

Query No. 11

Subject: *Classification and Presentation of accrued wages and salaries to employees under Trade Payables or Provisions (Current).*¹

A. Facts of the Case

1. A company (hereinafter referred to as ‘the Company’) is a Miniratna Category-I company incorporated under the erstwhile Companies Act, 1956 (now Companies Act, 2013). Pursuant to Initial Public Offer, equity shares of the Company are listed and traded on both Bombay Stock Exchange (BSE) Limited and National Stock Exchange (NSE) of India Limited w.e.f. March 29, 2019. The core activity of the Company has been divided into two operational divisions, i.e. e-commerce and trading. The Company undertakes trading activities, disposal of ferrous and non-ferrous scrap, surplus stores, minerals, agri and forest produces, etc. mostly from public sector undertakings, government departments and leading private sector entities and other e-commerce services. The mode of disposal includes e-auction, e-tender, e-reverse auction, etc. Besides, the Company also e-auctions coal from coal mining entities. Apart from these, the Company also provides e-procurement and other platform development and maintenance solution. The trading division handles domestic trade of mainly bulk industrial raw material. It looks after sourcing, purchase and sales of industrial raw materials like heavy melting scrap, low ash metallurgical coke, HR coil, crude oil, naphtha, coking coal, steam coal, etc. for supply to Indian industries in steel, infrastructure, power sector, etc.

2. The source of revenue is currently the service charges income from its customers. Although operating in trading and e-commerce segment, currently the Company is predominantly an e-commerce service provider.

3. The financial performance of last three years and nine months ending 31.12.2023 is appended below:

Figures in Rs. crores

Particulars	2020-21	2021-22	2022-23	2023-24 (Nine months)
Revenue From Operations	427.75	470.64	324.72	234.32
Profit Before Tax	114.68	220.04	313.48	216.63
Profit after Tax	101.07	200.05	239.23	152.41

Comments of Comptroller and Auditor General of India (CAG):

4. Balance Sheet: Current Liabilities: Trade Payables (Note-19): ₹142.03 crore and Provisions (Current) (Note-22): ₹2.97 crore.

Trade Payables under ‘Current Liabilities’ includes accrued wages and salaries of employees amounting to ₹ 21.71 crore. The same should have been shown under ‘Provisions (Current)’ instead of ‘Trade Payables’.

¹ Opinion finalised by the Committee on 3.6.2024.

Management Reply:

5. It may be appreciated that the accrued obligations for payment to employees on account of pay and perquisites arise for services rendered by employees to the Company, which is why such amounts have so long been classified under trade payables, consistently. In this context, a reference is made to paragraph 11(b) of Ind AS 37, 'Provisions, Contingent Liabilities and Contingent Assets', which reads as under:

“accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees (for example, amounts related to accrued vacation pay). Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than the provisions.

Accruals are often reported as part of trade and other payables, whereas provisions are reported separately.”

In the instant case, the obligations for payment to employees have accrued upon execution of wage agreement with the non-executives as well as respective employees for services already rendered. Insofar as arrear payments to non-executive employees are concerned, the amount considered has accrued upon execution of related wage agreement, and the sum is expected to be paid within financial year (F.Y.) 2023-24. Such accrued amount has also been estimated on a conservative computation basis. Other accrued employee payments are also ascertained conservatively and the estimated amounts are expected to be paid within F.Y. 2023-24. Hence, the disclosure of the cited amount under 'Trade payables' is considered appropriate.

Further, it was submitted that the Company will review the matter in the financial year 2023-24, including obtaining an opinion from the Institute of Chartered Accountants of India (ICAI) and if required, will do the needful.

B. Query

6. The Company requests the Expert Advisory Committee to opine on whether accrued wages and salaries to employees can be classified under 'Trade Payables' or 'Provisions (Current)'.

C. Points considered by the Committee

7. The Committee notes that the basic issue raised in the query relates to classification and presentation of accrued wages and salaries of employees under trade payables or provisions (current). 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 income received in the form of service charges, accounting for transactions with other companies, accounting for e-auction, e-commerce, trading and e-tender activities, purchase and sales of raw materials, appropriateness of determination of amount due to employees on account of wages and salaries, timing of accrual of wages and salaries, etc. The Committee wishes to mention that the opinion expressed hereinafter is in the context of Indian Accounting Standards, notified under the Companies (Indian Accounting Standards) Rules, 2015 as amended from time to time and is purely from accounting perspective.

