

ORGANIZATION OF ACCOUNTING INCOMES, EXPENSES AND FINANCIAL RESULTS OF COMMERCIAL BANKS

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Formulation of the problem. The market economy requires improving the efficiency of banking management from commercial banks. The current stage of development of the banking system is characterized by certain crisis phenomena, which require the improvement and development of fundamentally new approaches for the management of the bank aimed at the formation and ensuring the successful implementation of competitive tactics and strategy of banking activity. In this context the problem of the formation and use of financial results, the creation of effective mechanisms for their accounting, "analysis" in order to ensure the real competitive advantages of the bank in the market of banking services becomes a matter of special urgency.

Analysis of recent researches and publications. Among prominent scientists, that made a significant contribution to the development of the theory of accounting, in particular, in the study of accounting incomes, expenses and financial results of the activity can be noted: Kindratska L.M., Chumachenko M.H., Kuzhelnyi M.V., Linnyk V. H., Butynets F.F., Borodkina O.S., Kuzminskyi A.M., Napadovska L. V. and others. The following foreign scientists performed the study of the income accounting: M. Morhart, M. Weber, K. Drury. D. Middleton, B. Nidlz, Herry D. Warfield. J. Foster and others. The works by domestic scientists-economists Andrushchenko V., Bilorus A., Budkina V., Havryliuk O., Koreneva O., Lukianenko D., Pakhomova Yu., Rohach O., Rumiantseva A., Sikora V. and others further the study of theory and practice of organizing the system of accounting commercial banks in Ukraine under conditions approximated to international standards, their researches and publications testify about the significant results achieved in this area.

Selection of previously unsettled parts of the general problem. Paying tribute to the work by these scientists, we note that on accounting issues in banks there is not a shortage of scientific works devoted to the holistic study of the methods of accounting for financial results of the banking activity. Publications on this subject are general or concern to specific issues. Also, the possibilities of adapting to the conditions of Ukraine offered in the world practice models of analysis, estimation and prognostication and expenses of the bank for the purposes of their planning and control are also underestimated.

Purpose and task of the study. The research of theoretical and applied aspects of accounting incomes and expenses, analysis of operations on the formation and using the profit of the bank and determining ways to improve them.

Presenting main material. In the account it is operated the category "profit" (loss) as an economic result of the activity. The main purpose of any bank's activity is to obtain maximum profit at ensuring stable long-term functioning and a strong position in the market. The size of the received profit (loss) by the bank concentrately reflects the results of all its active and passive operations. The economic result of a bank's activity is determined by the difference between incomes and expenses for the reporting period. Incomes and expenses are components of the economic result.

In general, the concepts of "incomes" and "expenses" have a lot of meanings, but they all have a relatively identical essence.

According to P (C) BO 15 "Income", income is understood as an increase of economic benefits, which is an increase in assets or a reduction in liabilities, which results increasing of own capital (excluding capital increase due to shareholder contributions). Any bank strives to increase incomes at the expense of assets that can bring it or increase it [2].

According to POP (P) BO 16 "Expenses", expenses are the reduction of economic benefits that occur in the form of asset retirement or increase liabilities, which leads to a decrease the own capital (with the exception of a reduction in capital due to its withdrawal or distribution by the owners). Expenses are related not only with holding the bank, calculations with employees, but also with the implementation of such operations, which will bring revenues in the future.

Analyzing these concepts, we see the fact that in P (C) BO for the definition of incomes and expenses of the bank meet the requirements of IFRS and adequately show their essence, taking into account banking specifics.

To provide the formation of incomes and expenses of banks of the system approach, it is important to classify them. The classification of incomes and expenses of the bank is important for the organization of their analytical accounting, which should ensure sufficient level of detailing for the purposes of managing the bank's activities [2]. When classifying incomes and expenses, it is necessary to proceed from the generally accepted criteria:

- Incomes are grouped by sources of receiving and influence on the financial result;
- Expenses for the elements and the nature of the expenditures.

In the composition of incomes and expenses, primarily it is allocated a group of incomes and expenses from the implementation by banks their functions as intermediaries in financial markets.

In normative documents of the National Bank of Ukraine for designation of such incomes and expenses it is used the term "operating incomes and expenses". In other words, these are incomes and expenses received by banks from operations for which licenses it has been issued licenses by the National Bank of Ukraine and provided by banking legislation (Fig. 1).

