

## **Query No. 20**

**Subject:** *Accounting for rectification of interest earned on fixed deposits made out of surplus funds erroneously accounted for as income for certain earlier years, under AS framework.*<sup>1</sup>

### **A. Facts of the Case**

1. A company (hereinafter referred to as ‘the Company’ or ‘the Corporation’) is a wholly owned Government Company under the ambit of the Ministry of Textiles. The Company is a national level agency to assist the speedy development of the handloom sector with the help of 07 regional offices and 29 branch offices. The Company is the nodal agency for implementation of the Raw Material Supply Scheme (RMSS) and National Handloom Development Programme (NHDP) of the Government of India (GoI). The Company receives funds from the Government and the same are deposited in separate corpus fund account and then these are utilised for the purpose these are granted for.

2. *Corpus Fund (Marketing Complex) Account:* Marketing Complex is the Scheme of GoI, which is aimed at providing marketing support by setting up marketing complexes with a view to create permanent marketing outlets for handloom weavers/agencies. The Company was appointed as the nodal agency for implementation of the scheme by the order of (O/o) Development Commissioner for Handloom, Ministry of Textiles. For implementing the aforesaid scheme, an amount of Rs. 825.81 lakhs was received from the Government of India for setting up of marketing complexes at Mumbai, Indore, Jaipur and New Delhi. As per the Scheme, fund received from the Government of India was credited to a separate bank account i.e. Corpus Fund (Marketing Complex) Account. Thereafter, the fund was utilised for setting up of marketing complex. A fixed deposit (FD) account was opened and unutilised amount was transferred therein. Interest earned on fixed deposit was transferred back to corpus fund account on yearly basis upto financial year (F.Y.) 2016-17. However, during the F.Y. 2017-18 and 2018-19, the interest earned on FDs was treated as income of the Company and was not credited to the Corpus Fund. From F.Y. 2019-20 onwards, again the interest earned on the FDs has been credited to Corpus.

3. *Corpus Fund (Mega Cluster) Account:* Ministry of Textiles, GoI sanctioned grant-in-aid as corpus fund of Rs. 950.00 lakhs to the Company for supply of yarn, dyes and chemicals to the handloom weavers in Mega Handloom Clusters of various locations under the Comprehensive Handloom Cluster Development Scheme (CHCDS) from 2009-10 onwards. Fund was released on the condition that a separate account of Corpus Fund shall be opened and the grant-in-aid shall be utilised for the purpose of supply of yarn, dyes and chemicals to the handloom weavers in Mega Clusters. Accordingly, Corpus Fund (Mega Cluster) Account was opened and operated for implementing the scheme. Unutilised fund, however, was deposited in a fixed deposit account. Initially, interest earned on fixed deposit was transferred back to Corpus Fund account on yearly basis upto F.Y. 2016-17. However, the same was withdrawn and treated as income of the Corporation. Further, interest earned on fixed deposit was also treated as income of the Company during financial years 2017-18 and 2018-19 instead of crediting to the Fund. From F.Y. 2019-20 onwards, again the interest earned on the FDs has been credited to Corpus.

---

<sup>1</sup> Opinion finalised by the Committee on 6.9.2024.

4. The querist has stated that the Comptroller and Auditor General of India (C&AG) vide its letter dated 03.05.2021 has commented upon the aforementioned issues in the accounts of the Company for the financial year ended on 31<sup>st</sup> March, 2020. C&AG vide its letter dated 02.06.2021 also instructed to consider and act upon its comments before finalising accounts in future. C&AG also reiterated that matter is important and be placed before the Board of Directors/Audit Committee. The matter was placed before the Board of Directors and Board directed to take the opinion of the Expert Advisory Committee of the Institute of Chartered Accountants of India (ICAI).

5. Therefore, as per the querist, the Company is required to take necessary corrective action in respect of the interest earned on these funds during aforementioned years. Hence, internal auditors of the Company have requested the Expert Advisory Committee to consider the matter as described hereinabove and comment of C&AG and share its opinion and provide guidance for appropriate accounting treatment.

6. The querist has stated that in previous years 2017-18 and 2018-19, interest earned on the Corpus Funds (Fund) was treated as income of the Company, instead of crediting to the Fund itself. During the F.Y. 2019-20 onwards, the Company changed its accounting treatment and credited the interest earned to the Fund itself. However, interest earned during financial years 2017-18 and 2018-19 has not been credited to the Fund. Therefore, the Company is required to take necessary corrective action in respect of the interest earned during said period.

## **B. Query**

7. In view of the above, the Expert Advisory Committee is requested to give its opinion and necessary guidance for proper accounting treatment for reversal or otherwise as Committee deems fit of interest included in income during the financial years 2017-18 and 2018-19.

