

OPERATIONAL ASSETS BOOKKEEPING IN CREDIT INSTITUTIONS

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Through this work I wanted to present the structure and the emphasis on the key accounts operations on operating assets, mentioning that only the most important accounts or those by which accounting operations may be more widespread have been given. Operational assets are those parts of balance with which the credit institution normally operates and by which, along with the operating liabilities, the basic credit institution activity is accomplished. Operational assets are revenue-generating operations in the credit institutions, with their help the bank resources are used in different interest-bearing assets to maximize the profit and to reduce the risk margin, mainly aimed at reducing losses. By both the theoretical approach and by describing the aspects of the operating assets, the survey presents with particular importance of these revenue-generating operations in the credit institutions, and identifies major issues to be taken into account by the credit institution in order to use various resources interest-bearing assets to optimize profit margins and to reduce risk, having as main objective to reduce losses.

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1. Introduction

The banking system, through its extensive involvement in both the economic and the social life, is a special structural element in the society, whose good organization and efficient working condition the whole economical life.

The activity of the commercial banks operations is divided in two distinct groups:

- *Active operations* – namely the operations that reflect the use of funds raised to obtain profit by the difference between the paid interest and the received one to attract resources, and
- *Passive operation* - namely, operations that reflect the own funds of a bank or the attracted ones that a bank possesses in order to deploy its activity.

The balance, as part of the financial statements, is the instrument through which the principle of the double reflection of the assets elements is done by its form and standard content, which all units must comply with is drawn, it reflects the equality between the assets and the economic liabilities⁴⁵⁷. The operational assets are those elements of the balance-sheet assets with which the credit institution usually operates, and through which (along with the operating liabilities) the business credit institution base is accomplished. They generate revenues which are correctly done and managed, being accounted for Class 7 accounts – „Incomes”.

The structure of the *operational assets* contains:

- The house and other values;

⁴⁵⁷ D. Matiş -,„Bazele contabilității - aspecte teoretice și practice”, Editura Alma Mater, Cluj - Napoca, 2005, pag.390.

- The bank deposits, namely: the current account/credit institutions correspondent, sight deposits, term /colateral deposits;
 - The loans to banks, namely: ordinary loans, loans to raise claims / simple repurchase transactions, overdraft;
 - The loans to customers (including the customer accounts), namely: ordinary loans (cash loans, export credits, loans for equipment, real estate loans, other loans), loans to raise claims/simple repurchase transactions, financial customer credits, overdraft;
 - Titles such as: securities trading, securities investment, securities investment⁴⁵⁸.
- Pointing out both the operational assets and the incomes generated by them is done using synthetic grade accounts I, II, III, Class 1-„Cash transactions and interbank transactions”, Class 2-“Customer operations”, Class 3 -“Transactions in securities and various operations” and class 7 -“Incomes”.

2. Proposed objectives and research methodology

Approach focused on investigating the main emphasis in accounting operations on operating assets, by presenting the general framework of reference of the theme in both the literature and the specific national legislation. The structure of the operational assets has been studied initially, the need to use funds raised in different interest-bearing assets, trying to find out how credit institutions organize their core business to reduce the risk margin and to get the most profitable income. Arguments for the need to study this type of operation were essential. Once the need for studying the structure of operational assets presented, each structural element was presented separately, as well as its emphasis in accounting. Information on the theme analysis was conducted by studying the national literature in the field, analyzing legislation and direct documentation in order to seek practical phenomenon of determining the structure of operational assets, at the level of the credit institutions operating in Romania.

3. Cash operations accounting

The cash is the asset on which the credit institution takes the decision to abandon an investment gain, in order to insure a proper liquidity. The cash register and circulation in commercial banks cashes is based on explicit regulations of the National Bank of Romania and is accomplished through account 101-“Cash”- which is an active account to be debited with the collected amounts and it is credited with the amounts paid in cash. Cash transactions at ATMs are recorded through account 102 -“Cash in ATM and PTT. The main cash transactions are:

- Cash purchase from the National Bank of Romania

Between the time when the cash is bought and the moment it is paid from the current account opened at the National Bank of Romania (for lei) or from the NOSTRO accounts (for currency) an intermediary liabilities account is used, namely account 1621- „Other amounts due”.

