CIHAN UNIVERSITY / SULAIMANI

Faculty of Administration and Financial Sciences

Accounting Department

Financial Organization Accounting

Third Stage

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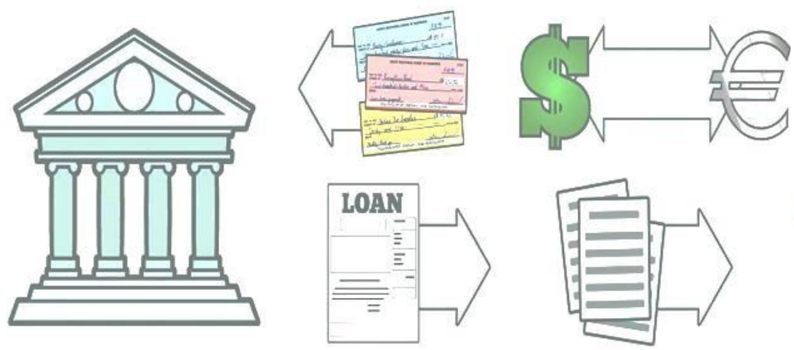
Chapter One
Basic concepts of financial organization

Financial organization is an institution (public or private) founded and united for a specific purpose that collects funds (from the public or other institutions) and investsthem in financial assets.

A financial entity is an institution that makes financial intermediary operations (granting of credits and loans, commercial effects, capital investments, insurance, etc.).



A financial institution (FI) is a company engaged in the business of dealing with financial and monetary transactions such as deposits, loans, investments, and currency exchange. The major categories of financial institutions include

1. central banks,
2. retail and commercial banks,
3. internet banks,
4. credit unions,
5. savings, and loans associations,
6. investment banks,
7. investment companies,
8. brokerage firms,
9. insurance companies,
10. mortgage.

Classification of Financial Institutions

In financial market, there are many types of financial institutions or intermediaries exist for the flow of funds. Some of them involve in depositary type of transactions whereas others involve in non-depositary type of transactions. These financial institutions can be divided into two depository and non-depository institutions

Take Charge of Your Finances

1. Depository Institutions

The depository types of financial institutions include banks, credit unions, saving and loan associations and mutual saving banks.

1.1. Commercial banks

Commercial banks are those financial institutions, which help in pooling the savings of surplus units and arrange their productive uses. They basically accept the deposits from individuals and institutions, which are repayable on demand. These deposits from individuals and institutions are then invested to satisfy the short-term financing requirement of business and industry.

1.2. Credit unions

Credit unions are cooperative associations where large numbers of people are voluntarily associated for savings and borrowing purposes. These individuals are the members of credit unions as they make share investment along with deposits. The savings generated from these members are used to lend to the members of the union only.

1.3. Saving and loan associations

Saving and loan associations are the financial institutions involved in collecting funds of many small savers and lending those funds to householders and other types of borrowers.

1.4. Mutual saving banks

Mutual saving banks are more or less similar to saving and loan associations. They primarily accept savings of individuals and they lent to the householders and consumers on a long-term basis.

2. Non-depository institutions

Non-depository institutions are not banks in real sense. They make contractual arrangement and investment in securities to satisfy the needs and preferences of investors. The non-depository institutions include insurance companies, pension funds, finance companies and mutual funds.

1.1. Insurance companies

Insurance companies are the contractual saving institutions which collect periodic premium from insured party and in return agree to compensate against the risk of loss of life and properties.

1.2. Pension funds

Pension funds are financial institutions which accept saving to provide pension and other kinds of retirement benefits to the employees of government units and other corporations. Pension funds are basically funded by corporation and government units for their employees, which make a periodic deposit to the pension fund and the fund provides benefits to associated employees on the retirement. The pension funds basically invest in stocks, bonds and other type of long-term securities including real estate.

1.3. Finance Companies

Finance companies are the financial institutions that engage in satisfying individual credit needs, and perform merchant banking functions. In other words, finance companies are non-bank financial institutions that tend to meet various kinds of consumer credit needs. They involve in leasing, project financing, housing and other kind of real estate financing.

1.4. Mutual Funds

Mutual funds are open-end investment companies. They are the associations or trusts of public members and invest in financial instruments or assets of the business sector or corporate sector for the mutual benefit of its members. Mutual funds are basically a large public portfolio that accepts funds from members and then use these funds to buy common stocks, preferred stocks, bonds and other short-term debt instruments issued by government and corporation.

The different kinds of financial–service firm calling themselves Banks

1.5. Mortgage companies

A mortgage company is a firm engaged in the business of originating and/or funding mortgages for residential or commercial property. A mortgage company is often just the originator of a loan; it markets itself to potential borrowers and seeks funding from one of several client financial institutions that provide the capital for the mortgage itself.

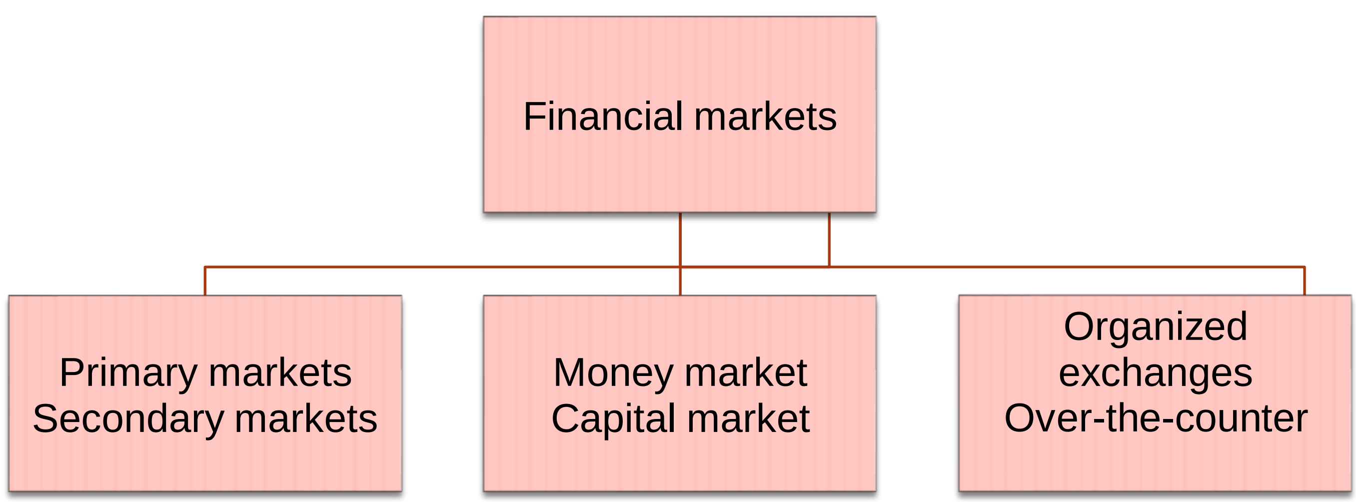
1.6. Hedge fund

A hedge fund is an investment fund that pools capital from accredited investors or institutional investors and invests in a variety of assets, often with complicated portfolio-construction and risk management techniques.

Financial Markets

- A financial market is a market in which people trade financial securities and derivatives at low transaction costs. Securities include stocks and bonds, and precious metals.
- The main goal of financial markets:

Take savings from those who do not wish to consume (savings surplus units) and to channel them to those who wish to invest more than they have presently (saving deficit units).



