

# CLASSIFICATION OF SECURITY DEPOSITS UNDER IFRS- CURRENT VS NON-CURRENT

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# AGENDA



## Topic

1. Background –Security Deposits held by Utility Companies
2. IAS 1, *Presentation of Financial Statements* – *Current Vs Non-Current Liability*
3. Possible views
  - 3.1 Why should these be current liabilities
  - 3.2 Why should these be non-current liabilities
4. Entities treating the deposit as non-current
5. Request for Feedback/Views

# BACKGROUND



In many jurisdictions, utility companies such as electricity, water work, gas, telecom, etc., collect refundable security deposit at the time of new connection.



The security deposit collected remains with such companies till connection is *disconnected by the consumer* or adjusted by the company on non-payment.

***Since, these utilities are essential requirement for consumers and there is limited availability of utility companies, consumers continue with same utility company for long time and these security deposits are not refunded and hence remain with these companies for decades.***

# BACKGROUND

(CONTD...)



For example, electricity distribution companies collect security deposit at the time of

- new electricity connection; and
- subsequently at the time of increase in load etc as per the applicable regulations.

➤ security deposit collected remains with such companies till connection is disconnected by the consumer or adjusted by the company on non-payment.

***Since, electricity is an essential requirement, these security deposits are retained by these companies for decades***

# IAS 1, PRESENTATION OF FINANCIAL STATEMENTS



***What should be the classification of above securities ?***

## ***Current liabilities***

69 An entity shall classify a liability as current when:

- a) it expects to settle the liability in its normal operating cycle;
- b) it holds the liability primarily for the purpose of trading;
- c) the liability is due to be settled within twelve months after the reporting period; or
- d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.**

*An entity shall classify all other liabilities as non-current.*

# POSSIBLE VIEWS



View 1 – classification of security deposits as current

View 2- – classification of security deposits as non- current

# WHY SHOULD THESE BE CURRENT LIABILITIES



As per the definition of current liabilities **strictly**, the security deposits received by an electricity distribution company would be required to be classified as ‘**current**’ .



## **Reason:**

- As per the contractual terms, the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period, *even though in practice the electricity company is called upon to refund the deposit only in case of disconnection or where adjustment is required to be made on account of non-payment of dues by the consumer.*

# WHY SHOULD THESE BE CURRENT LIABILITIES



Though, IFRS Standards are based on concept of 'substance over form', individual standards do override this concept in some cases - and clause 69(d) is an example of such override.





# WHY SHOULD THESE BE NON-CURRENT LIABILITIES



- One of the fundamental accounting principle is ***substance over form***.
  - Thus, while the principle of classification of liability as current/non-current based **on contractual terms** should apply generally, in the given case, **in substance nature of the security deposit is non-current**.
- In many jurisdictions including India, alternative suppliers of electricity/gas **are not available** for consumers.  
Considering that electricity (and gas) are essential commodities, for all practical purposes, **the consumer has no substantive ability** to cancel the connection and withdraw the deposit for decades.



# WHY SHOULD BE NON-CURRENT LIABILITIES (CONTD....)



- The right of refund of deposit on demand is **primarily protective in nature** but has no substance.
- Until very long time consumers do not, in the normal course, surrender electricity connections.
- In other words, although in form the electricity companies do not have unconditional right but in substance these companies defer settlement for much longer time, even 12 months after the reporting period. In fact, the question of settlement of liability would arise only when the consumer surrenders the connection.

**Thus, treating the deposits as current would not represent the true economic position of the company with respect to these deposits and would not be appropriate.**

## VIEW 2- – CLASSIFICATION OF SECURITY DEPOSITS AS NON- CURRENT



The classification of the deposits should be determined only after an overall consideration of its nature.

While generally, practice, intentions or past history would not influence the classification of the liability, if there is compelling evidence based on past history, deposit should be classified as **non-current**.

# ENTITIES TREATING THE DEPOSIT AS NON-CURRENT



Certain entities treating security deposits as non-current liabilities-

1. Saudi Electricity Global Sukuk Company 2
2. Hindustan Petroleum Corporation Limited
3. CESC Limited
4. Iberdrola, S.A. And Subsidiaries

# FEEDBACK



Members may share the practice followed in their jurisdictions in this regard





# Thank You

Contact for more details : [asb@icai.in](mailto:asb@icai.in)

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