Dipen D Shah & Associates

CHARTERED ACCOUNTANTS

Companies (Ind AS) Amendment Rules,2025

Summary & Visual Guide

Issued By

Ministry of Corporate Affairs,
Government of India

Effective Date

7th May 2025

Applicable for annual periods beginning **on or after 1st April 2025**

Core Focus of the Amendment

Amendments are made to Ind AS 21 to address the " **Lack of Exchangeability** " of currencies.These changes define and guide the treatment when an entity's functional currency cannot be exchanged into another currency

Key Amendments in Ind AS 21 (Effects of changes in foreign exchange)

01 Definition of Exchangeability

A currency is exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations.

02 Exchangeable

An entity assesses whether a currency is exchangeable into another currency:

(a) at a measurement date and

(b) for a specified purpose.

If an entity is able to obtain no more than an insignificant amount of the other currency at the measurement date for the specified purpose, the currency is not exchangeable into the other currency.

Situation when several exchange rates available

The rate at which the future cash flows could have been settled if those cash flows had occurred at the measurement date should be used.

03 Paragraph 57A

When an entity estimates a spot exchange rate because a currency is not exchangeable into another currency the entity shall disclose information that enables users of its financial statements to understand how the currency not being exchangeable into the other currency affects or is expected to affect, the entity's financial performance, financial position and cash flows. To achieve this objective, an entity shall disclose information about:

a) the nature and financial effects of the currency not being exchangeable into the other currency.
b) the spot exchange rate used
c) the estimation process
d) the risks to which the entity is exposed because of the currency not being exchangeable into the other currency.

04 An entity shall not restate the comparative information

When the entity reports foreign currency transactions in its functional currency and at the date of initial application, concludes that its functional currency is not exchangeable into the foreign currency or vice versa, the entity shall at the date of its initial application :

- translate affected foreign currency monetary items and non-monetary items measured at fair value in a foreign currency, using the estimated spot exchange rate at that date

- recognise any effect of initially applying the amendments as an adjustment to the opening balance of retained earnings.

When the entity uses a presentation currency or translates the results and financial position of a foreign operation and concludes that its functional currency is not exchangeable to presentation currency or vice versa, the entity shall at the date of its initial application :

- translate affected assets and liabilities using the estimated spot exchange rate at that date
- translate affected equity items using the estimated spot exchange rate at that date if the entity's functional currency is hyperinflationary
- recognise any effect of initially applying the amendments as an adjustment to the cumulative amount of translation differences—accumulated in a separate component of equity.

05

The purpose of the following diagram is to help entities assess whether a currency is exchangeable and estimate the spot exchange rate when a currency is not exchangeable.

Is the currency exchangeable into the other currency at the measurement date for the specified purpose

Apply the applicable requirements of Ind AS 21

At the measurement date, estimate the spot exchange rate that meets the objective in paragraph 19A by using the either :

a) An observable exchange rate without adjustment (paragraph A11-16) or

b) Another estimation technique (paragraph A17)

Step 1

Assessing whether a currency is exchangeable

Step 2

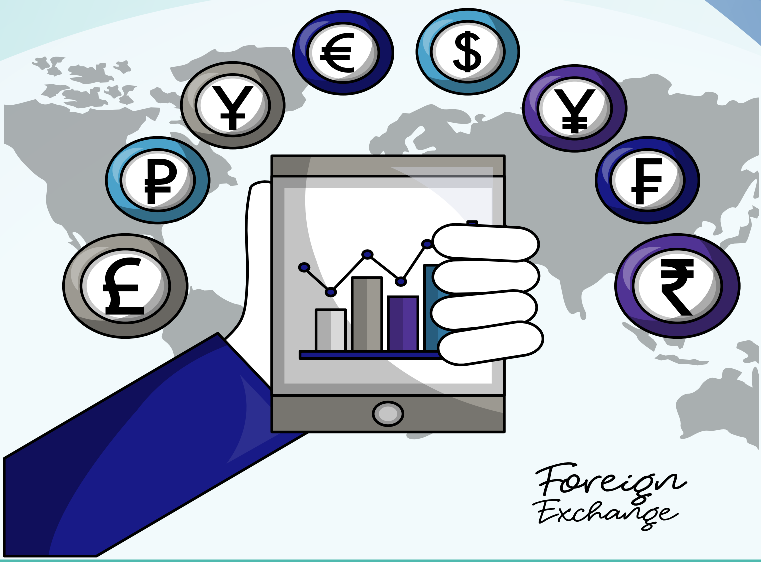
Estimating the spot exchange rate when currency is not exchangeable

Two-Step Guidance Framework

Step 1 : Assess Exchangeability

Key factors considered:

- **Time delays** – normal admin delay does not preclude a currency from being exchangeable into other currency.
- **Ability** – a currency is exchangeable into another currency if an entity is able to obtain the other currency either directly or indirectly even if it intends or decides not to do so.
- **Market mechanisms with legal enforceability** - an entity shall consider only markets or exchange mechanisms in which a transaction to exchange the currency for the other currency would create enforceable rights and obligations.
- **Purpose-specific availability** – whether an entity reports a foreign currency translations in its functional currency or uses a presentation currency or translates the results and financial position of a foreign operation into the presentation currency, the entity shall assume its purpose in obtaining the other currency is to realise or settle its net investment in the foreign operation.



