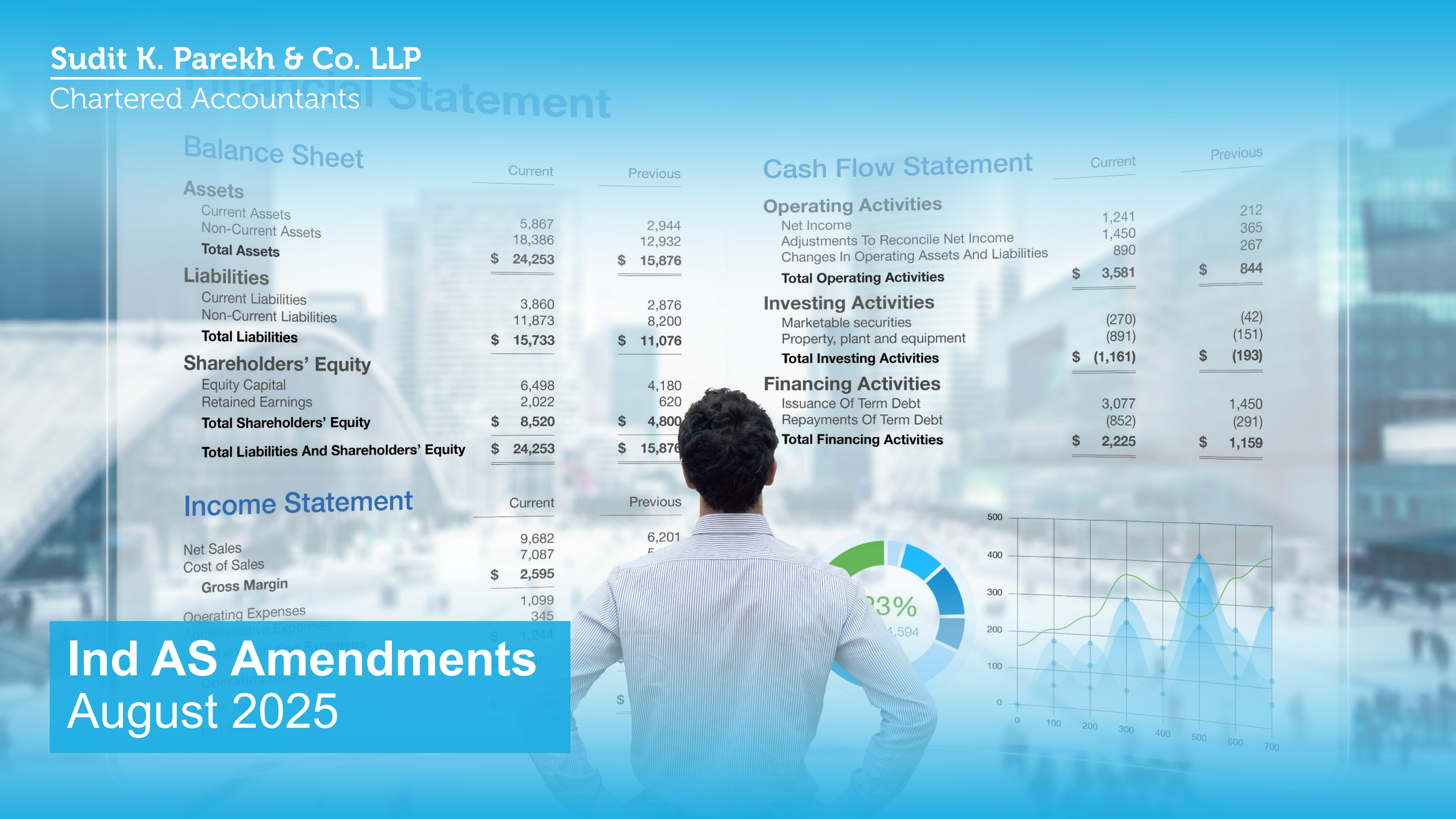
Sudit K. Parekh & Co. LLP

Chartered Accountants



Ind AS Amendments

August 2025

What Companies Need to Know

On 13 August 2025, the Ministry of Corporate Affairs (MCA) notified amendments to Indian Accounting Standards (Ind AS). It is important to understand how these changes will affect financial reporting, so that businesses are prepared for their impact in FY 2025-26 and beyond.

Key Highlights of the Amendments

Amendments related to Ind AS 1, Presentation of Financial Statements (1 April 2025 and 1 April 2026) Classification of Liabilities as Current or Non-current

These amendments correspond to the amendments made to IFRS as a part of annual improvements in 2024, here.

The corresponding amendments to Ind AS 1, will be applicable in different tranches as discussed below:

Amendments to Ind AS 1, applicable from 1 April 2025

Ind AS 1 includes guidance on the classification of liabilities as current or non-current. Specific to borrowings, guidance is provided to cover aspects such as the rollover of existing loans, the effect of debt covenants on the classification, and the right to defer repayment. A thorough review of these provisions was carried out under IFRS Annual improvement program, resulting in amendments to IAS 1 and consequential amendments to Ind AS 1. After the amendment, the classification rules are covered below.

Right to defer the settlement of liability

Existing provisions have been amended to state that the right should have substance and should exist at balance sheet date.

