# IND AS 1 AMENDMENTS

## Classification of Liabilities as Current or Non-current

### Practical Guidance with Examples

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# AMENDMENTS TO IND AS 1

## Classification of Liabilities as Current or Non-current
## and
## Non-current Liabilities with Covenants

### INTRODUCTION

Post-amendment, paragraph 69(d) of Ind AS 1 states that "an entity shall classify a liability as current when it does not have the right, at the end of the reporting period, to defer ***settlement*** of the liability for at least 12 months after the reporting period." Therefore, it is only the entity's deferral right that matters for classification between current and non-current.

In this connection, ***settlement*** refers to a transfer to the counterparty that results in the extinguishment of the liability. The transfer could be of –

- cash or other economic resources (ie, a right that has the potential to produce economic benefits, eg, deliver goods or provide services); or
- the entity's own equity instruments. *

* Therefore, conversion option of a liability through the issue of equity shares is also treated as a settlement, irrespective of whether the conversion option of the liability is recognised as liability (ie, a fixed amount of debt is convertible into a variable number of own equity shares) or equity (ie, a fixed amount of debt is convertible into a fixed number of own equity shares) as per Ind AS 32. The liability component of a compound financial instrument (ie, the amortised cost of the initial carrying amount of the liability) does not affect its classification as current or non-current, when the option is at the discretion of the holder and the entity classifies the option as an equity instrument.

**EXAMPLE 1**

*If the holder of debentures could trigger equity settlement within twelve months after the reporting period, the debenture will be recognised as **current**. But if the same debentures can be convertible only at maturity (say, after 3 years), the debenture will be recognised as **non-current** in the current reporting period.*

**EXAMPLE 2**

*A company has issued debentures that are either redeemable for a fixed amount of cash at the end of a fixed period, or at the discretion of the holder, can be convertible into a variable number of company's own equity shares (based on the fair value at the conversion date) at any time before maturity. In such a case, the company does not have the right to defer settlement for at least 12 months from the reporting date (though the original term was for a period longer than 12 months). Therefore, the entire debentures will be classified as **current** liabilities.*

An entity's right to defer settlement of a liability for at least 12 months after the reporting period must have ***substance*** (ie, a holder of a right has the practical ability to exercise it in any circumstances) and must ***exist*** (ie, the deferral right must legally exist in all realistic scenarios) at the end of the reporting period.

## CRITERIA FOR CURRENT VS NON-CURRENT CLASSIFICATION

If an entity has the right, at the end of the reporting period, to *roll over* an obligation for at least 12 months after the reporting period under an existing loan facility, it classifies the obligation as **non-current**, even if it 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**.

### EXAMPLE 3

*An entity has an existing loan facility, which becomes payable on demand on the reporting date but the entity has the right, on the reporting date, to roll over (ie, to allow money that the entity owes to be paid at a later date) the obligation for at least 12 months after the reporting period. In such a case, the loan is classified as **non-current**, because the entity considers the potential to refinance the obligation. If the entity has no such rights, the loan obligation is classified as **current**.*

Where there is a breach of a material covenant 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 on the reporting date, the entity does not classify the liability as **current**, if the lender agreed, after the reporting date and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.

### EXAMPLE 4

*A long term loan agreement requires compliance with debt-equity covenant at the end of the reporting period, ie, 31 March 2026. The entity breaches the covenant at 31 March 2026 which gave the lender the right to demand immediate repayment. But after the reporting date, and before the approval of the financial statements, the lender agreed to waive the non-compliance and confirm that it would not demand immediate repayment as a consequence of the breach. In such a case, the entity does not classify the liability as **current**.*

## COVENANTS

An entity's right to defer settlement of a liability arising from a loan arrangement for at least 12 months after the reporting period may be subject to the entity complying with conditions specified in the loan arrangement. These are, hereinafter, referred to as **covenants**.

Covenants are formal agreements which include conditions in a loan arrangement that are complied with at or before the end of the reporting period and that, if breached, can result in accelerated repayment of the related long-term loan facility.

Covenants can be **objective** (eg, gearing ratio or interest coverage ratio) or **subjective** (eg, results in acceleration clauses).

As already stated, paragraph 69(d) states that "an entity shall classify a liability as current when it does not have the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period."

**For the purpose of applying the above paragraph, such covenants –**

- **affect** the classification of current or non-current whether the right exists at the end of the reporting period, if an entity is required to comply with the covenant on or before the end of the reporting period. Such a covenant affects whether the right exists at the end of the reporting period even if compliance with the covenant is assessed only after the reporting period (eg, a covenant based on the entity's balance sheet at the end of the reporting period but assessed for compliance only after the reporting period).
- **do not affect** the classification of current or non-current whether the right exists at the end of the reporting period if the entity is required to comply with the covenant only after the reporting period (eg, a covenant based on the entity's Balance Sheet 6 months after the end of the reporting period).

