

Bank deposits, notions and features of accounting

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Abstract

Bank deposits are the main method of raising capital and short-term available savings. The opening and using of the bank deposits is the main function of banks. In 2004 the Deposit Guarantee Fund was set up in the Republic of Moldova of Deposit Guarantee Fund and for the first time there was established a guaranteed bank minimum in case of bank insolvency which is currently 6,000 lei for the deposit of each natural person.

Key words: banking deposits, interest, deposits payable on demand, fixed-term deposits, deposit account, and deposit guarantee fund.

Bank deposits represents the main method of raising capital and short-term available savings. The opening and using of the bank deposits is the main function of the banks.

A deposit represent “a sum of money entrusted to the bank” under the following conditions:

- to be fully reimbursed, interest-bearing or interest-free providing any other facilities, on demand or in terms agreed upon between the depositor and the depositary,
- not to refer to the transfer of properties, provision of services or the guarantee.

Therefore, the bank deposit represents a sum of money deposited at the bank for a set period of time during which the bank pays the depositor an interest.

Depending on the period for which they are established the deposits are classified into two main categories:

1. Demand deposits - are low or no interest-bearing accounts designed to accept amounts of money from the depositor for a short-term use. It shows a credit balance and can be withdrawn at any time, without a prior notice. Due to the fact there is no definite maturity term, the opening of the demand deposit is entirely a matter of the depositor's needs and choice.
2. Term deposits - represents a sum deposited by the holder and made available only to the bank, until a certain maturity, preset in the contract upon opening the deposit. Unlike the demand deposit, the term deposit is a higher interest-bearing deposit intended to make up for the unavailability of the deposited funds. The interest rate is established between the depositor and the banker depending on negotiating skills of the respective parties and the size of the amount deposited and the maturity. As a rule, the interest rate is adjusted to the money market interest rate for a similar period. An emergency withdrawal before maturity leads to loss of interest.

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Demand deposits have the highest liquidity, are characterized by elasticity, given that the depositors can at all times use them to make payments into the account and withdrawals from the account, depending on their interests. On the other hand, term deposits enable banks to capitalize on these funds during crediting terms, adjusted to the nature of the resources. At the national and international level there are utilized the following categories of deposits:

- current account in lei;
- current account in foreign currency;
- term deposit account in lei.

Depending on specific criteria, there are several types of deposits. In terms of the currency used the deposits can be opened in lei or in foreign currency. The currency used determines the types of deposit, either in lei or in a different currency. The volatile character of the interest rate can yield:

- Fixed interest rates deposits: the bank ensures a fixed interest rate with the deposit validity.
- Fixed interest deposits with an interest fixed for a certain period: the bank will adjust the interest rate according to the policy of deposits that are still valid after the expiry date set in the deposit contract.
- Floating interest rate deposits: the bank is allowed to change the interest rate during the deposit period, depending on the market evolution.

In order to open a deposit account the natural person must submit the following documents:

When the respective documents are submitted by the depositor:

- the original and the copy of the depositor's identity card;
- the amount of money to be deposited.

When the respective documents are submitted by the person empowered to deposit:

- the identity card of the authorized person in original and the copy thereof;
- a notarial certified copy of the depositor's identity card;
- the power of attorney in original or its copy;
- the amount of money to be deposited.

The following persons are eligible to open a deposit:

- a) the account holder;
- b) a trustee of the account holder;
- c) parents or tutors - on behalf of the children aged under 14.

The deposit accounts shall be opened based on the following documents submitted by the client:

- a. the original and the copy of the document confirming the identity of the client: - the identity card issued by the Moldovan authorities; - Residence permit, issued by the Moldovan authorities; - Temporary residence permit for the refugees status or humanitarian aid beneficiaries, issued by the Moldovan authorities; - Foreign passport, issued by the by the Moldovan authorities having the note of withdrawal of identity card, - for individuals who leave the Republic of Moldova for other country residence;

b. request for account opening with the specimen signature of the client.

The photocopy of the document, which confirms the customer's identity, must be checked by the person in charge of the bank to ensure that it complies with the original.

In case when the data are authentic the person in charge for make on the copy the entry "the copy corresponds to the original", applies the stamp (which includes his personal number and date) and his signature. In addition, the person in charge of the bank establishes the identity of the person who submitted the documents, with the from the picture of the document confirming his identity. The photocopy of the document remains in the bank, and the original is returned to the client presenting the document.

For the opening of a deposit, account or several simultaneous deposit accounts shall be fulfilled an application for account(s) opening (an offer's accept) by means of appropriate programming according to the form established the bank.