- **Primary market** – primary issues of securities are sold, allows governments, banks, corporations to raise money by directly selling financial instruments to the public.
- **Secondary market** – allows investors to trade financial instruments between themselves.
- **Money markets** – short-term assets (maturity less than 1 year) are traded:
  - Certificates of deposits (CDs)
  - Commercial papers (CPs)
  - Treasury bills
- **Capital markets** – long-term assets (maturity longer than 1 year) are traded:
  - Stocks
  - Corporate bonds
  - Long-term government bonds

Players in financial markets

- Borrowers: need funds
- Lenders / investors: wish to invest funds
- Hedgers: want to reduce risk
- Speculators: are willing to take risk
- Arbitrageurs: lock in profits by exploiting market inefficiencies

- Arbitrage opportunity / profit: riskless profit with zero initial investment
- Arbitrage strategy: buy cheap and sell expensive

- Financial Intermediaries (FI)
- Matching borrowers and lenders / investors
- Investment banks: help companies to obtain funding directly from lenders

Products traded on Financial Markets

- Bonds / Securities classification according to issuer: government bonds and corporate bonds.
- Shares: common stock and preferred stock.
- Derivatives: forwards, futures, swaps and options
- Currencies / foreign exchange (FX)
- Commodities

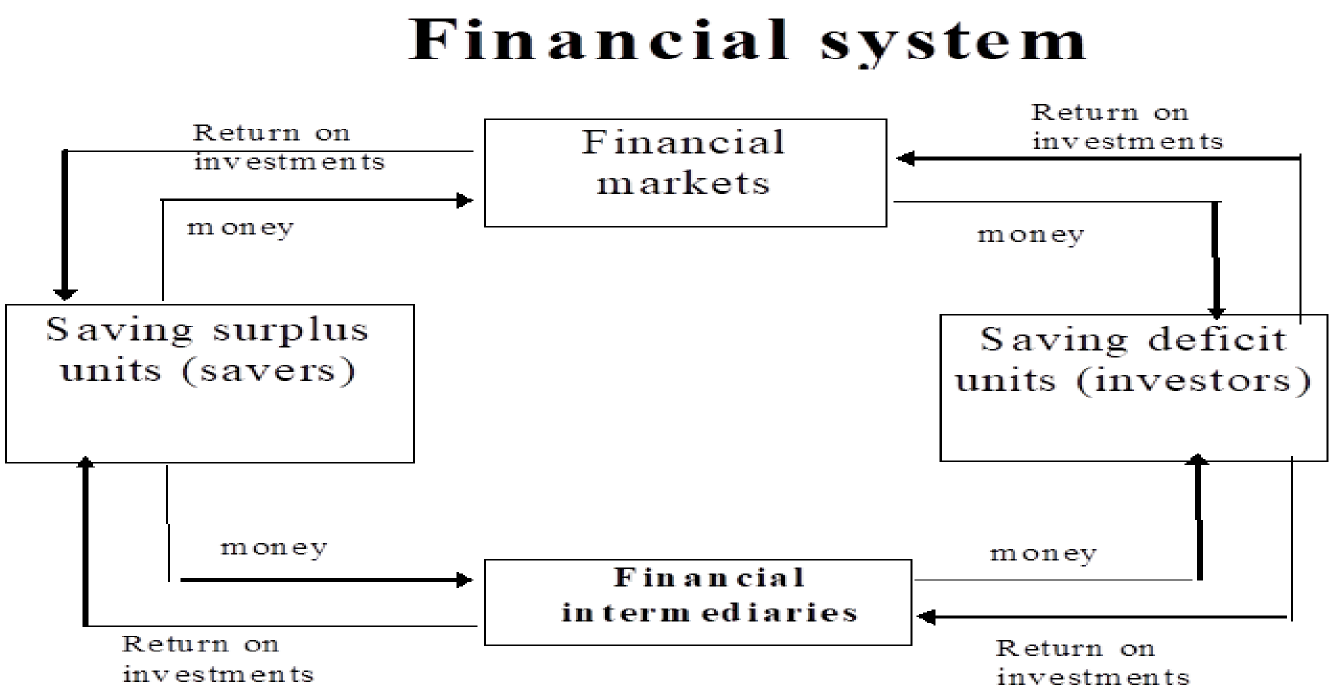
Components of the Financial System

The three components of the financial system are:

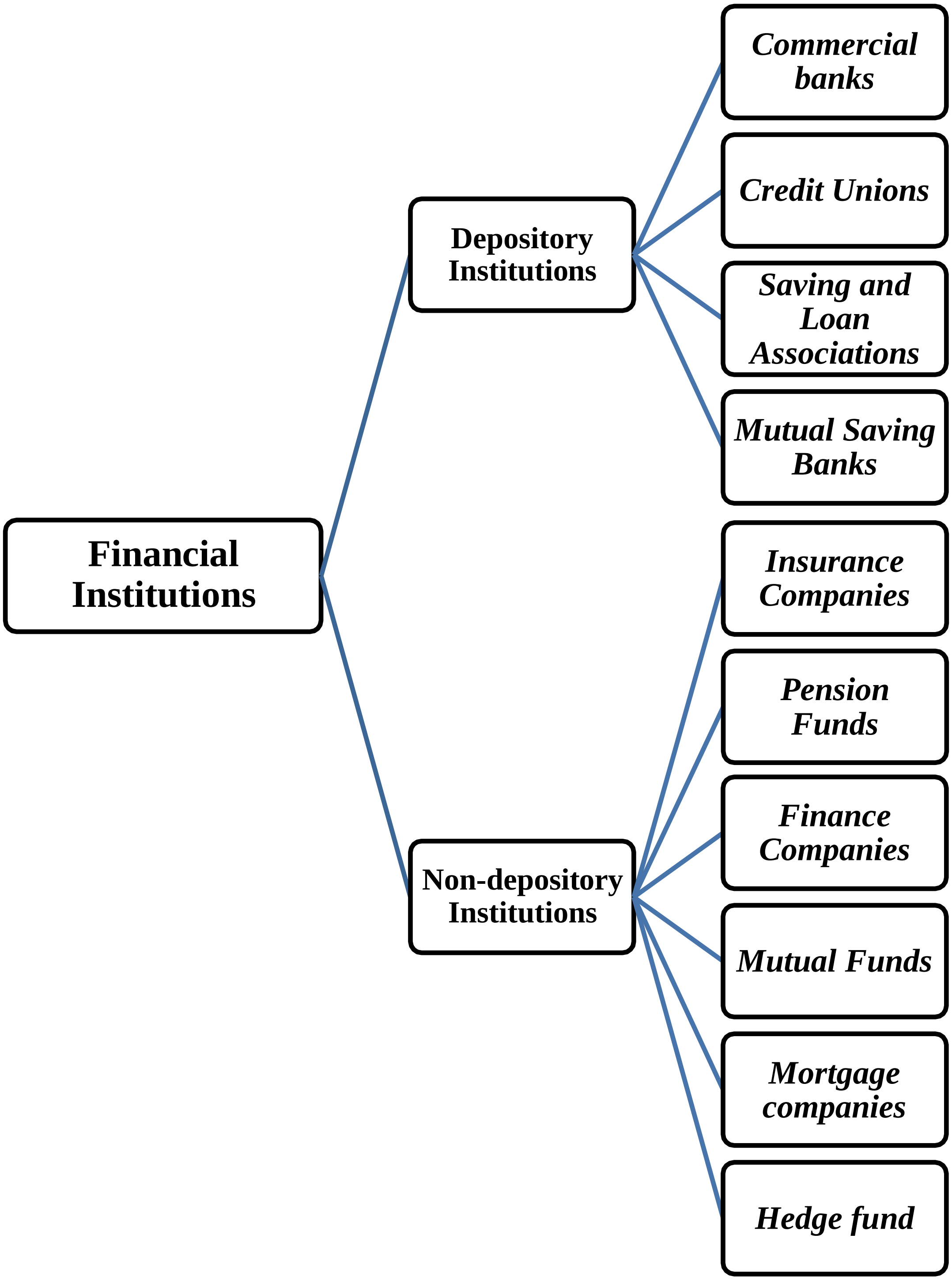
1- Monetary System.

