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GRC BULLETIN

MAY - 2025, VOLUME: II

MCA

Companies (Indian Accounting Standards) Amendment Rules, 2025

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MCA - COMPANIES (INDIAN ACCOUNTING STANDARDS) AMENDMENT RULES, 2025

Applicability: All companies are required to prepare financial statements under Indian Accounting Standards (Ind AS) under the Companies Act, 2013.

The term **"exchangeability"** has been redefined by Ind AS 21, which now clearly states when one currency is deemed interchangeable for another. If a currency can be acquired through a market or exchange mechanism that establishes enforceable rights and responsibilities in a reasonable amount of time (allowing for typical administrative delays), then it is exchangeable.

- **Evaluation of exchangeability (paragraphs 8A–8B):** At every measurement date and for the particular objective of the transaction or operation, entities are required to evaluate currency exchangeability. The foreign currency is considered non-exchangeable into the other currency if only a negligible quantity is available for that purpose.
- **Estimating the spot exchange rate (paragraph 19A):** The entity is required to estimate a spot exchange rate if a currency is determined to be non-exchangeable. The predicted rate should be the rate at which, in the given circumstances, an orderly transaction between market players would take place on the measurement date.
- **Single-rate requirement (updated paragraph 26):** The standard makes it clear that only one exchange rate may be utilized if there are several. If the cash flows of the transaction or balance had taken place on the measurement date, the selected rate should have been the one at which those cash flows could have been settled.
- **Increased disclosure requirements (paragraphs 57A–57B):** To maintain transparency, organizations estimating a spot rate for a non-exchangeable currency must make thorough disclosures. Increased disclosure requirements (paragraphs 57A–57 B): To maintain transparency, organizations estimating a spot rate for a non-exchangeable currency must make thorough disclosures. The nature and financial ramifications of the currency's non-exchangeability, the spot rate or rates that were employed, the estimation methodology (methods and assumptions), and the associated risks that the company is exposed to are all required disclosures.

CORPORATE LAWS

Authority

Ministry of Corporate Affairs, Government of India

Circular Date

May 07, 2025

Circular Number

G.S.R. 291(E)

Effective Date

May 08, 2025

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- **Guidelines for applications (Appendix A):** A two-step method is demonstrated in a new Appendix A (part of the Standard): (1) determining if a currency is exchangeable, and (2) calculating the spot rate if it is not. The above criteria can be applied consistently with the help of this flowchart-style instruction.
- **Transition provisions:** These changes take effect for fiscal years that start on or after April 1, 2025. Any modifications resulting from the initial application are recorded in the opening retained earnings or foreign currency translation reserve; comparative data from previous quarters are not recast.

Subsequent Modifications to Ind AS 101 ("Ind AS Adoption for the First Time")

- **First-time adopters' alignment**: The modified Ind AS 101 now includes the new exchangeability regulations. The modified Ind AS 21 is specifically referenced in a new paragraph (39AI), which mandates that future adopters follow the same lack-of-exchangeability guidelines.
- Appendix D of Ind AS 101 has been updated to clarify that a foreign operation's functional currency may be considered non-exchangeable "into a relatively stable foreign currency," with exchangeability evaluated following Ind AS 21.
- **Disclosure of hyperinflation (paragraph 31C):** The transitional relief for hyperinflation (paragraph 31C) has been amended to require an entity to explain how and why its functional currency became (and stopped being) hyperinflationary if it chooses fair value as estimated cost as a result of severe hyperinflation. When implementing Ind AS in the face of severe currency situations, this guarantees consistency in selecting the functional currency.

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