The client checks the accuracy of the personal data indicated in the printed application and in the presence of the person in charge, applies his signature specimen in the space provided for this demand. If the account is opened by the authorized person, the specimen signature of the account holder is placed at the first presentation of the bank account holder.

The supplementing of accounts can be performed by: account holder, reliable person and third person (as defined in art.1222 and art. of the Civil Code of the RM) by cash or by transfer from other people's accounts in order and in accordance with the conditions of the referred deposit.

The withdrawal of money from the account can be carried out by: - the account holder; - the trustee of the account holder; - legitimate successors (heirs) in the event of the death of the account holder. The bank can release funds to the account holder at his presentation of the identity document.

For the purposes of changing the data or bank account closing the client presents to the bank the identity card.

The accounting of deposit operations is managed by the class II "Liabilities" of the chart of accounts. Demand deposits are held in registered accounts in 2220 groups "Demand deposits without interest" and 2250 "Demand deposits with interest". These are liability accounts, in credit account is recorded the opening and completion of deposits, in debit account is reflected the partial payment or the closing of deposits. The final balance is creditor and reflects the deposit amount at the end of the reporting period.

The most used accounts are accounts of demand deposits of the clients. For the recording of legal persons the principal accounts used are:

- Account 2224 "Current accounts of legal entities" - this account is intended to track the movement of funds deposited or transferred without interest by legal persons engaged in entrepreneurial activities or other work, including those for operations with bank cards. In this account is recorded the current operations of receipts and payments that can be withdrawn by the account holder at any time without notice.
- Account 2251 "Current accounts of legal entities" is intended to track the movement of funds deposited / transferred with interest by those who practice entrepreneurial or other work, including those for operations with bank cards. The amounts in this account are intended for current operations of receipts and

payments may be withdrawn without notice by the account holder at any time.

For recording of natural persons, the following accounts are essential:

- Account 2225 “Current accounts of natural persons” is intended to track the movement of funds deposited / transferred without interest by individuals, including those for carrying out of operations with bank cards. This account records the current operations of receipts and payments that can be withdrawn by the account holder at any time without notice.
- Account 2252 “Current accounts of natural persons” is intended to track the movement of funds deposited / transferred with interest by natural persons, including those for operations with bank cards. The amounts from this account are intended for current operations of receipts and payments may be withdrawn without notice by the account holder at any time.

Savings Deposits are kept on record in the accounts from the Group 2310 “Savings deposits”. The group is designated for the bookkeeping of savings deposits of natural persons, individuals who practice business, legal persons, non-banking financial environment and non-profit organizations.

Term deposits of the clients are kept on record in the accounts from 2370 groups “Term deposits of clients”. The group is intended to record deposits received from customers (natural and legal persons) for a certain period and with a determined interest rate.

Example:

Suppose that on April 22nd, 2015 between a commercial bank and a natural person was concluded a deposit contract stipulating that the bank has received a deposit amounting to 15 000 lei for a period of 3 months. The annual interest rate is 15.5%. The deposit is received in cash and the interest is calculated and paid monthly.

1. Based on the application for opening an account and the application for the initial payment in the deposit account is reflected the cash deposit:
Debit account 1001 “Cash on hand” 15 000 lei;
Credit account 2374 “Short-term deposits of natural persons” 15 000 lei.
2. The calculation of monthly interest is reflected:
Interest = Deposit account balance x Time for what the interest is calculated x rate of interest in percentage: 360×100
Interest for April = $15\,000 \text{ lei} \times 8 \text{ days} \times 15.5\% : 360 = 51.67 \text{ lei}$
Interest for May = $15\,000 \times 31 \text{ days} \times 15.5\% : 360 = 200.20 \text{ lei}$
Interest for June = $15\,000 \text{ lei} \times 30 \text{ days} \times 15.5\% : 360 = 193.75 \text{ lei}$
Interest for July = $15\,000 \text{ lei} \times 21 \text{ days} \times 15.5\% : 360 = 135.62 \text{ lei}$.
Debit account 5374 “Expenses with interests on short-term deposits of natural persons” 51.67 lei;
Credit account 2728 “Calculated interest rate on term deposits of customers” 51.67 lei.
3. Recording of monthly interest cash payments:
Debit account 2728 “Calculated interest rate on term deposits of customers” 51.67 lei;
Credit account 1001 “Cash on hand” 51.67 lei.
4. The deposit refund will be reflected:
Debit account 2374 “Short-term deposits of natural persons” 15 000 lei;

Credit account 1001 "Cash on hand" 15 000 lei.

