

THE EXCHANGE

SEMINAR SERIES

MARKET INSIGHTS FOR PUBLIC COMPANIES

Everything you need to know to stay ahead of the curve

Illustrative example: Classification of debt with covenants

Scenario	Facts and analysis	
Condition – working capital (WC) ratio	Above 1.0	Above 1.1
Testing dates	Dec 31, 2021	Jun 30, 2022
	Actual WC ratio is 1.05 as of December 31, 2021	
Compliance with conditions at December 31, 2021 (i.e. both those conditions at the reporting date and thereafter)	The entity is in compliance with the covenant as of December 31, 2021, and also expects the WC ratio to be above 1.1 at June 30, 2022.	
Classification of the loan at December 31, 2021 per requirements prescribed in the latest exposure draft	<p>As the entity complies with the conditions affecting whether the loan is repayable as of December 31, 2021 (i.e. the 1.0 WC ratio test is met), the loan is classified as a non-current liability. The condition in the future (i.e. the 1.1 WC ratio test as at June 30, 2022) does not affect the classification as of December 31, 2021.</p> <p>While the entity would classify the loan as a non-current liability, the exposure draft does propose new presentation and disclosure requirements.</p>	

