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Write – Off Doubtful Assets In Financial Institutions - With Special Referance To Select Banking Sectors

T. Shenbagavalli [1]

Abstract

The economic history of many countries reveals that financial sustainability provides not only economic development but also develops financial infrastructure, always both should go hand in hand" Now a days, financial institutions are playing vital role in the development of economy particularly banking sectors includes Commercial banks and Investment banks, leasing companies, microfinance institutions. All these forms of financial institutions are united for providing intermediate financial flow by accepting deposits from the individual depositors or wide range of Business Operations provided these financial flows to the individuals and corporate borrowers, mainly in the form of business and commercial lending in the form of short term and long-term basis and charge interest. Because of customers or clients just don't pay what they owe, recession (trade and industrial activities are reduced) lower exports and restriction in cash withdrawals create high percentage of Non-Performing Assets (NPA). Particularly it creates Doubtful assets and loss assets. Usually banking sectors use the allowance method for purpose other than income tax and direct method to write off these assets. The finance minister informed the Lok Sabha that Schedule Commercial Banks have been written off loans worth Rs. 5.85-lakh crore. Due to large scale disruption caused by COVID- 19, bad loans in the banks are likely to increase by 200 to 300 bps by March 2021 this certainly call for special dispensation to deal with bad loans and to maintain financial health of banks. Towards this end Indian Bankers Association has again mooted a off balance sheet solution. This paper study the impact of these issues.

Keywords: Write off, Doubtful assets, bps – (basis points, 1bps=1/100 of 1% i.e. 0.01%), Non-Performing assets.

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1.INTRODUCTION

Indian banking industry plays a pivotal role in the socio-economic development of the country. This role is played by banks by offering credit to various deficit sectors for their progress and development. This credit creation process leads to credit risk which will lead to non-performing asset. Non-performing assets (NPAs) account not only reduces profitability of banks by provisioning in the profit and loss account, but their carrying cost is also increased which results in excess & avoidable management attention. Apart from this, an increasing level of NPA also puts burden to a bank's net worth because banks are under pressure to maintain a desired level of equity requirements. Non-performing asset (NPA) is one of the major concerns and problem for banks in India. NPAs reflect the degree of risk and quality of assets of bank and of a bank efficient operation of a bank. An impenetrable level of NPAs suggests high sustainable value of a large number of credit defaults that affect the earning capacity and pecuniary resources of all banks and also destroy the value of the asset. The NPA prosperity involves reduced banking companies' income from assets and the necessity of provisions, which reduces the overall profits and shareholders" value. The level of non-performing assets is at the alarming rate in Indian banking comparatively to other countries. Due to social development projects and priority sector projects, this increases banks credit directional level. The public sector banks play a vital role for the development and growth from the commencement stage. The banking sector were operating on social model by mobilizing the huge resources and, this resulting for social and economic development of the country by directing social and priority sector. Due to their socio-economic role, there was high level of NPA's in their asset portfolio. The Liberalized Policy 1991 gives permission to establish multi- national banks and private banks, it affects the public sector banks percentage of NPA in their portfolio. [1]

As per the definition of banking, it accepts deposits for the purpose of lending, so it generates funds by issuing claims in the name of itself and lends this money to the one in need in the form of loans, cash credit, overdraft. The income and expenditure of a banks are in the form of claims unlike other forms of business. The mobilized money is lent in the form of loans which is major and main activity of banking and comprises the largest asset in the asset portfolio of the bank. [2]

Any banking institution has to make proper application of the financial resources and disposal of its loans and advances constitute an important channel of application of resources. One of the major concern and problem for banks in India is the alarming high level. [3]

of non-performing assets. High level of NPAs proposes high probability of a large number of credit defaults that affect the return on investment and cash flow of banks and also erodes the value of the asset. Thus, due to failure on the part of the borrower to repay the loan on the due date, the bank will not be able to recover all the loans and advances from the borrowers. This causes for accumulation of non-performing assets. Identification of the profitability and net- worth of banks largely depends on the level of non-performing assets. As per rules non- performing loans, including those in respect of which full provisioning has been made on completion of four years, are removed from the balance sheet of the bank concerned by the way of a write- off.

II.REVIEW OF LITERATURE.

Public Review

1.Write off of loans is also a scam in banks. Banks write off of loans ignoring the availability of net worth of the individuals like Vijay Mallya is nothing but a fraud on banks, Write depositors and Tax payers ' money. The technical write offs effected is only to avoid tax payments and gradually to benefit the banks and the borrowers by writing the loans off after arriving at a compromise. Even the classification of NPAs is a scam as many loans are not shown as NPAs and hidden from the balance sheet. Creative accounting practised in our system is so intense that no one can tell what is the true position of the bank's balance sheet. Global Trust bank and Satyam Computers are solid examples where creative accounting was well resorted to for years. -Dr. T Gopalakrishnan (12th Feb 2016 Edition Business Standard)

2.Banks are writing off huge amount of bad loans without govt taking any cognizance of reasons for the same. Poor appraisal process, inadequate data to ascertain the viability of projects, non-adherence of KYC norms and to some extent extant involvement with

parties leads to these results. Lack of stringent laws to punish the wrongdoer is bigger worry and leads to increase in such callousness. Media talks about smaller matters but such major concerns remain unaddressed. Either pressure groups are two strong or we are caught in trivial matters. - Rekha Shukla (28th July 2016 Edition Business Standard)

3.Former Reserve Bank deputy governor K C Chakrabarty has labelled these technical write-offs by banks as a “scam”. Chakrabarty, who worked in the supervision department, told The Indian Express that “Technical write-offs by Indian banks are inequitable and should be stopped. It is a big scam. Small loans are rarely written off; most of them are big loans. Public sector banks have written off Rs 114,000 crore over the last three years and a further Rs 50,000 crore or more is expected to be written off this year.”

