Query No. 23

Subject: Classification of Bank Fixed Deposits held under Lien as Current or Non-Current Assets under Ind AS framework.[1]

A. Facts of the Case

1. *Company Background*

A company (hereinafter referred to as 'the Company') is a Schedule 'A' Miniratna Category-I Central Public Sector Enterprise under the Ministry of Steel, Government of India, established in 1959 under the erstwhile Companies Act, 1956 (now Companies Act, 2013). The Company operates as a premier engineering, consultancy, and contracting organisation providing design, engineering, and technological solutions primarily in the metals and mining sector, along with power, oil and gas, and infrastructure sectors.

2. *Company's Operations*

The Company provides comprehensive engineering consultancy and contracting services for various heavy industries including ferrous and non-ferrous metals, oil and gas, power generation, and infrastructure development. With a workforce of over 1,000 experienced engineers, scientists, and technologists, the Company has established a network of offices across India and maintains operations in multiple industrial sectors.

3. *Current Banking Practice and Lien Arrangements*

The querist has stated that the Company avails Bank Guarantee (BG) and Letter of Credit (LC) facilities from several banks to support its business operations. The Company's banking arrangements can be categorised into two distinct models:

(a) *General Lien Arrangements:* Certain banks provide BG/LC facilities against a general lien over the Company's total deposit portfolio, where the facility limit is determined as a certain percentage (for example, 10%) of the total deposits maintained with that bank. Under this arrangement, no specific deposits are earmarked against individual guarantees or letters of credit.

(b) *Specific Deposit-backed Facilities:* Other banks provide BG/LC facilities against deposit of equivalent amounts, where specific fixed deposits are placed as margin money or security for individual guarantee or credit facilities.

The Company maintains these deposits with varying maturity periods, predominantly structured with *original maturities of less than twelve months*, irrespective of whether they are subject to lien arrangements or held free of any encumbrance.

4. *Audit Observation*

During the supplementary audit of accounts for financial year 2024-25, the Comptroller and Auditor General of India (C&AG) auditor raised an observation regarding 'inappropriate classification of non-current assets as current' with the following details:

[1] Opinion finalised by the Committee on 23.1.2026.

Fixed deposits with more than 3 months maturity, due for maturity within 12 months from Balance Sheet date: ₹ 57,370.96 lakhs.

This amount includes bank balances held as margin money and security deposits totaling ₹ 30,895.21 lakhs under lien against borrowing/Bank Guarantees/Letters of Credit.

The auditor observed that bank balances amounting to ₹ 22,257.31 lakhs are held as margin money and security deposits under lien against borrowing/bank guarantee/LC having claim end dates exceeding 12 months. The audit contention is that since these deposits are maintained as lien against BG/LC/borrowing facilities with claim periods exceeding 12 months, they are not realisable by the Company within its operating cycle, and therefore should be classified as non-current assets rather than current assets.

5. *Legal Framework Referenced*

The querist has further stated that as per Schedule III to the Companies Act, 2013, an asset shall be classified as current when it satisfies any of the following criteria:

(a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

(b) it is held primarily for the purpose of being traded;

(c) it is expected to be realised within twelve months after the reporting date; or

(d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

All other assets shall be classified as non-current.

6. *Management's Position*

The Company's management has replied that the primary criterion for classifying assets as current or non-current under Schedule III to the Companies Act, 2013, should be based on the original maturity period of the financial instrument. The key arguments presented by management include:

- *Original Maturity and Companies Act Compliance:* Bank deposits, including those under lien, are structured with original maturity periods of less than twelve months. Under Schedule III to the Companies Act, 2013, the classification should be determined by the initial contractual term at the time of placement and at each reporting date. The Companies Act, 2013, specifically emphasises the original term to maturity for classification purposes under criteria (c) and (d) of the current asset definition, regardless of whether deposits will be renewed or used as collateral for long-term facilities. As per Indian Accounting Standard (Ind AS) 1, 'Presentation of Financial Statements', paragraph 66, an entity shall classify an asset as current when it expects to realise the asset within twelve months after the reporting period, which aligns with the original maturity approach.

- *Practical Implementation Challenges:* It is not always feasible to directly link specific fixed deposits with specific bank guarantees or letters of credit when deposits are held under general lien arrangements.

- *Liquidity Representation:* Classifying short-term deposits as non-current solely because underlying BGs/LCs have longer claim periods would misrepresent the Company's liquidity profile and cash management capabilities.

7. *Current Practice*

As per Schedule III, bank deposits with more than 12 months maturity shall be disclosed under 'Other financial assets – Non-Current Assets'. The maturity should be construed as remaining maturity of more than 12 months.

All bank deposits in question, including those under lien, uniformly carry original maturity periods *of less than twelve months.* Therefore, the Company maintains that their classification as 'Current Assets' in the balance sheet as of March 31, 2025, is consistent with the explicit requirements of Schedule III to the Companies Act, 2013.