3- Financial Institutions.

3- Financial Markets.



Types of Financial Institutions



Chapter Two
Basic concepts of bank accounting

History of banking

The history of banking began with the first proto type banks which were the merchants of the world, who made grain loans to farmers and traders who carried goods between cities. This was around 2000 BC in Assyria, India and Sumerian. Later, in ancient Greece and during the Roman Empire, lenders based in temples made loans, while accepting deposits and performing the change of money. Archaeology from this period in ancient China and India also shows evidence of money lending.

The development of banking spread from northern Italy throughout the Holy Roman Empire, and in the 15th and 16th century to northern Europe. This was followed by a number of important innovations that took place in Amsterdam during the Dutch Republic in the 17th century and in London since the 18th century. During the 20th century, developments in telecommunications and computing caused major changes to banks' transactions and let banks dramatically increase in size and geographic spread. The financial crisis of 2007–2008 caused many bank failures, including some of the world's largest banks, and provoked much debate about bank regulation.

The word bank was borrowed in Middle English from Middle French banque, from Old Italian banco, meaning "table", from Old High German banc, bank "bench, counter".

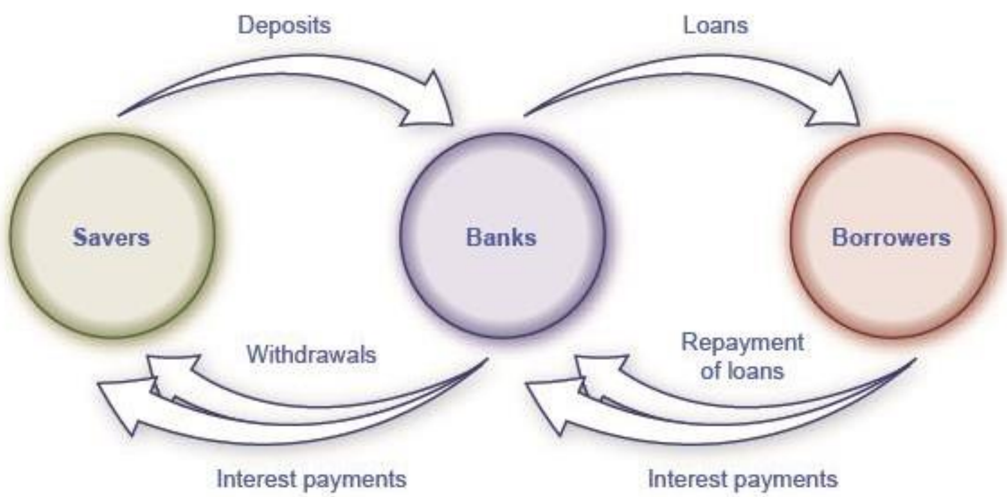
Benches were used as makeshift desks or exchange counters during the Renaissance by Jewish Florentine bankers, who used to make their transactions atop desks covered by green tablecloths.

Bank definition

As important as banks are to the economy as a whole and to the local communities they call home, there is still much confusion about what exactly a bank is. A **bank** can be defined in terms of (1) the economic functions it serves, (2) the services it offers its customers, or (3) the legal basis for its existence.

A **bank** is a financial institution and a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly by loaning or indirectly through capital markets.

Thus, banks act as financial intermediaries—they bring savers and borrowers together. An intermediary is one who stands between two other parties.



A **bank** may be defined as an institution that accepts deposits, makes loans, pays checks, and provides financial services. A bank is a financial intermediary for the safeguarding, transferring, exchanging, or lending of money.

Role of banks

- A primary role of banks is connecting those with funds, such as investors and depositors, to those seeking funds, such as individuals or businesses needing loans. A bank is the connection between customers that have capital deficits and customers with capital surpluses.
- Banks distribute the medium of exchange. Banking is a business. Banks sell their services to earn money (profit), and they must market and manage those services in a competitive field.

Understanding this fundamental idea helps you to understand how banking systems work, and helps you understand many modern trends in banking and finance.

Traditional Services Offered by Banks

- Carrying Out Currency Exchange
- Discounting Commercial Notes and Making Business Loans
- Offering Savings Deposits
- Safekeeping of Valuables
- Supporting Government Activities with Credit
- Offering Checking Accounts
- Offering Trust Services

More Recent Services Offered by Banks

- Granting Consumer Loans
- Providing Financial Advice
- Managing Cash
- Offering Equipment Leasing
- Making Venture Capital Loans
- Selling Insurance Policies
- Selling Retirement Plans

Types of Banks

There are different types of banks, according to different basis:

1- On the basis of Law:

a. *Public sector banks*: are the banks which are owned by the government. The government runs these banks.
b. *Private sector banks*: are the banks which are run and owned by the private sector
c. *Co-operative banks*: these are the banks which are jointly run by a group of individuals each individual has his equal share in these banks. Mutual help of the members is the main aim of these banks.

2- On the basis of domicile:

a. *Domestic banks*: these are the banks incorporated inside the country having branches in all over the country.
b. *Foreign banks*: these are the banks incorporated in foreign country and they have set up their branches in anther countries.

3- On the basis of ownership

Here, banks are classified in terms of sources of funds (ownership):

a. *The central banks* that supervise the banking system and have the right to issue the currency and retain the assets of the state such as gold and foreign currency.
b. *Commercial banks* whose private funds consist of the capital owned by the partners as well as deposits of individuals and institutions for the purpose of investment.
c. *Investment banks* that rely mainly on their own funds in addition to deposits to carry out their work, the most important of which is the provision of long-term loans for projects.

4- On the basis of function:

a. *Commercial banks*: These are banks which do banking business to earn profit, which advances loan for short period of time. These banks do not issue notes but create credit on the basis of their cash deposits. Thus, commercial banks deal with money and credit for the purpose of earning profit.

b. *Industrial banks*: these banks give long-term and medium-term loan to the industries for their development. These banks also purchase the shares as well as under-write the debentures of the industries.
c. *Agricultural banks*: These banks provide short-term loan to the farmers for purchase of seeds and fertilizers and long-term loan for making permanent improvement in their land.
d. *Foreign banks*: discussed earlier
e. *Saving banks*: These banks collect small saving across the country and put them in productive use.
f. *Central banks*: Central bank is the main bank of any country. It issue currency, control credit, regulates banking systems, acts as bank of government. The first central bank was established in Sweden.

5- On the basis of organizational structure:

a. *Unit banking*: These banks operate in a limited area and helps low branch office. Such banks deposit their money in big banks called correspondent banks. These banks are popular in USA.
b. *Branch banking*: a bank establishes its head office in some big city and operates various branches all over the country. Overall control of the branches is done by the board of directors. These banks are popular in France.
c. *Group banking*: two or more banks operate under the control of a holding company. These banks are subsidiary of a holding company. A holding company must have at least twenty-five per cent share of these banks.
d. *Chain banking*: some individuals or group of individuals control two or more banks. The group of individuals buys bulk of shares of two or more banks and control and manage them. These are popular in USA.
e. *Correspondent banking*: It is based upon the practice of smaller banks carrying deposits with larger banks. The larger banks are called correspondent banks.

