff/branches, quality of staff, flow of information.

After analyzing the external and internal environments, existing policies and results should be reviewed to determine the effectiveness of policies and the need for new or different policies, all of which will affect the budget calculations.

The next step is to develop goals for the upcoming year/period. Generally, **goals for Rural Bank** will be determined by the **Management Staff and Board of Directors** and should consider both **outreach goals and financial goals**. This goal should be based on **Business Plan** and funding agreement with donors and investors, if available. Studying past trends such as client growth, deposit growth, portfolio growth, delinquency rates, etc., will give an indication of what may occur in the future.

List goals that Rural Bank would like to achieve in specific areas. Are these goals realistic? What steps would be necessary to achieve them?

Once the implications of external and internal environmental factors have been determined, and the Rural Bank's goals are set, a working budget should be created. This is done by allocating figures to meet the goals and pay for operating expenses.

It is generally helpful to begin by forecasting the volume of **deposits (liability) and then the portfolio size (asset)**, which are both usually set as a goal of the Rural Bank; revenues are then based on the targeted portfolio size. It is then possible to calculate the operating expenses required to reach the goal.

The following steps are appropriate for developing a working budget:

Loan Portfolio Budget

- Determine the monthly loan disbursement amounts according to the age of the loan clients and past history;
- Determine the loan portfolio outstanding for the year taking into account the current and past due loans
- Determine the amount of loan repayment

Deposit Budget

- Determine the quarterly deposit mobilization amounts according to past history
- Determine the deposit mobilization amount on the basis of potential new market

Income Budget

- Determine the interest and fee income on the basis of the loan portfolio
- Determine the revenue such as bank charges, commission on turnover, cheque clearing, commission on Western Union Money Transfer etc.
- Determine the interest on investment on the basis of projected investment.

Expense Budget

- Estimate all operating expenses for the period
- Estimate Loan loss provision required
- Estimate financing costs (interest expenses on deposit and external borrowings) for the period

Once the working budget(s) have been reviewed, revised and finalized, a final budget is developed and received approval from the Board of Directors. Rural Bank should prepare the budgeted Income Statement and Statement of Financial Position.

IMPLEMENTATION AND ANALYSIS

Implementing the budget is an important component of budgeting for Rural Bank. The Rural Bank Management must work with staff to make sure that the budget projections become a reality. To be effective, reports against budget must be easily understood and timely. At a minimum, budget reports should be prepared at the end of each month. They should also be flexible enough to adapt to the needs of various levels of Staff and the Board. A **Budget Performance Report** Format is shown in Annex R.

BUDGET VARIANCE

Budget variance is the most critical aspect of the budget as it enables the monitoring of budget implementation. It no good painstakingly prepare a budget which is not monitored periodically to

ensure it conforms to the standards/target therein. In essence the budget variance provides feedbacks from the implementation of the budget that can be relevant to amend the exist budget period.

Budget analysis means comparing actual results with those budgeted over a specific period of time. When analyzing budget variances, two additional columns are included in the budget: in the first column, actual figures are reported for each item; the second column then shows the difference between budget and actual. This is referred to as the variance and it can be positive or negative. Any significant variance must be explained. If the variance was caused by a non-recurring event, then future budgets need not be adjusted, although the variance must still be explained. If the variance is caused by poor budgeting, then the reasons underlying the mistake should be determined in order to avoid such mistakes in future budgets. If the variance is due to inefficient operations or inadequate staff efforts/workload, then credit policies, staff expectations, staff incentives, etc. should be modified.