8. *Management Initiative for Expert Opinion*

Considering the complexity of this classification issue and to ensure that the most appropriate accounting treatment is adopted in accordance with applicable statutory provisions, the Company's management has decided to obtain an opinion from the Expert Advisory Committee of the Institute of Chartered Accountants of India (ICAI).

B. Query

9. In view of the above facts and circumstances, the querist has sought the opinion of the Expert Advisory Committee of the ICAI on the following issues:

(i) Whether bank fixed deposits with original maturity periods of less than twelve months as on the reporting date, but held under lien arrangements against bank guarantees, letters of credit, or borrowing facilities that extend beyond twelve months from the reporting date, should be classified as 'Current Assets' or 'Non-Current Assets' under Schedule III to the Companies Act, 2013.

(ii) Whether the original contractual maturity period of the deposit should be the primary determining factor for current/non-current classification, or whether the period of the underlying lien arrangement (BG/LC/borrowing facility) should govern the classification, and

(iii) The appropriate accounting treatment when deposits are held under general lien arrangements where specific linking to individual guarantees or facilities is not practically feasible.

The querist has sought clarity on above matters to ensure compliance with applicable accounting standards and regulatory requirements while maintaining appropriate presentation of its financial position and liquidity profile.

C. Points considered by the Committee

10. The Committee notes that the basic issue raised by the querist relates to classification of bank fixed deposits, with original maturity periods of less than twelve months, but held under lien arrangements against bank guarantees, letters of credit, or borrowing facilities that extend beyond twelve months from the reporting date, as current or non-current assets. 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 borrowings, bank guarantee and letter of credit facilities availed from banks, presentation as per the requirements of Ind AS 7, etc. Also, the Committee has examined the issue only from accounting perspective and not from legal or regulatory perspective, such as, for the purpose of calculation of ratios for regulatory purposes. Further, the Accounting Standards referred hereinafter are Indian Accounting Standards, notified under the Companies (Indian Accounting Standards) Rules, 2015, as amended/revised from time to time.

11. With regard to classification of fixed deposits, the Committee notes that paragraph 66 of Ind AS 1, 'Presentation of Financial Statements' and Division II of Schedule III to the Companies Act, 2013 define 'current asset', as follows:

> **"An entity shall classify an asset as current when:**
>
> **(a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;**
>
> **(b) it holds the asset primarily for the purpose of trading;**
>
> **(c) it expects to realise the asset within twelve months after the reporting period; or**
>
> **(d) the asset is cash or a cash equivalent (as defined in Ind AS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.**
>
> **An entity shall classify all other assets as non-current."**

From the above, the Committee notes that for the purpose of classification, each asset *as at the reporting date* has to be assessed as current or non-current on the basis of the relevant criteria as mentioned above. Since bank balances or fixed deposits have no relation to the operating cycle and cannot be considered as held for trading, the Committee is of the view that the criteria under clauses (c) and (d) would be the relevant criteria for determination as current or non-current. With regard to clause (d), the Committee further notes the following requirements of Ind AS 7, 'Statement of Cash Flows':

> **"*Cash equivalents* are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value."**
>
> "7 Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity

> investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preference shares acquired within a short period of their maturity and with a specified redemption date."

From the above, the Committee notes that the cash equivalents are short-term, highly liquid investments with maturity of normally three months or less from the date of acquisition and which are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value. The Committee notes that in the extant case, the bank deposits are not contended by the querist or auditor as highly liquid investments with maturity of normally three months or less from the date of acquisition. Further, the Company does not seem to intend to hold these deposits for the purpose of meeting short-term cash requirements. Therefore, these deposits do not meet the aforesaid definition of cash equivalents. Accordingly, criterion at clause (d) of paragraph 66 is not applicable in the extant case.

12. The Committee further notes that clause (c) of paragraph 66 of Ind AS 1 states that an entity shall classify an asset as current when it *expects to realise the asset within twelve months after the reporting period*. Thus, short-term bank deposits having the original maturity period of less than twelve months would generally qualify as current assets. Now the next issue to be examined is whether such bank deposits held under lien arrangements (general or specific) against bank guarantees, letters of credit, or borrowing facilities that extend beyond twelve months from the reporting date can still be classified and presented as current assets. In this regard, the Committee notes that the definition of current asset signifies the importance of the expectation of the entity with regard to the asset's realisation, viz., conversion/exchange into cash or use in the settlement of liability at the reporting date. Thus, the classification of an asset should not be based solely on contractual maturity but should also consider the substance or economic reality regarding expectation of realisation at the reporting date. Thus, when there are restrictions on realisation of bank deposits and the nature and duration of restrictions are such that bank fixed deposit(s) is (are), in substance, not expected to be realised within twelve months from the reporting date, or where such deposit(s) is(are) required to be continued or renewed by the Company to support long-term BG/LC/borrowing arrangements, which make(s) the deposit(s) not expected to be realisable within twelve months from the reporting date, such deposit(s) should not be classified and presented as 'current asset', but should instead be classified as 'non-current asset'.