- registering the bought cash in the Cash account

101- Cash	=	1621- Other amounts due
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- paying both the bought cash and its related commission

1621- Other amounts due	=	111- Current Account at BNR (lei) 121/122-Nostru/Loro (currency)
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6019 - Commissions	=	111- Current Account at BNR (lei)
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- Cash sell towards the National Bank of Romania

⁴⁵⁸ Iosif Heteres Gavra - „Organizarea și operațiunile bancare”, Editura Orizonturi Universitare, Timișoara 2003, pag.82.

Between the time when the cash is sold and the moment the current account opened at the National Bank of Romania (for lei) is fueled or from the NOSTRO accounts (for currency) with the sold cash equivalent an intermediary liabilities account is used, namely account 1611- “Values to recover”.

- cash release

1611 - Values to recover = 101 - Cash

- cashing both the sold cash and its related commission

111- Current Account at BNR (lei)

121/122 - Nostro/Loro(currency) = 161 - Values to recover

111- Current Account at BNR (lei) = 7019- Commissions

4. Deposits bookkeeping at banks

- *Current accounts/accounts* that are the accounts which contain the lei or the currency amounts of the credit institutions, and they can benefit of them at any time. The account name through which they are pointed out is “The current account at BNR” for the available assets in the National Bank of Romania, and the “Correspondent accounts with credit institutions”⁴⁵⁹ for the available assets in the other commercial banks. Entrances and exits of account money are held through these accounts. The cash, the available assets in lei are held only in the National Bank of Romania, while the currency can be held both by banks in the country and by those abroad, called correspondent banks.

Similarly to credit and bank loans, the bank deposits are a way to place availability, namely to attract resources from other banks. On the interbank market, these deposits are made on the short and very short run, as follows:

- *Sight deposits* are deposits in lei or in foreign currency that the credit institutions form other banks, and which are formed only for one working day. This deposit has three main stages: *the creation date*, that date of the deposit off-balance registration starting from the date it has been contracted until the date it has been placed, *the time of placement*, ie the date on which assets are available to the party with which the convention has been concluded and *the maturity date*, respectively the date both the capital and the interest return to the credit institution which carries out the placement. The cashed interests are recorded in account 70131 - “Interests from the sight deposits”.

- *Term deposits* are deposits in lei or in foreign currency that the credit institutions form in other banks, and whose term is longer than a working day. Where there are differences in time between the date of contracting the money and the date it is placed, then a registration in off-balance accounts will take place. The recording accounts of these deposits and interests are:

1312 - “Term deposits at banks”;

1313 - “Collateral deposits at banks”;

70132 - “Interests from the term deposits”;

70133 - “Interests from the collateral deposits”.

These term deposits are not concluded on the basis of contracts, but on some ceilings that the management of the credit institution approves in relation to each credit institution, depending on the cooperation from the previous period, the profitability, the shareholders of the credit institution where the money will be placed.

5. Accounting the loans to banks

- *Ordinary loans* are loans placed at other credit institutions based on advantageous credit agreements concluded. These loans may be granted for a day or on terms (for more than one day).

Credit grant

1412 - Credits on terms / lei = 111- Current account at BNR

⁴⁵⁹ Biblioteca digitală ASE București - Adrian Enciu, ”Contabilitate bancară ”, Cap.2 - Operațiuni de trezorerie și interbancară, pag.6.

1412 - Credits on terms /foreign currency	=	121- Nostro/foreign currency
<i>Lei due time</i>		
111 - Current account at BNR	=	1412 - Credits on terms / lei 70142 - Interests
<i>Foreign currency due time</i>		
121 - Nostro/foreign currency	=	1412-Credits on terms /foreign currency
121 - Nostro/foreign currency	=	3712 - Currency exchange position
3722 - Counter value exchange position	=	70142 - Interests

- *credits for debt factoring* are the credits that have trade effects as warranty (Bills of exchange, promissory notes), the ownership of these assets temporarily transferring to the bank that has granted the credit. These credits' bookkeeping is done using the account 151-“Stock repurchase”, and the interests are recorded in account 7015 - “Interests on securities repurchase”;

- *overdraft* is the loan granted to the credit institutions that have opened an available assets account in other credit institutions records. The overdraft is the debit balance of this liability available asset account, which normally has a credit balance.

