ACCOUNTING FOR INTEREST INCOMES, INTEREST ACCRUED AND TDS ON FIXED DEPOSITS

Introduction:

Namaste Dear Reader,

I am writing this article to spread knowledge on how to account for Interest Income on Fixed Deposits and the Interest Accrued thereon for the year end cases. I will be explaining for Fixed Deposit with terms of quarterly payout to account. This is also applicable to all other cases of payouts terms except for cases where Interest Payout is on maturity of FD. Please note, it is assumed that TDS applicable for Interest payments made by the Banker. (TDS rate being @10%).

Base Documents for information:

The basic documents which we generally get are:

1. Income Tax 26AS statement: This statement has to be downloaded from TRACES website. We need this to obtain information of Interest Payments and TDS made by our Banks while paying the Interest or on Interest Accrued.
2. TDS Certificate: This certificate will be provided to you by the Deductor I.e. Bank in this case, for every quarter of Interest payments and TDS.
3. Interest Certificate: This certificate will be provided to you by the Banker on your request. This will have information of FD-wise interest payments and TDS information for the period of certificate along with Interest accrued if any and TDS thereon.
4. Bank Statement: This is your Bank Passbook or statement provided by the Bank, where your Interest Payouts are credited. In case of quarterly payouts, some banks credit full payment to your account and then show the TDS debited on the same whereas some banks will credit net Interest payment after TDS.
5. FD Investment Certificate: This is the certificate which will be given by the Bank for Fixed Deposit invested containing information of FD Account number, Principal Amount, rate of interest p.a., maturity value, renewal instructions and payout instructions.

Let us consider the following example and see how to account for the same:

Mytree (an Org) made a Fixed Deposit of ₹20,00,000/- with HDFC Bank on 22-Apr-2018. The rate of interest p.a. is 8% and maturity date is 22-Apr-2020. The first quarter payout on the above FD will be made on 22-Jul-2018 I.e. for the period from 22-Apr-2018 to 21-Jul-2018 I.e. for 91 days.

The below table summarizes the interest calculation, TDS and payout summary (all values rounded off upto 2 decimal places):

Date	Particulars	No. Of days	Interest	TDS	Net Payment
22-Jul-18	From 22-Apr-18 to 21-Jul-18 (20,00,000 x 8% x 91/365 = 39,890.41)	91	39,890.41	3,989.04	35,901.37
22-Oct-18	From 22-Jul-18 to 21-Oct-18	92	40,328.77	4,032.87	36,295.89
22-Jan-19	From 22-Oct-18 to 21-Jan-19	92	40,328.77	4,032.87	36,295.89
	Total	**275**	**1,20,547.95**	**12,054.80**	**1,08,493.15**

Thus, on 22-Jul-2018, HDFC Bank will pay Interest on Mytree's FD of ₹20,00,000/- which amounts to ₹39,890.41; TDS @ 10% on that will be ₹3,989.04 and net amount credited to Mytree's HDFC SB Account will be ₹35,901.37.

Similarly, HDFC Bank will calculate Interest & TDS; and pay the net amount on 22-Oct-2018 and 22-Jan-2019.

Please note that in the Bank Statement/ Pass Book, if HDFC Bank credits Net Payment on 22-Jul-2018, 22-Oct-2018 and 22-Jan-2019, then it needs to be understood that this credit is after TDS. If you do not have the above table ready, then reverse calculation can be done by multiplying the Net Payment amount with 100 and divide by 90. (because 10% TDS is already deducted, Net Payment is equal to 90% and to get the 100% value, it has to multiplied by 100 and divided by 90):

Interest Income (before TDS) = Net Payment credited to bank x 100/90

Or else, if HDFC Bank credits Interest (before TDS) on 22-Jul-2018, 22-Oct-2018 and 22-Jan-2019, then there will be another debit equal to TDS @10% on the same.

The method of credit & debit of Interest payouts & TDS varies from Bank to Bank.

In our example, as we have already calculated what will quarterly interest income, it is easy to know from our Bank statement whether the credit of Interest is after or before TDS. So, it important to know what quarterly payout of Interest and TDS is. Otherwise, the general tendency will be to account for Net Payment itself as Interest Income and ignore TDS. Anyways, if you have the 26AS (or TDS Certificate from Bank), you can know the exact transaction amount and then rectify the transaction in books of account later. If once it is known, then an appropriate schedule of interest receipts has to be created for each FD in order to keep the information ready for proper accounting.

Now let us see how to account for these 3 transactions along with the transaction of FD Investment made on 22-Apr-2018 in the books of Mytree.