13. In this context, the Committee further notes that Division II of Schedule III to the Companies Act, 2013 (hereinafter referred to as 'Ind AS Schedule III') requires the following items to be presented under current assets on the face of the Balance Sheet:

> **"Current assets**
>
> (a) …
>
> (b) Financial Assets
>
> …
>
> (iii) Cash and cash equivalents
>
> (iv) Bank balances other than (iii) above
>
> (v) Loans
>
> …"

The Committee further notes that Note 6 of General Instructions for Preparation of Balance Sheet of Division II of Schedule III to the companies Act, 2013 provides as follows:

"6. A company shall disclose the following in the Notes:

A. Non-Current Assets

…

B. Current Assets

…

C. Cash and Bank balances:

The following disclosures with regard to cash and bank balances shall be made:

(a) Earmarked balances with banks (for example, for unpaid dividend) shall be separately stated.

(b) Balances with banks to the extent held as margin money or security against the borrowings, guarantees, other commitments shall be disclosed separately.

(c) Repatriation restrictions, if any, in respect of cash and bank balances shall be separately stated."

The Committee also notes that paragraph 8.1.16 of the Guidance Note on Division II – Ind AS Schedule III to the Companies Act, 2013, issued by the ICAI states as follows:

"8.1.16. Cash and Bank Balances

(i) Cash and cash equivalents shall be classified as:

(a) Balances with banks (of the nature of cash and cash equivalents);

(b) Cheques, drafts on hand;

(c) Cash on hand;

(d) Others (specify nature).

(ii) Bank balances other than cash and cash equivalents as above, shall be disclosed below cash and cash equivalents on the face of the Balance Sheet

Further, Note 6(C) of General Instructions for Preparation of Balance Sheet requires the following disclosures with regard to cash and bank balances:

(a) Earmarked balances with banks (for e.g., for unpaid dividend) shall be separately stated;

(b) Balances with banks to the extent held as margin money or security against the borrowings, guarantees, other commitments shall be disclosed separately;

(c) Repatriation restrictions, if any, in respect of cash and bank balances shall be separately stated.

Cash and cash equivalents is not defined in Ind AS Schedule III however, according to *Ind AS-7 Statement of Cash Flows*, Cash is defined to include cash on hand and demand deposits with banks. Cash Equivalents are defined as short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Ind AS 7 further explains that an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. This would include term deposits with banks that have an original maturity of three months or less. However, bank balances (including term deposits) held as margin money or security against borrowings are neither in the nature of demand deposits, nor readily available for use by the company, and accordingly, do not meet the aforesaid definition of cash equivalents.

The disclosure regarding 'bank balances other than cash and cash equivalents' should include items such as Balances with banks held as margin money or security against borrowings, guarantees, etc. and bank deposits with original maturity of more than three months but less than 12 months.

…"

From the above, the Committee notes that Ind AS Schedule III requires bank balances other than cash and cash equivalents (which meet the definition of 'current asset') to be presented as 'financial assets' under 'current assets'. Further, it requires 'Balances with banks to the extent held as margin money or security against the borrowings, guarantees, other commitments' to be disclosed separately.

The Guidance Note further explains the above requirements of Schedule III and specifically requires that the disclosure regarding 'bank balances other than cash and cash equivalents' should include items such as balances with banks held as margin money or security against borrowings, guarantees, etc. and bank deposits with original maturity of more than three months but less than 12 months.

Accordingly, the Committee is of the view that in the extant case, bank deposits held as margin money or security for individual guarantee or credit facilities (such as Letter of Credit) should be presented as 'financial assets' under 'current assets' with a separate disclosure for the same in the financial statements (including notes), provided such bank deposits despite the restrictions due to lien arrangements still meet the definition of 'current asset', as explained in paragraph 12 above.

D. Opinion

14. On the basis of the above, the Committee is of the following opinion on the issues raised in paragraph 9 above:

(i) As discussed in paragraph 13 above, in the extant case, bank deposits held (under general or specific lien arrangements) as margin money or security for individual guarantee or credit facilities (such as Letter of Credit) should be presented as 'financial assets' under 'current assets' with a separate disclosure for the same in the financial statements (including notes), provided such bank deposits despite the restrictions due to lien arrangements still meet the definition of 'current asset', as explained in paragraph 12 above.

(ii) As discussed in paragraph 12 above, the classification of an asset may not be based solely on contractual maturity but should also consider the substance or economic reality regarding expectation of realisation at the reporting date.

(iii) Refer (i) above.

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