4.Senior Congress leader & former finance Minister P Chidambaram asked the government to explain why it had taken the technical loan write-off route for fugitives like Nirav Modi, Mehul Choksi and Vijay Mallya. Chidambaram said that

one cannot deny the rule that banks can write-off loans technically and recoveries can continue against wilful defaulters, but why was the rule applied to fugitives, who fled the country, after committing frauds.

ALSO READ| Over Rs 68,600 crore of loans of wilful defaulters including Mallya,Choksi written off: RBI

"One is not denying such a rule that can be applied to a wilful defaulter. But we are asking these are fugitives and they have left the country and are absconding. Why are you applying this rule to Nirav Modi, Mehul Choksi and Vijay Mallya," he said at press conference conducted through video conferencing. (The New Indian Express Dt. 29th April 2020)

III.OBJECTIVES.

1.To understand the meaning and nature of NPAs.
2.To study the present Non-Performing Assets status of select Banking sectors.
3.Identify the effectiveness of the credit risk management system undertaken by the banking sectors. [4]

KEY TAKEAWAYS

- When a business does not expect to recover a debt, the debt becomes bad and is written off.
- To presume a more attractive position and reduce its tax liability, banks are often writing off toxic loans (doubtful and bad loans), the most common form of bad debt for a bank.
- Under GAAP, banks are usually required to maintain statutory reserves for bad loans.
- When companies’ bad debt is written down, part of the debt is recovered and part is written off, usually as part of a settlement.

Categories of Assets of Banks

Nonperforming assets of banks are classified three categories based on the period for which the asset has remained nonperforming and the realisability of the dues:

- Standard Assets
- Substandard Assets
- Doubtful Assets
- Loss Assets

Standard Asset:

Standard Asset does not have any problem. From these assets the banks are regularly getting premium from the customer. Therefore, against standard assets the bank will never get any risk or the percentage of risk is nil or sometimes it is very less (The securities are tagged by the banks for sanctioning the loan has always has appreciated values suppose if any default happens for settling the loan or payment of premium the bank can immediately, they can dispose at the time of disposable the banks never get any problem), it can be bearable by the banks. [5]

Sub-standard asset:

In sub-standard assets, the period of NPA is not less than 12 months. The market value of security charged is not enough to recover the dues from the customers guarantee (i.e., the securities market value will not yield the expected returns at the time of disposal of assets because of default)

Doubtful Asset:

The reasons for doubtful assets:

1)Lower exports due to global recession (decreases in global commodity prices leading to slower exports). The customers sometimes cancel the orders or the percentage of profit which is earned by them is not meeting the requirements of settlements.
2)Money or assets provided by banks to companies as loans sometimes remain unpaid by borrowers

(i)Relaxed lending norms adopted by banks (No strong legal actions against defaulters)
(ii)Diversion of funds by borrowers (using the borrowed funds for the purposes other than the purpose for which the loan was sanctioned)

Due to the above reasons, there may be a chance of delay in settlement of loan or default in paying the interest.

Loss Asset:

The identification of loss through internal and external auditors or with the cooperation of department of inspection by the Reserve Bank of India. Once the uncollectible loan amounts are finalised these assets are identified as loss assets, these assets are not written off entirely or partially
If the realizable value of the security, as assessed by the bank / approved valuers / RBI is less than 15% per cent of the unpaid value in the loan taker's accounts, the existence of security should be ignored and the asset should be directly considered as loss asset. Loss assets may be either written off after getting the permission from the respective authority after making necessary permission from the written-off as per the Co-operative Societies Act / Rules, or fully provided for by the bank.
(https://bankingschool.co.in/loans-and-advances/loan-provisioning-process)

The following table gives the clear picture about the status of non-performing assets of public sectors banks, Private sector banks, Foreign Banks, Small finance Banks and All schedule commercial banks.

Other factors attributed for the cause of NPA can be:

- Indecorous selection of borrower's activities.
- Due to market risk, delay in Project completion.
- Im -proper management of receivables recovery.
- The risk facing capacity of the companies to raise capital through the issue of equity or debt capital from the capital markets.
- Business failures.

A loan write-off is one of the most powerful measure used by banks to maintain its financial stability to show its balance sheet. It is applied in the cases of un collectiable credit or non- performing assets (NPA). If a loan turns bad on the account of the default in settlement suppose the non-payment of loan customer for minimum three consecutive quarters, the exposure (loan) can be written off. Provision for the repayment of loan provision refers to a certain percentages of loan amount set aside by the banks. The standard rate of provisioning for a loan in Indian Banks varies from 5- 20 % depending on the business sector and the repayment capacity of the Brower. In the cases of NPA, 100% provisioning is required in accordance with the Basel-III norms. When compared to Indian banks foreign banks percentage write -off is very less even some foreign banks NPA is nil because of lending norms adopted by banks.
1.Identify the effectiveness of the credit risk management system undertaken by the banking sectors.
Under the principle (13 & 17) of credit management system of banks
The bank officials who are look after the loan sanction should be very much alert to find out, that banks have an effective system while
i)Identify the loan customer,
ii)To measure the credit worthiness of the loan customer,
iii)To regular monitoring the performance of the loan customer and of the loan customer
iv)How to control credit risk as part of an overall approach to risk management.
v)Each and every official Supervisors should take necessary pilot study while doing the independent evaluation of a bank's
a) strategies b) policies, c) procedures and d) practices related to the granting of credit and the ongoing management of the portfolio.
b)Official loan supervisors should consider setting prudential limits to restrict bank exposures to single borrowers or groups of connected counterparties.

