

NANGIA & CO LLP

Assurance Gazette

May, 2025



Contents

Foreword

03

MCA Notification on Amendments to
Ind AS 21.

04

EAC opinion on Accounting treatment and
classification of sales bills discounting, under
Ind AS framework.

07

Foreword

“Welcome to the Assurance Gazette for May 2025 Edition.

This edition dives into the recent amendments introduced by the Ministry of Corporate Affairs (MCA) to Ind AS 21 – “The Effects of Changes in Foreign Exchange Rates”. These changes address a long-standing issue: the “Lack of Exchangeability”.

One of the key developments originally proposed by NFRA in line with amendments to international standards by the IASB is the introduction of clear guidance for scenarios where observable exchange rates between two currencies are not available within a reasonable timeframe.

The gazette also discusses the Expert Advisory Committee’s (EAC) view on the accounting treatment of Sales Bills Discounting under Ind AS 109. In a case involving a public sector power company, the EAC concluded that due to the “with recourse” nature of the arrangement, derecognition of receivables is not appropriate. Instead, trade receivables retained, and a financial liability recognised—highlighting the importance of substance over form in financial reporting.”



MCA Notification on Amendments to Ind AS 21.

Introduction

Ind AS 21 provides guidance on incorporating foreign currency transactions and foreign operations into financial statements and translating these statements into a presentation currency. However, the standard previously **lacked specific instructions for determining exchange rates** when two currencies are not exchangeable a common issue in economies experiencing strict foreign exchange controls.

To fill this gap, the IASB amended IAS 21 to include guidance on "Lack of Exchangeability." The MCA has now **aligned Ind AS 21 with these international amendments**. The changes define exchangeability, specify when a currency is considered non-exchangeable, and outline a methodology for determining an appropriate exchange rate in the absence of a reliable official rate.

Regulatory Support and Implementation Timeline

The IASB issued its **amendments to IAS 21 in August 2023**, making them effective globally for annual reporting periods beginning on or after **January 1, 2025**, with early adoption allowed.

Following this, NFRA proposed similar **amendments to Ind AS 21 on March 8, 2025**, in the interest of maintaining global convergence with IFRS. The Institute of Chartered Accountants of India (ICAI) supported these changes, emphasizing that they would improve the clarity of financial reporting involving foreign currency transactions.

The MCA **officially notified** the amendments via **G.S.R. 291(E)** in the Gazette of India on **May 7**,

2025. Effective from April 1, 2025, these changes apply prospectively to financial periods beginning on or after this date and provide guidance for identifying the "**spot rate**" when exchangeability is lacking.

Key Highlights of the Proposed Amendments

Under the existing provisions of Ind AS 21:

Foreign currency **transactions** must be initially recorded using the **spot exchange rate** on the transaction date.

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At subsequent reporting dates, **monetary items** are translated using the **closing rate**.

Limited guidance exists for instances of temporary **exchangeability issues**, leading to inconsistent practices.

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The recent amendments introduce significant changes:

- Entities are now required to provide **detailed disclosures** on their accounting policies for foreign currency transactions and operations.
- A **new explanatory section** defines exchangeability: a currency is deemed exchangeable if it can be obtained through a market or mechanism with enforceable rights and obligations, within a reasonable time, accounting for normal administrative delays.
- **Assessment Guidelines:** Entities must assess exchangeability as of the measurement date and for a specified purpose. If more than an insignificant amount of foreign currency cannot be obtained for that purpose, the currency is considered non-exchangeable.
- **Single rate emphasis:** When a currency is non-exchangeable, the entity must estimate the spot exchange rate using a “single rate” that reflects what would be expected in an orderly transaction between market participants.

A two-step framework is outlined:

Step I:

Determine whether the currency is exchangeable.

Estimate the spot exchange rate when it is not.

Step II:

An entity may use an observable exchange rate without adjustment if that observable exchange rate meets the objective in case the spot exchange rate is not available, considering the factors such as **existence of several observable exchange rates**, **purpose** for which it is exchangeable, **nature** of exchange rate and its updating **frequency**.

The following **disclosure requirements** are required to be done by entities dealing in such transactions –

- The nature and financial impact of **non-exchangeability**.
- **Estimated spot rates** and the methods used.
- Risks associated with **non-exchangeability**.
- **Assumptions and inputs or any other techniques** used in estimation.

In case when a **currency is not exchangeable** the entity shall disclose –

- The currency and a description of the restrictions.
- A description of affected transactions.
- **Carrying amount of affected assets and liabilities**.
- Spot exchange rates used.
- **Qualitative information** about each type of risk to which the entity is exposed.



As per the **Transitional Provisions**, no restatement of comparatives is required. Adjustments, if necessary, should be made to the opening balance of retained earnings or the foreign currency translation reserve.

Additional **references and harmonizations** have been made to **Ind AS 101 and Ind AS 109** to maintain consistency in treating inflationary environments and net investments in foreign operations.

Nangia's Take

With global businesses facing increasing foreign exchange volatility and regulatory uncertainty, the MCA's move to strengthen Ind AS 21 marks a progressive step toward ensuring more consistent, transparent, and decision-useful financial reporting. These changes address growing concerns among preparers and auditors over inconsistent interpretations of exchangeability, especially in countries facing currency controls or hyperinflation. Companies with **significant foreign operations** are advised to carefully assess their foreign currency exposures and update their accounting policies ahead of the April 2025 effective date and apply the estimation method **consistently across periods** and similar transactions along with effective disclosures for changes in estimation methodology.