REPORTING REQUIREMENT

The Accountant should prepare the following financial statements/reports:

Statements/Report	**Frequency**
1. Statement of Financial Position	
Monthly	
2. Profit & Loss Statement (Income Statement)	Monthly
3. Cash Flow Statement	Quarterly
4. Budget-Performance Report	Monthly
5. Prudential return	
a. Liquidity Reserve Return)	Weekly
b. Statement of Assets and Liabilities	Monthly
c. Large Exposures-Advances and Deposits	Monthly
d. Analysis of Overdrafts, Loans and Other Advances	Monthly
e. Current Year Results	Quarterly
f. Advances Subject to Adverse Classifications	Quarterly
g. Capital Expenditure	Half-yearly

The user groups for above mentioned statements/reports are as follows:

- The regulator
- Rural Bank Board of Directors
- Rural Bank Manager
- Rural Bank Accountant
- Rural Bank Loan Officers
- Donors

ANNEX A: POLICY AMENDMENT MEMO

RURAL BANK

POLICY AMENDMENT MEMO

MEMO NO: ---/20____

For : All Rural Bank Staff

From : Management

Subject:

Date :

Section _____ of the **Accounts Department's Policy and Procedures Manual** has been approved by the Board of Directors of the Apex Bank for amendment and will now read as follows:

(The complete amended section/paragraph must be written here.)

This amendment shall take effect on _____.
For your compliance.

_____
Managing Director's Signature

ANNEX B CHART OF ACCOUNTS

Rural Bank Chart of Accounts

Account code and account name		Sub account name
	ASSETS	
Current Assets		
1000000	**Cash and due from banks**	
	Cash on hand	
	1000001	Petty cash
	1000002	Cash in vault/safe
	Cash in bank	
	1000003	Cash at Corresponding Bank 1
	1000004	Cash at Corresponding Bank 2
	1000005	Cash at Central Bank from ……..
1000010	**Short term investment**	
	1000011	Treasury bills
	1000012	Treasury bearer bonds
	1000013	Interest bearing deposit
1000020	**Debtors and prepayments**	
	1000021	Bank overdrafts
	1000022	Fixed loan
	1000023	Salary loan
	1000024	Loan product1
	1000025	Loan product2
	1000026	Loan product3
1000040	**Stocks and stores**	
	1000041	Cheque books @.....
	1000042	Cheque books @.....
	1000043	Saving passbooks @.....
1000050	**Staff loans and advances**	
	1000051	Staff loans
	1000052	Staff advances
1000060	**Accounts receivable**	
	1000061	Advance for materials/goods
	1000062	Advance to staff for transportation
	1000063	Other receivable

1000070	**Pre-paid expenses**	
	1000071	Pre-paid insurance
	1000072	Pre-paid license

Long-term Assets

1000080	**Long term investment**	
	1000081	Investment with …….

1000090	**Fixed asset at cost**	
	1000091	Building
	1000092	Plant and machinery
	1000093	Furniture and equipment
	1000094	Computer & Accessories
	1000095	Motor vehicle

1000100	**Intangible assets**	
	1000101	Bank Core Operating Software package with license

LIABILITIES

Current Liabilities

2100000-2600000	**Customers deposits**	
	2100001	Demand deposit
	2103001	Savings deposit
	2203001	Current Account
	2403001	Fixed Deposits
	2503001	Deposit Product
	2603001	Un-cleared cheques in transit

2200000	**Short-term loans**	
	2200001	Loan from Central Bank
	2210001	Loan from commercial banks
	2220001	Loans from other institutions

3000000	**Creditors and accruals**	
	3000001	Accountancy and audit fee
	3000002	Accrued interest payable
	3000003	Bills payable to party/supplier
	3000004	Salary payable to staff
	3000005	Incentives payable to staff
	3000006	Dividends payable
	3000007	Sundry creditors
	3000008	Other payables

4100000	**Tax payable**	
	4100001	Social Security contribution

	4100002	Income tax (P.A.Y.E)
4200000	**Deferred income**	

Long Term Liabilities

4300000	**Long-term loans**	
	4300001	Loan from Central Bank
	4310001	Loan from commercial banks
	4320001	Loans from other institutions
4400000	**Loan loss reserve**	
4500000	**Accumulated Depreciation on Fixed Assets**	
	4500001	Depreciation on building
	4500002	Depreciation on plant and machinery
	4500003	Depreciation on furniture and equipment
	4500004	Depreciation on computer & accessories
	4500005	Depreciation on motor vehicles

