CHAPTER 2

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In a bank Cost Accounting, all expenses of the bank firms are distributed and apportioned to the bank "Departments" and then "Functions" where per item costs can be calculated by comparing cost, thus determined with the number of items processed by banks. The expenses accounts on the general ledger of the bank firm are usually:

1. Advertising,
2. Contributions,
3. Depreciation,
4. Salaries and Allowances,
5. Directors' Fees,
6. Subscriptions,
7. Insurance,
8. Expenses connected with the legal matters,
9. Light, Rent, and water charges,
10. Postage,
11. Repairs and equipments, etc.

Salaries, stationery, taxes, telephone and telegraph, etc, are such expense accounts that can be called in general the, "Conventional" bank cost accounting.

Thus, first allocated and/or apportioned to the bank firms diverse departments - like the cashier departments, commercial tellers, draft and official cheques, general book keeping.

The 'Conventional' bank cost accounting system can be illustrated through the presentation of the ideas and practices prescribed for bank cost accounting, for instance, in the Wisconsin Report on the bank cost accounting prepared in the Mid 1940s.

Wisconsin procedure document entitled A Suggested Bank Cost Accounting Procedure, prepared at the University of Wisconsin, in its Bureau of Business Research and service of the school of commerce, as early as in 1946, presents a somewhat detail discussion relating to the preparation and utilisation of cost data for control purposes of commercial bank management.

The document clains the following:-

"Both the general procedure outline and the detailed methods suggested are based upon case studies of actual bank cost accounting systems. The approach adopted is practical through rather than theoretical; the primary objectives is the development of cost records and reports of maximum practical value in bank management with a minimum of additional effort and expense to the bank".

'Wisconsin' Commercial bank cost accounting study outlines the following procedures for bank cost analysis:-

1. The procedure starts with the adjustment of the commercial bank firms' profit and loss statement to a cost basis.

2. The expenses accounts are then distributed to departments of the bank firm on the basis of each of its Department's responsibility for the incurrence of each expense.

3. The income accounts are also analysed; income is distributed to the function of the bank firm directly, whenever possible, or indirectly through the preperation of convertion fund report.

4. It then possible to prepare a Functional profit and loss statement and to determine the net yield on each earning asset of the bank firm.

However, at the lower levels of the bank management, Departmental Costs compared over two or more periods of operation can be presented. Thus, according to this 'Wisconsin' document in any bank cost accounting, bank expenses require to be distributed first to Departments of bank firms and then only to their ultimate functions. Thus, the procedure suggested for obtaining result is based upon two fundamental concepts, i.e. Department and Function.

A 'Department' is a part of the commercial bank firm's organization for which any given individual is responsible as Manager, Supervisor, or Chief. On the other hand, the 'Function' of a bank firm consists of a general type of banking service performed for the firms:-

i.e.Commercial Deposit Services,

Time Deposit Services,

Safe Deposit Services,

Collection Service, etc.

Examples of functions, taken from Federal Reserve Functional Cost Analysis, are demond deposits, time deposits, commercial and agricultural loans, etc. In the generation of cost data in typical bank firms and their departmental allocation/apportionment, the starting point in the Wisconsin document on bank costing is the ordinary profit and loss statement prepared from a bank firm's general ledger account balances.

The 'Wisconsion' reports prescribes that such departmental cost reports be prepared monthly, quarterly or annually depending on how intensively the cost accounting system is carried out in the bank firm concerned; it expects, however, that of the bank firms to compute cost on annual basis.

The Wisconsin document methods are used of the following three general types:

1. Whenever it is possible for a Department to furnish accurate reports showing the time spent on different kinds of work or reasonably correct estimates of such time, the total expense of the department should be allocated to various kinds of work on' a time - spent basis and then distributed to the departments or function to which work applies.

2. The average number of employees in a Department may well be used as the basis for allocating the total cost of certain Departments to other Departments or Functions.

3. In many bank Departments, it is impossible and impracticable' to get time reports which will definitely seggregate the employees' time by activities or function.

After allocating the expenses to 'Departments' and then to 'Functions', the next step is constituted by the allocation or distribution of income to these Departments and 'Functions'.

Some of the income accounts can be credited directly to Departments or Functions and others must be apportioned and allocated. Generally, there exist two groups of income accounts, one consists of those the income of which arises from services rendered, and - other income of which is derived from earnings on assets. Those accounts based on services can usually be credited directly to certain functions.

Marshall C. Corn's, described the typical bank firm's cost accounting on the following lines:

Usually a banking business is classified into the following major departments:-

1. The Commercial Department, whose activities are related to the servicing of individual and institutional customers, maintaining deposits with the bank firms subject to withdrawl on demond by cheque.

2. The savings Departm whose activities are connected with the services rendered o individual and institutional customers of the bank firm who maintain money on deposit at rates of interest but subject to withdrawal upon notice.

3. The Saft Deposit Department, whose functions are devoted to the provision of safe and convenient place for customers, individual and institutional to keep their securities, jewellry, and other valuable including papers, etc. for a rent or fee charged by the bank firm.

4. The Capital Department whose functions are connected with the supply of capital funds, the aquisation of deposit funds, as well as with the general direction are guidance of the bank firm.

