



LEARNING SESSIONS  
WITH ASHISH SIR

# BANK PROMOTION EXAM NOTES

VOLUME 3 | 2026 EDITION

Credit, Priority Sector, MSME and Government Schemes

## RBI REGULATIONS • PUBLIC-SECTOR BANKING

### REGIONAL RURAL BANKS (RRBs)

State Bank of India  
Canara Bank  
Indian Bank  
Indian Overseas Bank

Bank of Baroda  
Union Bank of India  
Central Bank of India  
UCO Bank

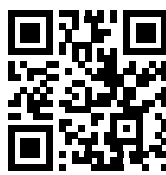
Punjab National Bank  
Bank of India  
Bank of Maharashtra  
Punjab & Sind Bank

YOUTUBE



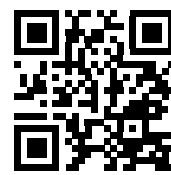
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## Chapter 1 — Credit Appraisal and Financial Analysis

### Topics covered

1. Classifying balance-sheet items for credit appraisal (Schedule III, Ind AS 38)
2. Liquidity and solvency ratios (Current Ratio, Quick Ratio, Debt-Equity Ratio, DSCR)
3. Activity (turnover) ratios and payment and holding periods
4. Profitability ratios and the benchmark-versus-rule distinction
5. Break-even point, contribution and margin of safety
6. Comparative statements, cash flow and funds flow
7. Working capital assessment — the Nayak turnover method and the Tandon and Chore (MPBF) methods
8. Cash budget method, drawing power and term-loan DSCR appraisal

### Basic background

**What credit appraisal is. Credit appraisal means studying a firm's financial statements to decide how much a bank can**

safely lend, and on what terms. It uses the balance sheet, the profit and loss account, a set of standard ratios, and a few working-capital methods.

Who does it. A bank's credit or appraisal officer prepares the appraisal from the audited balance sheet and profit and loss account. Companies prepare these statements under Schedule III to the Companies Act, 2013. The ratios and working-capital methods used in appraisal sit on top of these statements. They are appraisal tools, not company-law rules.

### Its history in four lines.

- The Tandon Committee (1975) gave banks a structured way to size working-capital limits, called Maximum Permissible Bank Finance (MPBF).
- The Chore Committee (1979-80) made the Tandon Committee's Second Method the standard MPBF method, giving roughly a 1.33:1 current ratio.
- RBI withdrew the mandatory MPBF prescription in April 1997. Banks became free to use their own board-approved method.
- The Nayak Committee (1991-92) gave a simpler turnover-based method for small units. RBI directed banks to apply it from 2 March 2001. It still applies today for small fund-based working-capital limits.

### Where each method stands today.

| Method                          | Introduced by                                         | Status today                                                       |
|---------------------------------|-------------------------------------------------------|--------------------------------------------------------------------|
| MPBF — Tandon and Chore methods | Tandon Committee (1975); Chore Committee (1979-80)    | Not mandatory; a bank may still use it under its own credit policy |
| Turnover method                 | Nayak Committee (1991-92); RBI circular, 2 March 2001 | Still applies for small fund-based working-capital limits          |
| Cash budget method              | Standard appraisal practice                           | Used for seasonal and contract-based activities, of any amount     |

## Topic 1 — Classifying balance-sheet items for credit appraisal (Schedule III, Ind AS 38)

### Meaning

A bank does not read a balance sheet the way a statutory auditor reads it. It regroups the figures to test what money the firm truly has (net worth) and what it truly owes.

### Main rules — statutory presentation

- Schedule III to the Companies Act, 2013 has no "Miscellaneous Expenditure" head. That head existed only under the earlier Schedule VI framework and does not apply today.
- A debit balance in the profit and loss account (an accumulated loss) is shown as a negative figure inside "Reserves and Surplus", called "Other Equity" under Ind AS. It is never shown as an asset.
- Preliminary expenses, share or debenture issue expenses, and start-up costs are expensed — charged fully to profit and loss — in the year they are incurred. They are not carried forward as an asset. This follows Ind AS 38, paragraph 69, and AS 26, paragraphs 55-56.
- An intangible asset (Ind AS 38, paragraph 8) is an identifiable, non-monetary asset with no physical form — for example a patent, trademark, licence, purchased computer software, or goodwill recognised on a business combination. A debit balance in profit and loss and preliminary expenses fail this test. They are not identifiable assets at all, so they cannot be intangible assets.