EQUITY

4600000	**Share capital**	
4700000	**Grant and donation, prior years cumulative**	
	4700001	Grants from ……
	4700002	Grants from …….
4800000	**Grant and donation, current year**	
	4800001	Grants from ……
	4800002	Grants from …….
4900000	**Profit (loss) Accounts**	
	4900001	Profit (loss), prior cumulative
	4900002	Profit (loss), current year
5000000	**Other capital accounts**	

INCOME

5100000	**Operating income**	
	5100001	Bank Charges
	5100002	Interest on loans
	5100003	Interest on investments
	5100004	Penalty charges
	5100005	Commission on turnover (COT)

	5100006	Commission on Turnover Govt. Salaries
	5100007	Commission on Cheques Clearing
	5100008	Commission on Savings P/books, ID Card, Ledger card
	5100009	Commission on Passbooks
	5100010	Commission on Domestic Money Transfer
	5100011	Commission on Western Union Money Transfer
	5100012	Processing and service fees on Loans & Overdrafts
	5100013	Cheque book Cover
	5100014	Surplus in tills
	5100015	Gain on disposal of fixed assets
	5100016	Other income
5200000	**Grant and donation for operating cost**	
5300000	**Non-operating income**	
	5300001	Exchange Gain
	5300002	Other non-operating income

EXPENSES

5500000	**Operating expenses**	
	5500010	Interest on customers deposits
	5500011	Interest on Savings accounts
	5500012	Interest on savings products 1
	5500013	Interest on savings products 2
	5500014	Interest on savings products 3
	5500015	Interest on Fixed deposits
	5500030	Interest on borrowings (loans)
	5500040	Loan loss provision expense
	5500050	Staff salaries and allowances
	5500051	Staff salaries
	5500052	Bank NASSIT expense
	5500053	Staff responsibility allowance
	5500054	Staff rent allowances
	5500055	Staff leave allowances
	5500056	Stipend to Asset Officer
	5500057	Staff transport allowance
	5500058	Staff medical expenses
	5500070	Accountancy and audit fees
	5500071	Audit fees paid for Financial year
	5500072	Audit fees provision for Financial year
	5500080	Board expenses
	5500081	Board sitting fees
	5500082	Board sitting expenses
	5500100	Other operating expenses
	5500101	Publicity and advertisement
	5500102	General office expenses

5500103	Hospitality
5500104	Stationery-consumables
5500105	Computer-Consumables
5500106	Traveling and local subsistence
5500107	Generator fuel and lubricants
5500108	Building repairs and maintenance
5500109	Motor vehicle fuel and lubricants
5500110	Motorbike fuel and lubricants
5500111	Motorbike repairs and maintenance
5500112	Motor vehicle repairs and maintenance
5500113	Generator repairs and maintenance
5500114	Computer & accessories repairs and maintenance
5500115	Telephone and cables
5500116	Short in Tills
5500117	Staff training
5500118	Staff uniform
5500119	Insurance
5500120	License
5500121	Annual general meeting expenses
5500122	Reward/prize
5500123	Penalty and court fee
5500124	Subscription/Membership fees
5500125	Entertainment
5500126	Exchange loss
5500127	Loss in disposal of fixed assets
5500128	Service Award
5500129	Fee for Association Rural Banks
5500130	MIS installation/Technical Support
5500131	Contingency expenses
5500200	Depreciation

Notes on Chart of Account:

Grants and donations received from donors will be treated as donated equity and will be shown under EQUITY in Statement of Financial Position.

ANNEX C CREATION OF THE CHART OF ACCOUNTS, OR OF A NEW ACCOUNT

Date:

Name of the Account:.....

Account type: Parent / Sub; if Sub State the Parent Account.....

Classification of Account: Asset/ Liability/ Equity/Income/ Expenses

Rationale:.....

.....

.....

.....

.....

Requested By: ..... Verified By.....

....

Approved By: .....

.....

For MIS/ IT

Account Name:..... Account Code: .....

Created By:..... Verified By:.....

....