Thus, after amendment, a liability will be classified as non-current if, at the end of the reporting period, the entity has a right to defer the settlement of the liability for at least 12 months after the reporting period. This right must have substance.

While assessing this right, only the covenants that the entity is required to comply with on or before the end of the reporting period should be considered. Covenants that are to be complied with after the end of the reporting period should not be considered in assessing the existence of rights at the end of the reporting period.

The likelihood of the entity exercising its right to defer settlement of the liability for at least twelve months after the reporting period does not affect the classification.

Right to roll-over an obligation

If, at the end of the reporting period, the entity has the right to rollover an obligation for at least 12 months after the reporting period, it will be classified as a non-current liability, even if it would otherwise be due within a short period.

Liabilities settled by issue of entity’s own equity shares

Terms of liability may provide an option to settle the liability by the issue of the entity’s own equity shares. These terms should be considered in determining whether the liability falls due within 12 months from the end of the reporting period and as a consequence requiring them to be classified as current liability.

Non-current liabilities expected to be settled within 12 months from balance sheet date

If a liability meets the criteria for being classified as non-current, it will be classified as non-current liability even if management intends or expects the entity to settle the liability within twelve months after the reporting period or settled the same after the end of the reporting period. A disclosure for such liabilities would be required at the year end.

Loan becoming repayable on demand due to breach of covenants

A long-term loan arrangement might include a covenant, a breach of which will result in the loan becoming repayable on demand. As per Ind AS 1, if such a breach has occurred on or before the end of the reporting period, the loan is allowed to be classified as a non-current liability, despite the loan having already become repayable on demand, provided that the lender has agreed after the balance sheet date but before the date of approval, not to demand repayment as a consequence of breach. This is a departure from IAS 1. When such a loan continues to be classified as non-current liability, a disclosure relating to the breach is required.

A sunset clause has been introduced for the said provision. An entity will be able to apply this provision only up to 31 March 2026. The subsequent amendment which will be applicable from 1 April 2026 is discussed in later paragraphs.

Amendment applicable to Ind AS 1 from 1 April 2026

Loan becoming repayable on demand due to breach of covenants

This is in continuation of the sunset clause discussed above:

A Loan which has become repayable on demand at the balance sheet date due to the breach of covenants will no longer be permitted to be classified as non-current, even though lender has agreed not to demand payment (post the end of the reporting period but before the approval date) because of the breach. This amendment will eliminate a long existing difference between Ind AS 1 and IAS 1.

Confirming amendments to Ind AS 10

Provisions in Ind AS 10 which required that the agreement by lender before the approval of the financial statements for issue, to not demand payment as a consequence of the breach, shall be considered as an adjusting event, shall be omitted from 1 April 2026

Other Amendments

Disclosures relating to Supplier Finance Arrangements (Ind AS 7 and Ind AS 107): (Applicable from 1 April 2025)

A Supplier Finance Arrangement (SFA), also referred to as reverse factoring, is a financing structure where a buyer’s payables to suppliers are settled through a financial institution, often allowing suppliers to receive earlier payment or providing the entity with extended payment terms.

The amendment mandates disclosures on SFA, helping users assess their impact on entity’s liabilities, cash flows, and liquidity risk, in line with the requirements of IAS 7.

Broadly, disclosures are required for:

- Terms and conditions of SFA
- Related amounts in the balance sheet at the start and at the end of the reporting period
- Range of payment due dates

Disclosures relating to these arrangements are also required as per Ind AS 107 and are applicable from the same date.

International tax reform—Pillar Two model rules (Ind AS 12)

The Pillar Two Model Rules, issued by the OECD, establish a global minimum tax framework ensuring large multinational enterprises pay at least 15% tax in every jurisdiction where they operate.

Amendment to Ind AS 12, provide an exception to recognizing and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes, provided a disclosure of such exception is given.

Current tax expense (income) related to Pillar Two income taxes are to be disclosed separately.

The amendments are applicable from the date of notification i.e. 13 August 2025.

Disclosures are required for annual periods beginning on or after 1 April 2025.

India has not yet formally implemented the Pillar Two rules domestically, other minor amendments in terms of cross-referencing or other minor edits have also been notified.

Final Thoughts

The amendments related to classification of liability as current and non-current, could have an impact on various ratios and possibly on covenant compliance as well. Other changes are mostly in the nature of minor amendments. Companies must act in time to ensure smooth compliance.

Sudit K. Parekh & Co. LLP
Chartered Accountants

GET OUR INSIGHTS IN YOUR MAILBOX

Subscribe to our newsletter today for more insights, thought leadership publications, and success stories to help you better navigate complex business challenges.

communication@skparekh.com

Mumbai
Pune
Hyderabad
Gurugram
Bengaluru

www.suditkparekh.com

skpco.info@skparekh.com

Disclaimer

The contents of this document are intended for general marketing and informative purposes only and should not be construed to be complete. This document may contain information other than our services and credentials. Such information should neither be considered as an opinion or advice nor be relied upon as being comprehensive and accurate. We accept no liability or responsibility to any person for any loss or damage incurred by relying on such information. This document may contain proprietary, confidential or legally privileged information and any unauthorised reproduction, misuse or disclosure of its contents is strictly prohibited and will be unlawful.