Norms for Income Recognition and Provisioning for advances by UCBs

Prudential Norms for income recognition and provisioning for advances

- Income recognition as well as provisioning for advances depends on classification of assets into 'performing' and 'non-performing' categories.
- Provisioning exercise must also take into consideration the realisable value of securities and check whether the bank has valid recourse to them.

A. Income Recognition norms

In case of 'Performing Assets'

- The interest accrued in respect of performing assets may be taken to income account as the interest is reasonably expected to be received.
- If interest is not received and the account is classified as NPA, then the amount so taken to income account need to be reversed.
- For e.g., in case the accrued interest is ₹10,000/- in respect of performing advance, say a CC account, following entries can be passed:

(Dr) Borrower's account (CC)	₹10,000.00
(Cr) P/L A/C – Interest Income Account	₹10,000.00

- Accounting entries for reversal of unrealized interest:

(Dr) P/L A/C – Interest Income Account	₹10,000.00
(Cr) Overdue Interest Reserve (OIR) Account	₹10,000.00

In case of 'Non-Performing Assets (NPAs)'

- Interest should not be recognized on accrual basis but booked as income only when it is actually received.
- Fees, commission and similar income that have accrued**,** ceases to accrue in the current period and should be reversed with respect to past period, if remains uncollected.
- For e.g., in case the interest accrued is ₹10,000/-, following entries are passed:

(Dr) Interest Receivable Account	₹10,000.00
(Cr) Overdue Interest Reserve (OIR) Account	₹10,000.00

- In case, ₹5,000.00 is realized subsequently, then following entries will be passed:

(Dr) Cash/ Bank Account	₹5,000.00
(Cr) Interest Account	₹5,000.00
(Dr) Overdue Interest Reserve (OIR) Account	₹5,000.00
(Cr) Interest Receivable Account	₹5,000.00

B. Provisioning Norms

In case of 'Standard Assets'

- The provisioning requirement on standard assets are summarized as under:

Category of Standard Assets	Rate of Provisioning	
	Tier-1 UCBs	Tier-2 UCBs
Direct Advances to Agriculture & MSME sectors	0.25%	0.25%
Commercial Real Estate (CRE) Sector	1.00%	1.00%
CRE-Residential Housing Sector	0.75%	0.75%
All other loans and advances	0.25%	**0.40%**

In case of 'Non-Performing Assets - NPAs'

- **Sub-Standard Assets**: A general provision of 10% on total outstanding without any allowance for ECGC guarantee cover, if available, or securities available.
- **Doubtful Assets**:

  (a) For unsecured portion i.e., the portion not covered by realizable value of security to which the bank has a valid recourse, 100% provision needs to be made.

  (b) For secured portion, the provision depends upon the period for which it remained in doubtful category. Doubtful assets are further classified as D-1, D-2 and D-3 categories, depending upon that period.

D-1	Up to one year in doubtful category	20% of secured portion
D-2	One to three years in doubtful category	30% of secured portion
D-3	More than three years in doubtful category	100% of secured portion

- **Loss Assets;**
- The entire assets should be written off after obtaining necessary approval from the competent authority and as per the provisions of the Co-operative Societies Act.
- If the assets are permitted to remain in the books for any reason, then, 100% of the outstanding should be provided for.

<u>For detailed information, the reader may refer to:</u>
RBI Master Circular on Income Recognition, Asset Classification, Provisioning - for UCBs, [DCBR.BPD.(PCB) MC.No.12/09.14.000/2015-16 dated July 01, 2015]