An extract from the guidelines of The Reserve Bank of India for the classification of current assets and current liabilities.

Annexure

1. Current Assets:
   i) Cash and bank balances
   ii) Investments (see note 3)
      a) Government and other Trustee Securities (Other than for long-term purposes e.g. Sinking Fund, Gratuity Fund, etc).
      b) Fixed deposits with banks
   iii) Receivables arising out of sales other than deferred receivables (including bills purchased and discounted by bankers).
       (See Note 10)
   iv) Instalments of deferred receivables due within one year
   v) Raw materials and components used in the process of manufacture including those in transit (see Note 4)
   vi) Stocks in process including semi-finished goods
   vii) Finished goods including goods in transit
   viii) Other consumable spares (see Note 4 and 11)
   ix) Advance payment for tax
   x) Pre-paid expenses
i) Advances for purchase of raw materials, components and consumable stores

xii) Monies receivable from contracted sale of fixed assets during the next 12 months.

Current Liabilities:

(See Note 1)

i) Short-term borrowings (including bills purchased and discounted) from:
   a) Banks
   b) Others

ii) Unsecured loans

iii) Public deposits maturing within one year

iv) Sundry creditors (trade) for raw material and consumable stores and spares

v) Interest and other charges accrued but not due for payment

vi) Advance/progress payments from customers (see Note 6)

vii) Deposits from dealers, selling agents, etc. (See Note 7)

viii) Instalments of term loans, deferred payment credits, debentures, redeemable preference shares and long-term deposits payable within one year.
IX. **Statutory Liabilities**

a) Provident fund dues
b) Provision for taxation (see Note 2 and 8)
c) Sales-tax, excise, etc. (See note 9)
d) Obligations towards workers considered as statutory
e) Others (to be specified).

X. **Miscellaneous Current Liabilities:**

a) Dividends (See Note 2)
b) Liabilities for expenses
c) Gratuity payable within one year
d) Other provisions
e) Any other payments due within 12 months.

**Notes:**

1. The concept of current liabilities would include estimated or accrued amounts which are anticipated to cover expenditure within the year for known obligations, viz., the amount of which can be determined only approximately, for example, provisions, accrued bonus payments, taxes, etc.

2. In cases where specific provisions have not been made for these liabilities and will be eventually paid out of general reserves, estimated amounts should be shown as current liabilities.
3. Investment in shares and advances to other firms/companies, not connected with the business of the borrowing firm should be excluded from current assets.

4. 'Dead inventory' i.e. slow moving or obsolete items should not be classified as current assets.

5. Amounts representing inter-connected company transactions should be treated as current only after examining the nature of transactions and merits of the case. For example, advance paid to suppliers for a period more than the normal trade practice, in spite of any other considerations such as regular and assured supply should not be considered as current.

6. Advance/Progress Payments from Customers

Item (VI) under current liabilities)
These deposits are to be classified as current liabilities. Where deposits are required, in terms of regulations framed by the Government, to be invested in a specified manner (e.g. advances for booking of vehicles), the benefit of the netting may be allowed to the extent of such investment in approved securities and only the balance amount need be classified as current liability. (c.f. Paragraph 2 (ii) of Circular IECD. No. PMS./206/27C-87/88 dated 12 May 1988). Where on account of different accounting procedure progress
payments are shown on the liabilities side without deduction from work-in-progress, banks may set-off the progress payments against work-in-progress. Advance payments received are also adjusted progressively from the value of work completed, as agreed in the contract. Outstanding advance payments are to be reckoned as current liabilities or otherwise, depending upon whether they are adjustable within a year or later (c.f. Annexure to Circular IECD. No. CAD (PMS)11/WGCC-81 dated 24 October 1981).

7. **Deposits from Dealers, Selling Agents, etc.**

(item (vii) under current liabilities)

These deposits may be treated as term liabilities irrespective of their tenure if such deposits are accepted to be repayable only when the dealership/agency is terminated after due verification by banks. The deposits which do not satisfy the above condition should continue to be classified as current liabilities (c.f. paragraph 2(i) of circular IECD. No. PMS. 206/27C-87/88 dated 12-5-1988). Security deposits/Tender deposits may be classified as non-current assets irrespective of whether they mature within the normal operating cycle of one year or not (c.f. para 2 (iii) of Circular IECD. No. PMS. 206/27C-87/88 dated 12-5-1988).
8. **Provision for Taxation**

(Item (ix) (b) under current liabilities)

Netting of tax provision and advance tax paid (vide item (ix) of current assets) may be effected for all the years uniformly and, as such, for the current year also the advance tax paid can be set off against the provision, if any made for that year (Circular IECD. No. CAD. (PMS)-89/C. 446 (PMS)-84 dated 4 June 1984).

9. **Sales-Tax, Excise, etc.**

(Item (ix) (c) under current liabilities)

Disputed excise liabilities shown as a contingent liability or by way of note to the balance sheet need not be treated as a current liability for calculating the permissible bank finance, unless it has been collected or provided for in the accounts of the borrower (c.f. para 3 of circular IECD. PMS. 170/C. 446 (PL)-86/87 dated 24 June 1987).

Provision for disputed excise duty should be classified as current liability, unless the amount is payable in instalments spread over a period exceeding one year as per the orders of competent authority like the Excise Department or in term of the directions of a competent court. In such cases, if the instalments payable after one year are classified as long-term liability, no objection may be taken to such
classification (Para 4 of Circular IECD.No. CAD (PMS) 1/C. 446 (PMS)-85 dated 2 January 1985).

Where the provision made for disputed excise duty is invested separately, say in fixed deposits with banks, such provision may be set off against the relative investment (Para 5 of circular IECD. No. CAD (PMS) 1/C 446 (PMS)/-85 dated 2 January 1985).

Disputed liabilities in respect of income-tax, customs and electricity charges need not be treated as current liability for the purpose of computation of maximum permissible bank finance except to the extent provided for in the books of the borrower (Circular IECD.No. PMD. 252/C. 446 (PL)-88-89 dated 18 May 1989).

10. Receivables arising out of the sales other than deferred receivables (including bills purchased and discounted by bankers).
(Item (iii) under current assets)

Export receivables may be included in the total current assets for arriving at the Maximum Permissible Bank Finance but the minimum stipulated net working capital (i.e. 25% of total current assets under 2nd Method of Lending) may be reckoned after excluding the quantum of export receivables from the total current assets (Para 3 of circular IECD.No. PMS. 206/27.C 87/88 dated 12 May 1988).
11. **Other Consumable Spares**

*(Item (viii) under current assets)*

Projected levels of spares on the basis of past experience but not exceeding 12 months' consumption for imported items and 9 months' consumption for indigenous items may be treated as current assets for the purpose of assessment of working capital requirements (Circular IECD. No. PMD 231/27C. 88/89 dt. 16 October 1988).

12. The above list of current liabilities and current assets is only illustrative and not exhaustive.