ANALYSIS

1. To understand the meaning and nature of NPAs.

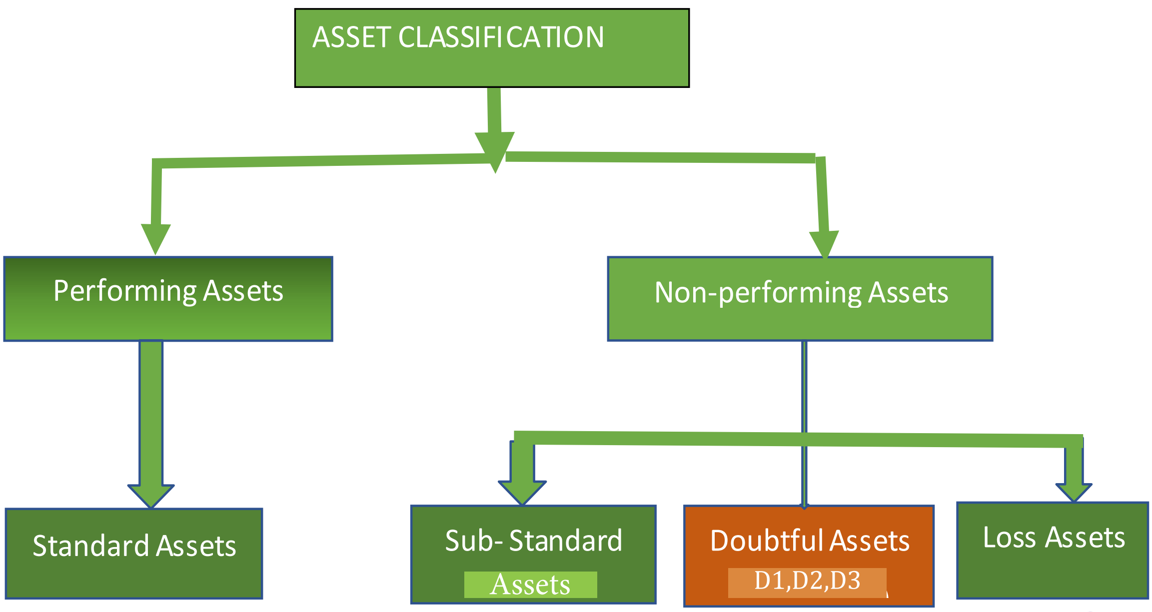


Table IV.12: Classification of Loan Assets by Bank Group (Amount in ₹ crore)									
Bank Group	End-March	Standard Assets		Sub-Standard Assets		Doubtful Assets		Loss Assets	
		Amount	Per cent*	Amount	Per cent*	Amount	Per cent*	Amount	Per cent*
Public sector bank	2019	50,86,874	87.8	1,37,377	2.4	5,06,492	8.7	66,239	1.1
	2020	53,27,903	89.2	1,32,530	2.2	4,04,724	6.8	1,07,163	1.8
Private sector Bank	2019	31,03,581	95.2	42,440	1.3	1,04,696	3.2	9,576	0.3
	2020	34,14,554	94.9	56,588	1.6	92,396	2.6	34,986	1
Foreign Bank	2019	3,94,638	97	3,190	0.8	8,019	2	1,034	0.3
	2020	4,25,857	97.7	3,273	0.8	5,775	1.3	1,161	0.3
Small finance banks	2019	61,652	98.2	719	1.1	360	0.6	44	0.1
	2020	89,800	98.1	1,023	1.1	648	0.7	39	0
All schedule	2019	86,46,745	90.8	1,83,726	1.9	6,19,567	6.5	76,894	0.8
	2020	92,58,114	91.7	1,93,413	1.9	5,03,543	5	1,43,349	1.4
Notes: 1. Constituent items may not add up to the total due to rounding off.									
2. *: As per cent to gross advances.									
3. **: Refers to scheduled SFBs.									
Source: Off-site returns (domestic operations), RBI.									

To study the present Non-Performing Assets status of Banking sectors.
Reasons for Occurrence of NPAs

1. lower exports due to global recession (decreases in global commodity prices leading to slower exports).

