



IFRS Alert

IASB Issues Classification of Liabilities as Current or Non-Current

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Executive summary

On 23 January 2020 the IASB published 'Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)' which clarify the Standard's guidance on whether a liability should be classified as either current or non-current.

Background

IAS 1 says that if a company has an unconditional right to delay settlement of a liability for at least 12 months from the end of the reporting period, then it can be classified as non-current, if not it is classified as current. Some preparers have found this statement confusing and consequently similar liabilities have been classified differently, making comparisons by investors difficult.

Amendments

The IASB have therefore issued these amendments to IAS 1 to clarify this guidance and rectify the above issue.

The amendments do this by clarifying the following:

- classification of a liability as either current or non-current is based on the entity's rights at the end of the reporting period. The amended standard states that entity shall classify liability as current if it does not have an right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period
- entity's right to defer settlement of a liability for at least twelve months after the reporting period must have substance and, must exist at the end of the reporting period. If the right to defer settlement is subject to the entity complying with specified conditions, the right exists at the end of the reporting period only if the entity complies with those conditions at the end of the reporting period. The entity must comply with the conditions at the end of the reporting period even if the lender does not test compliance until a later date.
- if an entity has the right, at the end of the reporting period, roll over an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. If the entity has no such right, the entity does not consider the potential to refinance the obligation and classifies the obligation as current.
- when an entity breaches a condition of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. An entity classifies the liability as current because, at the end of the reporting period, it does not have the right to defer its settlement for at least twelve months after that date.

- management's expectations around whether they will defer settlement or not does not impact the classification of the liability
- clarified that convertible instruments where the holder may convert to equity before maturity is classified as current or noncurrent according to the terms of the bond, without considering the possibility of earlier settlement by conversion to equity.

Effective date and transition

The amendments are effective from accounting periods beginning on or after 1 January 2022. The amendments should be applied retrospectively, with entities being allowed to apply them to an earlier period, as long as they disclose that they have done so.

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