

Amendments to HKAS 1 - Classification of Liabilities as Current or Non-current

Introduction

The Amendments aim to promote consistency in determining whether liabilities with an uncertain settlement date should be classified as current or non-current. The Amendments include clarifying the classification requirements for convertible debts.

The Amendments clarify, but not change, existing requirements, and so are not expected to affect financial statements significantly. However, they could result in entities reclassifying some liabilities from current to non-current, and vice versa; this could affect an entity's loan covenants.



Effective Date

The Amendments are effective for annual periods beginning on or after 1 January 2023 retrospectively. Earlier application is permitted.

Summary of Amendments

Paragraph 69(d) of HKAS 1 is amended such 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 twelve months after the reporting period.

An 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, to 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.

Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. If a liability meets the criteria 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.

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 the following applies.

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 HKAS 32, the entity classifies the option as an equity instrument, recognising it separately from the liability as an equity component of a compound financial instrument.

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