**Main rules — the bank-appraisal adjustment (Tangible Net Worth)**

For lending purposes a bank still deducts these items from net worth, along with genuine intangible assets, to compute

**Tangible Net Worth (TNW) . This is an appraisal adjustment, not a Schedule III classification, and the two purposes must**

not be mixed up.

**TNW = (Paid-up capital + Reserves) (Accumulated losses + Preliminary or deferred-revenue expenses not written off +****Intangible assets)**

The exam-safe line: the debit balance of profit and loss and preliminary expenses are deducted from net worth as fictitious items for TNW purposes. They are not classified as intangible assets under Schedule III or Ind AS 38.

**Main rules — the appraisal balance-sheet layout**

Banks group a firm's balance sheet functionally for appraisal, distinct from the statutory Schedule III format:

| Liabilities                                                                                                                                                                                                                     | Assets                                                                                                                                                                                                                                                                       |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Capital — paid-up capital, or capital brought in by partners or promoters                                                                                                                                                       | Fixed assets — gross value less depreciation, giving the net or written-down value                                                                                                                                                                                           |
| Reserves (general, capital, revaluation, other)                                                                                                                                                                                 | Non-current assets — unquoted investments, long-term investments in associate firms or companies, old or disputed book debts, long-term security deposits                                                                                                                    |
| Long-term liabilities — term loan, debentures or bonds, unsecured loans not due within 12 months, fixed deposits not due within 12 months                                                                                       | Current assets — cash and bank balances, marketable or quoted securities, sundry debtors and bills receivable, inventory (raw material, work-in-process, finished goods), stores and spares for regular consumption, prepaid expenses, advances recoverable within 12 months |
| Current liabilities — bank working-capital limits (cash credit, overdraft, bills, export credit), sundry creditors and bills payable, short-duration loans or deposits, expenses payable, provisions — all due within 12 months | —                                                                                                                                                                                                                                                                            |

A few conventions carried over from standard appraisal practice:

- The instalment of a term loan payable within 12 months is reclassified as a current liability only for computing the Current Ratio and the Quick Ratio.
- Net worth plus long-term liabilities are the firm's long-term sources of funds; current liabilities are its short-term sources.
- A profit for the year becomes part of net worth, under reserves. A loss is a fictitious item deducted from net worth, not an intangible asset.
- Investment in Government securities is treated as current only if it is marketable and due. Investment in other securities is current only if it is quoted. Investment in an associate, sister concern or similar firm is always non-current.
- Bonus shares, issued by capitalising reserves, do not change net worth. A rights issue brings in fresh cash, so it raises both net worth and the current ratio.

**Simple example**

A firm reports paid-up capital of ₹80 lakh and reserves of ₹50 lakh. It carries a debit balance in profit and loss of ₹15 lakh (an accumulated loss), preliminary expenses not written off of ₹5 lakh, and purchased goodwill of ₹10 lakh. Its Tangible Net Worth is  $(80 + 50) - (15 + 5 + 10) = ₹100$  lakh, not the reported ₹130 lakh.

**Important difference**

| Item                                  | Schedule III / Ind AS 38 treatment                 | Bank-appraisal treatment                                                    |
|---------------------------------------|----------------------------------------------------|-----------------------------------------------------------------------------|
| Debit balance of profit and loss      | Negative figure under Reserves and Surplus         | Deducted from net worth as a fictitious item for TNW                        |
| Preliminary expenses not written off  | Expensed in the year incurred; not carried forward | Deducted from net worth as a fictitious item for TNW, if still shown        |
| Goodwill, patents, purchased software | Genuine intangible assets (Ind AS 38)              | Also deducted from net worth for TNW, along with the fictitious items above |

**Remember this**

- Debit balance of profit and loss and preliminary expenses are not Schedule III "intangible assets" — they fail the identifiability test in Ind AS 38.
- $TNW = (\text{Capital} + \text{Reserves}) - (\text{Accumulated losses} + \text{Preliminary or deferred-revenue expenses} + \text{Intangible assets})$ .
- Term-loan instalment payable within 12 months is a current liability only for the Current Ratio and Quick Ratio.