In banking practice, there are cases when the deposit is raised before maturity. In this case, depending on the bank's policy and provisions of the contract with the customer the calculated and paid interest will be deducted from the deposit amount to be paid to the customer.

Example.

Suppose that on April 25th, 2015 between a commercial bank and a natural person was concluded a contract of deposit stipulating that the bank has received a deposit in the amount of 105 633 lei for a period of 6 months. The annual interest rate is 16.5%. In the event of the contract cancellation, the interest is calculated at a rate of 0%. The deposit is received in cash and the interest is calculated and capitalized monthly and transferred to the customer's account. After 3 months, the contract was cancelled.

1. Recording the cash deposit:
 - Debit account 1001 "Cash on hand" 105 633 lei;
 - Credit account 2374 "Short-term deposits of natural persons" 105 633 lei.
2. Recording the calculation of capitalized interest:
 - Interest = Deposit account balance x Period for what the interest is calculated x percentage rate of interest: 360×100
 - Interest for April = $105\,633 \text{ lei} \times 5 \text{ days} \times 16.5\% : 360 = 242.07 \text{ lei}$;
 - Interest for May = $105\,875.07 \text{ lei} \times 31 \text{ days} \times 16.5\% : 360 = 1504.31 \text{ lei}$;
 - Interest for June = $107\,379.38 \times 30 \text{ days} \times 16.5\% : 360 = 1476.46 \text{ lei}$;
 - Interest on July = $108\,855.84 \times 31 \text{ days} \times 16.5\% : 360 = 1546.66 \text{ lei}$;
 - Debit account 5374 "Interest expenses on short-term deposits of natural persons" 242.07 lei;
 - Credit account 2728 "Accrued interest on term deposits of customers" 242.07 lei.
3. Reflecting the interest capitalization:
 - Debit account 2728 "Accrued interest on term deposits of customers" 242.07 lei;
 - Credit account 2374 "Short-term deposits of natural persons" 242.07 lei.
4. Based on the request for cancellation of the deposit contract, the cancellation of the contract is reflected after 3 months:
 - Debit account 2374 "Short-term deposits of natural persons" lei 4769.50;
 - Credit account 4951 "Fines, penalties and other sanctions" lei 4769.50.
5. Recording of reimbursement of funds:
 - Debit account 2374 "Short-term deposits of natural persons" 105 633 lei;
 - Credit account 1001 "Cash on hand" 105 633 lei.

The interest can be seen as a price paid by the debtor to the creditor for his permission to use his capital. The utilization is temporary and is accompanied by a promise of repayment.

The interest accounting of deposit accounts are kept in class II "Liabilities" in the group of accounts 2700 "Accrued interest to be paid". These are liability accounts, in credit is recorded the accrued interest on deposits opened at the Bank and in debit is reflected the interest payment.

When calculating the interest for deposits the principle of synchronization is respected which consists in concordance between classes II "Bonds" and V "Expenses" from the chart of accounts.

Accounts of the group 2700 "Accrued interest to be paid" synchronize with the

groups of accounts from the Vth class “Expenses” 5250 “Expenses with interests on sight deposits of customers” - 5370 “Interest expenses on term deposits of customers”.

Group 2700 “Accrued interest to be paid” is intended to record accrued interest to be paid by the bank regarding loans, deposits, etc. In this group can be calculated fees and expenses that are non-interest bearing.

The calculation of fees and expenses that are non-interest bearing shall be made only if the bank has a well-founded insurance in supporting the expenses and there is a real possibility to exactly determine amount of expenditure.

The accounts 2717 “The calculated interest on term deposits of the National Social Security Authority/ National Health Insurance Authority” - 2738 “The calculated interest on term deposits of natural persons who practice activity” are intended to track the calculation, payment and correction of interest on deposits.

Depending on the group of accounts for deposits, expenses related to interests are reflected in the class V “Expenses” by changing the first two digits from the analytical account, for instance for the account 2311 “Savings deposits of natural persons” the interest related expenditures will be reflected in the account 5311 “Interest expenses on savings deposits of natural persons”.

The group 5250 “Interest expenses on demand deposits of customers” is intended for recording the interest expenses on demand deposits received from the customers. The accounts 5251 “Interest expenses on current accounts of legal entities” - 5262 “Interest expenses on other demand deposits of natural persons” are intended for the expenditure of interest on demand deposits received from legal entities and natural persons.