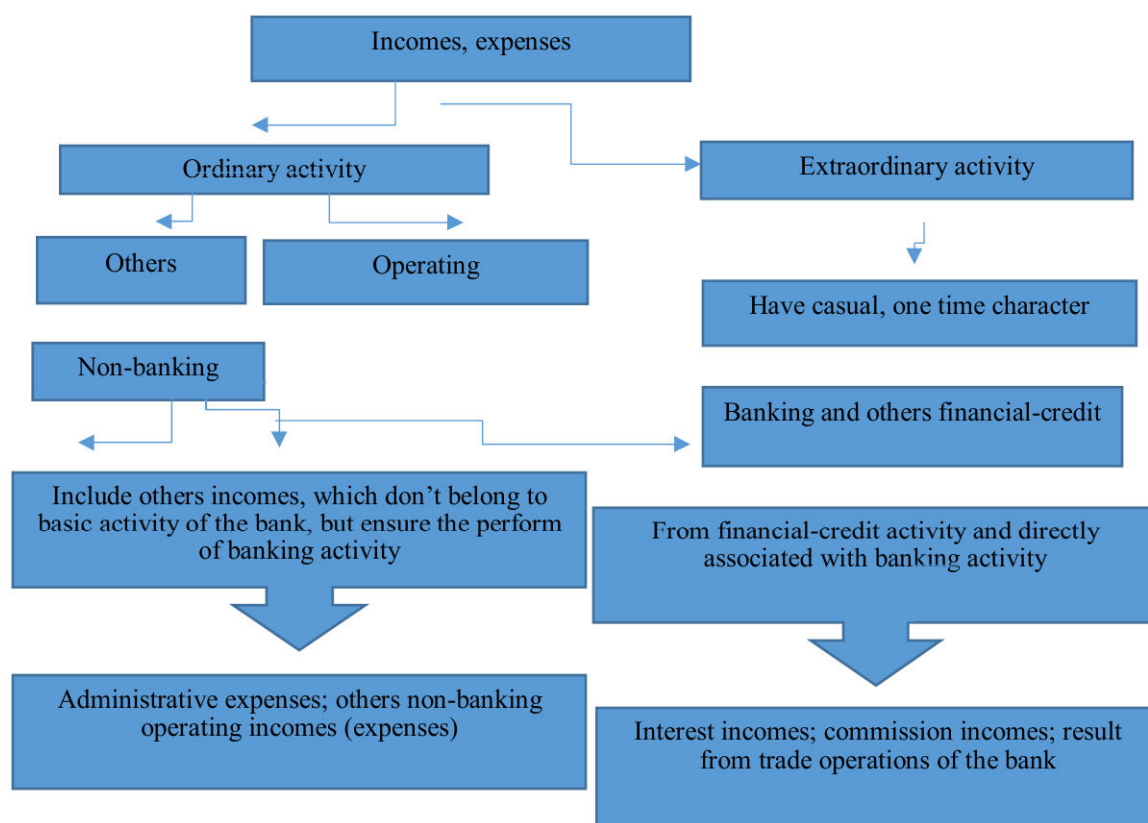


Fig. 1. Structure of income and expenses of a commercial bank

As you can see, all incomes and expenses of a commercial bank are divided: from ordinary activity and extraordinary, that is, unforeseen ones. From ordinary activity can be divided into operational and others. Operating incomes and expenses can be classified into banking and from other financial and credit activities and non-bank.

The above mentioned incomes and expenses are subdivided into the following subgroups:

- the interest incomes and expenses;
- the commission incomes and expenses;
- the result of the bank's trading operations;

- other operating incomes and expenses from ensuring banking services.

Interest incomes includes: interests received from placement deposits in other banks and non-bank financial institutions; from granting loans for government securities and other investments.

Interest expenses include interests paid on deposits, loans, subordinated debt, bonds issued by the bank.

The interest incomes and expenses are such incomes and expenses which are calculated in proportion to the time and amount of the asset or liability.

Commission incomes and expenses are cash which are fixed in the form of tariffs for the decline of banking services or calculated in proportion to the amount of assets or liabilities, regardless of time.

The commission incomes and expenses include: amounts of cash received by banks for cash and settlement services; for services of credit type, namely: issuance and receipt of guarantees, sureties, opening of credit lines, acceptance operations; commissions received and paid for conversion operations – servicing of foreign currency accounts, purchase and sale of foreign currencies, and others [4].