2. Money or assets provided by banks to companies as loans sometimes remain unpaid by borrowers

2(a)Relaxed lending norms adopted by banks (No strong legal actions against defaulters)

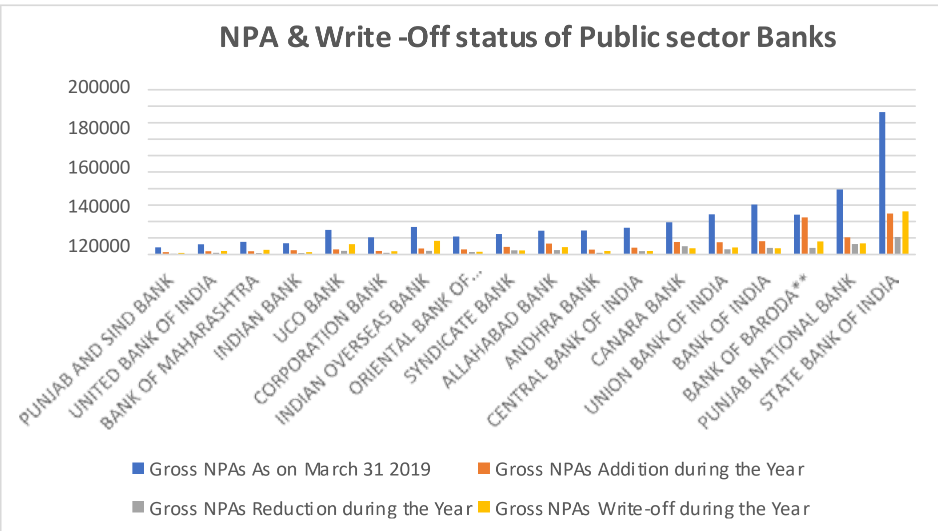
2(b)Diversion of funds by borrowers (using the borrowed funds for the purposes other than the purpose for which the loan was sanctioned)

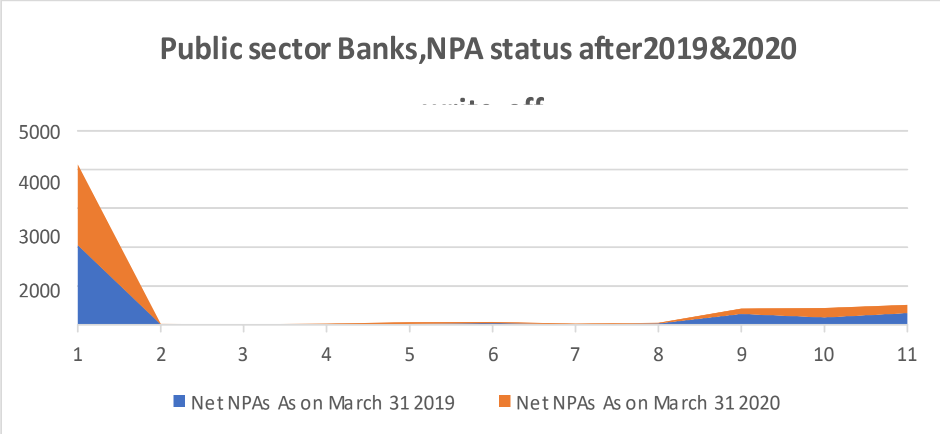
2(a)Relaxed lending norms adopted by banks (No strong legal actions against defaulters)

A: Public sector Banks NPA and Write-Off status of 2019 and 2020

BANK NAMES	Gross NPAs As on March 31 2019	Gross NPAs Addition during the Year	Gross NPAs Reduction during the Year	Gross NPAs Write-off during the Year	Gross NPAs As on March 31 2020	Net NPAs As on March 31 2019	Net NPAs As on March 31 2020
PUNJAB AND SIND BANK	86056	2909	858.99	1780.87	8874.57	4994.23	4684.15
UNITED BANK OF INDIA	12053	4053	1882.63	4288.6	9935.23	5785.61	3191.22
BANK OF MAHARASHT RA	15325	4040	1515	5697.6	12152.15	4559.33	4145.38
INDIAN BANK	13353	5320.5	1491.5	3031.61	14150.84	6793.11	6184.24
UCO BANK	29888	6181.38	4308.67	12479.09	19281.95	9649.92	5510.66
CORPORATI ON BANK	20724	4336.27	1847.3	3813.63	19399.02	6926.64	6256.97
INDIAN OVERSEAS BANK	33398	7225.33	4304.14	16406.61	19912.7	14368.3	6602.8
ORIENTAL BANK OF COMMERCE	21718	6120.14	2735.22	3350.84	21751.15	9439.62	7909.41
SYNDICATE BANK	24680	9112.46	4772.65	4933.7	24086.48	12627.73	8504.7
ALLAHABAD BANK	28704.78	13246.13	5101.06	9002.98	27846.87	7419.31	8088.09
ANDHRA BANK	28973.97	5899.84	1970.69	4194.58	28708.54	9091.4	7764.52
CENTRAL BANK OF INDIA	32356.04	8150.61	3748.38	4169.19	32589.08	11333.24	11534.46
CANARA BANK	39224.12	15044.75	9730.2	7497.52	37041.15	22955.11	18250.95
UNION BANK OF INDIA	48729.15	14911.44	6137.81	8417.48	49085.3	20332.42	17303.14
BANK OF INDIA	60661.12	16328.81	7812.51	7627.49	61549.93	19118.96	14320.1
BANK OF BARODA**	48232.76	45006.65	7971.92	15886.06	69381.43	15609.5	21576.6
PUNJAB NATIONAL BANK	78472.7	20751.25	12380.1	13365.09	73478.76	30037.66	27218.9
STATE BANK OF INDIA	172750.36	49826.28	21122.42	52362.37	149091.85	65894.74	51871.3
PUBLIC SECTOR BANKS	717849.76	238464.08	99691.53	178305.31	678317	276936.83	230917.59

