

## GENERAL ACCOUNTING

### SECTION 1510

#### current assets and current liabilities

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#### PURPOSE AND SCOPE

- .01 This Section establishes presentation and disclosure standards for current assets and current liabilities. Other Sections provide additional presentation and disclosure requirements for specific current assets and liabilities.
- .02 Assets and liabilities are normally segregated between current and non-current. However, the segregation of assets and liabilities between current and non-current may not be appropriate in financial statements of enterprises in certain industries.

#### CURRENT ASSETS

- .03 *As a balance sheet classification, current assets shall include those assets ordinarily realizable within one year from the date of the balance sheet or within the normal operating cycle, when that is longer than a year.*
- .04 *Current assets shall be segregated between the main classes, such as, cash, investments, accounts and notes receivable, inventories and prepaid expenses.*
- .05 *Investments shall be classified as current assets only when capable of reasonably prompt liquidation. Such investments would include not only marketable securities but also other investments, such as treasury bills, investment certificates and call loans.*
- .06 *Prepaid expenses that meet the definition of a current asset shall be classified as current assets.*
- .07 *The following shall be excluded from current assets:*
  - (a) *cash subject to restrictions that prevent its use for current purposes; and*
  - (b) *cash appropriated for other than current purposes unless such cash offsets a current liability.*

#### CURRENT LIABILITIES

- .08 *As a balance sheet classification, current liabilities shall include amounts payable within one year from the date of the balance sheet or within the normal operating cycle, when that is longer than a year. The normal operating cycle shall correspond with that used for current assets.*
- .09 *The current liability classification shall also include amounts received or due from customers or clients with respect to goods to be delivered or services to be performed within one year from the date of the balance sheet, if not offset against a related asset.*
- .10 *Obligations that would otherwise be classified as current liabilities shall be excluded from the current liability classification to the extent that contractual arrangements have been made for settlement from other than current assets.*
- .11 *Current liabilities shall be segregated as between the main classes, such as bank loans, trade creditors and accrued liabilities, loans payable, taxes payable, dividends payable, deferred revenues, current payments on long-term debt and retractable or mandatorily redeemable shares issued in a tax planning arrangement.*
- .11A *Amounts owing on loans from directors, officers and shareholders, and amounts owing to parent and other affiliated companies, whether on account of a loan or otherwise, shall be shown separately on the balance sheet, or presented in aggregate on the balance sheet with the amounts disclosed separately in the notes to the financial statements or supporting schedules. When amounts are disclosed in the notes to the financial statements or supporting schedules, a cross-reference is provided in the corresponding balance sheet line item.*

## **DEBT**

- .12 *The current liability classification shall include only that portion of long-term debt obligations, including sinking-fund requirements, payable within one year from the date of the balance sheet.*
- .13 Non-current classification of debt is based on facts existing at the balance sheet date rather than on expectations regarding future refinancing or renegotiation. If the creditor has at that date, or will have within one year (or operating cycle, if longer) from that date, the unilateral right to demand immediate repayment of any portion or all of the debt under any provision of the debt agreement, the obligation is classified as a current liability unless:
- the creditor has waived, in writing, or subsequently lost, the right to demand payment for more than one year (or operating cycle, if longer) from the balance sheet date;
  - the obligation has been refinanced on a long-term basis before the balance sheet is completed; or
  - the debtor has entered into a non-cancellable agreement to refinance the short-term obligation on a long-term basis before the balance sheet is completed and there is no impediment to the completion of the refinancing.
- .14 Long-term debt with a measurable covenant violation is classified as a current liability unless:
- the creditor has waived, in writing, or subsequently lost, the right, arising from violation of the covenant at the balance sheet date, to demand repayment for a period of more than one year from the balance sheet date; or
  - the debt agreement contains a grace period during which the debtor may cure the violation and contractual arrangements have been made that ensure the violation will be cured within the grace period;
- and a violation of the debt covenant giving the creditor the right to demand repayment at a future compliance date within one year of the balance sheet date is not likely.

## **DISCLOSURE**

- .15 *Entities shall disclose the amount payable at the end of the period in respect of government remittances (other than income taxes).*
- .16 Government remittances (other than income taxes) include, for example, federal and provincial sales taxes, payroll taxes, health taxes, and workers' safety insurance premiums.

## **EFFECTIVE DATE AND TRANSITION**

- .17 Except as specified in paragraphs 1510.18-.20, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.
- .18 Amendments to paragraph 1510.11, issued in December 2018, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2021. Earlier application is permitted.
- .19 Amendments to paragraphs 1510.03 and 1510.08, issued in June 2019, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2021. Earlier application is permitted.
- .20 Amendments to paragraph 1510.11 and new paragraph 1510.11A, issued in April 2021, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2022. Earlier application is permitted.

## **ILLUSTRATIVE EXAMPLE**

### **PRESENTATION OF CALLABLE DEBT**

This material is illustrative only.

This example illustrates how the accounting treatment specified in this Section might be applied in a particular situation. Matters of principle relating to particular situations should be decided in the context of this Section.

An entity has a debt payable to a bank or other lender of \$330,000. The terms of the debt agreement provide for repayment of the debt over five years but also give the lender the right to call for repayment at any time. At the end of 20X8 the entity believes the lender will not call for repayment of the debt before the end of the five-year period.

This example presents one way in which the callable debt might be presented.

### **ABC Ltd. Balance Sheet (extract)**

As at December 31 (\$ thousands)	<u>20X8</u>	<u>20X7</u>
<b>LIABILITIES</b>		
Current:		
Accounts payable and accrued liabilities	\$ 613	\$ 530
Scheduled cash repayments for long-term debt (Note X)	<u>410</u>	<u>410</u>
Current liabilities before callable debt (Note X)	1,023	940
Callable debt (Note X)	<u>220</u>	<u>330</u>

<b>Total current liabilities</b>	<u>1,243</u>	<u>1,270</u>
Non-current:		
Long-term debt (Note X)	<u>125</u>	<u>425</u>
<b>Total liabilities</b>	<u>\$1,368</u>	<u>\$1,695</u>
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**Notes to Financial Statements**

<b>Note X: Debt</b>	<u>20X8</u>	<u>20X7</u>
Callable bank loans, interest at prime plus 1.75% per annum, principal repayable over 60 months, secured by certain equipment (a)	\$ 330	\$ 440
Promissory notes payable, interest at prime plus 2% per annum, repayable in monthly installments of \$25,000 plus interest, secured by a general security agreement over all assets of the company, principal due 20Y0	<u>425</u>	<u>725</u>
<b>Total debt</b>	<u>755</u>	<u>1,165</u>
Less current portion:		
Cash repayments required within 12 months	(410)	(410)
Callable debt (a)	(220)	(330)
Current debt	(630)	(740)
<b>Total long-term debt</b>	<u>\$ 125</u>	<u>\$ 425</u>
	=====	=====

(a) Canadian generally accepted accounting principles require that loans that the lender can require to be repaid on demand be classified as current liabilities.

Management does not believe that the demand features of the callable debt will be exercised in the current period. Assuming payment of the callable debt is not demanded, regular principal payments required on all long-term debt for the next five years are due as follows:

20X9	\$410
20Y0	235
20Y1	110
20Y2	—
20Y3	—
	<u>\$755</u>
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