On the other hand, as Corn's maintains, from the point of view of ascertaining the operations and costs of typical bank firms, all the Divisions and Sections within each of the said departments, can be further broken down and classified into the following, depending upon thei respective specific functions or services rendered in general:-

a) OPERATING SECTIONS:

The personnel of which perform activities are provide services directly for bank firms customers - as for instance the activities and services performed are supplied by the,

1. Collection tellers,
2. Commercial Book-Keeping Section,
3. Draft tellers,
4. Paying tellers,
5. Proof Sections,
6. Safe Deposit Section,
7. Recovery Section,
8. Savings-Bond tellers,
9. Savings Book-Keeper,
10. Transit Clerks.

b) NON-OPERATING SECTIONS:

The personnel of which discharge work similar to that of the personnel in the sections mentioned above (operating sections) but whose duties are, in general, concerned with the conversion of deposit and other funds of the bank firm into the latter's loans and investments as for instance,

1. Collateral tellers,
2. Commercial loans book--keeper,
3. Commercial loan tellers,
4. Credit analyst,
5. Credit clerk,
6. Credit correspondent,
7. Credit investigator,
8. Installment loan teller,
9. Investment Clerk,
10. Mortgage loan book-keeper.

c) ADMINISTRATION SECTION:

The personnel as well as the funnctions of which are connected with the general direction or guidance as well as management of the bank firm as for instance,

1. Auditor or assistant auditor,
2. Cashier or assistant cashier,
3. Comptroller or assistant comptroller,
4. Directors,
5. General Book -Keeper,
6. President,
7. Secretaries to the officers,
8. Vice-president or assistant vice-president.

d) SERVICE SECTIONS:

The personnel who perform functions mainly connection with the servicing of the other divisions of the bank firm, i.e. performing work or providing service which those are divisions use, as for instance,

1. Addresograph,
2. Mail and messenger,
3. Maintenance,
4. Occupancy.

Thus, in this description of the departments, divisions, or sections of a typical bank firm, corn's nonethless correctly qualifies that in small-sized banking enterprises, the above described detailed classification of departments, divisions or sections may not be realised in practice, and that such a great sophisticated division of labour as has been visualised above is practicable only in large-sized bank.

After describing in detail the department and their sub-divisions in a typical bank firm along with their expected services and activities, Corn's has gone on straight to his method and procedures of apportinment and allocation of costs of the bank firms. He first prescribes the distribution of a banking costs direct to the departments and their sub divisions within the bank firm and their after suggest determination and calculation of costs of a typical banking functions alongwith their item costs.

Apportionment or distribution of direct expenses of the bank firm: In order to determine and calculate aggregate cost of operating the respective departments, divisions, or sections, as well as respective magnitude of direct, indirect and administrative expenses of each section, all direct expenses of the bank firm require to be distributed to all the Operating, Non-operating, Administration and Service sections.

Thus, the distribution/apportionment of expenses of the different departments and their sub-divisions of the bank firms, Corn's has accepted the method and techniques of Obsorption costing.

After making detailed suggestions regarding allocation are apportionment of direct expenses of a typical bank firm on the basis of the principle of "Cost accounting through cost absorption" - Marshall Corn's has gone on to describing in detail the procedure with the help of which indirect expenses of the bank firm require to be allocated/apportioned.

Thus, after allocation of direct cost items of bank firm to its Operating, Non-operating, Administration.

The apportionment and allocation of indirect expenses (service sections) of the bank firm, the following distribution scheme has been worked out by Corn's:

1. OCCUPANCY SECTION:

Such expenses in their aggregate comprise rent as well as other direct expenses of the bank firm which require to be most equitability apportioned or allocated to the other sections, based on the number of square feet of floor space or area occupied in the typical bank firm.

2. PERSONNEL SECTION:

The aggregate expenses of the bank firms personnel expenses as well as expenses of its occupancy, require to be most equitability apportioned or allocated to other sections of the bank firm, based on the number of personnel assigned to those respective sections.

3. TELEPHONE:

Where the expenses incurred in connection with a telephone is not directly allocated to the other sections of the bank firms. And such expenses required to be charged or allocated to the telephone and switchboard section of the bank firm the aggregate expenses, including salary, rent etc. requires to be distributed are apportioned to the other bank sections based on service provided plus cost of calls and rental of the equipment.

4. MAILS AND MESSENGER SECTION:

Aggregate expense of these commercial bank section require to be chaarged or allocated to the respective sections on the basis of the service rendered by these sections to the other sections of the commercial banking firm.

5. ADDRESSOGRAPHY:

Aggregate expenses of those sections require to be allocated are apportioned to the other sections of the bank firm on the basis of the amount of time spent by these sections in serving those other sections - as for instance, in preparing lists, addressing envelopes, or performing other like services.

6. STENOGRAPHERS:

On the basis of magnitude of time spent by the stenographer or stenographers in taking direction, transcribing and typing letters and doing other work.

Regarding the details as to the expense allocation of commercial bank's Administrative sections, Corns suggestions are summarised below:-

1. OFFICERS:

This provides for the allocation or apportionment of expenses of official personnel of the bank engaged in administrative work.

2. AUDITING:

In the process of allocating or aportioning the expenses of the auditor, all expenses for the routine control programme require to be allocated to the various bank departments and sections on the basis of the magnitude of time spent in implementing the said control programme.

It is to be charged or allocated to the respectiv sections of the bank firm on the basis of time spent in undertaking different phases of the said autid programme has approved and directed by the Board of Directors of the bank firm.

3. GENERAL BOOKS:

The bank firm's general book-keeper responsibility relating to posting of the general and subsidiary ledger as well as to discharging of services or functions connected, in turn, with the responsibility going with his position.

Aggregate bank expenses partaining to the general book-keeper require to be allocated or apportioned to its other sections, again on the basis of the time-magnitude involved in posting or handling transactions for such bank section.

4. DIRECTORS:

The main function of the bank firm directors relates to the directing of the bank firm and not managing its detailed affairs, and since their responsibility relates to approving the general policy of the bank with regard its loans and investments. It is required to be distributed to its operating, Non-operating, and capital sections on the basis of the percentage of time spent by bank directors in directing.

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