Query No. 29

Subject: Classification of deposits having maturity date less than 12 months from the reporting date kept under lien to banker against issuance of Bank Guarantee (having validity period beyond 12 months) in the financial statements.[1]

A. Facts of the Case

1. A company (hereinafter referred to as 'the Company') is a subsidiary company of N Ltd., engaged in a business of electricity generation having facility at Maharashtra.

2. The Company has availed Letter of Credit facility and Bank Guarantee (BG) facility from its banker against the 100% margin maintained with the banker in the form of Term Deposits with tenure not exceeding one year. These Terms Deposits are kept under lien with the bankers till continuation of the facility.

3. The querist has stated that since the Company is engaged in the business of electricity generation in the state of Maharashtra, it has to obtain consent to operate from Maharashtra Pollution Control Board (MPCB/Board) on regular annual basis. To obtain the consent term, the Company has to furnish Bank Guarantee to the MPCB covering the tenure of the consent to operate on regular annual basis.

4. The querist has further stated that for issuance of the Bank Guarantee, the Company is keeping margin with banker in the form of Term Deposits with a tenure not exceeding 12 months. These Terms Deposits are kept under lien with the bankers till continuation of the BG facility. The Company is disclosing these deposits under 'Other bank balances' under Cash and bank balances with proper disclosure in its financial statements for the financial year (F.Y.) 2024-25. The querist has also mentioned that under 'Other bank balances', the Company has disclosed the Term Deposits with original maturity of more than three months or Terms Deposits under lien with banker with proper disclosure by way of foot notes at Note 11 – 'Cash and Bank balances' of the financial statements.

5. During the audit of financial statements for the F.Y. 2024-25, government auditors have raised paragraph on disclosure of term deposit kept as margin with banker, against issuance of bank guarantee to the Board for obtaining consent to operate, under 'Other bank balances' and opined that it should be disclosed as non-current asset as bank guarantee is required to be maintained to obtain the permission from the Board.

6. *The Company's Basis for Classification:*

(i) The original maturity of all Fixed Deposit Receipts (FDRs) is less than 12 months, which aligns with the definition of 'other bank balances' under Schedule III to the Companies Act, 2013.
(ii) Although the BG validity is extended beyond 12 months, the FDR instrument itself does not become a long-term instrument and there is no contractual prohibition on substitution of the margin with an alternative security or renewal of FDRs.

[1] Opinion finalised by the Committee on 11.4.2026.

The Guidance Note on Division II – Ind AS Schedule III to the Companies Act, 2013, issued by the Institute of Chartered Accountants of India (ICAI) states that classification is based on the company's operating cycle and management's expectations, and where management can demonstrate clear ability to realise or substitute the deposit, current classification can be considered suitable.

In compliance with paragraph 66(d) of Ind AS 1, 'Presentation of Financial Statements' read with the Guidance Note, paragraph 8.1.16(b), the Company has:

- Disclosed margin money separately in Note 11.
- Disclosed the purpose, amount, nature of restriction, and BG-wise details.

The Company believes that the disclosure fully meets the objective of Ind AS 1, i.e., to enable users to assess liquidity and restrictive nature.

B. Query

7. In light of the above facts, the querist has sought the opinion of the Expert Advisory Committee of the Institute of Chartered Accountants of India as to whether the classification of deposits (having maturity date less than 12 months from the reporting date) kept under lien to banker against issuance of Bank Guarantee (having validity period beyond 12 months) under 'Bank Balances other than Cash and Cash Equivalent' is correct and shall the Company continue the same classification for next year?

C. Points considered by the Committee

8. The Committee notes that the basic issue raised by the querist relates to classification of deposits, with original maturity periods of less than twelve months, but held under lien arrangements against bank guarantees and letter of credit that normally 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 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 or revised from time to time.

9. With regard to classification of term 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 term 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 term 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 commitments/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.

10. 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. A further issue to be examined is whether such bank deposits held under lien arrangements against bank guarantees and letters of credit 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 term deposits are, in substance,

not expected to be realised within twelve months from the reporting date, i.e. where such deposits are required to be continued or renewed (as would need to be done in the extant case) by the Company to support long-term bank guarantees and letters of credit, which makes the deposits not expected to be realisable within twelve months from the reporting date, such deposits should not be classified and presented as 'current asset', rather should be classified as 'non-current asset'.

11. 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 'bank balances other than cash and cash equivalents' under '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 10 above.

D. Opinion

12. On the basis of the above, the Committee is of the opinion on the issues raised in paragraph 7 above that as discussed in paragraph 11 above, in the extant case, deposits held under lien as margin money or security for bank guarantee should be presented as 'bank balances other than cash and cash equivalents' under 'financial assets' under 'current assets' with a separate disclosure for the same in the financial statements (including notes), *provided* such deposits despite the restrictions due to lien arrangements still meet the definition of 'current asset', as discussed below.

As explained in paragraph 10 above, the definition of current asset signifies the importance of the expectation of the entity with regard to the asset's realisation. 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 term deposits are, in substance, not expected to be realised within twelve months from the reporting date, i.e. where such deposits are required to be continued or renewed by the Company to support long-term bank guarantees and letters of credit, which makes the deposits not expected to be realisable within twelve months from the reporting date, such deposits should not be classified and presented as 'current asset', rather should be classified as 'non-current asset'.

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