ANNEX D SAMPLE WASTE BOOK

SAMPLE WASTE SHEET

Waste Writer _____ **Date** _____

DEBIT							PARTICULARS	CREDIT						
CA	SA	OD	LOANS	OTHERS	RURAL BANK	CASH		CA	SA	OD	LOANS	OTHERS	RURAL BANK	CASH
							TOTALS							

TOTAL DEBIT _____

TOTAL CREDIT _____

ANNEX E SAMPLE DAILY BALANCING SUMMARY

Date:…….

DR	DETAILS	CR
	CASH ACCOUNT	
	CURRENT ACCOUNT	
	SAVINGS ACCOUNT	
	OVERDRAFT	
	LOANS	
	LOAN INTEREST ACCRUED	
	OTHER DEPOSIT ACCOUNT	
	STOCKS	
	P/L INCOME	
	P/L EXPENSES	
	CENTRAL BANK	
	OTHER BANKS	
	SCHOOL FEES SAVINGS PLAN	
	DISCOUNT HOUSES	
	LOANS & ADVANCES (STAFF)	
	OFFICES	
	MITAF GRANT	
	INVESTMENT	
	SHARE CAPITAL	
	PREPAID INSURANCE	
	PREPAID RENT	
	LICENSES PREPAID	
	DEPRECIATION PROVISION	
	FIXED DEPOSIT	
	TOTALS	

Compiled By: Verified By:

…….. ……..

ANNEX F SAMPLE TRAIL BALANCE

TRIAL BALANCE

Code	Account	Debit	Credit
101	Cash and Due from Banks		
102	Reserves from Central Bank		
103	Short-term Investments		
104	Loan Portfolio		
105	Loan Loss Reserves		
106	Overdrafts		
107	Staff Loans		
108	Accrued Interest Receivable		
109	Prepayments		
110	Stock of Chequebooks		
111	Fixed Assets		
112	Accumulated Depreciation		
113	Long-term Investment		
114	Other Assets		
201	Savings Account (Compulsory)		
202	Savings Account (Voluntary)		
203	School Fees Savings Plan		
204	Current Account		
205	Fixed Deposit		
206	Accrued Interest Payable		
207	Dividends Payable		
208	Other Short-Term Liabilities		
209	Loans : Commercial		
210	Loans : Central Bank		
211	Loans : Subsidized		
212	Deferred Income		
213	Other Long-Term Liabilities		
301	Share Capital		
302	Donated Equity - Prior Years		
303	Donated Equity - Current Year		
304	Profit/Loss - Prior Years		
306	Other Capital Accounts		
401	Interest on loans		
402	Interest on overdraft		
403	Commitment fees		
404	Assurance fees		
405	Penalty Charges		
406	Interest on Investments		
407	Commission on turnover (COT)		
408	Commission on cheque clearing		
409	Commission WUMT		
410	Bank Charges		
411	Other Income		
412	Grant Income - Loan Capital		
413	Grant Income - Fixed Assets		
414	Grant Income - Operating Cost		
415	Other Non - Operational Income		
501	Interest Paid on Savings		

502	Interest Paid on Fixed Deposit		
503	Interest on Loans		
504	Loan loss Provision		
505	Salary (Basic)		
506	Allowances		
507	Motor Vehicle Running Expenses		
508	Generator Running Expenses		
509	Motorbike Running Expenses		
510	Publicity and Advertisment		
511	General Office		
512	WUMT Expenses		
513	Computer Accessories		
514	Social Security Bank's Contribution		
515	Board Sitting fees		
516	Loans Committee Sitting Fees		
517	Finance Committee Sitting Fees		
518	Per Diem		
519	Transportation		
520	Out-of- Station Allowance		
521	Uniform and Protective Wearing		
522	Short in Till		
523	Audit Fees		
524	Business Promotional exp.		
525	Motor Vehicle Repairs and Maintenance		
526	Motorbike Repairs and Maintenance		
527	Generator Repairs and Maintenance		
528	General Repairs and Maintenance		
529	Computer Repairs and Maintenance		
530	Insurance		
531	Income tax		
532	Other taxes		
533	Licenses		
534	Subscription/Membership fees		
535	Security		
536	Depreciation		
537	Staff Training		
538	Other Expenses		
	TOTAL	-	-

ANNEX G SAMPLE VOUCHERS

XYZ RURAL BANK Ltd.
TREASURY - OUT

SN:_____

Date…… 20

NOTE 10,000 5,000 2,000 1,000 500 **COINS** 500 100 50		

Amount in words……

……

……

Issued by…….

