

**Annex 3**  
(Vide para 4.5.3(iii))

**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 4.5.2 and 4.5.3 (ii) of the Master Circular that accrued interest in respect of performing advances may be charged to borrowing accounts and taken to income account. Illustratively, if the accrued interest is ₹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<br>(CC, OD loan) | ₹10,000.00 |
| (Cr) Interest account                    | ₹10,000.00 |

ii) In case the accrued interest of ₹10,000/- in respect of the borrowing account is not actually realised and the account has become NPA, interest accrued and credited to income account should be reversed or provided for if the same is not realised by passing the following entries :

|                                       |            |
|---------------------------------------|------------|
| (Dr) P&La/c)                          | ₹10,000.00 |
| (Cr) Overdue Interest Reserve Account | ₹10,000.00 |

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

|   |            |
|---|------------|
| (Dr) Cash / Bank account                  | ₹10,000.00 |
| (Cr) Borrower's Account<br>(CC, OD, Loan) | ₹10,000.00 |
| (Dr) Overdue Interest Reserve Account     | ₹10,000.00 |
| (Cr) Interest account                     | ₹10,000.00 |

**II. Accrued Interest on Non-Performing Advances**

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 ₹20,000/- the accounting entries may be passed as under :

|                                       |            |
|---------------------------------------|------------|
| (Dr) Interest Receivable Account      | ₹20,000.00 |
| (Cr) Overdue Interest Reserve Account | ₹20,000.00 |

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

|                                       |            |
|---------------------------------------|------------|
| (Dr) Cash / Bank Account              | ₹20,000.00 |
| (Cr) Interest account                 | ₹20,000.00 |
| (Dr) Overdue Interest Reserve Account | ₹20,000.00 |

|                          |            |
|--------------------------|------------|
| (Cr) Interest Receivable | ₹20,000.00 |
| Account                  |            |

### **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. If the accrued interest is not realised and the account becomes NPA, the amount has to be reversed or provided for.