Source





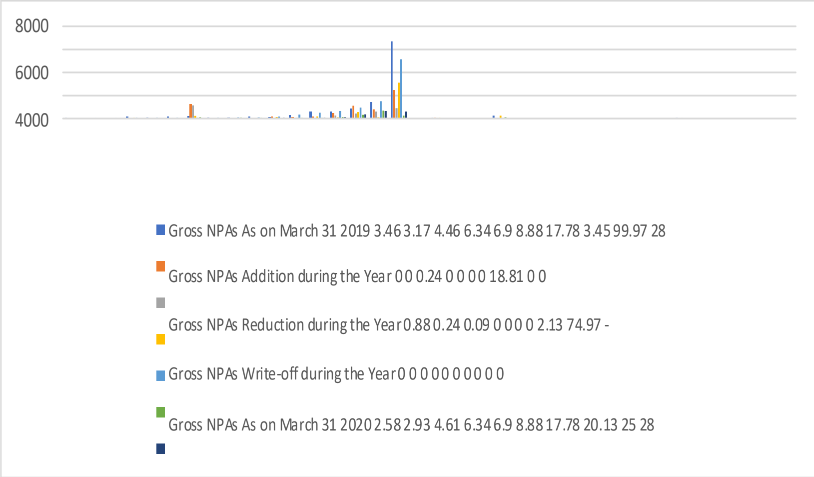
B: Private Sector Banks NPA and Write-Off status of 2019 and 2020

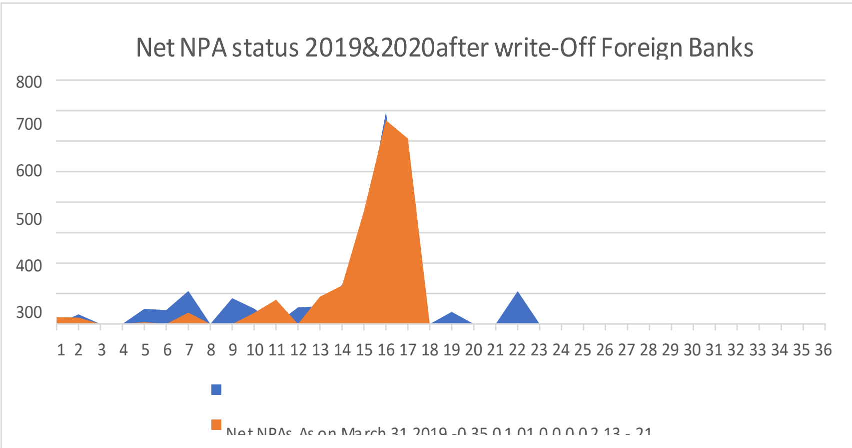
C: Foreign Banks NPA and Write-Off status of 2019 and 2020

BANK NAMES	Gross NPAs As on March 31 2019	Gross NPAs Addition during the Year	Gross NPAs Reduction during the Year	Gross NPAs Write-off during the Year	Gross NPAs As on March 31 2020	Net NPAs As on March 31 2019	Net NPAs As on March 31 2020
CTBC BANK CO., LTD.	3.46	0	0.88	0	**2.58**	-0.35	0
CREDIT AGRICOLE CORPORATE AND INVESTMENT BANK	3.17	0	0.24	0	**2.93**	0	0
SONALI BANK	4.46	0.24	0.09	0	**4.61**	1.01	1.12
MIZUHO BANK LTD	6.34	0	0	0	**6.34**	0	0
BNP PARIBAS	6.9	0	0	0	**6.9**	0	0
DOHA BANK Q.P.S.C.	8.88	0	0	0	**8.88**	0	0
PT BANK MAYBANK INDONESIA TBK	17.78	0	0	0	**17.78**	0	0
BANK OF CEYLON	3.45	18.81	2.13	0	**20.13**	2.13	15.99
AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED	99.97	0	74.97	0	**25**	0	0
FIRSTRAND BANK LTD	28	0	0	0	**28**	21	0
INDUSTRIAL AND COMMERCIAL BANK OF CHINA	50.05	36.8	8.79	42.82	**35.24**	0	22.91
KEB HANA BANK	53.51	0	0.1	0	**53.41**	31.4	20.66
BANK OF NOVA SCOTIA	68.05	0	0	0	**68.05**	0	0
UNITED OVERSEAS BANK LTD	155.19	0	25.51	54.68	**75**	0	0
BANK OF BAHRAIN & KUWAIT B.S.C.	79.55	7.63	3.98	4.55	**78.65**	49.84	6.59
SOCIETE GENERALE	148.92	0	70	0	**78.92**	45.45	0
AMERICAN EXPRESS BANKING CORP.	199.59	1252.45	1154.48	217.44	**80.12**	108.21	36.87
SBERBANK	91.85	0	0	0	**91.85**	0	0
SHINHANBANK	100	0.04	0	0	**100.04**	85	0.03
SBM BANK (INDIA) LIMITED	149.31	21.15	10.02	44.86	**115.58**	50.67	36.78
COOPERATIEVE RABOBANK U.A.	126.53	169.81	3.99	122.54	**169.81**	0	79.48
BARCLAYS BANK PLC	295.84	121.43	26.15	52.05	**339.07**	54.37	0
DBS BANK INDIA LTD.	583.17	148.9	40.81	183.7	**507.57**	58.86	89.66