Received by……

Authorized by…….

Paid in by……

Cashier

XYZ RURAL BANK Ltd.
TREASURY - IN

SN:_____

Date…… 20

NOTE 10,000 5,000 2,000 1,000 500 **COINS** 500 100 50		

Amount in words……

……

……

Issued by…….

Received by……

Authorized by…….

Paid in by……

Cashier

XYZ RURAL BANK Ltd.

PAY – IN SLIP

SN:_____

Date_____20_____ A/c

Name_____

A/cNo

Denominations		**Amount(Currency)**
NOTE		
10,000.00		
5,000.00		
2,000.00		
1,000.00		
500.00		
COINS		
500.00		
100.00		
50.00		
Total		

Paid in by_____

Amount in words_____

Signature

XYZ RURAL BANK Ltd.

Savings Account Withdrawal Slip

SN:_____

Date_____20_____ A/c Name_____

A/c | | | | | | | | | | | | | No

Name:_____
(Block Letters)

Address_____

Received from Rural Bank Ltd. The sum of___

_____

_____
In word

Cashier	Checked by	Authorized by

……
Signature

XYZ RURAL BANK Ltd.

Deposit Slip

SN:_____

A/C No…… Date……

Account Name……

Cashier's Stamp & Initials	**Notes** 10,000.00 5,000.00 2,000.00 1,000.00 500.00 **Total Notes**		
Amount in words …… …….....	**COINS** 500.00 100.00 50.00 **Total Coins**		
Name of Person Paying to cashier …… Signature of the person paying to cashier	**Cheque as per reserve** Bank 1 Bank 2 Bank 3 Bank 4 **Total Credit**		

XYZ RURAL BANK Ltd.

DEBIT ADVICE

…….. …….20……

……..

……..

Particulars	Amount	

We have debited your Account No……..

Manager

With the sum of……

Accountant/Ops Officer Manager

XYZ RURAL BANK Ltd.

CREDIT ADVICE

…….. …….20……

……..

……..

Particulars	Amount	

We have Credited your Account No……..…

With the sum of……

Accountant/Ops Officer Manager

XYZ RURAL BANK LTD.

A/C No

Date……. 20…….

SN:_____

Credit/Debit_____

_____

_____

_____

_____

Total _____

Amount in

words…….

Prepared by: Verified by: Approved by:

JOURNAL VOUCHER

XYZ RURAL BANK LTD.
JOURNAL VOUCHER

SN:_____ **Date: _____**

No	Narration	Dr	Cr
	Total		

ANNEX H SAMPLE LOAN LOSS PROVSION

LOAN LOSS COMPUTATION SHEET

As of _____

Portfolio at Risk	Classification	Amount	Loan Loss Reserve Rate	Loan Loss Reserve Amount
		a	b	(a X b)
Current Loans	Current	-	1%	-
15 < 30 days	OLEM	-	10%	-
30 < 60 days	Substandard	-	20%	-
60 < 90 days	Doubtful	-	50%	-
90 days and over	Loss	-	100%	-
(C)	TOTAL LOAN LOSS RESERVE FOR THE PERIOD			-
(D)	EXISTING LOAN LOSS RESERVE			-
(C-D)	LOAN LOSS PROVISION EXPENSE FOR THE PERIOD			-

Prepared by: Verified by:

_____ _____

OLEM – Other Loans Especially Mentioned

ANNEX I STOCK INVENTORY SHEET

Type: _____

Location: _____ **Date:……..…**

No.	Details	Book Qty.	Physical Check	Remarks

…… ……..

