AASB Standard

**AASB 2020-1**
March 2020

# Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current

## [AASB 101]

Australian Government

Australian Accounting Standards Board

## Obtaining a copy of this Accounting Standard

This Standard is available on the AASB website: www.aasb.gov.au.

Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007
AUSTRALIA

Phone: (03) 9617 7600
E-mail: standard@aasb.gov.au
Website: www.aasb.gov.au

## Other enquiries

Phone: (03) 9617 7600
E-mail: standard@aasb.gov.au



ISSN 1036-4803

## Contents

PREFACE

**ACCOUNTING STANDARD**
**AASB 2020-1 *AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – CLASSIFICATION OF LIABILITIES AS CURRENT OR NON-CURRENT***

| | *from page* |
|---|---|
| **OBJECTIVE** | **5** |
| **APPLICATION** | **5** |
| **AMENDMENTS TO AASB 101** | **5** |
| **COMMENCEMENT OF THE LEGISLATIVE INSTRUMENT** | **7** |

**AVAILABLE ON THE AASB WEBSITE**
**IASB Basis for Conclusions – Amendments**

Australian Accounting Standard AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current* is set out on pages 5 – 7. All the paragraphs have equal authority.

# Preface

## Standards amended by AASB 2020-1

This Standard makes amendments to AASB 101 *Presentation of Financial Statements* (July 2015).

These amendments arise from the issuance of International Financial Reporting Standard *Classification of Liabilities as Current or Non-current* by the International Accounting Standards Board (IASB) in January 2020.

## Main features of this Standard

### Main requirements

This Standard amends AASB 101 to clarify requirements for the presentation of liabilities in the statement of financial position as current or non-current. For example, the amendments clarify that a liability is classified as non-current if an entity has the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period. The meaning of settlement of a liability is also clarified.

### Application date

This Standard applies to annual reporting periods beginning on or after 1 January 2022.  Earlier application is permitted.

## Accounting Standard AASB 2020-1

The Australian Accounting Standards Board makes Accounting Standard AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current* under section 334 of the *Corporations Act 2001*.

Kris Peach
Dated 5 March 2020 Chair – AASB

## Accounting Standard AASB 2020-1
## *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current*

## Objective

This Standard amends AASB 101 *Presentation of Financial Statements* (July 2015) as a consequence of the issuance of International Financial Reporting Standard *Classification of Liabilities as Current or Non-current* (Amendments to IAS 1) by the International Accounting Standards Board (IASB) in January 2020.

## Application

The amendments set out in this Standard apply to entities and financial statements in accordance with the application of AASB 101 set out in AASB 1057 *Application of Australian Accounting Standards.*

This Standard applies to annual reporting periods beginning on or after 1 January 2022.

This Standard may be applied to annual reporting periods beginning before 1 January 2022. When an entity applies this Standard to such an annual period, it shall disclose that fact.

This Standard uses underlining, striking out and other typographical material to identify some of the amendments to a Standard, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material. Ellipses (…) are used to help provide the context within which amendments are made and also to indicate text that is not amended.

## Amendments to AASB 101

Paragraphs 69, 73, 74 and 76 are amended. Paragraphs 72A, 75A, 76A, 76B and 139U are added. Headings are added before paragraphs 70, 71, 72A and 76A. Paragraphs 70, 71, 72 and 75 are not amended, but are included for ease of reading. New text is underlined and deleted text is struck through.

Paragraph 139D has now been deleted by the IASB.

## Structure and content

...

### Statement of financial position

...

#### 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~~ the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period ~~(see paragraph 73). 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.**

### *Normal operating cycle (paragraph 69(a))*

70 Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. An entity classifies such operating items as current liabilities even if they are due to be settled more than twelve months after the reporting period. The same normal operating cycle applies to the classification of an entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months.

### *Held primarily for the purpose of trading (paragraph 69(b)) or due to be settled within twelve months (paragraph 69(c))*

71 Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting period or held primarily for the purpose of trading. Examples are some financial liabilities that meet the definition of held for trading in AASB 9, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (ie are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting period are non-current liabilities, subject to paragraphs 74 and 75.

72 An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting period, even if:

(a) the original term was for a period longer than twelve months; and

(b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorised for issue.

### *Right to defer settlement for at least twelve months (paragraph 69(d))*

72A An entity's right to defer settlement of a liability for at least twelve months after the reporting period must have substance and, as illustrated in paragraphs 73–75, 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.

73 If an entity ~~expects, and~~ has the ~~discretion,~~ right, at the end of the reporting period, to ~~refinance or~~ 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. ~~However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing)~~ If the entity has no such right, the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

74 When an entity breaches a ~~provision~~ 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 ~~an unconditional~~ the right to defer its settlement for at least twelve months after that date.

75 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 twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

75A 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 twelve months after the reporting period. If a liability meets the criteria in paragraph 69 for classification as non-current, it is classified as non-current even if management intends or expects the entity to settle the liability within twelve 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 authorised 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 financial position (see paragraphs 17(c) and 76(d)).

76 ~~In respect of loans classified as current liabilities, if~~ If the following events occur between the end of the reporting period and the date the financial statements are authorised for issue, those events are disclosed as non-adjusting events in accordance with AASB 110 *Events after the Reporting Period*:

(a) refinancing on a long-term basis of a liability classified as current (see paragraph 72);

(b) rectification of a breach of a long-term loan arrangement classified as current (see paragraph 74); ~~and~~

(c) the granting by the lender of a period of grace to rectify a breach of a long-term loan arrangement ~~ending at least twelve months after the reporting period.~~ classified as current (see paragraph 75); and

(d) settlement of a liability classified as non-current (see paragraph 75A).

### *Settlement (paragraphs 69(a), 69(c) and 69(d))*

**76A For the purpose of classifying a liability as current or non-current, settlement refers to a transfer to the counterparty that results in the extinguishment of the liability. The transfer could be of:**

**(a) cash or other economic resources—for example, goods or services; or**

**(b) the entity's own equity instruments, unless paragraph 76B applies.**

**76B Terms of a liability that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments do not affect its classification as current or non-current if, applying AASB 132 *Financial Instruments: Presentation*, the entity classifies the option as an equity instrument, recognising it separately from the liability as an equity component of a compound financial instrument.**

...

## Transition and effective date

...

139A–~~139D~~

139C [Deleted by the AASB]

139D [Deleted]

...

139U AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current*, issued in March 2020 amended paragraphs 69, 73, 74 and 76 and added paragraphs 72A, 75A, 76A and 76B. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2022 retrospectively in accordance with AASB 108. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

## Commencement of the legislative instrument

For legal purposes, this legislative instrument commences on 31 December 2021.