

Financial Reporting and Accounting Guide

June 2023

Classification of Liabilities as Current or Non-current

This publication provides a high-level summary of the amendments made to AASB 101 *Presentation of Financial Statements* in relation to the classification of liabilities as current or non-current.

When do the new requirements apply?

The new requirements for the current / non-current classification of liabilities apply to annual reporting periods beginning on or after 1 January 2024. At the election of the entity, the amendments may be applied to earlier reporting periods.

The amendments to AASB 101 *Presentation of Financial Statements* (AASB 101) have been made by the issue of two amending standards, AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current* and AASB 2020-6 *Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants**.

What's changed?

The criteria to be applied to classify a liability as current or non-current (under AASB 101.69), has been amended to clarify that:

- 1) The right to defer settlement for at least 12 months after the reporting period must exist at the end of the reporting period, with future covenant conditions not impacting this assessment.
- 2) The classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement for at least 12 months after the reporting date. That is, the existence of the right to defer settlement determines the classification of the liability, not the entity's intention or expectation regarding the exercise of such right.

For the purpose of classifying a liability as current or non-current, the amendments also introduce additional guidance on the meaning of "settlement" and additional disclosures when an entity classifies an arrangement as non-current when it is subject to future covenant within 12 months after the reporting date.

What's the expected impact?

The primary intention of the amendments to AASB 101 are to clarify the meaning of the right to defer settlement of a liability for at least 12 months after the reporting period:

- when applied in the context of the rollover of an existing loan facility; and
- when such right is subject to the entity complying with conditions specified in the loan arrangement.

As a clarification, rather than a fundamental change to the principles of AASB 101, we do not expect the amendments to have a significant impact on current practice in Australia.

* This publication addresses the amendments made to the current / non-current classification requirements of AASB 101 on a collective basis and does not distinguish between the amendments made separately by each amending standard. The amendments are required to be applied at the same time if early adopted.

Applying the new requirements to the rollover of an existing loan facility

In accordance with the new requirements, if an entity has the right at the end of the reporting period to rollover an obligation under an existing loan facility for at least 12 months after the reporting period, the entity classifies the liability as non-current (under AASB 101.69(d)). However, if the entity has no such right, the entity does not consider the potential to refinance the obligation and classifies the liability as current.

Importantly, the existence of the right at the end of the reporting period to rollover an obligation for at least 12 months after the reporting period determines the classification of the liability, not the entity's intention or expectation regarding the exercise of such right.

Compliance with 'loan conditions'. How do they affect the right to defer settlement?

In order to satisfy the criteria to classify a liability as non-current (under AASB 101.69(d)), the right to defer settlement for at least 12 months after the reporting period must exist at the end of the reporting period. However, an entity's right to defer settlement may be subject to the entity complying with conditions specified in the loan arrangement.

The impact of 'loan conditions' on the determination of whether the right to defer settlement exists at the end of the reporting period depends on when the entity is required to comply with the 'loan condition'. The following table summarises these requirements:

When is the entity required to comply with the 'loan condition'?	Does the 'loan condition' affect whether the right to defer settlement exists at the end of the reporting period?
A. The entity is required to comply with the 'loan condition' on or before the end of the reporting period. [e.g., minimum net tangible assets at a specified date on or before the end of the reporting period]	The 'loan condition' affects whether the right to defer settlement for at least 12 months after the reporting period exists at the end of the reporting period. The entity must comply with the 'loan condition' to classify the loan as non-current at reporting date (under AASB 101.69(d)).
B. The entity is required to comply with the 'loan condition' after the reporting period. [e.g., minimum net tangible assets at a specified date after the reporting period]	The 'loan condition' does not affect whether the right to defer settlement for at least 12 months after the reporting period exists at the end of the reporting period. The entity does not consider the future compliance with the 'loan condition' in order to classify the loan as non-current at reporting date (under AASB 101.69(d)). Additional disclosures will be required about these arrangements.

It's also important to note that there has been no change to the treatment of breaches of 'loan conditions' and their impact on the classification of liabilities (under AASB 101.74 and 75).

Further information and assistance

Contact Pitcher Partners for further information and assistance on the scope and application of the new requirements for the current / non-current classification of liabilities.

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