Commercial operations of a commercial bank include: transactions for the purchase and sale of securities purchased for a period of up to one calendar year for resale; foreign exchange purchase and sale operations, which are the property of the bank, as well as trading with other financial instruments.

Other operating incomes and expenses include: incomes from the activity of the cash services, sold payment facilities, consulting services, as well as expenses for audit, expenses for business trips, etc.

A special place in the operating expenses belongs to the administrative expenses associated with the ensuring the activity of the banking institution. They include: staff costs; for the maintenance of fixed assets and intangible assets; for telecommunication services; depreciation deductions; operational and economic costs; marketing and advertising costs, rentals, and others.

When classifying expenses by elements of costs and intended purpose it is allocated capital costs and current costs.

Capital expenditures are carried out on capital repairs, modernization and reconstruction of existing own fixed assets or leased; they are directed on the construction of new premises, the purchase of computer equipment, etc., based on the needs of expansion of banking business. The source of coverage of capital costs is the accumulated retained earnings of past years and received in the current year. Capital expenditures at reflecting them in the balance sheet further an increase of assets.

Current expenses arise in the course of banking operations, as well as used for payment of wages and bonuses to bank employees, for the operation of premises, payment of rent, payment of audit services, etc. The source of current expenses is operating income. Current expenses are written off immediately or are treated as future expenses, if the benefit from their implementation will occur in the next reporting period.

A special group of expenses includes the expenses of forming reserves for coverage of losses from active operations. These reserves are for impairing securities, for covering credit risks, covering losses in doubtful accounts receivable. The peculiarity of this group of expenses is that it is not cash expenses. The maximum limit for such expenses is regulated by the tax law. This group also includes direct deductions to cover losses from doubtful assets, for example: write-offs from the balance of doubtful debts on loans.

The next group includes: unforeseen incomes and expenses [5]. They are casual, one-time and therefore have a special impact on the financial result received by the bank. Consequently, they are the result of events that can significantly affect on the income of the bank, but are not related to its usual activities. Unforeseen incomes include, for example, incomes received from the one-time sale of premises of bank branches, or incomes, the appearance of which is associated with changes in accounting rules.

The accounting of incomes, expenses, financial results of the bank activity should be based on the basic principles of IAS and are specified in the Accounting Policies.

Accounting practice shows that banks (while marking down of the importance of the accounting policies concerning incomes and expenditures) allow the violations in the application of the fundamental accounting principles in order to improve indexes of the bank's results of the bank activity, although it adversely affects on the reliability of both the current financial results of the bank activity and the capital of the bank.

The accounting policies of the bank concerning incomes and expenses are primarily connected with the specifics of its activities, which follows from the nature of banking operations: mainly with cash, with various financial and currency instruments, securities of different issuers, credit activities as a financial intermediary in financial markets etc. To objectively determine the financial result, there is a need to record the incomes and current expenses of the bank in accordance with the principles of accrual, compliance and diligence.

In accordance with the principle of accrual, income is recognized as at the time it is earned, and not when the funds are received, that is, at the time of sale of assets or the ensuring services. Expenses are determined at the time they are incurred, not when the money is paid [3].

The comparison of incomes and expenses is based on the principle of compliance. The expenses and incomes generated by these costs are to be reflected in the accounting for the same reporting period.

It is based on these principles and it is possible to classify incomes and expenses according to the following groups:

- 1) the incomes earned and received at the same time; expenses incurred and paid at the same time;
- 2) the incomes received in advance, but not yet earned (income of future periods, or deferred income); incomes paid in advance, but not yet incurred (expenses of future periods, or deferred expenses);
- 3) the incomes earned but not yet received (accrued income); expenses incurred but not yet paid (accrued expenses).

However, the implementation of the principles of accrual and compliance should not lead to a revaluation of assets or incomes of the bank, as well as underestimation of liabilities and expenses of the bank. Thus, guided by the principle of prudence, the bank must:

- take into account the incomes from the provided services only if there is confidence in receiving these revenues;
- if there is no confidence in receiving incomes, only expenses are taken into account.

Incomes from such operations are reflected in the accounting only after their actual receiving. Receiving incomes is considered doubtful, if there are documents confirming that the client has overdue payments more than on 30 days.