HONGKONG AND SHANGHAI BANKING CORPN.LTD.	597.71	469.41	279.3	118.5	**669.33**	129.12	126.19
CITIBANK N. A	849.11	1128.35	457.37	559.05	**961.04**	312.61	370.51
DEUTSCHE BANK AG	1424.44	815.65	624.88	104.93	**1510.28**	694.65	668.32
STANDARD CHARTERED BANK	6690.78	2485.21	913.77	3110.98	**5151.24**	259.84	608.91
AB BANK LIMITED	0	0	0	0	0	0	0
ABU DHABI COMMERCIAL BANK PJSC	53.38	74.68	64.37	63.69	0	39.95	0
BANK OF AMERICA, NATIONAL ASSOCIATION	0	0.22	0.22	0	0	0	0
BANK OF CHINA LIMITED	0	0	0	0	0	0	0
CREDIT SUISSE AG	260	0	0	260	0	107.69	0
EMIRATES NBD BANK (P.J.S.C.)	0	0	0	0	0	0	0
FIRST ABU DHABI BANK PJSC	0	0	0	0	0	0	0
INDUSTRIAL BANK OF KOREA	0	0	0	0	0	0	0
JPMORGAN CHASE BANK NATIONAL ASSOCIATION	0	0	0	0	0	0	0
JSC VTB BANK	0	0	0	0	0	0	0
KOOKMIN BANK	0	0	0	0	0	0	0
KRUNG THAI BANK PUBLIC COMPANY LIMITED	0	0	0	0	0	0	0
MASHREQ BANK PSC	0	0	0	0	0	0	0
MUFG Bank Ltd	70	0	70	0	0	0	0
NATWEST MARKETS PLC	0	0	0	0	0	0	0
QATAR NATIONAL BANK (Q.P.S.C.)	0	0	0	0	0	0	0
SUMITOMO MITSUI BANKING CORPORATION	0	0	0	0	0	0	0
WESTPAC BANKING CORPORATION	0	0	0	0	0	0	0
WOORI BANK	12.89	0	0	12.89	0	0	0
FOREIGN BANKS	12242.26	6750.76	3832.03	4952.67	10208.3	2051.44	2084.03

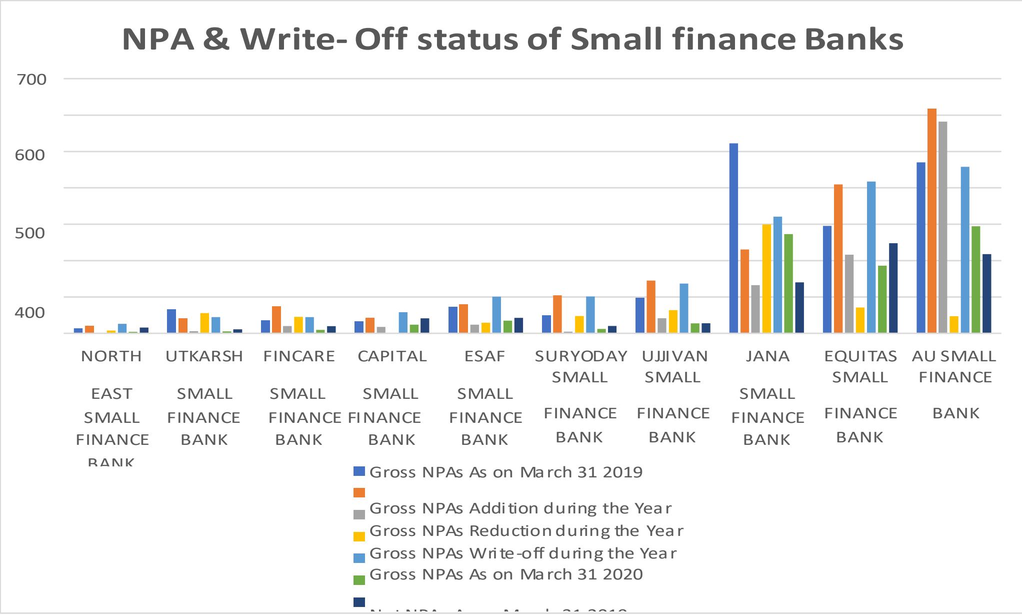
NPA & Write- Off status of Foreign Banks





D: Small Finance Banks NPA and Write-Off status of 2019 and 2020

BANK NAMES	Gross NPAs As on March 31 2019	Gross NPAs Addition during the Year	Gross NPAs Reduction during the Year	Gross NPAs Write-off during the Year	Gross NPAs As on March 31 2020	Net NPAs As on March 31 2019	Net NPAs As on March 31 2020
NORTH EAST SMALL FINANCE BANK LIMITED	14.4	20.4	0.27	8.	26.30	4.41	16
UTKARSH SMALL FINANCE BANK LIMITED	65.6	41.2	6	56	44.7	5.7	12
FINCARE SMALL FINANCE BANK LIMITED	36	74.3	20.1	45.5	4.5	10	20
CAPITAL SMALL FINANCE BANK LIMITED	34	42	18	0.01	59	25	41
ESAF SMALL FINANCE BANK LIMITED	74	80	24	30	101	36	43
SURYODAY SMALL FINANCE BANK LIMITED	50	104	4.8	47.9	102	12.01	20.4
UJJIVAN SMALL FINANCE BANK LIMITED	98	146	42	64.1	137.1	27.55	27.5
JANA SMALL FINANCE BANK LIMITED	522	230.44	132.68	299.52	320.81	273.08	140.38
EQUITAS SMALL FINANCE BANK LIMITED	296	409.3	216.18	71.51	417.32	186.42	247.62
AU SMALL FINANCE BANK LIMITED	471	617.03	582.26	47.13	456	296	218
SMALL FINANCE BANKS	1659.64	1764.43	1045.81	668.93	1709.32	872.58	783.63


