? Understanding Classification of Assets and Liabilities as Per ICAI Guidance Note (2023)

Description

Proper classification of assets and liabilities is fundamental to preparing a fair and transparent Balance Sheet. The ICAI's **Guidance Note on Financial Statements for Non-Corporate Entities** mandates clear bifurcation into **Current** and **Non-Current.** This classification is **mandated by ICAI Guidance Note** for non-corporate entities (effective from FY 2024-25). It aligns with the definition of **operating cycle as 12 months** if otherwise not identifiable.

Let's break this down with clear definitions, examples, and a tabular summary.

? What Are Current and Non-Current Assets?

? Current Assets:

Assets are classified as *current* if they meet **any** of the following criteria:

- Expected to be realized in, sold or consumed in the normal operating cycle (assumed to be 12 months if not clearly identifiable).
- Held primarily for trading.
- Expected to be realized within 12 months after the balance sheet date.
- Cash or cash equivalent not restricted for 12 months after the balance sheet date.

? Non-Current Assets:

All other assets that do not meet the criteria above are **non-current**. These generally provide benefit **beyond 12 months**.

? What Are Current and Non-Current Liabilities?

? Current Liabilities:

Liabilities are current if they meet **any** of the following conditions:

- Expected to be settled in the normal operating cycle.
- Held primarily for trading.
- Due within 12 months after the reporting date.
- The entity **does not have an unconditional right** to defer settlement beyond 12 months.

? Non-Current Liabilities:

All other liabilities that are not due within the operating cycle or 12 months are classified as non-current.

? Summary Table with Real Examples

Item	Classification	Reasoning/Example
Fixed Deposit (FD) maturing after 12 months	**Non-Current Asset**	FD maturing in 15 months from balance sheet date
Term Loan – EMIs due in next 12 months	**Current Liability**	Current maturities of long-term borrowings
Term Loan – Remaining balance	**Non-Current Liability**	Payable beyond 12 months
Prepaid Insurance for 3 years (01.04.25 to 31.03.28)	**Current (1 yr) + Non-Current (2 yrs)**	Proportionate split based on expense benefit
Trade Receivable with 15-month credit period	**Non-Current Asset**	Customer allowed 15-month credit
Loan to Staff – Next 12 months EMI	**Current Asset**	Realisable within 12 months
Staff Loan – Remaining installment	**Non-Current Asset**	Realisable after 12 months
Provision for expenses due in 10 months	**Current Liability**	Payable within 12 months
Provision for expenses due after 12 months	**Non-Current Liability**	Example: future litigation reserve
Investment in equity for long-term gains	**Non-Current Investment**	Held for more than 1 year
Investment in liquid fund for 3 months	**Current Investment**	Intended to be realized within 12 months

? Key Notes

- **Split items as needed:** For example, a term loan should be divided between current maturities and long-term liability.

- **Disclosure is crucial:** Mention current and non-current portions separately in notes to accounts.
- **Operating cycle:** Unless otherwise evident, a **12-month cycle** is assumed.

? Conclusion

Accurate classification ensures stakeholders have a transparent picture of your entity's financial position. With ICAI's Guidance Note now effective, it's essential for **non-corporate entities** (like partnerships, proprietorships, HUFs, societies, etc.) to adopt this standardized reporting practice.

Need help applying this to your financials? Consult your Chartered Accountant today!

Category

1. Others

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