**EXAMPLE 5**

*A long-term loan agreement requires compliance with covenants at the end of each reporting periods, ie, 31 March: 2026, 2027 and 2028. The entity has complied with the covenants on 31 March 2026. Since there is no breach of the covenants on 31 March 2026, the loan should be classified as* ***non-current.*** *Future covenant tests will not affect the classification of the loan in the current reporting period.*

**EXAMPLE 6**

*Entity A has a long-term loan that is repayable on 31 March 2030. For this loan, a covenant requires a debt-equity ratio of 1.5 as at 31 March 2026. If Entity A can comply with the covenant on 31 March 2026, it will classify the loan as* ***non-current****, even if the lender reviews compliance in June 2026. However, if the compliance date is 5 months after the end of the reporting period, ie, 31 August 2026, it does not affect the classification of the loan on 31 March 2026.*

Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least 12 months after the reporting period. If a liability meets the criteria (as per paragraph 69) for classification as non-current, it is classified as non-current even if the management intends or expects the entity to settle the liability within 12 months after the reporting period, or even if the entity settles the liability between the end of the reporting period and the date the financial statements are approved for issue.

**EXAMPLE 7**

*An entity (year-end 31 March) has the right to defer settlement of a liability for at least 12 months after the end of the reporting period, ie, 31 March, but intends to settle the liability 3 months after the end of the reporting period, the liability is still classified as* ***non-current****.*

## DISCLOSURES REQUIREMENT

Post amendment, an entity is required to disclose requirements for situations where loan arrangements are classified as non-current and the right to defer settlement depends on compliance with covenants falling due within 12 months after the reporting period. The required **disclosures** include –

- Information about the covenants, eg, nature of the covenants and when the entity is required to comply with them.
- The carrying amount of related liabilities.
- Facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants within the next 12 months of the reporting date. For example,
    - Actions taken by the entity before or after the reporting date to avoid or mitigate a possible breach; or
    - The fact that the covenants would have been breached if assessed for compliance based on the entity's circumstances at the reporting date.

An entity shall apply the above amendments for annual reporting periods beginning on or after 1 April 20x5 retrospectively in accordance with Ind AS 8.

## For annual reporting periods beginning on or after 1 April 2026

An entity shall follow the following paragraphs retrospectively in accordance with Ind AS 8 –

## SUBSEQUENT REPORTING PERIOD

When an entity breaches a covenant 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 approval 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 12 months after that date.

### EXAMPLE 8

*A long-term loan arrangement requires compliance with a covenant on or before the end of the reporting period, ie, 31 March 2027. The entity breaches the covenant with the effect that the loan becomes repayable on demand. This is because, at the end of the reporting period, the entity does not have the right to defer its settlement for at least 12 months after that date.*

*However, after the reporting period and before the approval of the financial statements for issue, the lender agreed not to demand payment before 30 September 2027, as a consequence of the breach. In such a case, the loan should be classified as **current**.*

**NOTE**
However, an entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a *period of grace* ending at least 12 months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

**EXAMPLE 9**

*A long-term loan agreement requires compliance with a covenant at the end of the reporting period, ie, 31 March 2027. There is a breach of covenant that gives the lender the right to demand immediate repayment. However, on 31 March 2027, the lender agreed to provide a period of grace. In effect, the lender agreed not to demand payment before 30 June 2027. Therefore, the entity is allowed to rectify the breach before 30 June 2027 and, during which the lender cannot demand immediate repayment. In such as case, the entity should classify the liability as* ***non-current****.*

Classification of a liability is unaffected by the likelihood that the entity will exercise its rights to defer settlement of the liability for at least 12 months after the reporting period. If a liability meets the criteria for classification as non-current (as per paragraph 69), it is classified as non-current even if management intends or expects the entity to settle the liability within 12 months after the reporting period, or even if the entity settles the liability between end of the reporting period and the date the financial statements are approved for issue. However, in either of those circumstances, the entity may need to disclose information about the timing of settlement to enable users of its financial statements to understand the impact of the liability on the entity's Balance Sheet.

**EXAMPLE 10**

Entity A has a liability that is repayable on 31 December 2027. The financial statements of Entity A for the year ended 31 March 2027 will be approved for issue on 15 May 2027. Entity A wishes to make an early repayment of the liability, ie, between 1 April 2027 and 15 May 2027. This intention to repay the liability early, does not affect its classification as current or non-current. If the liability meets the criteria for classification as ***non-current***, it will be classified as ***non-current***.

If the following events occur between the end of the reporting period and the date the financial statements are approved for issue, those events are disclosed as non-adjusting events in accordance with Ind AS 10 *Events after the Reporting Period* –

- Refinancing on a long-term basis of a liability classified as current;
- Rectification of a breach of a long-term loan arrangement classified as current;
- The granting by the lender of a period of grace to rectify a breach of a long-term loan arrangement classified as current;
- Settlement of a liability classified as non-current.