NPA & Write- Off status of Small finance Banks
700
600
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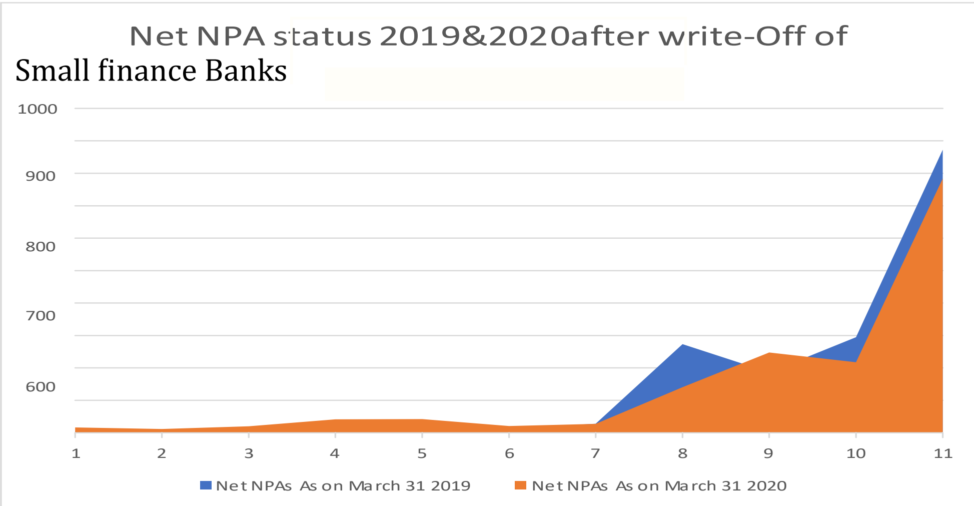
NORTH EAST SMALL FINANCE BANK
UTKARSH SMALL FINANCE BANK
FINCARE SMALL FINANCE BANK
CAPITAL SMALL FINANCE BANK
ESAF SMALL FINANCE BANK
SURYODAY SMALL FINANCE BANK
UJJIVAN SMALL FINANCE BANK
JANA SMALL FINANCE BANK
EQUITAS SMALL FINANCE BANK
AU SMALL FINANCE BANK
Gross NPAs As on March 31 2019
Gross NPAs Addition during the Year
Gross NPAs Reduction during the Year
Gross NPAs Write-off during the Year
Gross NPAs As on March 31 2020


Net NPA status 2019&2020after write-Off of
Small finance Banks
1000
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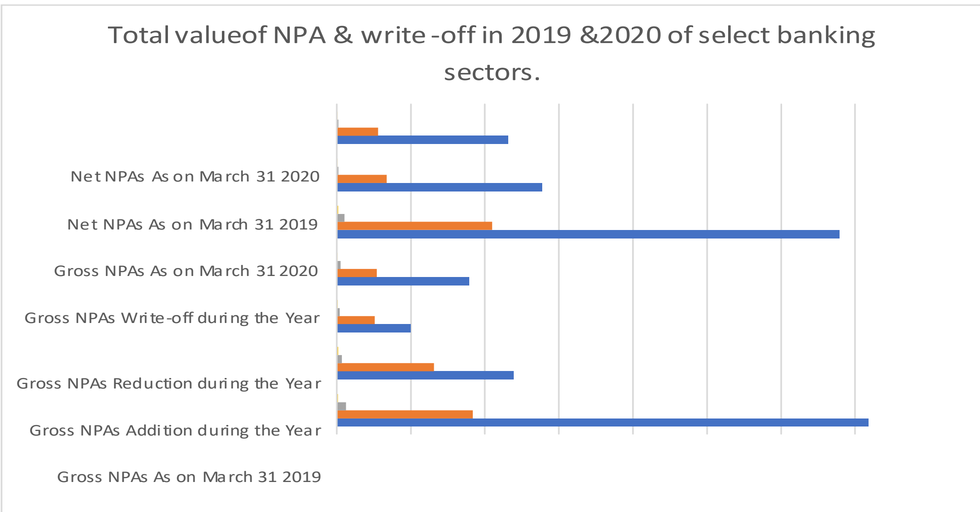
11
Net NPAs As on March 31 2019
Net NPAs As on March 31 2020


Total valueof NPA & write -off in 2019 &2020 of select banking sectors.
Net NPAs As on March 31 2020
Net NPAs As on March 31 2019
Gross NPAs As on March 31 2020
Gross NPAs Write-off during the Year
Gross NPAs Reduction during the Year
Gross NPAs Addition during the Year
Gross NPAs As on March 31 2019