6. In terms of legitimacy of transactions:

a. Traditional Banks.
b. Islamic Banks.

Types of Banks

Types of Bank

In terms of legitimacy of transactions:

1- Traditional Banks.

2- Islamic Banks.

On the basis of law

1- Public Sector.

2- Private Sector

3- Co-operative banks

On the basis of the domicile

1- Domestic banks.

2- Foreign banks.

On the basis of ownership

1- The central banks .

2- Commercial banks .

3- Investment banks

On the basis of Function

1- The central banks .

2- Commercial banks .

3- Investment banks.

4- Industrial banks.

5-Agricultural banks.

6- Saving Banks.

On the basis of Structure

1- Unit banking.

2- Branch banking.

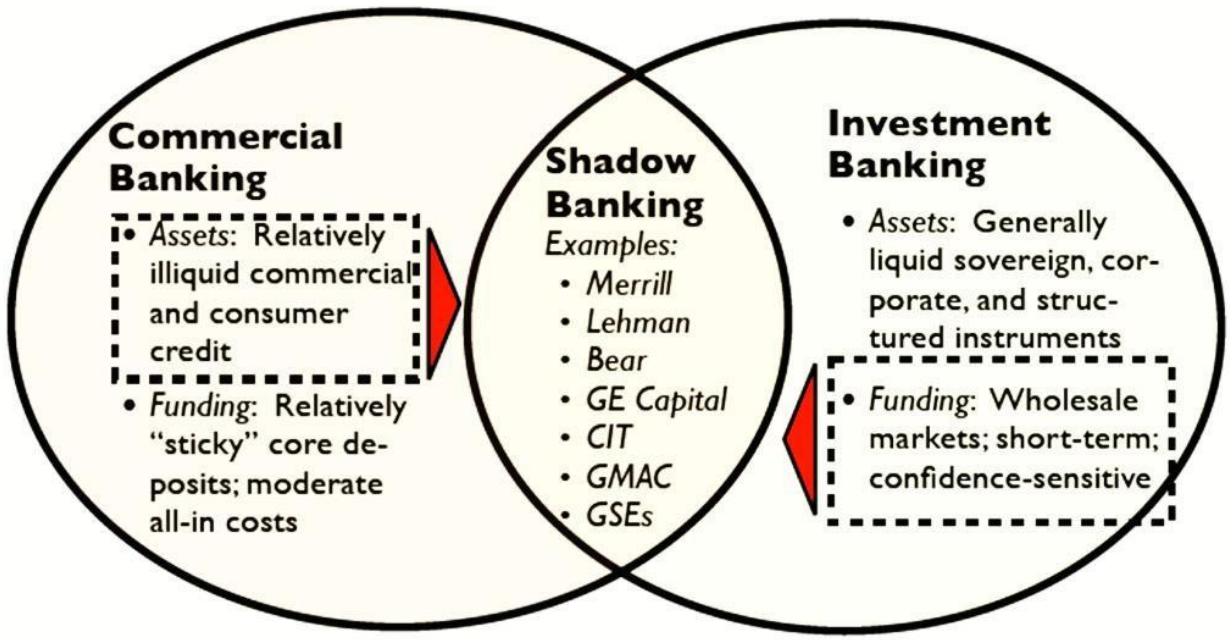
3- Group banking.

4-Chain banking.

5-Correspondent banking

Shadow banking

A shadow banking system is the group of financial intermediaries facilitating the creation of credit across the global financial system but whose members are not subject to regulatory oversight. The shadow banking system also refers to unregulated activities by regulated institutions.



The Banking System

The banking system consists of:

1. The classic Banking System:

The indigenous bankers are usually a *family concern*. Indigenous bankers *do not have fixed hours and paper formalities* that's why the borrowers approach them directly and informally and get loans promptly and easily. They are *very popular with traders, businessmen, agriculturists, and ordinary people*. Indigenous bankers *combine banking with trading and agriculture*; help the farmers to raise production of crops through paying them in cash with no waste of time, and also giving them loans.

2. The Modern Banking System:

The modern types of banks operate under this system of banks which are commercial banks, state banks, exchange banks, central bank, and the reserve bank.

Sources of funds (financial resources) in banks (inflows of cash)

a. ***Internal financing sources:*** These sources usually account for a small percentage of total employee funds in banks (10% of the total invested by the Bank's resources).
b. ***External funding sources:*** External sources include:
   1- Loans from the central bank for the protection of assets.
   2- Deposits from customers, whether current accounts, loans or mutual funds.
   3- Loans from commercial banks.
   4- Issuing long-term bonds.
   5- Equity shares

Use of funds in banks (outflows of cash)

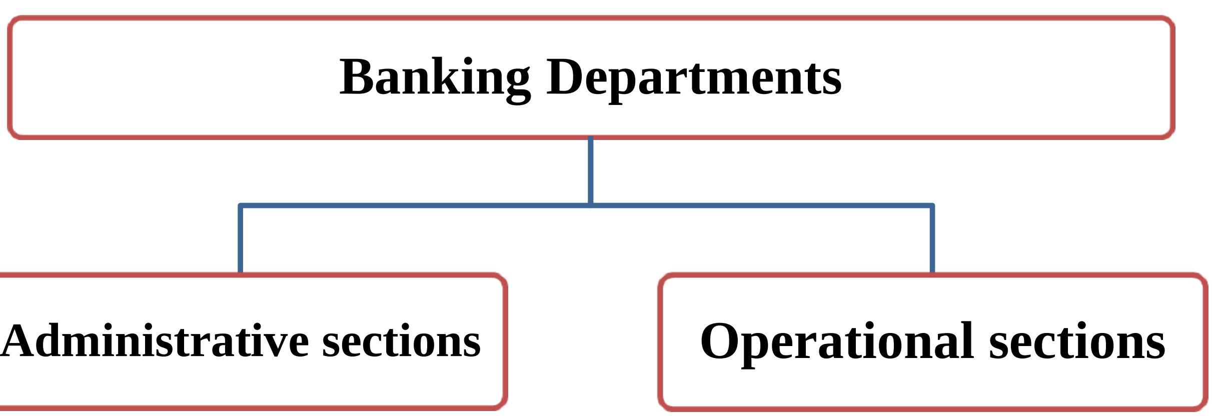
1- Loans and advances.
2- Investments.
3- Cash assets.
4- Fixed assets

