

Classifying debt as current or non-current

Three examples of term loans

The IFRS Interpretations Committee considered the following three examples of term loans in its tentative agenda decision (TAD).

All three cases consider the classification of a five-year term loan, fully drawn down and with a due date of 31 December 20X6.

| | Case 1 | Case 2 | Case 3 | |
|-------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|-----------------------------------------------------------------|----------------------------------------|
| Condition – working capital (WC) ratio | Above 1.0 | Above 1.0 | Above 1.0 | Above 1.1 |
| Testing dates | Each 31 Dec, 31 Mar, 30 Jun, and 30 Sept | Each 31 Mar | 31 Dec 20X1 | 30 Jun 20X2 and each 30 Jun thereafter |
| Compliance with conditions at 31 Dec 20X1 (i.e. both those conditions at the reporting date and thereafter) | WC ratio is 0.9 | WC ratio is 0.9 | WC ratio is 1.05 | |
| | <p>The company obtains a waiver for the breach before 31 Dec 20X1. The waiver is for three months only</p> <p>The company expects the WC ratio to be above 1.0 at 31 Mar 20X2 (and the other testing dates in 20X2)</p> | The company expects the WC ratio to be above 1.0 at 31 Mar 20X2 | The company expects the WC ratio to be above 1.1 at 30 Jun 20X2 | |

| | Case 1 | Case 2 | Case 3 |
|------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Classification of the loan at 31 Dec 20X1 using rationale in TAD | <ul style="list-style-type: none"> - Current liability - Actual breach of the condition at the reporting date (31 Dec 20X1) – i.e. the company does not comply with the condition at the reporting date but obtains a waiver for that breach prior to that date - The waiver covers only three months so at the reporting date, the company does not have the right to defer settlement for at least 12 months after that date | <ul style="list-style-type: none"> - Current liability - The company assesses if it complies with the future condition at the reporting date (31 Dec 20X1) even though the test is not contractually required until 31 Mar 20X2 – i.e. the company must perform a hypothetical compliance test at the reporting date even though the loan agreement requires testing for compliance only at a later date - As the working capital ratio is 0.9 at 31 Dec 20X1, the company fails the <i>hypothetical</i> compliance test – i.e. it does not have the right to defer settlement for at least 12 months after the reporting date | <ul style="list-style-type: none"> - Current liability - The company assesses if it complies with the conditions at the reporting date (31 Dec 20X1). However, the company must also perform a hypothetical test for compliance with the condition at future dates within 12 months after the reporting date (i.e. 30 Jun 20X2) - Even though the company complies with the condition at the reporting date (i.e. the actual compliance test at 31 December 20X1 per the loan agreement), it fails the <i>hypothetical</i> compliance test with the future condition set for Jun 20X2 – i.e. it does not have the right to defer settlement for at least 12 months after the reporting date |

| | Case 1 | Case 2 | Case 3 |
|---------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| Future expectations | It is irrelevant that the company expects the working capital ratio to be above 1.0 at 31 Mar 20X2 (and the other testing dates in 20X2) or may expect to receive another waiver from the lender | It is irrelevant that the company expects the working capital ratio to be above 1.0 at 31 Mar 20X2 | It is irrelevant that the company expects the working capital ratio to be above 1.1 at 30 Jun 20X2 |

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