PHILIPPINE INTERPRETATIONS COMMITTEE (PIC)
QUESTIONS AND ANSWERS

Q&A No. 2019-11

Determining the current portion of an amortizing loan/lease liability

This Q&A aims to provide guidance on how to determine the current portion of an amortizing loan/lease liability for proper classification/presentation between current and non-current in the statement of financial position.

Issue

How is the split between the current and non-current portion of an amortizing loan/lease liability calculated at each respective year end?

Fact Pattern

On January 1, 20x1, an entity enters into a five (5)-year loan agreement for a principal amount of **CU4,212**. The loan has an effective interest rate of **6%**, and will be paid off in 5 equal installments of **CU1,000**, payable annually in arrears (ie, every December 31).

Based on the above information, the amortization table for the loan follows:

Yearend	Payment	Opening liability	Interest	Principal	Closing liability
	(A)	**(B)**	**(B) x 6% = (C)**	**(A) - (C) = (D)**	**(B) - (D) = (E)**
12/31/20x1	1,000	4,212	253	747	3,465
12/31/20x2	1,000	3,465	208	792	2,673
12/31/20x3	1,000	2,673	160	840	1,833
12/31/20x4	1,000	1,833	110	890	943
12/31/20x5	1,000	943	57	943	-

(*Note:* The table above would also apply to a 5-year lease agreement with CU1,000 per annum rental rate, payable annually in arrears with an IRIL/IBR of 6%).

Guidance

PAS 1.60 provides that an entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position, except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, an entity shall present all assets and liabilities in order of liquidity.

Under PAS 1.61, whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than twelve (12) months for each asset and liability line item that combines amounts expected to be recovered or settled:
(a) no more than 12 months after the reporting period, and
(b) more than 12 months after the reporting period.

Further, PAS 1.69 states that 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 12 months after the reporting period; or
(d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. 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.

Consensus

View A - The current portion of the financial liability is the principal portion that is due to be settled in the next 12 months.

The financial liability is viewed as a *single amortizing loan* that will accrue interest on the total principal amount and will be repaid through a future stream of cash flows. Applying PAS 1.69 (that a liability shall be classified as current when 'the liability is due to be settled within 12 months'), the current portion is based only on the actual principal to be repaid within the next 12 months. In the fact pattern, this is equivalent to the difference between the closing liability at reporting period date and the closing liability at the following reporting period date.

Yearend	Current	Noncurrent	Total
12/31/20x1	792	2,673	3,465
12/31/20x2	840	1,833	2,673
12/31/20x3	890	943	1,833
12/31/20x4	943	-	943
12/31/20x5	-	-	-

View B: The current portion of the financial liability is the present value of the cash repayment that is due to be settled within the next 12 months.

The liability represents the *aggregate of five (5) discrete cash flows*, each discounted at the 6% EIR for the respective number of periods, which at commencement aggregate to a liability of CU4,212.

The current portion (CU943) is calculated as the present value of the payment due within the next 12 months (CU1,000), discounted at the effective interest rate of 6% for 12 months [CU1,000/(1.06)].

Yearend	Current	Noncurrent	Total
12/31/20x1	943	2,522	3,465
12/31/20x2	943	1,730	2,673
12/31/20x3	943	890	1,833
12/31/20x4	943	-	943
12/31/20x5	-	-	

View A is the technically correct and preferred view, but the entity is not precluded from applying View B, until there is further guidance as the IASB completes the amendments to PAS 1. **Any view opted by the entity should be applied consistently to all its financial/lease liabilities.**

Effective date

The consensus in this Q&A becomes effective upon approval by the FRSC.

Date approved by PIC: December 17, 2019

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