For example, a credit institution has an available asset account of 100.000 euros, but must make a payment of 300.000 euros. An overdraft credit of 200.000 euro is granted to it in order to achieve its purpose.

6. Accounting of the credits to customers

The customer loans are, for any commercial bank, the most important *asset investment*, the highest yield, bringing revenues, the financial support of its existence. They include:

-*The ordinary credits* represent the most important compound of a credit institution assets. Their bookkeeping is done through accounts specific to the destination they have been granted for, namely:

- account 202 - Treasury credits;
- account 203 - Consumption credits and hire-purchase ;
- account 204 - Credits for financing the exterior trade operations;
- account 205 - Credits for financing the stocks and the equipment;
- account 206 - Credits for the real estate investments;
- account 209 - Other credits for the people.

All these accounts are debited the moment the credits are granted.

- *Debt factoring credits* are loans to non-customers based on bonds, certificates of deposit, treasury bills. These transactions are called repurchase transactions and they represent the transfer of assets, based on a contract under which an institution undertakes to take back and the transferee institution, to repay the same assets at a price and a date set by the repurchase agreement. The transferee, that credit institution granting the credit, bookkeeps the operation in account 2412 – “Stock repurchase”.

- *Loans to financial customers* are loans to leasing companies, factoring companies, investment companies, and investment companies. These loans may be granted within one day and are recorded in account 2311 - “Loans to financial customers for a day” or on terms and registered in account 2312 - “Term loans to financial customers”.

- *Overdrafts* are loans to customers who opened a current account in the credit institution record - 2511. The overdraft represents the debit balance of this bifunctional account, but which currently has a credit balance⁴⁶⁰.

⁴⁶⁰ Mădălina Antoaneta Rădoi – „*Gestiune bancară*”, Editura Economică, București, 2009, pag.102.

For example a customer has, in a bank, a credit balance of 100.000 lei, and wants to make a payment of 150.000 lei to another customer from the same bank. Following this payment execution, this customer was given an overdraft payment of 50.000 lei. The accounting article is:

2511 - Current Accounts = 111 Current account at BNR 50.000 lei

- *Loans granted based on the commercial effects* are loans in group 201, and refers to standard, discount and factoring credits.

7. Accounting transactions

Besides loans, transactions in securities are one of the most profitable activity, leading to maximizing the shareholder wealth, the basic requirement of an efficient financial decision. In this category we have:

- *Securities transactions* are the securities acquired to generate short term profit. The interest calculated for the period since the bond are recorded together with the purchase price of the instrument in account 3021- "Securities Transaction". These securities are valued at fair value;

- *Coherent securities* are securities that do not meet the criteria of being included in the securities category. These securities are revalued at the market value. For unfavourable differences provisions are established, and the favourable differences are not accounted for. Claims from interests calculated for the short period since their issuance until the time of purchase may be registered in both the corresponding attached securities accounts or claims accounts- account 3037;

- *Investment securities* are securities used in a sustainable manner in the credit institutions. They are treated as financial fixed assets since they are investments characterized by fixed or determinable parts and with predefined maturity that the credit institution is capable to hold until maturity. On entering the patrimony, these securities are recorded at their acquisition value, which consists of the purchase price that also includes the transaction costs directly attributable to the acquisition. The short-run interest may be recorded in the corresponding attached claims account or may be registered in securities accounts.

8. Conclusions

Studying the relevant literature in operational assets and national rules allowed us to identify both the structure and the way of highlighting the accounting of such operations. We also recognize the complexity of the credit institutions related to the use of the more efficient funds raised by them for profit margin and in order to reduce the risks to which they are continuously exposed. However, credit institutions are not content with making only a regular income, they seek where possible and prudent to obtain other profits too by banking assets and liabilities maturity structure. Before an institution acts to change assets to increase profit, it must ensure that it is able to maintain an adequate liquidity and to consider the quantification of risk factors and symptoms of risk. In this context, we consider appropriate the need for both the diversification opportunities and the placement of the operational assets.

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