Stock Holder Stock Checker

……

Witness

ANNEX J FIXED ASSET REGISTER

FIXED ASSET REGISTER

DESCRIPTION OF ASSET _____
IDENTIFICATION NO. _____
LOCATION OF ASSET _____
ACQUISITION DATE _____
ORIGINAL COST _____
DEPRECIATION RATE _____
DISPOSAL DATE _____

Depreciation Date	Monthly Depreciation	Monthly Cumulative	Net Book Value

ANNEX K SHARE CAPITAL DETAILS

SAMPLE SHARE CAPITAL DETAILS

NAME:----------

ADD:----------

NEXT OF KIN:----------

Date of Purchase	No. of Shares	Nominal Value	Cumulative Shares	Total Amount	Cumulative Amount	Share Serial No.	Verifying Officer Sig.	Auth. Sig.

RECORD OF DIVIDENDS

Date of Dividend Declaration	Shareholding Cut-off Date	Dividend per Share	No. of Shares	Dividends Payable	Dividends Paid in CASH	Dividends Paid in SHARES	Date Paid	Auth. Sig.

ANNEX L SAMPLE PAYSLIP

Pay Slip

Name of Employee _____
Savings/Current Account No. _____
For the month of _____

EARNINGS	AMOUNT	DEDUCTIONS	AMOUNT
Basic Salary		PAYE	
Monthly Incremental Notch		Social Security (Staff Contribution)	
Transportation Allowance		Rent Prepaid	
Responsibility Allowance		Salary Loan	
Rent Allowance		Staff Welfare Fund	
Total Earnings		Total Deductions	
NET TAKE HOME PAY			

ANNEX M SAMPLE BANK RECONCILIATION STATEMENT

XYZ RURAL BANK BANK A/C NO……	
BANK RECONCILLIATION STATEMENT AS AT MONTH ENDING……..	
Details	**Currency**
BALALANCE AS PER CASH BOOK LEDGER	
ADD AMOUNTS CREDITED BY YOUR BANK BUT NOT DEBITED BY YOU	
	0
LESS AMOUNTS DEBITED BY YOUR BANK BUT NOT CREDITED BY YOU	
	0
ADD AMOUNTS CREDITED AT BY YOU BUT NOT DEBITED AT YOUR BANK	
	0
LESS AMOUNTS DEBITED BY YOU BUT NOT CREDITED AT YOUR BANK	
	0
BAL AS PER BANK STATEMENT	0
PREARED BY	**APPROVED BY**

ANNEX N SAMPLE STATEMENT OF FINANCIAL POSITION

ASSETS		
A1	Notes & Coins	
A2	Balance with other Financial Institutions	
A3	Short-term investments in market instruments	
A3-1	Treasury Bills	
A3-2	Government Bonds	
A3-3	Others	
A4	Total loan portfolio	
A4-1	Current	
A4-2	Past Due	
A4-3	Restructured Current	
A4-4	Restructured Past Due	
A5	(Loan loss reserve)	
A6	Overdraft	
A7	Other short-term assets	
A8	Long-term investments	
A9	Inter Branch/Due from own officers	
A10	Fixed Assets	
A10-1	Land	
A10-2	Buildings	
A10-3	Equipments	
A11	Accumulated depreciation	
A10-A11	Net fixed assets	
TOTAL ASSETS (A1+A2+A3+A4+A5+A6+A7+A8+A9+A10-A11)		
LIABILITIES		
L1	Savings accounts: compulsory	
L2	Savings accounts: voluntary	
L3	Current Account	
L4	Time deposits	
L5	Loans: commercial	
L6	Loans: central bank	
L7	Loans: subsidized	
L8	Short-term Borrowings	
L9	Deferred Income/ Grant	
L10	Other short-term liabilities	
L11	Other long-term liabilities	
TOTAL LIABILITIES (L1+L2+L3+L4+L5+L6+L7+L8+L9+L10+11)		
EQUITY		
E1	Paid-in equity from shareholders	
E2	Prior years' retained earnings/losses	
E3	Current year retained earnings/loss	
E4	Prior years' donated equity	
E5	Current year donated equity	
E6	Subordinated Debt	
TOTAL EQUITY(E1+E2+E3+E4+E5+E6)		
TOTAL LIABILITIES AND EQUITY (L+E)		