Banking Departments

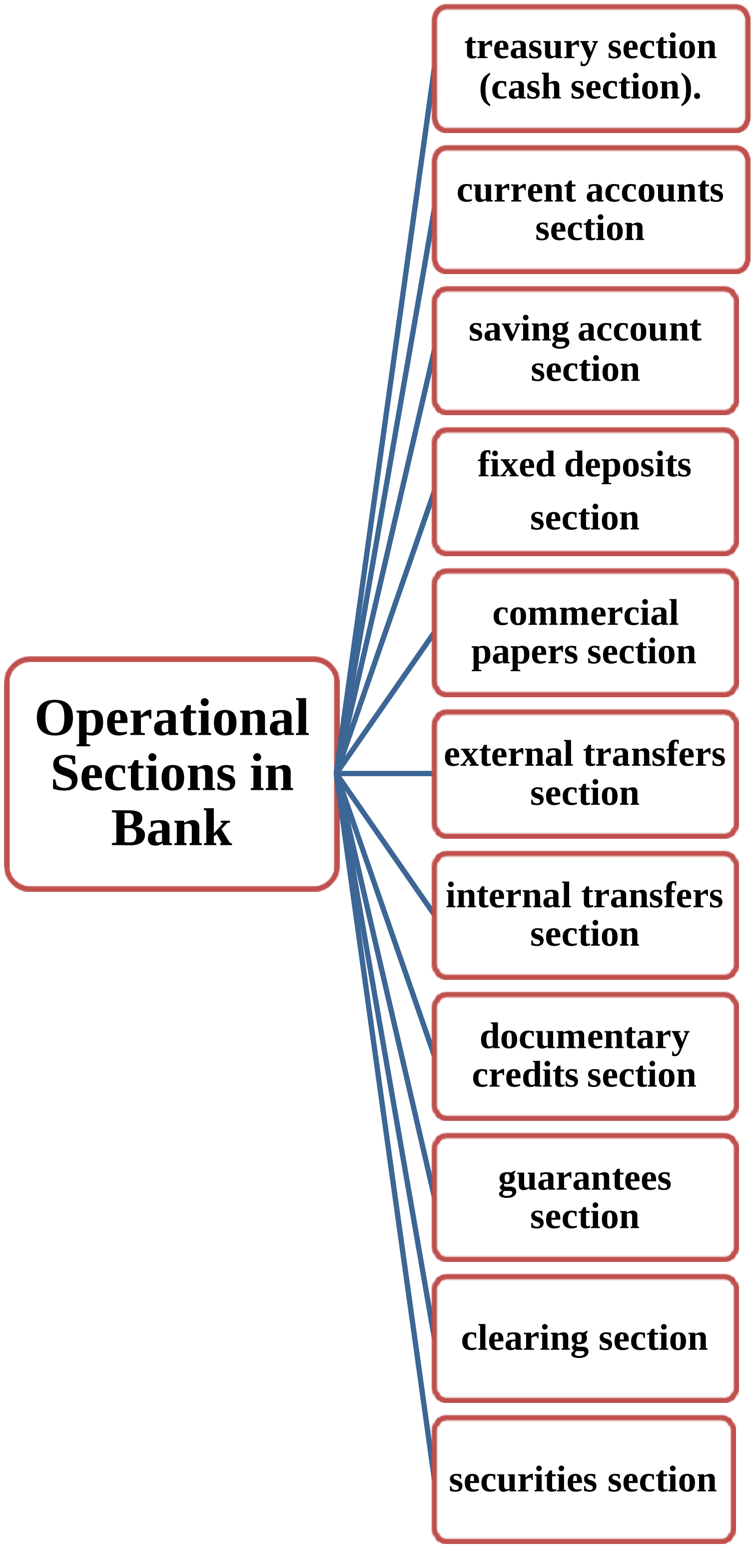
1- Administrative sections (HR, accounting, auditing, control)
2- Operational sections (a direct link to customers)

These are the divisions through which the bank operates and deals daily with customers which generally include the following sections:

- Treasury (Cash) (قسم امانة الصندوق)
- Current accounts (قسم الحساب الجاري)
- Saving account (قسم التوفير)
- Cash deposits (قسم الودائع النقدية)
- Commercial papers (قسم الاوراق التجارية)
- External transfers and transactions (قسم الحوالات والعمليات الخارجية)
- Internal transfers (قسم الحوالات الداخلية)
- Documentary credits (قسم الاعتمادات المستندية)
- Guarantees (قسم خطاب الضمان)
- Clearing (قسم المقاصة)
- Securities (قسم الاوراق المالية)



Operational sections in banks



Bank account types

A bank account is a record maintained by a banking institution, in which it records an ongoing series of cash inflows and outflows on behalf of a customer. The bank account also shows the current balance of cash in the record as of any point in time. If there is more than one individual who has access to the account, it is known as a joint account.

When a bank account has a positive balance, which means that the bank is storing money on behalf of a customer, the account has a credit balance. Conversely, when the bank account has a negative balance, where the customer owes money to the bank, the account has a debit balance. This is the reverse of the meaning of debits and credits within a business, where a debit balance means that a business has accumulated assets, and a credit balance means that the business has accumulated liabilities.

The following list describes a number of the more common bank account types:

1. ***Checking (current) account***:

This is the most basic and useful type of bank account. It is designed to have an unlimited number of deposits and withdrawals (though each one may be subject to fees), and does not allow for interest to be paid on any residual balance in it. There is not usually a restriction on the amount of cash held in a checking account, nor on how long it must be held. Special types of checking accounts include:

Interest-bearing account: there are variations on the checking account concept that are interest bearing. However, they have more restrictions that a standard checking account (such as a maximum number of check payments to be issued each month), and may require a minimum balance.

Zero balance account: this account is funded only enough to meet the requirements of checks being presented for payment. By keeping the funded balance low, a company can keep most of its cash in an interest-bearing investment.

2. Savings account:

There are a number of variations on the savings account concept, but the basic idea is that it is a store of cash; thus, no or few checks are written against the account. Depending on the type of savings account, there may be restrictions on the minimum amount of cash held in the account, as well as on the minimum time period over which the cash must be held in the account. Several variations on the savings account concept are:

Certificate of deposit: This requires a fixed deposit amount that the bank holds for a specific period of time, in exchange for a somewhat higher interest rate.

Money market account: This account offers slightly higher interest rates in exchange for more restrictions on withdrawing funds from the account.

Individual retirement account (IRA): This account stores funds that an individual is setting aside for his or her retirement. Funds placed in these accounts are tax-advantaged in different ways, depending on the type of IRA that has been set up.

A bank earns money on the bank accounts it manages by charging user fees, as well as by earning incremental interest income on funds held in these accounts, net of any interest paid to the holders of the accounts.

3. Fixed deposit account:

Fixed deposit (FD) is investment instruments offered by banks and non-banking financial companies, where you can deposit money for a higher rate of interest than savings accounts. You can deposit a lump sum of money in fixed deposit for a specific period, which varies for every financier.

Once the money is invested with a reliable financier, it starts earning an interest based on the duration of the deposit. Usually, the defining criteria for FD is that the money cannot be withdrawn before maturity, but you may withdraw them after paying a penalty.

Bank Accounting System

An accounting information system (AIS) is a system of collecting, storing and processing financial and accounting data. Accounting information systems are designed to support all accounting functions and activities including auditing, financial accounting & reporting. It's a Flexible and user-definable portfolios, where a bank, there programs, there transactions and general ledgers (GL)'s were configurable.

Like any other business, banks need to manage their accounting entries and financial reports..... General ledger systems record each transaction, making it easier to balance your books. At the same time, they identify unusual transactions, which may help prevent fraud.

Accounting software system

Accounting is not an easy task. Small businesses to large enterprises face common challenges when it comes to managing their business' finances. Some of the top obstacles you may encounter involve payroll management, unforeseen expenses, taxes, and cash flow management. Accounting software solutions can help you handle some of the time-consuming tasks so you can focus on more important aspects of running your business.

Bank Accounting Software, some examples:

Multiview
NetSuite
FINSYNC
Sage Intacct
Deskera ERP
SAP ERP Core Finance
Sage Fixed Assets
Flexi Software, and many more.

General rules of bank accounting

- The special accounting system is used at accounting process of banks named ―codified accounting system for banks‖.
- All transactions occurring (that occur) in the bank are charged to both the debtor and the creditor from the point of view of the bank itself not from the point of view of its customers.
- Customers can leave their cash with the bank as Saving Account, Current Account or a Fixed Deposit Account.
- Customers deposit their money in Saving Bank Account to save a part of their current incomes to meet their future needs and also intend to earn an income from their savings (bank interest).
- For the depositor, the number of withdrawals over a period of time and the total amount of one or more withdrawals on any date, are however limited.
- A Current Account on the other hand is running account which may be operated upon any number of times during a working day.
- There is no restriction on the number and amount of withdrawals. The bank does not pay any interest; rather it takes incidental charges from the depositor on such accounts in some cases.
- In a Fixed Deposit Account, the deposits are made for a fixed period (say 36 months) and a higher rate of interest is paid to the depositor.
- Credit instruments such a bank note, bank drafts, cheques and letters of credit are created by Banks.
- These things economize the use of metallic money and make the transmission of money over long distances cheap and convenient.