8. The Committee notes that the Division II of Schedule III to the Companies Act, 2013 (Revised January, 2022 Edition) requires to classify and present the ‘Current Liabilities’ as follows:

“Current Liabilities

- (a) Financial Liabilities
 - (i) Borrowings
 - (ia) Lease liabilities
 - (ii) Trade payables
 - (A) Total outstanding dues of micro enterprise and small enterprises
 - (B) Total outstanding dues of creditors other than micro enterprises and small enterprises
 - (iii) Other financial liabilities (other than those specified in item (c))
- (b) Other current liabilities
- (c) Provisions
- (d) Current Tax Liabilities (Net)”

Further, Note below Note 9 of the General Instructions for Preparation of Financial Statements, under Division II of Schedule III to the Companies Act, 2013 provides as follows:

“Note: This Schedule sets out the minimum requirements for disclosure on the face of the Financial Statements, i.e., Balance Sheet, Statement of Changes in Equity for the period, the Statement of profit and Loss for the period (The term ‘Statement of Profit and Loss’ has the same meaning as ‘profit and loss Account’) and Notes. Cash flow statement shall be prepared, where applicable, in accordance with the requirement of the relevant Indian Accounting Standard.

Line items, sub-line items and sub-totals shall be presented as an addition or substitution on the face of the Financial Statements when such presentation is relevant to an understanding of the company's financial position or performance to cater to industry or sector-specific disclosure requirements or when required for compliance with the amendments to the Companies Act, 2013 or under the Indian Accounting Standards.”

The Committee further notes the following paragraphs of Indian Accounting Standard (Ind AS) 19, ‘Employee Benefits’, and Ind AS 37, ‘Provisions, Contingent Liabilities and Contingent Assets’, issued by the ICAI:

Ind AS 19

“11 When an employee has rendered service to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- (a) **as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted**

amount of the benefits, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund.

...”

Ind AS 37

“11 Provisions can be distinguished from other liabilities such as trade payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. By contrast:

- (a) trade payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier; and
- (b) accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees (for example, amounts relating to accrued vacation pay). Although it is sometimes necessary to estimate the amount of timing of accruals, the uncertainty is generally much less than for provisions.

Accruals are often reported as part of trade and other payables, whereas provisions are reported separately.”

From the above, the Committee notes that when an employee has rendered service during a period, the employee benefits which are expected to be paid in exchange for the employees’ service are required to be provided for as ‘liability’ or ‘accrued expense’ and not as ‘provisions’. This is so, because provision is a liability of uncertain timing or amount of the future expenditure whereas accruals arise due to services already received for which amounts or timing are not uncertain.

9. Further, the Committee also notes the requirements of Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013 (Revised January, 2022 Edition) as follows:

“7.4. Similarly, current liabilities would include items such as trade payables, employee salaries payable and other operating costs that are expected to be settled in the company’s normal operating cycle or due to be settled within twelve months from the reporting date. It is pertinent to note that such operating liabilities are normally part of the working capital of the company used in the company’s normal operating cycle and hence, should be classified as current even if they are due to be settled in more than twelve months after the end of the reporting date.”

From the above, the Committee notes that paragraph 7.4 of the Guidance Note acknowledges trade payables and employee salaries payable as two separate items under current liabilities. Further, paragraphs 54 (k) and (l) of Ind AS 1, ‘Presentation of Financial Statements’ read with paragraph 70 thereof also indicate that accruals or payables for employee are to be presented separately from ‘provisions’ and ‘trade payables’.

Accordingly, the Committee is of the view that in the extant case, wages and salaries, which have accrued under respective wage agreement with the non-executives as well as other employees for services already rendered and are payable within F.Y. 2023-24 should not be included under 'Trade Payables'. The Company should present accrued wages and salaries of employees under the head 'other current liabilities' or any other appropriate separate head created for this purpose (when such presentation is relevant to an understanding of the Company's financial position) under 'Current Liabilities' in the balance sheet of the Company, as per the requirements of Division II - Ind AS Schedule III to the Companies Act, 2013.

D. Opinion

10. On the basis of the above, the Committee is of the opinion on the issue raised in paragraph 6 above that accrued wages and salaries should not be classified and presented under 'Trade Payables' or under 'Provisions'. The Company should present accrued wages and salaries of employees under the head 'other current liabilities' or any other appropriate separate head created for this purpose (when such presentation is relevant to an understanding of the Company's financial position) under 'Current Liabilities' in the balance sheet of the Company, as per the requirements of Division II - Ind AS Schedule III to the Companies Act, 2013, as stated in paragraphs 8 and 9 above.