ANNEX O SAMPLE PROFIT AND LOSS STATEMENT

Income statements		
I1	Interest and fee income from loans	
I1-1	Interest Income from Loans	
I1-2	Loan Fees	
I1-3	Service Charges	
I1-4	Late Fee on Loans	
I2	Income from other finance-related services	
I3	Income from investments	
TI	**Total Operating Income (I1+I2+I3)**	
E1	Interest and fee expense on debt	
E2	Interest Expense on Deposit	
E3	Loan loss provision expense	
E4	Administrative expense – Personnel	
E5	Other administrative expense	
E5	rent	
E5-1	office materials and supplies	
E5-2	transportation and travel	
E5-3	BoD Related Expenses	
E5-4	publicity and publications	
E5-5	staff training	
E5-6	repairs and maintenance	
E5-7	Utilities	
E5-8	Depreciation	
E5-9	Other	
TE	**Total Operating Expenses (E1+E2+E3+E4+E5)**	
NP	***NET OPERATING PROFIT/LOSS (TI-TE)***	
G1	Cash donations for financial services	
G2	Other non-operational income	
G1+G2	**Total Non-Operational Income**	
NE	**Total Non-Operational Expenses**	
TOTAL CONSOLIDATED PROFIT/LOSS (NP+G1+G2-NE)		

ANNEX P CASH FLOW STATEMENT

CASH FLOW FROM OPERATING ACTIVITIES	
Interest on loans	
Interest on overdraft	
Commitment fees	
Assurance fees	
Penalty Charges	
Commission on turnover (COT)	
Commission on cheque clearing	
Commission WUMT	
Bank Charges	
Other Income	
Interest Paid on Savings	
Interest Paid on Fixed Deposit	
Personnel Expenses	
Administrative Expenses (net of Depreciation)	
(Increase)/Decrease in:	
Loan Portfolio	
Overdrafts	
Staff Loans	
Accrued Interest Receivable	
Prepayments	
Stocks of Chequebooks	
Other Assets	
Increase/(Decrease) in:	
Savings Account (Compulsory)	
Savings Account (Voluntary)	
School Fees Savings Plan	
Current Account	
Fixed Deposit	
Accrued Interest Payable	
Other Short-Term Liabilities	
Net Cash from Operating Activities	
CASH FLOW FROM INVESTING ACTIVITIES	
Interest on Investments	

(Increase)/Decrease in:	
Fixed Assets	
Short-term Investments	
Long-term investments	
Net Cash from Investing Activities	
CASH FLOW FROM FINANCING ACTIVITIES	
Interest on loans	
Grant Income - Loan Capital	
Grant Income - Fixed Assets	
Grant Income - Operating Cost	
Increase/(Decrease) in:	
Loans : Commercial	
Loans : Central Bank	
Loans : Subsidized	
Deferred Income	
Other Long-Term Liabilities	
Share Capital	
Other Capital Accounts	
Cash Flow from Financing Activities	
Net Change in Cash Balance	
Other Non-Operational Income	
Cash Balance (Beginning)	
Cash Balance (Ending)	

ANNEX Q SAMPLE CASH PROJECTION

XYZ RURAL BANK LTD.