Step 2 : Estimate Spot Exchange Rate

Approaches:

1. Observable Exchange Rate without adjustment

Example –

(a) a spot exchange rate for a purpose other than that for which an entity assesses exchangeability. The entity shall consider the following factors amongst the other factors -

- whether several observable exchange rates exist
- the purpose for which the currency is exchangeable
- the nature of the exchange rate
- the frequency with which exchange rates are updated

(b) Using the first subsequent exchange rate. Following factors should be inclusively considered -

- the time between the measurement date and the date at which exchangeability is restored
- inflation rates

2. Using other estimation technique – Use any observable exchange rate including rates from exchange transactions in markets or exchange mechanisms that do not create enforceable rights and obligations and adjust that rate.

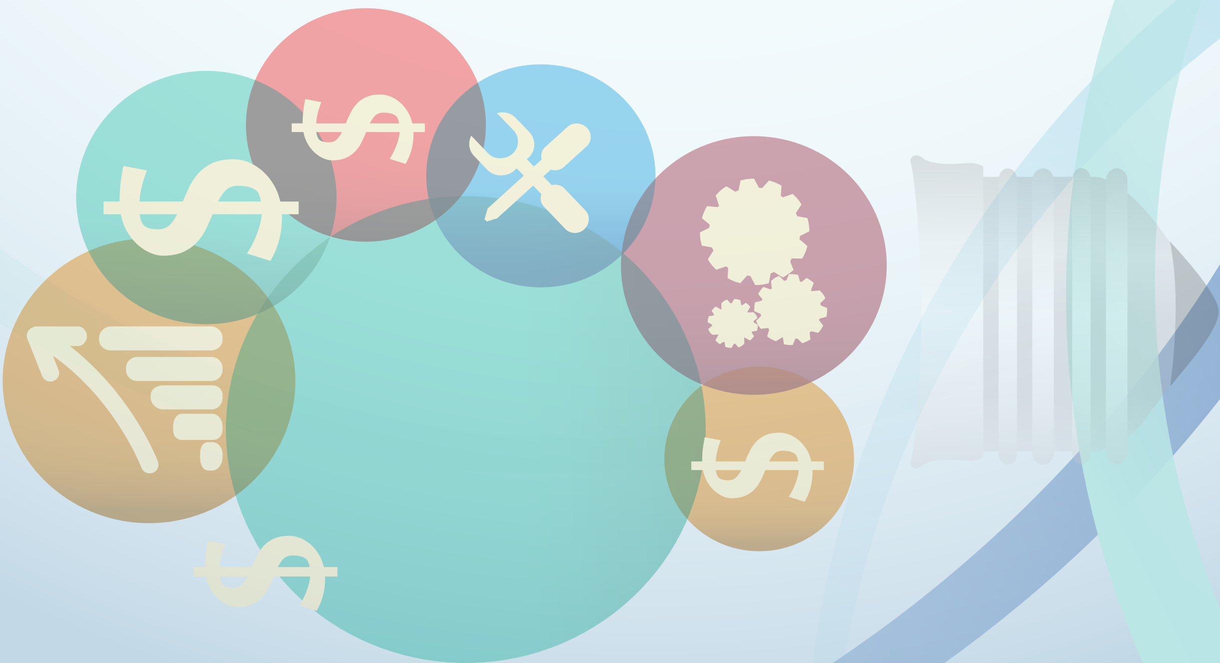
Disclosure Requirements when the currency is not exchangeable

Entities must disclose:

- The currency and a description of the restrictions that result in that currency not being exchangeable into the other currency.
- A description of affected transactions.
- the carrying amount of affected assets and liabilities.
- the spot exchange rates used and whether those rates are
  - i. observable exchange rates without adjustment.
  - ii. spot exchange rates estimated using another estimation technique.
- description of any estimation technique the entity has used, and qualitative and quantitative information about the inputs and assumptions used in that estimation technique.
- qualitative information about each type of risk to which the entity is exposed.

Entities is required to disclose the following when a foreign operation's functional currency is not exchangeable into the presentation currency or vice versa -

- the name of the foreign operation and its principal place of business.
- summarized financial information about the foreign operation.
- the nature and terms of any contractual arrangements.



Key Amendments in Ind AS 101
(First-Time Adoption of Indian Accounting Standards)

- If an entity elects to measure assets and liabilities at fair value and to use that fair value as the deemed cost in its opening Ind AS Balance Sheet because of severe hyperinflation, the entity's first Ind AS financial statements shall disclose an explanation of how and why the entity had and then ceased to have, a functional currency that is subject to severe hyperinflation.
- An entity shall apply those amendments when it applies the amendments to Ind AS 21.

CONCLUSION:

This amendment were made to align relevant Indian accounting standards with the relevant IFRS. Necessary amendments for easily non exchangeable currencies is relevant considering expected geopolitical changes in world order.

THANK YOU..

+91-79-40039647

813, Shree Balaji Heights, Near IDBI Bank,
Body Line Cross Roads, C G Roads, Ahmedabad - 380006

dipen@ddsaca.com
info@ddsaca.com

Dipen D Shah & Associates
CHARTERED ACCOUNTANTS