With the constitution in 2004 in the Republic of Moldova of the Deposit Guarantee Fund there was established for the first time the minimum bank guaranteed in case of the bank's insolvency.

Deposit Guarantee Fund in the Banking System (hereinafter - the Fund) guarantees, under the conditions and within the limits provided by Law No 575-XV of 26.12.2003 regarding the guarantee of the deposits of the natural persons deposits in the banking system (hereinafter - the Law), deposits in national currency and foreign currency held by residents and non-resident individuals in authorized banks.

The fund guarantees deposits that have the form of a credit balance resulting from existing funds in the accounts of natural persons or from transient conditions created through banking operations, to be returned by the bank under the legal and applicable contractual conditions, as well as those that have the form of a debt by a natural person represented by a debt instrument issued by the bank. Information on types of deposits (banking) are guaranteed in articles intended to inform the public about the services offered by the bank.

The following deposits are not guaranteed:

- a. deposits of bank administrators;
- b. deposits of natural persons that are shareholders of the bank holding at least 5% of its capital;
- c. deposits of spouses and first and second-degree relatives of the persons referred to in point a) and b);
- d. deposits of tertiary individuals acting on behalf of the persons referred to in point a) and b);

- e. deposits of individuals that hold in affiliated entities and dependent companies, functions similar to those listed in point a) and b);
- f. deposits of individuals who have obtained from the bank interests or other financial benefits on preferential terms;
- g. deposits of natural persons at “Banca de Economii S.A.” as of January 2, 1992, both those that entered into force and those and re-registered on 29 July 1994, taking as a basis their balance as of the accounts of January 2, 1992, which are already guaranteed by the State by Law on indexation of money deposits at “Banca de Economii S.A.”;
- h. deposits of natural persons in the deposit accounts opened under the Parliament Decision no.201-XIII of 29 July 1994 on indexation of people's deposition in the institutions of “Banca de Economii S.A.” from Moldova;
- i. bearer debt securities;
- j. deposits declared illegal by the judicial decision. The fund suspends the payment of deposits to natural persons against whom a legal proceedings is instituted regarding the legality of deposits and the judgment did not become final;
- k. all the instruments that is included in the definition of regulatory capital of the bank.
- l. Deposit guarantee ceiling (the maximum amount payable to a depositor) is 6000 MDL, regardless of the number and size of deposits or currency in which they were set up at the bank.

The size of the bank obligation towards the depositor is calculated by summing all its deposits, including due and unpaid interest on the date of the finding of unavailability of deposits.

If the bank has a claim on the depositor, the obligation proportion of the bank is reduced by the size of his obligation, expired and unpaid to the bank.

In the case of a common deposit, the share of each holder stipulated in the contract, is taken into account when calculating the size of the bank's obligation according to the coverage provided. In the absence of such a provision in the deposit contract, the common deposit is shared equally among depositors.

The equivalent in lei of the deposits in foreign currency is determined based on the official exchange rate of MDL against respective foreign currency at the date of the finding of unavailability of deposits. The Fund may mandate (empower) one or more banks to pay guaranteed deposits

The payment of guaranteed deposits begin within 7 days from the receipt from the liquidator of the List of claims relating to guaranteed deposits, according to art. 20 (1) of the Law. In exceptional circumstances and in special cases with the consent of the Government, the Fund may extend no more than 30 days the above-mentioned period.

The Fund cannot invoke the referred time limits not to guarantee the deposit of a holder who has been unable to require the guarantee in due time.

Holders of deposits make the receipt of the compensation. The payment compensation on deposits in favor of minors is drawn by their parents, adopters, tutors or curators.

The payment of the guaranteed deposits can be disburse to other persons in conformity with the legislation of the Republic of Moldova (based on power of attorney, certificate of inheritance, etc.).

In the case where the size of the bank obligation is higher than the level of the guaranteed ceiling, the Fund will pay the depositor a compensation equal to the level of guaranteed ceiling.

In the long term, along with the advanced process of European integration, will appear as well the single obligation for the EU Member States to adopt minimum guarantees of 100,000 euros for their citizens.

Given the potential of the migration of the capital, it is important to examine the practices in the region in the future (ex. Ukraine - at least 200,000 UAH, Russia - at least 700,000 rubles, Romania - 100,000 Euro (as in most EU countries, except Ireland offering unlimited guarantees)).

In most countries, within that limit, the deposits of the natural persons are guaranteed. However, in some countries such guarantees were also offered to legal entities, to support small and medium enterprises. (eg. in Romania).

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