Query No. 27

Subject: ***Bifurcation between Current and Non-Current Assets of Credit Card Receivable in line with the Revised Schedule VI to the Companies Act, 1956.***[1]

A. Facts of the Case

1. A company (hereinafter referred to as the 'company') is an unlisted non-deposit accepting non-banking financial company registered with the Reserve Bank of India ('RBI'), engaged in issuing credit cards to consumers in India. The credit card holders are offered revolving credit and term loan products. Spends by customers through credit cards are invoiced every month through credit card statement with 20-25 days payment terms from the date of statement. Further, the credit card holders are offered loan products also, which are repaid by them on EMI (Equated Monthly Installment) basis.

2. The querist has stated that the company follows the 'Guidance Note on the Revised Schedule VI to the Companies Act, 1956' (the 'Guidance Note'), issued by the Institute of Chartered Accountants of India for classifying the assets between current and non-current. Clause 7.1.1 of the Guidance Note states that "An asset shall be classified as current when it satisfies any of the following criteria:

[1]Opinion finalised by the Committee on 22.1.2014 and 23.1.2014.

(a) it is expected to be realized 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 realized 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."

3. The company classifies the outstanding credit card receivables between current and non-current on the balance sheet date as follows:

- All the monthly credit card spends, billed and unbilled, which become due within 20-25 days from the monthly billing date are classified as current assets on the basis of the criteria specified under clause 7.1.1 (a) of the Guidance Note as these are expected to be realised in the company's normal operating cycle.

- All the EMIs due within next 12 months from the balance sheet date are classified as current assets on the basis of the criteria specified under clause 7.1.1 (c) of the Guidance Note as these are expected to be realised within twelve months after the reporting date.

- All other EMIs which will become due after 12 months from the balance sheet date are classified as non-current assets.

4. The company is a Non-Banking Financial Company registered under section 45-1A of the Reserve Bank of India Act, 1934 (2 of 1934) and has been granted certificate of registration (COR) by Reserve Bank of India on 06.10.1998. The company is required to follow "Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007" ("the Directions"). Clause 5 of the Directions states that "Accounting Standards and Guidance Notes issued by the Institute of Chartered Accountants of India shall be followed insofar as they are not inconsistent with any of these directions." Clause 10(5)(iii) of the Directions requires a company to disclose the "maturity pattern of assets and liabilities" in its balance sheet.

5. In compliance of the above requirement, the company prepares the maturity pattern of credit card receivables on the basis of business forecast for recovery of outstanding. The business forecast is based on the actual recovery trend/pattern for past periods. The maturity pattern is shown under different age buckets in following format as per the Directions:

Item	1 day to 30/31 days (one month)	Over one month to 2 months	Over 2 months upto 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Total

6. The querist has pointed out that as the maturity pattern of the credit card receivable amount in the format mentioned in paragraph 5 above is computed on the basis of business forecast, the maturity value for over one year in the above format is different from the credit card receivable amount shown under non-current assets as per the Guidance Note.

7. During the course of their audit, the auditors from the Comptroller & Auditor General of India's (C&AG) office audited both the disclosures made in terms of paragraphs 3 and 5 above. Following are the observations of C &AG and the corresponding management response:

Observations	**Management's Response**
The Guidance Note on the Revised Schedule VI to the Companies Act 1956, states that besides other criteria an asset shall be classified as current if (1) it is expected to be realised in, or is intended for sale or consumption in, the company's normal operating cycle or (2) it is expected to be realised within 12 months after reporting date. The company in Note No. 24 for loans and advances discloses dues outstanding from customers up to 180 days considered good as Rs. 3,29,438 lakh, which include long term loans and advances to customers amounting to Rs. 33,334 lakh (Note No. 13) and short term loans and advances to customers amounting to	The financial statements have been prepared in line with Revised Schedule VI. According to the requirement of Schedule VI, the classification of assets between current and non-current should be made according to company's normal business cycle which is based on the contractual terms for payments. This process is being followed consistently since the first time Revised Schedule VI became applicable. The ALM for RBI reporting has been prepared based on the projected realisation considering the past trend. However, the company will revisit the ALM in line with contractual terms

Rs.296104 lakh (Note No. 15). However, as per Asset Liability Management (ALM) statement reported to RBI which is forming part of the financial statements of the company, the advances recoverable within a period of 12 months is Rs. 2,50,703 lakh and during a period of over one year to three years based on maturity pattern for advances is Rs. 78,735 lakh. Since the company is required to prepare financial statements in compliance with Revised Schedule VI, the short term loans and advances shown as current assets are overstated and the long term loans and advances are understated by Rs. 45,401 lakh.	for payments during the current year and report appropriately. Since this does not have any financial impact, it is requested to defer the audit observation.