Date	Particulars	Debit/ Credit	Amount (₹)
22-Apr-2018	Fixed Deposit Account with HDFC Bank	Debit	20,00,000
	HDFC Bank SB Account	Credit	20,00,000
Narration:	Being investment made in Fixed Deposit with HDFC Bank @ 8% p.a. with quarterly payout instructions, paid from HDFC Bank SB Account.		
22-Jul-2018	Interest Income on FD with HDFC Bank	Credit	39890.41
	TDS on FD with HDFC Bank	Debit	3989.04
	HDFC Bank SB Account	Debit	35901.37
Narration:	Being interest income of ₹39,890.41 on FD with HDFC Bank for the period from 22-Apr-2018 to 21-Jul-2018; received to HDFC Bank SB A/c ₹35,901.37 after TDS of ₹3989.04 on Interest.		
22-Oct-2018	Interest Income on FD with HDFC Bank	Credit	40328.77
	TDS on FD with HDFC Bank	Debit	4032.88
	HDFC Bank SB Account	Debit	36295.89
Narration:	Being interest income of ₹40,328.77 on FD with HDFC Bank for the period from 22-Jul-2018 to 21-Oct-2018; received to HDFC Bank SB A/c ₹36,295.89 after TDS of ₹4,032.88 on Interest.		
22-Jan-2019	Interest Income on FD with HDFC Bank	Credit	40328.77
	TDS on FD with HDFC Bank	Debit	4032.88
	HDFC Bank SB Account	Debit	36295.89
Narration:	Being interest income of ₹40,328.77 on FD with HDFC Bank for the period from 22-Oct-2018 to 21-Jan-2019; received to HDFC Bank SB A/c ₹36,295.89 after TDS of ₹4,032.88 on Interest.		

Let us have a view of situation as on 01-Apr-2019. By this time, Mytree will have received two TDS certificates; one for period from Jul-18 to Sep-18 for Interest payment & TDS on 22-Jul-2018 and another for Oct-18 to Dec-18 for Interest payment & TDS on 22-Oct-2018. The Bank is yet to file the TDS return for Jan-19 to Mar-19 and hence the TDS Certificate has not been received. But on the basis on previous transactions, the Transaction on 22-Jan-2019 can be accounted.

Till now, our Interest (Income) on FD with HDFC Bank will be ₹1,20,547.95, TDS (revenue with Govt Authorities-Current Asset) on the same will ₹12,054.80.

On request, HDFC Bank provides the following information as Interest Certificate for the year ending 31-Mar-2019, any one of these cases can be seen in the certificate in general:

Case 1:

Interest: ₹1,50,794.53; TDS: ₹15,079.46; Interest Accrued: ₹27,221.92.

Or

<u>Case 2</u>:

Interest paid: ₹1,20,547.95; TDS on Interest paid: ₹12,054.80; Interest Accrued: ₹30,246,.58; TDS on Interest accrued: ₹3,024.66.

Or

<u>Case 3</u>:

Interest paid: ₹1,23,572.61; TDS: ₹15,079.46; Interest Accrued: ₹27,221.92.

Or

<u>Case 4</u>:

Interest paid: ₹1,23,572.61; TDS: ₹15,079.46.

<u>Understanding the Interest Certificate received from Bank</u>:

In Case 1, the Term '**Interest**' means actual interest expenses incurred by the Bank or in other words, it is the Interest Paid and Payable both inclusive, for the period from 01-Apr-2018 to 31-Mar-2019. Here Interest of ₹1,50,794.53 will be Mytree's total Interest Income for the FY 18-19 and TDS on same will be ₹15,079.46. But we need to understand how Interest Accrued is calculated – whether it is inclusive of TDS or net of TDS.

So, for that reduce the Interest Income already accounted upto 22-Jan-19 from the Interest shown in the certificate = ₹1,50,794.53 - ₹1,20,547.95 = ₹30,246.58; this is the Interest Accrued before TDS, which should be taken as Interest Income for the period from 22-Jan-19 to 31-Mar-2019 and then account for TDS @ 10% on the same ₹3,024.66.

As the Bank has already paid TDS ₹3,024.66 on Interest accrued, the certificate shows the net value as Interest Accrued ₹27,221.92 (₹30,246.58-₹3,024.66). Thus, in the books of Mytree, ₹27,221.92 will be taken as Interest accrued on FD (Current Asset).

In Case 2, the Term '**Interest Paid**' means total of Interest paid by way of credits to account of FD holder and TDS remitted. Similarly, TDS on Interest Paid.

As the Interest Accrued is shown separately, it is easy to understand and account as Interest Income and TDS thereon.

In Case 3 and 4, the term '**Interest Paid**' means amounts paid by Bank by way of credit to account of FD holder & TDS remittances. In this case, TDS remittance of ₹3,024.66 on Interest Accrued is also included in '**Interest Paid**'. As such, the certificate says Interest Paid ₹1,23,572.61 which is the total of Interest ₹1,20,547.95 on 3 different dates during the year along with TDS paid on interest accrued ₹3,024.66.

Even if Interest Accrued was not given, it can be easily calculated by reverse calculation on the TDS amount given in certificate i.e. TDS being ₹15,079.46 multiplied by 100 and divided by 10 (because TDS is equal to 10% of Interest, it has to multiplied by 100 to get 100% of Interest).

= 15,079.46 x 100/10 = 1,50,794.60.