Chapter Three

Treasury unit (cash management section)

The treasury department of a bank is responsible for balancing and managing the daily cash flow and liquidity of funds within the bank. The department also handles the bank's investments in securities, foreign exchange and cash instruments.

Documents and Records

1. Documents for cash inflow and outflow, in the main treasury
2. Checks provided for exchange
3. Debit and credit notifications
4. Receipt and payment vouchers
5. Transfer requests
6. Customer books received
7. Exchange documents
8. Cash receipts journal
9. Internal memos
10. Detect inflow and outflow of cash
11. Funds flow summary statement
12. Local and foreign currency journal entry
13. Daily treasury statement

<u>Accounts' codes:</u>

181 Cash on hand
183 Cash to local banks
186 Foreign currency account
187 Cash on external bank accounts
163 Mutual accounts receivable
2618 External creditors
4413 Gain on currency exchange
3413 Losses on currency exchange
1665 Cash deficit
2668 Surplus in cash

Treasury unit

a. Account of the bank's treasury in the main office of the bank

1. Cash Receivable from the Central Bank, the journal entries will be:

Details	Dr.	Cr.
Cash on hand Cash to local banks	XXX	 XXX

2. When paying Cash (fund) to the branches, the entries will be:

Details	Dr.	Cr.
Mutual accounts receivable (bank name) Cash on hand	XXX	 XXX

b. Account of the bank's treasury in the branches

1. Cash Receivable from the main office, the entry will be:

Details	Dr.	Cr.
Cash on hand Mutual accounts receivable	XXX	 XXX

2. When an amounts is deposited by a customer, the entry will be:

Details	Dr.	Cr.
Cash on hand Related account (current, saving,...etc.)	XXX	 XXX

3. When an amount is paid to a customer (withdrawal), the entry will be:

Details	Dr.	Cr.
Related account (current, saving,...etc.) Cash on hand	XXX	 XXX

4. At the end of any working day, the treasurer shall record the following entries in order to reconcile the deposits and withdrawals and find a new cash balance:

First entry: total deposits

Details	Dr.	Cr.
Cash on hand	XXX	
Cash deposits		XXX

Second entry: total withdrawals

Details	Dr.	Cr.
Cash withdrawals	XXX	
Cash on hand		XXX

<u>Cash balance</u>

a. **Extraction of petty cash balance at the end of the working day:**

Ending petty cash balance = beginning petty cash balance + total deposits - total withdrawals

b. **Extraction of bank treasury balances at the end of the day**

Ending balance of treasury = beginning balance of treasury + ending balance of petty cash - total withdrawals of the day

NOTE: no entry is needed to be recorded if the actual cash is equals to what is recorded in the books. However, if there is a deficit in the actual amount, the following entry will be recorded:

Details	Dr.	Cr.
Cash deficit	XXX	
Cash on hand		XXX

When the amount is paid to cover the deficit, the following entry is recorded:

Details	Dr.	Cr.
Cash on hand	XXX	
Cash deficit		XXX

Alternatively, if there is a surplus in the actual amount, and the source of the surplus if unknown, it would be recorded according to the following entry:

Details	Dr.	Cr.
Cash on hand	XXX	
Surplus in cash		XXX

If there is a surplus in the actual amount, and the source of the surplus if *known*, it would be credited from the cash balance according to the following entry:

Details	Dr.	Cr.
Surplus in cash	XXX	
Cash on hand		XXX

5. Importing foreign currency:

i. When foreign currency is received with the correspondents declaration, the following entry is recorded in local currency:

Details	Dr.	Cr.
Foreign currency account	XXX	
Cash on external bank accounts		XXX

ii. When the foreign currency is received without correspondents declaration, the entry is:

Details	Dr.	Cr.
Foreign currency account	XXX	
External creditors		XXX

iii. *When the foreign currency is received*, but the correspondent declaration is arrived afterword, the entry will be:

Details	Dr.	Cr.
External creditors	XXX	
Foreign currency account		XXX

6. In the case of selling foreign currencies in excess of their value, the following entry is made:

Details	Dr.	Cr.
Cash on hand	XXX	
Foreign currency account		XXX
Gain on currency exchange		XXX

7. In the case of selling foreign currencies for lower than their value, the following entry is made:

Details	Dr.	Cr.
Cash on hand	XXX	
losses on currency exchange	XXX	
Foreign currency account		XXX

8. When foreign currencies are sold at their value, the entry is:

Details	Dr.	Cr.
Cash on hand	XXX	
Foreign currency account		XXX

9. When exporting foreign exchange by sending it to correspondents, the entry will be:

Details	Dr.	Cr.
Cash to external bank account	XXX	
Foreign currency account		XXX

Example (1):
The main branch of Rafidain bank was equipped with an amount of IQD 18,000,000 with notification by the Central Bank. The notice was received on the same day. Then, the Rafidain Bank / main branch sent IQD 12,000,000 to Sulaimany branch of the bank.
Required: record the necessary entries for the above transactions.

Example (2)
On 1st January 2019, Rashid bank/main branch was equipped with an amount of IQD 20,000,000 with notification by the Central Bank. The notice was received on the same day. The Rashid bank / main branch, then, sent IQD 10,000,000 to Kufa branch of the bank.
Required: record the necessary entries for the above transactions.

Example (3)
Rafidain bank/ main office sent stock of cheque books to Rafidain bank/ Sulaimany branch IQD 10,000,000.
Required: record the necessary entry for the above transaction.

Example (4)

At the beginning of the working day 1st March 2018, the cash assets in Al-Rashid Bank's treasury were IQD 10,000,000. The following transactions were carried out on that day:

1. At the beginning of the day, the treasurer withdrew petty cash from the treasury IQD 4,000,000.
2. Cash deposits for that day were as follows (amount in IQD):
   a. 400,000 current accounts payable / government sector.
   b. 1,200,000 deposits in saving accounts.
   c. 1,400,000 deposits in fixed deposits.
3. Cash withdrawals on the same day were:
   a. 2,500,000 current accounts payable / private sector individuals.
   b. 2,000,000 withdrawal from savings accounts.

Required:

1- Prepare journal entries to record above transactions at the cash unit.
2- Prepare journal entries related to the treasurer.
3- Calculate balance of cash on hand at the end of the day.

Example (5)

At the beginning of the working day 1st April 2019, the cash assets in Al-Rashid Bank's main treasury were IQD 19,000,000. The following transactions were carried out on that day:

1. The Treasurer withdrew petty cash from the treasury at the beginning of the day 2,500,000 dinars.
2. Cash deposits on that day were as follows:
   - IQD 1,300,000 in Current Accounts Payable/ Government Sector.
   - 1,150,000 dinars in savings accounts.
   - 1,750,000 dinars in fixed deposits.
3. Cash withdrawals on the same day were:
   - 1,180,000 dinars from current accounts payable / private sector individuals.
   - 1,450,000 dinars withdrawals from savings accounts.

Required:

1. Prepare necessary journal entries for the above transactions at the cash section of the Al-Rashid bank.
2. Prepare accounting entries related to the Treasurer.
3. Compute the cash balance of petty cash and the Treasury at the end of the day.