MONTHLY CASH FORECAST					
For the Month of _____					
	Period	**Week 1**	**Week2**	**Week3**	**Week4**
A	**Opening Cash-beginning of month**				
B	**Inflows**				
1	Loan repayment due with interest				
2	On-time repayment rate (%)				
3	Projected loan repayment				
4	Projected delinquent loan recovery				
5	Projected loan fees collected				
6	Deposits on current A/Cs				
7	Deposits on savings A/Cs				
8	Fixed Deposits				
	Total Inflows				
C	**Outflows**				
1	Projected loan disbursement				
2	Withdrawal from current accounts				
3	Withdrawal from savings accounts				
4	Payments of fixed deposits				
5	Drafts of by other banks				
6	Financial expenses				
7	Personnel/Administrative Expenses				
	Total Outflows				
D	**Net Cash (Inflows-outflows)**				
E	Liquidity Position at the end (A +D)				
F	Required Liquidity (40% on demand deposits & 20% on savings and fixed deposits)				
G	**Excess/deficit (E-F)**				
	Liquidity Ratio [E/C] >1				

ANNEX R BUDGET PERFORMANCE REPORT

Income statements		APPROVED BUDGET	ACTUAL AS AT (CUMULATIVE)	VARIANCE	PERCENT ATTAINMENT OF BUDGET
		A	B	(C=B - A)	(C/A)
I1	Interest and fee income from loans				
I1-1	Interest Income from Loans				
I1-2	Loan Fees				
I1-3	Service Charges				
I1-4	Late Fee on Loans				
I2	Income from other finance-related services				
I3	Income from investments				
TI	**Total Operating Income (I1+I2+I3)**				
E1	Interest and fee expense on debt				
E2	Interest Expense on Deposit				
E3	Loan loss provision expense				
E4	Administrative expense – Personnel				
E5	Other administrative expense				
E5	rent				
E5-1	office materials and supplies				
E5-2	transportation and travel				
E5-3	BoD Related Expenses				
E5-4	publicity and publications				
E5-5	staff training				
E5-6	repairs and maintenance				
E5-7	Utilities				
E5-8	Depreciation				
E5-9	Other				
TE	**Total Operating Expenses (E1+E2+E3+E4+E5)**				

NP	***NET OPERATING PROFIT/LOSS (TI-TE)***				
G1	Cash donations for financial services				
G2	Other non-operational income				
G1+G2	**Total Non-Operational Income**				
NE	**Total Non-Operational Expenses**				
TOTAL CONSOLIDATED PROFIT/LOSS (NP+G1+G2-NE)					

ASSETS		APPROVED BUDGET	ACTUAL AS AT (CUMULATIVE)	VARIANCE	PERCENT ATTAINMENT OF BUDGET
		A	B	(C=B - A)	(C/A)
A1	Notes & Coins				
A2	Balance with other Financial Institutions				
A3	Short-term investments in market instruments				
A3-1	Treasury Bills				
A3-2	Government Bonds				
A3-3	Others				
A4	Total loan portfolio				
A4-1	Current				
A4-2	Past Due				
A4-3	Restructured Current				
A4-4	Restructured Past Due				
A5	(Loan loss reserve)				
A6	Overdraft				
A7	Other short-term assets				
A8	Long-term investments				
A9	Inter Branch/Due from own officers				
A10	Fixed Assets				
A10-1	Land				
A10-2	Buildings				
A10-3	Equipments				
A11	Accumulated depreciation				

A10-A11	Net fixed assets				
TOTAL ASSETS (A1+A2+A3+A4+A5+A6+A7+A8+A9+A10-A11)					
LIABILITIES					
L1	Savings accounts: compulsory				
L2	Savings accounts: voluntary				
L3	Current Account				
L4	Time deposits				
L5	Loans: commercial				
L6	Loans: central bank				
L7	Loans: subsidized				
L8	Short-term Borrowings				
L9	Deferred Income/ Grant				
L10	Other short-term liabilities				
L11	Other long-term liabilities				
TOTAL LIABILITIES (L1+L2+L3+L4+L5+L6+L7+L8+L9+L10+11)					
EQUITY					
E1	Paid-in equity from shareholders				
E2	Prior years' retained earnings/losses				
E3	Current year retained earnings/loss				
E4	Prior years' donated equity				
E5	Current year donated equity				
E6	Subordinated Debt				
TOTAL EQUITY(E1+E2+E3+E4+E5+E6)					
TOTAL LIABILITIES AND EQUITY (L+E)					