

# **ASSURANCE GAZETTE**

December, 2025



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# Foreword

*“Welcome to the Assurance Gazette for December 2025 Edition.”*

In this issue of the Assurance Gazette, we present an article on Accounting for Digital Assets, which draws upon guidance issued by the Institute of Chartered Accountants of India (ICAI). The article examines how digital assets can be recognised, measured, presented, and disclosed within the framework of existing accounting standards. It also covers the notification issued by the Ministry of Corporate Affairs (MCA) on the Companies (Indian Accounting Standards) Second Amendment Rules, 2025. These amendments aim to align Indian Accounting Standards (Ind AS) with International Financial Reporting Standards (IFRS).

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# The Companies (Indian Accounting Standards) **Second Amendment Rules, 2025**



## Introduction

The Ministry of Corporate Affairs (MCA) has notified the Companies (Indian Accounting Standards) Second Amendment Rules, 2025. These amendments are aimed at aligning Indian accounting standards (Ind AS) with International Financial Reporting Standards (IFRS).

Under the amendments to Ind AS 1, guidance has been added in relation to the classification of certain liabilities as current or non-current. In addition, companies may need to provide new disclosures for liabilities subject to covenants.

## Key Highlights

### Original Provision

An entity shall classify a liability as current when:

- (a) it expects to settle the liability in its normal operating cycle;
- (b) it holds the liability primarily for the purpose of trading;
- (c) the liability is due to be settled within twelve months after the reporting period; or
- (d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period (see paragraph 73). Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

An entity shall classify all other liabilities as non-current.

## Amended Provision

An entity shall classify a liability as current when:

- (a) it expects to settle the liability in its normal operating cycle;
- (b) it holds the liability primarily for the purpose of trading;
- (c) the liability is due to be settled within twelve months after the reporting period; or
- (d) it does not have a right **at the end of reporting period** to defer settlement of the liability for at least twelve months after the reporting

An entity shall classify all other liabilities as non-current.

Under the existing requirements of Ind AS 1, an entity classifies a liability as current when it does not possess an **unconditional right** to defer its settlement for at least twelve months after the reporting date. The recent amendment removes the requirement for this right to be unconditional and instead stipulates that a right to defer settlement must **exist as of the reporting date** and must **have substantive effect**. The agreement between co-lending partners must detail the terms and conditions, borrower selection criteria, and a mechanism for grievance redressal. The loan agreement with the borrower must clearly disclose the segregated roles of the REs and identify the entity that serves as the single point of contact for the customer. Any change in the customer interface requires prior intimation to the borrower.

Under Ind AS 1, liability classification is driven solely by the existence of a right to defer settlement at the reporting date, regardless of management's future intentions. Consequently, a liability eligible for rollover is classified as

**Non-current** provided the entity possesses the substantive right to extend the facility for at least 12 months. This classification holds true even if the entity expects to settle the liability sooner. Conversely, without this specific right at the reporting date, the liability must be classified as **Current**.

## Liabilities with covenants - clarification on classification criteria and introduction of new disclosures

A company may classify a liability as non-current when it has the right to defer settlement for at least twelve months after the reporting date. This right may be conditional upon the company's compliance with covenants specified in the loan agreement.

Only those covenants that the company is required to meet on or before the reporting date influence whether a liability is classified as current or non-current. Covenants that must be satisfied after the reporting date (i.e., future covenants) do not affect the liability's classification at that time.

However, when non-current liabilities are subject to future covenants, companies are now required to provide disclosures that enable users of financial statements to understand the risk that such liabilities could become repayable within twelve months after the reporting date.

### Example 1:

#### Loan subject to covenants

A company has a five-year loan that includes financial covenants. The loan agreement requires the company to maintain a working capital (WC) ratio of at least 1.2 as of 31 March 2026, and 1.5 as of 30 September 2026. Failure to meet the covenant on any of the testing dates would make the loan repayable on demand.



The company is preparing its financial statements for the year ending 31 March 2026. As at that date, its WC ratio is 1.3, and management expects the ratio to be 1.4 on 30 September 2026.

To determine the loan's classification at 31 March 2026, the covenants are evaluated as follows:

#### Reporting date covenant:

WC ratio must be at least 1.2, tested on 31 March 2026. The company meets the covenant at the reporting date; therefore, the loan is classified as Non-current.

Future covenant -WC ratio must be at least 1.5, tested on 30 September 2026. Covenants tested after the reporting date do not influence classification at that date. However, additional disclosures are now required.

### Breach of covenant (effective for accounting periods beginning on or after 1 April 2025)

Ind AS 1 continues to carry the existing carve-outs from IAS 1 regarding the classification of liabilities when there is a breach of a material covenant that transforms the liability from non-current to current. Where there is a breach of a material covenant of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity would not classify the liability as current, if the lender, after the reporting period and before the approval of the financial statements for issue, agreed not to demand payment as a consequence of the breach. However, in such circumstances, the entity shall disclose information as per Ind AS 107 for each breach.

### Breach of Covenant (Effective for Accounting Periods Beginning on or After 1 April 2026)

For accounting periods commencing on or after 1 April 2026, the previous carve-out is eliminated. Consequently, if an entity

breaches a covenant of a long-term loan on or before the reporting date and the breach results in the liability becoming payable on demand, the liability must be classified as current. This classification applies even when the lender, after the reporting date but before the financial statements are approved for issue, agrees not to demand repayment as a result of the breach. In such circumstances, the entity lacks, as at the reporting date, the right to defer settlement for at least twelve months, and therefore the liability cannot be presented as non-current.