After recognizing receivables for accrued incomes, a doubtful bank reduces its incomes to the amount of such debt. In accounting, this is displayed by the entry:

DT – "Incomes"; Kt – "Increased Incomes". The next account of doubtful debts is executed on balance in the account "Unpaid in time incomes" until the expiration of the claim's limitation period.

Synthetic accounts for income accounting are grouped in the sixth grade balance sheet, and for expense accounting – in the seventh grade. The basis for the construction of synthetic accounts is the same features, based on which the classification of incomes and expenses is performed and allocated objects of accounting. This allows ensure a detailed accounting of incomes and expenses in the balance sheet, which makes it possible to accumulate and receive information to assess the financial condition of the bank and the effectiveness of individual directions of its activities [6].

Accounts of overdue incomes are included into groups of the accounts of income-bearing liabilities as paired with accounts for accrued income accounting. Second-order accounts allow to obtain information and to compare incomes from the main types of banking operations and services with the expenses associated with their implementation. So, having made interest income with interest expense, you can calculate net interest income.

Third-order accounts provide information on the incomes and expenses of counterparty banking operations concerning transactions. The fourth-order accounts detail information about individual financial instruments that are used by the bank. Accounts on accounting incomes by their nature are passive, expenses – active.

Accounts for accrued incomes and expenses are located in the first, second and third grades of the balance sheet. They are located in asset groups, which bring incomes, and paid liabilities, which are used by banks as financial instruments.

Incomes and expenses of future periods are accounted in the third class, in the composition of other liabilities and other assets. The main classes of accounts used to accounting for incomes and rhythm are shown in Fig. 2.

The accounting incomes and expenses are carried out by an incremental result from the beginning of the year. The balances on incomes and expenses accounts are closed after the end of the calendar year and are attributed to the account "The result of the current year" and, thus, the financial result is reflected in the balance sheet of the bank.

On the interim reporting dates, the financial result is determined by comparing incomes of the reporting period with expenses; while the closure of income and expense accounts is not provided.

The net profit (loss) received by the bank in the current year is recorded in the fifth grade in the account "The result of the current year". It is assumed that on the last working day the balance on account is transferred:

