

RBI/2004-05/410

UBD(PCB).Cir.42/09.140.00/2004-05

March 30, 2005.

The Chief Executive Officers of All
Primary (Urban) Co-operative Banks

Dear Sir/Madam,

**Prudential Norms in respect of Income Recognition,
Assets Classification, Provisioning and other related
Matters-Procedure for accounting of accrued interest-UCBs**

Please refer to para 2(ii) regarding accounting of accrued interest of borrowal accounts which are performing assets, of our circular UBD.No.I & L(PCB)/46/12.05.00/94-95 dated 28.02.1995 on the captioned subject.

2. We advise that the instructions contained therein have been reviewed and it has been decided that the above paragraph may be amended and substituted as under:

Existing paragraph No 2(ii) :

"In respect of borrowal accounts which are treated as performing assets, accrued interest can alternatively be debited to the borrowal account and credited to interest account and taken to income account. In such cases where the accrued interest has been debited to such borrowal account but not actually received before the end of the accounting year viz., March 31, equivalent amount corresponding to such unrealized interest should be reversed by debit to profit and loss account and credited to 'Overdue Interest Reserve Account."

Revised paragraph:

"In respect of borrowal accounts which are treated as performing assets, accrued interest may be debited to the borrowal account and credited to interest account and taken to income account."

3. Further a sub paragraph no 2(iii) to the exiting paragraph no. 2 may be inserted as under:

Para 2(iii) -Reversal of income

"If any advance, including bills purchased and discounted, becomes NPA as at the close of any year, interest accrued and credited to income account in the corresponding previous year, should be reversed or provided for if the same is not realised. This will apply to Government guaranteed accounts also."

4. In view of the foregoing, the Memorandum of Instructions annexed to the above circular has been suitably modified and is given in the enclosed annexure. Other instructions contained therein, remain unchanged.

5. Please acknowledge receipt to the concerned Regional Office of Reserve Bank of India.

Yours faithfully,

(K.R.Ananda)
Chief General Manager-in-charge.

Encls: As above.

Illustrative Accounting Entries to be passed in respect of Accrued Interest on both the Performing and Non-performing Advances

I. Accrued Interest on Performing Advances

- (i) It has been clarified in paragraph 2(ii) of this circular that accrued interest in respect of performing advances may be charged to borrowal accounts and taken to income account. Illustratively, if the accrued interest is Rs.10,000/- in respect of performing advances of a borrower 'X' (cash credit, overdraft, loan account, etc.) the following entries can be passed in the Books of Account.

(Dr) Borrower's account (CC, OD, loan)	Rs.10,000.00
(Cr) Interest account	Rs.10,000.00

- (ii) In case the accrued interest of Rs.10,000/- in respect of the borrowal account is not actually realised and the account has become NPA as at the close of subsequent year, interest accrued and credited to income account in the corresponding previous year, should be reversed or provided for if the same is not realised by passing the following entries:

(Dr) (P&L a/c)	Rs. 10,000.00
(Cr) Overdue Interest Reserve Account	Rs. 10,000.00

- (iii) In case accrued interest is realised subsequently, the following entries may be passed:

(Dr) Cash/Bank account	Rs. 10,000.00
(Cr) Borrower's Account (CC, OD, Loan)	Rs 10,000.00
(Dr) Overdue Interest Reserve Account	Rs. 10,000.00
(Cr) Interest account	Rs. 10,000.00

(i) Accrued interest in respect of non-performing advances may be debited to 'Interest Receivable Account' and corresponding amount credited to 'Overdue Interest Reserve Account'. For example, if the interest accrued in respect of Cash Credit/OD/Loan etc. account of a borrower 'Y' is Rs.20,000/- the accounting entries may be passed as under:

(Dr)	Interest Receivable Account	Rs.20,000.00
(Cr)	Overdue Interest Reserve Account	Rs.20,000.00

(ii) Subsequently, if interest is actually realised, the following accounting entries may be passed:

(Dr)	Cash/Bank Account	Rs.20,000.00
(Cr)	Interest account	Rs.20,000.00

(Dr)	Overdue Interest Reserve Account	Rs.20,000.00
(Cr)	Interest Receivable Account	Rs.20,000.00

III. Accounting of Overdue Interest in Loan Ledgers & Balance Sheet

- (i) With a view to facilitating the banks to work out the amount of interest receivable in respect of each non-performing borrowal account, banks can consider opening a separate column in the individual ledger accounts of such borrowers and interest receivable shown therein. This would enable the banks to determine at a particular point of time, the amount of interest actually to be recovered from the borrowers. Total of the amounts shown under the separate columns in the loan ledgers would be interest receivable in respect of non-performing advances and it would get reflected as such on the 'assets' side of balance sheet with a corresponding item on the liabilities side of the balance sheet as 'Overdue Interest Reserve'.
- (ii) Similarly, a separate column should be provided in the loan ledger in respect of performing advances for showing accrued interest taken to income account on 31 March every year so that a watch can be kept on them. If the accrued interest is not realised and the account becomes NPA in the subsequent year, the amount has to be reversed or provided for.