

## **Accounting treatment of legal expenses incurred by banks in suit filed accounts**

DBOD. BP. BC. 24 / 21.04.018/ 2003- 2004

13 September 2003

All Commercial Banks  
(except RRBs & LABs)

Dear Sir,

### **Accounting treatment of legal expenses incurred by banks in suit filed accounts**

It has been observed that banks follow divergent practices in respect of accounting of legal expenses incurred in case of suit filed accounts. The issue was examined in consultation with Institute of Chartered Accountants of India and it has been decided that banks should adopt the following **guidelines for accounting legal expenses in suit filed accounts** :

- i. Legal expenses incurred by banks in respect of suit-filed accounts should be debited to the profit and loss account at the time of incurrence. For the purpose of monitoring the recovery of such expenses from the borrowers, the banks may keep a memorandum control account.
  - ii. At the time of recovery of the legal expenses from the borrower, the amount recovered should be recognised in the profit and loss account of the year in which the recovery is made.
  - iii. The accounting policy in this regard should be consistently followed in the preparation and presentation of financial statement by banks.
2. Banks may adopt the above procedure in a uniform manner from the year ending 31 March 2004.
  3. Please acknowledge receipt.

Yours faithfully,

**(M. R. Srinivasan)**  
**Chief General Manager-in-Charge**