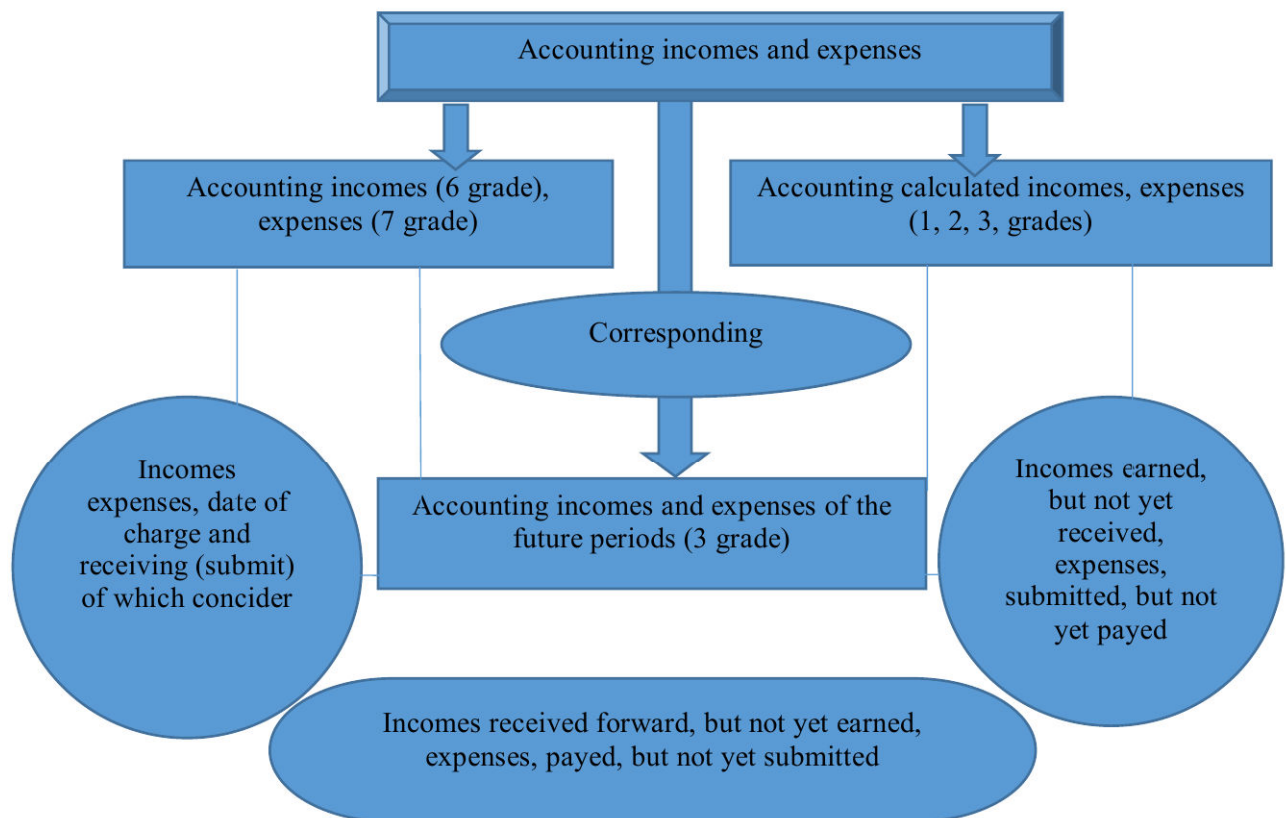


Fig.2. Scheme accounts for accounting incomes and expenses of the bank

- if the loan – to the account "Profit of the last year, pending approval";
- if debit – to the account "Losses of the last year, pending approval".

These accounts are valid until the date of the annual shareholders' meeting. Where a registered financial result is approved and a decision is made on the distribution of net profit after tax.

The procedure for distributing the profit must comply with the current legislation of Ukraine and the constituent and statutory documents of the bank.

The profit to be distributed is calculated as follows: net profit after tax for the reported year increases by the amount of undistributed and unused profit on the results of the previous fiscal year and is reduced by the amount of deductions to official reserves that are formed in accordance with the current legislation. Official reserves include: a reserve fund; a total reserve.

Thus, expenses and incomes of the commercial bank are derivative objects of accounting which result from performing some banking operations associated with the implementation of liabilities and placement of assets. The system of accounting incomes and expenses of the bank is the base of all management system because here it is accumulated all information about actual expenses and incomes, it is reflected the circulation of resources in the process of its activity. In the financial account of banks it is reflected indexes for the real state of assets, liabilities, bank capital, which need taking into account peculiarities of accounting incomes and expenses. Organizing expenses and incomes accounting of the bank in current conditions of management ensures the optimization of every elements of expenses and maximization of incomes which accompany carrying out different type of banking operations and services.

Improving the method of accounting incomes and expenses is possible by the way of direct using of fundamental principles of accounting incomes and expenses.

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H. Lebedyk, PhD (Economics). **A. Brazhnyk**, master student. **L. Naboka**, master student. Poltava National Technical Yuriy Kondratiuk University. **Organization of accounting incomes, expenses and financial results of commercial banks.**

In the article it is presented the actual issues of income and expense accounting, the analysis of operations on the formation and distribution of bank profits under the current conditions of functioning of the banking system. The peculiarities and problems of accounting procedures concerning incomes, expenses, formation and distribution of profit in banks are determined, and it has been introduced suggestions for their solution.

Key words: commercial bank, accounting, incomes, expenses, financial results, accounting policy.

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В статті розглянуто актуальні питання обліку доходів і витрат, аналізу операцій з формування та розподілу прибутку банку в сучасних умовах функціонування банківської системи. Визначено особливості облікових процедур щодо доходів, витрат, формування та розподілу прибутку в банках. Досліджено основні проблеми в сфері обліку та аналізу операцій з формування та використання прибутку банку, внесено пропозиції щодо їх вирішення.

Ключові слова: комерційний банк, бухгалтерський облік, доходи, витрати, фінансові результати, облікова політика.

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Полтавский национальный технический университет имени Юрия Кондратюка. В статье рассмотрены актуальные вопросы учета доходов и расходов, анализа операций по формированию и распределению прибыли банка в современных условиях функционирования банковской системы. Определены особенности учетных процедур доходов, расходов, формирования и распределения прибыли в банках. Исследованы основные проблемы в сфере учета и анализа операций по формированию и использованию прибыли банка, внесены предложения по их решению.

Ключевые слова: коммерческий банк, бухгалтерский учет, доходы, расходы, финансовые результаты, учетная политика.