Less: Interest already accounted ₹1,20,547.95 = Interest Accrued ₹30,246.58.

<u>The complete Interest Calculation table for FY 18-19 on above FD is as below</u>:

Date	Particulars	No. Of days	Interest	TDS	Net Payment/ Accrued
22-Jul-18	From 22-Apr-18 to 21-Jul-18 (20,00,000 x 8% x 91/365 = 39,890.41)	91	39,890.41	3,989.04	35,901.37
22-Oct-18	From 22-Jul-18 to 21-Oct-18	92	40,328.77	4,032.87	36,295.89
22-Jan-19	From 22-Oct-18 to 21-Jan-19	92	40,328.77	4,032.87	36,295.89
31-Mar-19	From 22-Jan-19 to 31-Mar-19	69	30,246.58	3,024.66	27,221.92
	Total	**344**	**1,50,794.53**	**15,079.46**	**1,35,715.07**

The transaction to be accounted on 31-Mar-2019 towards Interest, Interest Accrued and TDS will be as shown below:

Date	Particulars	Debit/Credit	Amount (₹)
31-Mar-2019	Interest Income on FD with HDFC Bank	Credit	30,246.58
	TDS on FD with HDFC Bank	Debit	3,024.66
	Interest Accrued on FD with HDFC Bank	Debit	27,221.92
Narration:	Being Interest Income for the period from 22-Jan-19 to 31-Mar-19, TDS thereon and Interest Accrued receivable on next Payout Date.		

<u>Referring 26AS:</u>

If the Bank is indicating the date and unique transaction amount separately for each of the FD in its TDS return filing statement, then 26AS will contain all required information readily for accounting. But then, this document will be updated only after the end of quarter. For our example, the 26AS for FY 2018-2019 (Asst Year 2019-2020) would have the following Information as completely updated:

Sr. No.	Name of the Deductor				TAN	Total Amount Paid / Credited	Total Tax Deducted	Total TDS Deposited
1	HDFC Bank Ltd				MUMH01234D	1,50,794.53	15,079.46	15,079.46
Sr. No.	Section	Transaction Date	Status of Booking	Date of Booking	Remarks	Amount Paid / Credited	Tax Deducted	TDS Deposited
1	194A	31-03-2019	F	15-05-2019	-	30,246.58	3,024.66	3,024.66
2	194A	22-01-2019	F	15-05-2019	-	40,328.77	4,032.88	4,032.88
3	194A	22-10-2018	F	15-01-2019	-	40,328.77	4,032.88	4,032.88
4	194A	22-07-2018	F	15-10-2019	-	39,890.41	3,989.04	3,989.04

For the year ending 31-Mar-19, the balance in Interest Accrued on Fixed Deposits will be ₹27,221.92 (Debit – shown under Current Assets).

<u>First Interest payout in FY 19-20:</u>

The last part now remains is about accounting for Interest Payout for the first time in next FY I.e. FY 2019-20. The interest payout date will be similar as before I.e. 22-Apr-2019. Since the Interest for the period from 22-Jan-2019 upto 31-Mar-2019 is already accounted for, Bank will calculate Interest only for the period from 01-Apr-2019 to 21-Apr-2019 which will be for 21 days and make the payment (thus completes one full year = 344 days+21 days = 365 days or 22-Apr-2018 to 21-Apr-2019).

Interest for 01-Apr19 to 21-Apr-19 = ₹20,00,000 x 8% x 21/365 = 9,205.48. TDS @ 10 % = ₹920.55.

But in HDFC SB account statement of Mytree, we find that there is a credit of ₹35,506.85 on 22-Apr-19. Because, the amount credited is inclusive of Interest Accrued on FD ₹27,221.92 along with Interest for this FY upto 21-Apr-19 after TDS. The below accounting entry will make it clear to understand:

Date	Particulars	Debit/ Credit	Amount (₹)
22-Apr-2019	Interest Income on FD with HDFC Bank (Income)	Credit	9,205.48
	Interest Accrued on FD with HDFC Bank (Current Asset)	Credit	27,221.92
	TDS on FD with HDFC Bank (Current Asset)	Debit	920.55
	HDFC SB Account	Debit	35,506.85
Narration:	Being Interest Income for the period from 01-Apr-19 to 21-Apr-19, received after TDS along with Interest which was accrued for the period from 22-Jan-19 to 31-Mar-19.		

<u>Conclusion</u>: My aim is to clearly describe on the background involved before we account for Income on FD by way of Interest, Interest Accrued and TDS. It seems I have maintained enough clarity for you to know subject matter in detail and will be helpful for you by way of either explaining to someone or do accounting for similar transactions in real time.

Thanking you... Please do comment regarding what you feel is really so clear and what is the scope for improvements.

I thank my experience & exposure to work for being able to put this knowledge into the form an article for easy reference and spreading to others in need. And also thank you dear MS Word and MS Excel.

I am looking forward to your replies and will also write another small article for accounting in cases where the Interest Payout is on maturity of FD.

In all sincereness,
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