Example (6)

On the first day of September 2017, total cash in Al-Rashid bank was IQD 19,000,000. The following events occurred during that day:

1- The treasurer withdrew IQD 4,500,000 from treasury at the beginning of the day.

2- Cash deposits on the same day were as following:
   a. IQD 2,200,000 deposit in credit current account/ gov. section.
   b. IQD 1,250,000 deposit in saving account.
   c. IQD 1,800,000 deposit in fixed deposits.

3- Cash payments by treasury on the same day were as following:
   a. IQD 1,250,000 to credit current account/ individuals.
   b. IQD 1,450,000 to saving accounts.

Required: prepare:

1. Journal entries for above transactions at cash unit.
2. Journal entries related to the treasurer.
3. Calculate balance of cash on hand at the end day.

Example (7)

The following events happened in Kurdistan International Bank: (amounts in IQD)

– At the beginning of the working day 10th August 2018, total available balance of cash in treasury of the bank was 14,000,000, and the following transaction recorded on the same day:

1- The treasurer withdrew 3,500,000 petty cash at beginning of the day.

2- deposits of cash at the same day were:
   a. **800,000** in credit current accounts/ companies sector.
   b. **100,000** in saving accounts.
   c. **1,600,000** in fixed cash deposits.

3- Payments of cash (withdrawals) at the same day were:

a. **2,000,000** from credit current account/ individual sector.
b. **1,700,000** from saving account.

Required: prepare:

1. Journal entries for the above transactions at the cash unit.
2. Journal entry related to the work of the treasurer.
3. Compute ending balance of cash on hand and in treasury.

Example (8)

If we assume that the petty cash balance at the end of a day is IQD 100,000, according to the books. Consider the following circumstances:

a. The actual amount equals to the recorded amount.
b. The actual amount is less than the recorded amount by IQD 25,000.
c. The actual amount is larger than the recorded amount by IQD 200,000.

Required: prepare the necessary journal entries for each case.

Example (9)

Al-Rashid bank is imported $100,000 from the correspondent (North Bank) when we receipt by the debit notification exchanging to IQD, then the process was recorded in the journal entry.

Required

1- Prepare journal entries in main branch of Rashid bank, when receive foreign currency with the notification from correspondent.
2- Prepare journal entries when the foreign currency is receipt without debit notification.
3- Prepare journal entries if the foreign currency is received by the correspondent, but the debit notification comes afterwards.

Example (10)

1. On 5th October 2017, Al-Rashid bank / Kufa branch received $5,000.
2. On 9th Oct., the bank sold that foreign currency for IQD 6,150,000.

Required: Prepare journal entries for the above events, if you know that $ to IQD exchange rate on the day was $1: IQD 1200.

Chapter Four
Current (Checking) Account unit

Current account is a personal bank account opened by individuals, companies and government sectors that have a higher number of regular transactions with the bank. It includes deposits, withdrawals, and contra transactions. Normally, check and bank card are used to withdraw cash from this account without prior notice. It is also called checking account.

OR: in **banking** terminology, the term **Current Account** refers to a type of **deposit account** made with a financial institution that permits the withdrawal of funds and allows checks to be written against the balance.

Types of bank's current accounts:

1- Debit Current accounts (143): example: check, debit card or visa card
2- Credit Current accounts (251): example: credit card

Credit and debit cards, popularly known as plastic money have undoubtedly become the most popular cash alternative in the modern world. Be it a businessman or a salaried employee - most people nowadays carry at least one of these cards and use them for transactions like bill payments, grocery shopping, flight bookings, etc. However, there continues to be a raging debate on which should be a preferred. While some prefer credit cards for their convenience, many believe that debit cards offer more security.

While both the cards look similar in appearance, they function differently. A debit card is linked to the bank account of the customer and hence, once swiped, the amount is directly deducted from the bank account. Credit card, on the other hand, allows the card holder to purchase goods and services on credit and pay it back over time. This card is issued by the banks on the basis of the credit history and eligibility of the customers.

Accounts' codes:

2511	Credit current account_ government sector
2513	Credit current account_ financial sector
2514	Credit current account_ cooperative sector
2515	Credit current account_ mixed-ownership sector
2516	Credit current account_ private sector/ companies
2517	Credit current account_ private sector/ individuals
2518	Credit current account_ foreign companies

Accounting treatment for Current account

The events that happen in banks and affect the current account are mostly:

(a) Deposit (b) Withdrawal (c) Transfer (d) Interest and currency.

Increase of current account

1. Cash deposit in the current account:

Details	Dr.	Cr.
Cash on hand	XXX	
Credit / debit current account (name)		XXX

2. Deposit by check from the same bank branch:

Details	Dr.	Cr.
Credit / debit current account (drawer Acc.)	XXX	
Credit / debit current account (depositor Acc.)		XXX

3. Deposit by check from another branch of the bank:

Details	Dr.	Cr.
Mutual accounts receivable (bank name)	XXX	
Credit / debit current account (depositor Acc.)		XXX

4. If the check is written against a bank account located outside the city, there are accounting procedures to be dealt with within the internal remittances.
5. Deposits resulted from adjusting entries based on customer's request upon other banks' activities such as deposit of insurance, documentary of credit or discounted bill.

Details	Dr.	Cr.
Insurance / documentary of credit / discounted bill	XXX	
Credit / debit current account (name)		XXX

Decrease of current account

1- Withdrawal from a current account, which needs to be made by a check issued or card presented by the owner of the account.

Details	Dr.	Cr.
Credit / debit current account (name)	XXX	
Cash on hand		XXX

2- Withdrawal from a credit current account due to the record of debit interest or due to the payment of the accrued amount of a discounted bill:

Details	Dr.	Cr.
Current account (name)	XXX	
Interest revenue / insurance / discounted bill		XXX

NOTE:

1. Interest revenue is received on a debt withdrawn by a credit card holder for the period passed over the due date.
2. Discounted bill is an accepted draft or bill of exchange sold for early payment to a bank or credit institution at less than face value after the bank deducts fees and applicable interest charges. The bank or credit institution then collects full value on the draft or bill of exchange when payment comes due.

Example (11)

The following transactions occurred in the current accounts unit of Al-Mansur Bank / Rzgari branch during July 2019 (all in IQD):

1. On 3rd July, a partially government-owned company deposited cash 9,500,000 in its already opened current account with the bank.
2. On 8th July, the customer requested the bank to transfer the amount 750,000 from its saving account with the bank to the credit current account and this request accepted by the bank.
3. On 15th July, a co-operative entity deposited 400,000 in its debit current account through a check drawn from the current account of a private company / individuals in the same branch.
4. On 22nd July, a government sector deposited 900,000 by a check drawn from the current account of a mixed-sector company in Al-Mansur Bank / Goizha branch.
5. On 31st July, interest on the current account owned by a customer / private sector is calculated to be 65,000 was deducted from the account.

Required: Prepare the journal entries for the above transactions in the journal of Al-Mansur Bank / Rzgari branch.