## **C. Points considered by the Committee**

8. The Committee notes that the basic issue raised by the querist relates to the accounting for rectification of interest earned on fixed deposits made out of surplus funds received for implementation of above-mentioned Schemes of GoI, erroneously accounted for as income in the Statement of Profit and Loss for certain earlier years. The Committee has, therefore, considered only this issue and has not examined any other issue that may arise from the Facts of the Case, such as, accounting for funds/grants received by the Company for execution/implementation of Marketing Complex Scheme and Comprehensive Handloom Cluster Development Scheme, calculation of interest, accounting treatment including presentation (if any) of the fixed deposits by the Company in its financial statements, other interest income, whether or not there exists a principal-agent relationship between the Company and the GoI for implementation of the Schemes mentioned, etc. Further, the Committee wishes to point out that its opinion is expressed purely from accounting perspective and not from any legal perspective or interpretation of Marketing Complex Scheme and Comprehensive Handloom Cluster Development Scheme and various other documents submitted by the querist such as allotment letters for shops, Orders from the office of Development Commissioner for Handlooms, grant-in-aid sanction letters, communication with the Government, lease agreement, etc. The Committee notes from the financial statements of the Company for the financial year 2022-23 that the same have been prepared as per Accounting Standards, notified under the Companies (Accounting Standards) Rules, 2021; therefore, the opinion is expressed

from the perspective of the Accounting Standards and not Indian Accounting Standards (Ind AS).

9. The Committee notes from the Facts of the Case that the Company is working as a facilitating or implementing agency for implementing various schemes (Marketing Complex Scheme and Comprehensive Handloom Cluster Development scheme) of the Government of India (GoI). In this regard, the Committee notes the following from one of the grant sanction letter for Marketing Complex Scheme:

- “1. ...the sanction of the President for release of further Grant-in-aid of ...to the Company for purchase of 31 shops from M/s H for setting up of Handloom Marketing Complex by the Company.
- “2. The above amount is being released subject to the following conditions:  
...
  - iv) The amount will be kept in a separate Bank Account which is in operation and will be utilised only for the purpose for which it has been sanctioned.
  - v) Amount of interest accrued will also be deposited/credited in above account as mentioned in para (iv) above
  - vi) The Company is requested to take over the possession of the shops immediately and hand over the same to the participating agencies.”

From the above, the Committee notes that the Company receives funds from the Government on a condition that a separate account shall be opened and the funds shall be utilised for the purpose of the Scheme only (viz., purchase of shops and then handing over to the participating handloom agencies). Any interest earned accrued on unutilised funds will also be credited/deposited in the said separate account. In this regard, the Committee notes that paragraph 69(a) of the ‘Framework for the Preparation and Presentation of Financial Statements’, issued by the Institute of Chartered Accountants of India states that “*Income* is increase in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.” In the extant case, the Committee is of the view that interest income is to be deposited back to separate bank account (which is to be used for the purpose of the Scheme only), and therefore, the same does not result into an increase in economic benefits in any form to the Company. Thus, interest income cannot be considered as ‘Income’ of the Company in case of Marketing Complex Scheme. Hence, based on the facts supplied, presuming the same conditions to be present in case of Comprehensive Handloom Cluster Development Scheme also, the Committee is of the view that interest earned on surplus funds received for Corpus Funds of the above-mentioned Schemes should not have been credited to the Statement of Profit and Loss. However, since the interest was erroneously treated as income for certain earlier years, the same needs to be rectified in the current reporting year.

10. With regard to accounting for rectification of interest erroneously credited to Statement of Profit and Loss in earlier years, the Committee notes the following requirements of Accounting Standard (AS) 5, ‘Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies’:

***“4.3 Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods.”***

***“15. The nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived.***

16. The term ‘prior period items’, as defined in this Standard, refers only to income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods. The term does not include other adjustments necessitated by circumstances, which though related to prior periods, are determined in the current period, e.g., arrears payable to workers as a result of revision of wages with retrospective effect during the current period.

17. Errors in the preparation of the financial statements of one or more prior periods may be discovered in the current period. Errors may occur as a result of mathematical mistakes, mistakes in applying accounting policies, misinterpretation of facts, or oversight.

18. Prior period items are generally infrequent in nature and can be distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. For example, income or expense recognised on the outcome of a contingency which previously could not be estimated reliably does not constitute a prior period item.

19. Prior period items are normally included in the determination of net profit or loss for the current period. An alternative approach is to show such items in the statement of profit and loss after determination of current net profit or loss. In either case, the objective is to indicate the effect of such items on the current profit or loss.”

From the above, the Committee is of the view that the interest for certain earlier years, which was erroneously treated as income and credited to the Statement of Profit and Loss of the Company would constitute a ‘prior-period item’ in the current reporting period. Therefore, as per the above-reproduced requirements, the same should be rectified by including its effect in the determination of profit or loss for the current period, viz., by debiting or including it as an expense in the Statement of Profit and Loss (since earlier, the amount was credited to the Statement of Profit and Loss as income). Further, as per the requirements of the Standard, the nature and amount of prior period items should be separately disclosed in the Statement of Profit and Loss in a manner that their impact on the current profit or loss can be perceived. Also, the requirements of the Companies Act, 2013 in this regard should be complied with.

#### **D. Opinion**

11. On the basis of the above, the Committee is of the opinion that the interest for certain earlier years, which was erroneously treated as income and credited to the Statement of Profit and Loss of the Company would constitute a ‘prior-period item’ in the current reporting period and the same should be rectified by including its effect in the determination of profit or loss for the current period, viz., by debiting or including it as an expense in the Statement of Profit and

Loss. Further, as per the requirements of the Standard, the nature and amount of prior period items should be separately disclosed in the Statement of Profit and Loss in a manner that their impact on the current profit or loss can be perceived, as discussed in paragraphs 9 and 10 above. Also, the requirements of the Companies Act, 2013 in this regard should be complied with.

\*\*\*\*\*