B. Query

8. The querist has sought the opinion of the Expert Advisory Committee as to whether the classification of credit card receivable between current and non-current by the company in the balance sheet is correct considering the maturity pattern of credit card receivables shown in the prescribed format by the RBI also.

C. Points considered by the Committee

9. The Committee notes that the basic issues raised by the querist in paragraph 8 above relate to the basis that should be used by the company for classifying outstanding trade receivables in respect of the spends by customers through credit cards and loan products offered, which are payable on EMI basis, as stated in paragraph 2 above, as 'current' and 'non-current' assets in the balance sheet in terms of the Revised Schedule VI to the Companies Act, 1956. The Committee has, therefore, considered only this issue and has not touched upon any other issue that may arise from the Facts of the Case, such as, the manner of disclosure of assets in the disclosure of the 'Maturity pattern of assets and liabilities' in terms of the 'Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007', classification of loans and advances as short term and long term, etc.

10. The Committee notes that in terms of the Revised Schedule VI to the Companies Act, 1956, a company is required to disclose current and non-current assets separately in its balance sheet. The criteria for classification of assets as 'current' have been given in clause 1 of the "General Instructions for Preparation of Balance Sheet" of the Revised Schedule VI to the Companies Act, 1956 (hereinafter referred to as 'General Instructions') which have been enumerated in paragraph 7.1.1 of the Guidance Note and reproduced in paragraph 2 above. The Committee notes that the querist has applied criteria (a) of paragraph 7.1.1 of the Guidance Note which is based on realisation taking place within the company's normal operating cycle in respect of credit card spends as referred to in paragraph 3 above. The Committee further notes that the 'operating cycle' has been defined in the Revised Schedule VI to the Companies Act,

1956 as the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. The Committee is of the view that it is not ordinarily practicable for a financial institution to correlate the 'acquisition of assets for processing and their realisation in cash'. Therefore, in the extant case, the Committee is of the view that it is not practicable for the company to determine clearly identifiable operating cycle. Accordingly, the Committee is of the view that the company should make the classification of current and non-current on the basis of criteria (c), i.e., all assets expected to be realised within the time period of 12 months after the balance sheet date should be classified as 'current assets'. The Committee further notes that as per this requirement, it is '*expected realisation* within 12 months' and not '*due date*' of realisation which should be considered for the classification of assets. The Committee is also of the view that while determining expected realisation, the company should also consider the realisability factor based on its past data and current trends.

11. The Committee notes from the policy followed by the company as stated in paragraph 3 above that all the EMIs due within next 12 months from the balance sheet date are classified as current assets on the basis of the criteria specified under clause 7.1.1 (c) of the Guidance Note as "these are expected to be realised within twelve months after the reporting date." The Committee notes that the company appears to be presuming that all EMI receivables falling due within 12 months will be realised. It would *prima facie* appear that in such classification, the company may not be factoring those EMI dues which may not be realised within twelve months after the balance sheet date as there would inevitably be cases of non-realisable/delayed payments of such dues as appears from paragraphs 5 to 7 above. However, while complying

with RBI Directions, the same are determined on the basis of the expected recoveries of the outstanding dues. Accordingly, the Committee is of the view that the company should consider the realisability factor in classification of assets as current and non-current based on its past data and current trends.

D. Opinion

12. On the basis of the above, the Committee is of the opinion that the classification of assets as current and non-current is to be done only on the basis of the expected realisation of the credit card receivables within 12 months after the balance sheet date, irrespective of them being credit card dues or EMI dues, and not on the basis of their due dates or the contracted dates of payment and should also consider the realisability factor in such classification based on its past data and current trends.