Example (12)

The following transaction recorded in Rafidain Bank/ Sulaimany branch during September 2018 (all in IQD):

1- On 4th Sep., Azmir Company deposited 9,000,000 cash in its debit current account.
2- On 9th Sep., customer Azad requested to transfer 500,000 from his saving account to his credit current account.
3- On 14th Sep., the income tax office deposited a cheque of 2,000,000 on its debit current account. This amount will be withdrawn from Qaywan Co. account at the same bank.
4- On 18th Sep., customer Dene deposited 500,000 cash to her debit current account.
5- On 22nd Sep., customer Rawa deposited 100,000 by cheque can be collected in Kurdistan bank/ Sulaimani.
6- On 25th Sep., customer Sozi requested a deposit to her debit current account 200,000 resulted from a discounted bill in the same bank.
7- On 26th Sep., customer Shnaz withdrew 200,000 cash from her debit current account.
8- On 28th Sep., a total of 80,000 accrual interest revenue is calculated on the credit current account of customer Jason.
9- On 30th Sep., Kryar Co. withdrew 500,000 cash from its debit current account.

Required: Record the above transactions in the Journal book of the bank.

Example (13)

1. The total deposits at Kurdistan Bank / Erbil branch on 15/6/2017 were IQD 3,000,000 has withdrawn from the current account of a government sector in the same bank, of which IQD 2,000,000 of that total belongs to customer Ravan and the reminder belongs to Asia insurance Co.
2. Deposits of IQD 4,000,000 cash, half of it belongs to Rozh private company, and the remainder to the cooperative sector.
3. Deposit IQD 6,000,000 by cheques belongs to Las plc. IQD 2.000.000 of which has withdrawn from the Soma's debit current account in the bank and the rest has withdrawn from debit current account of customers Tavga in Cihan bank.
4. Withdrawals from the debit current account of customer Peshawa by IQD 200,000 upon payment car insurance.
5. Erbil technical institute, a government sector, withdrew IQD 6,000,000 from its debit current account and deposited it in the fixed deposit account.

Required: Record the above transactions in the Journal book for Kurdistan Bank / Erbil.

Chapter Five
Savings account unit

A **Savings account** is an interest-bearing **deposit account** held at a bank or another financial institution that provides a modest interest rate. The financial institutions may limit the number of withdrawals you can make from your **Savings account** each month.

Some savings interest rates, August 2019

Bank	**APY**
Marcus by Goldman Sachs	2.15% APY.
HSBC	2.30% APY.
CIT Bank	2.30% APY.
Barclays	2.10% APY.

APY stands for annual percentage yield. Banks are required to prominently display this rate for their deposit accounts, like savings accounts and certificates of deposit (CDs). APY gives you the most accurate idea of what your money could earn in a year. For example: with a rate of 2% APY, a balance of $10,000 would earn about $200 after one year.

Basically, it works like this: You open a savings account at the bank. The bank pays you interest on the money that you deposit and leave in that account. The bank then loans that money out to other people, only they charge a slightly higher interest rate on the loan than what they pay you for your account.

Accounts' codes:

2521 Savings account
3421 Savings account interest

Accounting treatment

The transactions that occur in the bank and affect the Savings accounts are in the form of deposits and withdrawals and interests:

(A) <u>Deposit</u>

1- Cash deposit in savings accounts:

Details	Dr.	Cr.
Cash on hand	XXX	
Saving account		XXX

2- Transfer deposit: for example, a customer demands to transfer an amount from his fixed deposit account and deposit it in his Savings account in the same bank:

Details	Dr.	Cr.
Fixed deposit account	XXX	
Saving account		XXX

3- Cheque deposit from an account in the same bank:

Details	Dr.	Cr.
Credit current account	XXX	
Saving account		XXX

4- Cheque deposit from an account in another branch of the bank:

Details	Dr.	Cr.
Credit current account	XXX	
Mutual receivable accounts		XXX

(B) <u>Withdrawals</u>

1- Cash withdrawals

Details	Dr.	Cr.
Savings account	XXX	
Cash on hand		XXX

2- Transfer withdrawals: for example, a customer demands to transfer an amount from his savings account and deposit it in his fixed deposit account in the same bank:

Details	Dr.	Cr.
Savings account	XXX	
Fixed deposit account		XXX

3- Transfer withdrawals: for example, a customer demands to transfer an amount from his savings account and deposit it in another branch of the bank:

Details	Dr.	Cr.
Savings account	XXX	
Mutual receivable accounts		XXX

(C) Interest calculation

Technically, a bank could choose to calculate and pay interest at any interval it wanted to. However, in practice, there are only a few methods of compounding interest that are actually used:

- Annual compounding: Interest is calculated and paid once a year.
- Quarterly compounding: Interest is calculated and paid once every three months.
- Monthly compounding: Interest is calculated and paid each month.
- Daily compounding: Interest is calculated and paid every day.

Example: a savings account with a 4% interest rate compounded annually, on a deposit of $10,000 would produce $400 in interest during the first year. However, if the bank chose to compound quarterly, instead of paying 4% at the end of the year, interest would instead be paid at 1%, four times each quarter. So, $100 would be given for quarter one. For quarter two, $10,100 multiply by 1% gives $101, and so on.

1. When the bank calculates interest on savings accounts at the end of a financial period, the following entry is recorded:

Details	Dr.	Cr.
Savings account interest	XXX	
Savings account		XXX

2. The calculated interest on savings account is an expense for the bank and it will be closed in the profit or loss acc., according to this entry:

Details	Dr.	Cr.
Profit or loss account	XXX	
Savings account interest		XXX

NOTE:

1. Interest is calculated on a monthly basis on the minimum balance of the account during the month.
2. Interest rate is not given in the month were the account is opened, but it starts from the following month.

Example (14)

The following transactions were carried out in the Savings account unit of Ashur Bank during December 2018:

1. On 7th Dec., customer Nazli requested to open a Savings account and deposited IQD 850,000 cash.
2. On 11th Dec., customer Znar requested the bank transfer IQD180,000 to his Savings account from his debit current account at the same branch.
3. On 20th Dec., customer Aso withdrew IQD 500,000 cash from his Savings account.
4. On 31th Dec., interest rate is calculated on the accounts of customers NAzli and Znar is calculated.

Required:

Record the necessary entries for the above transactions.

Example (15)

Customer Savo has a savings account at Salam bank/ branch 1. The following information and transactions recorded in Savo's savings account August 2019:

1- On 1st August, the balance of his account was IQD 3,500,000.

2- On 2nd August, Savo withdrew 500,000 cash.
3- On 10th August, Savo requested to transfer 750,000 from his current account in Salam bank/ branch 2 to his savings account at branch 1.
4- On 25th August, Savo requested to transfer 450,000 from his savings account to his debit current account in the same bank.

Required:

1. Record the transactions in the journal book of Salam bank/branch 1.
2. Draw a sample card for this savings account.
3. Calculated the accrued interest on Savo's savings account for August and record necessary entries for it. (Annual Interest Rate 4%).

Example (16)

1. On 5th February 2018, customer Shaso has been approved by Byblos Bank / Sulaimani branch to open a savings account and he deposited IQD 700,000 cash in it.
2. On 15th March, Shaso deposited IQD 80,000 by cheque drawn from the customer's debit current account in the same bank.
3. On 7th May, the customer withdrew IQD 40,000 cash.
4. On 18th June, he withdrew IQD 100,000 and deposited to his debit current account in the same bank.
5. On 6th August, he deposited IQD 120,000 cash in the savings account.
6. On 2nd October, he deposited IQD 50,000 by cheque drawn from his credit current account in Kurdistan International Bank.
7. On 12th November, Shaso withdrew IQD 140,000 and deposited to his fixed deposit account in the same bank.
8. On 25th December, the customer deposited IQD 150,000 cash in his savings account.

Required:

1. Record the necessary entries in the journal of Byblos bank / Sulaimani branch.
2. Draw a sample card for Shaso's savings account.
3. Calculated the accrued interest on Shaso's savings account for 2018 and record necessary entries for it. (APY is %4)