

Jamnagar Branch of WIRC of ICAI
Comment on ICAI Exposure Draft
Exposure Draft Classification of Liabilities as Current or
Non-current and Non-current Liabilities with Covenants
Amendment to Ind AS 1

Removal of the carve-out made in paragraph 74 of Ind AS 1.

As per the amended provisions, in case of breach of any 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 shall be classified as current, irrespective of agreement of lender, after the reporting period and before the approval of Financial Statements for issue, to not demand payment as a consequence of the breach.

The proposed amendment will help to incline with internationally accepted IFRS and will provide more clarity to the users of the financial statements. However, this classification will be against the nature of long-term loan arrangement, in substance and will result in distortion of various financial ratios. In addition, it may affect the interpretation of various external agencies and ratings of the company.

Therefore, in our opinion, the same should be included as disclosure and the concept of materiality and nature of breach should be taken into consideration.