Banks should do the pilot survey for the potential future requirement analyse the changes in economic conditions when assessing individual creditworthiness and their Sustainability, and the banking companies should evaluate the loan customer credit risk exposures under critical conditions. An important features of sound credit risk management scrutinise the practicality of the loan customer challenges at the time of potential assessment of credits and their capacity in various credit portfolios and articulate this information into the analysis of the acceptability of capital and provisions available. This survey reveals previously undetected areas of potential credit risk exposure for the bank. The relationship between different stages of risk that are likely to materialize in times then only the crisis should be fully understood by banking sectors. In case of un favourable circumstances, there may be a substantial correlation of various risks, especially credit and market risk. Scenario analysis and critical testing are useful method of assessing areas of day-to-day problems. Because of potential problems of loan customers and market risk against the environment causes delay in settlement of loan it creates huge amount of doubtful assets this will increase NPA

Direct Write-off

1)The direct write-off method is used only at the time scrutinizing the default of the loan customers account then the banking sectors decide a customer will not pay.

2)We do not record any estimates or use the Allowance for Doubtful Accounts under the direct write-off method.

3)We record Bad Debt Expense for the amount we determine will not be paid.

4)This method violates the GAAP principle of revenues and expenses recorded in the same period.

When we write-off an account under this method, the entry would be:

Debit Credit

Bad Debt Expense Dr X

To Accounts Receivable X

(Being the amount used will be the amount the customer owes that we will not be able to collect.)

Allowance Method Write-off

The rules and regulations of allowance method always matching with GAAP principle once the loan customers unpaid balance is estimated, those balance are considered as default that will be transferred to bank estimate uncollectible accounts (Loans which are not collected by the banks after putting lot of efforts) at the end of the year. Under this method the estimated un collectiable values are considered as Bad Debt Expense and to setup a reserve account called Allowance for Uncollectible Accounts (also called Allowance for Doubtful Accounts) based on previous experience with past due accounts. We can calculate this estimated un collectiable receivables are calculated based on Sales (income statement approach) for the year or the un collectiable receivables are calculated based on Accounts Receivable balance at the time of the estimate (balance sheet approach).

At the time of scrutinizing loan customers account, The banking company will decide a customer will not pay the amount due, then the banking sectors will decide to use the Allowance for Doubtful accounts to offset this loss instead of Bad Debt Expense.

At the end of each financial year, the approximated bad debts expense and make the following entry:

Debit Credit

Bad Debt Expense Dr X

To Allowance for Uncollectible Accounts X

(Being the amount used will be the ESTIMATED amount calculated using sales or accounts receivable.)

When we write-off a customer account under the allowance method, the entry would be:

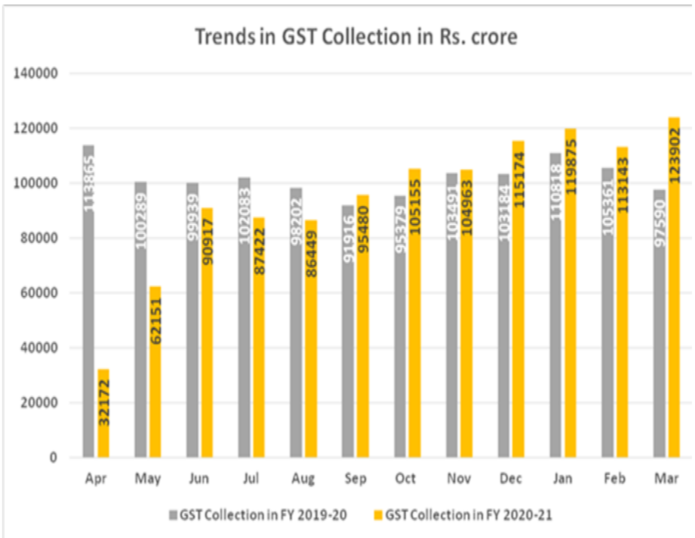
Debit Credit

Allowance for Doubtful Accounts Dr X

To Accounts Receivable X

Notice how we do not use bad debts expense in a write-off under the allowance method. The method which are used for writing off public sectors banks' bad loans, generally these debts are write off with amount collected from tax revenue

COMPARATIVE STUDY STATUS OF GST REVENUE IN THE MONTH OF MARCH 2021 IN TO 2020



Source: -MINISTRY OF FINANCE, Posted On: 01 APR 2021 2:01PM by PIB Delhi

The above chart gives a clear picture about the GST revenue of each month and how it is increased when compared with the previous financial year particularly in pandemic situations.

V CONCLUSION.

- Non-Performing Assets have been a huge issue for the banks in India. It is just not a risk for the banks: it affects development of the economy too. It is not possible to eliminate totally the Non-Performing Assets in the banking business but can be minimised as per the RBI norms for write off these assets (The Internal Revenue receivables based on earlier years' losses.)
- (Source: Business Line- Money and Banking published 8th march 2021) as per in credit management system and it was totally destroyed.
- It is always wise to follow the proper, supervision and follow up of loans and advances to avoid creation of Non-Performing Assets. RBI norms (The Internal Revenue Service estimating receivables based on earlier years'

losses.) as to be followed while writing off doubtful assets. It should not be favour to the fugitives

- It can also observe that there is a very level of NPA in Public sector banks as compared to Private sector due to directional credit to the priority sector projects and social development sector projects and social development projects.Hence the banking sector should take steps for reducing present non-performing assets, but necessary precaution should also be taken to avoid future Non-Performing Assets.

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Nill

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