EAC opinion on Accounting treatment and classification of sales bills discounting, under Ind AS framework.

The accounting opinion deals with the classification and treatment of sales bill discounting (SBD) under the Ind AS framework, specifically Ind AS 109 – *Financial Instruments*. The case concerns a public sector undertaking engaged in lignite and coal mining and power generation, which supplies electricity to state DISCOMs through long-term Power Purchase Agreements (PPAs). These DISCOMs often face liquidity issues and hence opt for SBD arrangements to settle dues on time and avoid late payment surcharges.

In this arrangement, the company facilitates financing for DISCOMs through banks. Banks remit the full invoice amount to the company upfront, and DISCOMs later repay the bank. The company obtains interest rate quotes from banks through competitive bidding, and DISCOMs select the bank and tenor. However, a critical feature of this arrangement is that it is "**with recourse**" to the company. If a DISCOM defaults, the bank can debit the amount directly from the company's account, and the company subsequently recovers it from the DISCOM, along with applicable surcharges.

The company has been derecognising trade receivables upon receipt of funds from banks, considering that it has transferred substantially all the risks and rewards. It believes that the derecognition is justified because of (i) no history of default by DISCOMs over four years of using SBD, (ii) DISCOMs being state PSUs backed by sovereign guarantees, and (iii) the company not exercising control once receivables are discounted. For potential recourse obligations, it discloses a **contingent liability**, citing Ind AS 37.

However, the Expert Advisory Committee (EAC) of ICAI disagreed with this treatment. According to Ind AS 109, a financial asset should be derecognised only when the entity has either:

1. Transferred the contractual rights to receive cash flows, or
2. Transferred the risks and rewards of ownership, or
3. Neither retained nor transferred substantially all the risks and rewards but also relinquished control.

In this case, EAC found that the arrangement **does not meet the derecognition criteria** for several reasons:

The receivables are transferred **with recourse**, and the company provides a **demand promissory note** and an indemnity undertaking to the bank. This means the bank's sole remedy in case of default is to recover from the company—not the DISCOM.

The company retains **significant credit risk**. Its exposure to cash flow variability has not materially reduced post-transfer.

The DISCOMs' failure to pay would require the company to settle the dues first and then recover from the DISCOMs, showing continued exposure and control.

Therefore, despite the historical absence of defaults and strong recovery patterns, the **substance over form principle** under Ind AS 109 leads to the conclusion that the company retains substantially all the risks and rewards.

Consequently, **derecognition is not appropriate**. Instead, the company must continue to recognise trade receivables on its balance sheet. Simultaneously, it should record a **financial liability** equal to the proceeds received from the bank. This reflects the company's obligation under the recourse clause. Classifying the obligation as a **contingent liability** is not acceptable because there exists a present contractual obligation due to the "with recourse" clause, not a mere possibility of obligation arising in the future.

The EAC also emphasized that derecognition should not be influenced by subjective assessments like the probability of default or past payment behaviour. The evaluation must focus on risk exposure changes, as per the **objective criteria** set out in Ind AS 109.

Final Opinion:

The EAC concluded that the company should:

- **Continue recognising the trade receivables.**
- **Record a financial liability** for the amount received from the bank.
- Not treat the arrangement as derecognition nor disclose it merely as a contingent liability.



Meet Our Experts



Vikas Gupta
Partner - Audit & Assurance
vikas.gupta@nangia.com



Prateek Agrawal
Partner - Audit & Assurance
prateek.agarwal@nangia.com



Vikram Pratap Singh
Partner - Audit & Assurance
vikram.pratap@nangia.com



Jaspreet Singh Bedi
Partner - Audit & Assurance
jaspreet.bedi@nangia.com



Vijaya Uppiretla
Partner - Audit & Assurance
vijaya.uppiretla@nangia.com

With inputs from



Avneet Singh
Director - Audit & Assurance
avneet.singh@nangia.com



Shalu Kedia
Director - Audit & Assurance
shalu.kedia@nangia.com



Sudipti Palgotra
Manager - Audit & Assurance
sudipti.palgotra@nangia.com



Vansh Gupta
Analyst - Audit & Assurance
vansh.gupta@nangia.co.in

Our Locations

NOIDA

(Delhi NCR - Corporate Office) A-109, Sector - 136, Noida - 201304, India
T: +91 120 2598000

DELHI

(Registered Office) B-27, Soami Nagar, New Delhi - 110017, India
T: +91 120 2598000

GURUGRAM

001-005, Emaar Digital Greens Tower-A 10th Floor, Golf Course Extension Road, Sector 61, Gurgaon-122102
T: +91 124 4301551

MUMBAI

4th Floor, Iconic Tower, URMI Estate, Ganpat Rao Kadam Marg, Lower Parel, Mumbai - 400013, India
T : +91 224 4743400

CHENNAI

Prestige Palladium Bayan, Level 5, 129-140, Greams Road, Thousand Lights, Chennai - 600006
T: +91 444 6549201

BENGALURU

Prestige Obelisk, Level 4, No 3 Kasturba Road, Bengaluru - 560 001, Karnataka, India
T: +91 802 248 4555

PUNE

3rd Floor, Park Plaza, CTS 1085, Ganeshkhind Road, Next to Pune Central Mall, Shivajinagar, Pune - 411005, India

DEHRADUN

1st Floor, "IDA" 46 E.C. Road, Dehradun - 248001, Uttarakhand, India
T: +91 135 2716300

www.nangia.com | query@nangia.com

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