



NFRA Circular on Non-Accrual of interest on borrowings by the companies in violation of Indian Accounting Standards

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It has come to the attention of the NFRA during a disciplinary action under section 132(4) of the Act for professional misconduct of the statutory auditor (CA Som Prakash Aggarwal) of a listed company (Vikas WSP Limited), that the company in the Financial Statements of 2019-20, had discontinued accrual/recognition of interest expense on its bank borrowings, which had been reportedly classified as Non-Performing Asset (NPA) by the lender banks and for which the company was negotiating One Time Settlement with the banks. This accounting treatment was in contravention of the provisions of applicable accounting standard, as these borrowings as well the interest payable thereon continued to be the financial liabilities of the company and were required to be accounted for as amortized cost in accordance with the requirements of Indian Accounting Standard (Ind AS) 109, *Financial Instruments* (Ind AS 109). Similar violations have been observed in respect of several other companies too.

Mere classification of the company's borrowings as NPAs by the lender banks does not relieve the borrowing company from its liability towards payment of interest and/or the principal. It may be relevant to note that the RBI guidelines also require the banks to maintain a Memorandum Record of Accrued Interest on the loans classified as NPAs clearly reflecting the fact that the bank has not yet legally released the borrowers from their contractual liability to pay interest on their borrowings from the bank.

In the above context, discontinuation of interest expense recognition on bank borrowings solely based on the borrowing company's expectations of likely waiver/concession by the lender banks in the payment of interest/principal without evidence of the legally enforceable contractual documents results in incorrect/erroneous presentation of financial performance and financial position of the borrowing company to its shareholders, investors, creditors and lenders.

In order to ensure that such violations do not occur and to ensure presentation of true and fair view of the financial statements of the companies, NFRA has issued a circular on 20.10.2022 on this subject to draw attention of all companies, audit committees, and statutory auditors. Also, Company Secretaries have been advised to draw attention of the Board of Directors of their companies to the contents of the circular.

The circular can be seen on NFRA website: <https://nfra.gov.in/auditingcirculars>

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