However, if the lender has granted, **by the reporting date**, a period of grace that extends at least twelve months beyond that date—during which the entity is permitted to rectify the breach and the lender is prohibited from demanding immediate repayment—the liability is classified as **non-current**.

### Convertible debt may become current

Currently, entities may have interpreted the existing Ind AS 1 requirement differently when classifying convertible debt. The amendments now clarify how a company classifies a liability that can be settled in its own shares — e.g. convertible debt. When a liability includes a counterparty conversion option that involves a transfer of the company's own equity instruments, the conversion option is recognised as either equity or a liability separately from the host liability under Ind AS 32 Financial Instruments: Presentation. The amendments have now clarified that when a company classifies the host liability as current or non-current, it can ignore only those conversion options that are recognised as equity.

#### Example 2:

##### Foreign Currency Convertible Bond

The company issues a convertible bond denominated in its functional currency.

The bond can be converted into a variable number of equity shares linked to EBITDA\*, at the holder's option, any time until maturity on 31 March 2029.



The bond qualifies as a hybrid financial instrument under Ind AS 32 because:

- (a) The obligation to redeem the bond represents a financial liability.
- (b) The conversion feature does not meet the definition of equity as it fails the fixed-for-fixed test.

## Classification at Reporting Date (31 March 2026)

### Under Existing Requirements

Mixed practice exists due to lack of clarity in current Ind AS 1 requirement.

### Classification after amendment

The transfer of the company's own equity instruments is considered a form of settlement. Since the holder can convert the host liability into equity instruments at any time before maturity, the company does not have the right to defer settlement for at least 12 months from the reporting date. Additionally, the conversion feature is not classified as equity. Consequently, the instrument must be classified as current.

### New Disclosure Requirements under Ind AS 1 Amendments

The recent amendments to Ind AS 1 require companies to provide additional disclosures in the notes to the financial statements for **non-current liabilities arising from loan arrangements that are subject to future covenants**. The objective of these disclosures is to inform users of the potential risk that such liabilities could become repayable within **12 months following the reporting date**.

The required disclosures include:

Details of the covenants – including the nature of the covenants and the timing of compliance obligations.

Carrying amount of the related liabilities.

Facts and circumstances indicating potential non-compliance – for example:

- (a) Actions taken by the company during or after the reporting period to prevent or mitigate a potential breach.
- (b) Situations were, based on the company's circumstances at the reporting date (i.e., a hypothetical assessment), the covenants would have been breached.

These disclosures provide users with insight into the company's exposure to covenant-related risks and the likelihood that non-current liabilities could become current.

### Effective Date and Retrospective Application

The amendments to Ind AS 1 are **retrospectively applicable** for annual reporting periods beginning on or after **1 April 2025**. The specific amendment relating to the **breach of covenants on or before the reporting date**, which aligns with IAS 1, is applicable for annual reporting periods beginning on or after **1 April 2026**. This amendment is applied retrospectively in accordance with Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors.



### nangia's Take

- **Classification now hinges solely on a substantive, enforceable right at the reporting date** — entities must ensure loan agreements clearly provide a real, legal right to defer settlement  $\geq 12$  months.
- **Only reporting-date covenants matter for classification**, while future covenants trigger new mandatory disclosures on potential covenant breach risk.
- **From 1 April 2026, any covenant breach at the reporting date makes the loan current** - lender waivers obtained after the reporting period will no longer save non-current classification unless a grace period existed before the reporting date.
- When classifying a convertible debt as current or non-current, the conversion option can be disregarded only if it is recognized as an **equity component** under **Ind AS 32**. Consequently, if the conversion option is classified as a liability (e.g., a derivative), its potential for early settlement cannot be ignored, which may force the entire debt to be classified as **current**.



# Accounting for Digital Assets

## Introduction: Beyond the Traditional Ledger

The digital revolution has moved past electronic data processing into the era of blockchain-based value exchange. The rise of cryptocurrencies, Non-Fungible Tokens (NFTs), and stablecoins has created a new class of economic resources that defy traditional definitions. A recent research report by the Institute of Chartered Accountants of India (ICAI), titled “Accounting for Digital Assets,” highlights a critical friction point: while the technology is futuristic, the accounting remains tethered to legacy frameworks. The report underscores an urgent need for a dedicated standard to ensure that financial statements provide a “true and fair” view of these volatile and unique assets.

The ICAI research note provides guidance for recognition, measurement, presentation and disclosure of digital assets (commonly referred to as crypto assets) under existing Indian accounting frameworks (Ind AS and Accounting Standards). The research Note clarifies that digital assets are **not legal tender** in India and do not qualify as cash or cash equivalents. Accounting treatment depends on the **nature of holding, business model, and rights attached to the digital asset**.

The note primarily addresses:

- Cryptocurrencies and similar blockchain-based tokens

- Holdings by entities for investment, trading, or operational purposes

- Issues relating to valuation, impairment, income recognition, and disclosures

NFTs, utility tokens, and security tokens are acknowledged, but accounting is driven by substance over form rather than token labels.

## Definition and Key Characteristics of Digital Assets

Digital assets are defined as cryptographically secured digital representations of value or rights that:

- Exist in electronic form

- Are based on distributed ledger or similar technology

- Are capable of being transferred, stored, or traded electronically

Key characteristics highlighted:

- No physical form

- Not issued or guaranteed by any government

- High price volatility

- Markets may lack depth and regulatory oversight

## Regulatory Landscape

Currently, digital assets are force-fitted into existing standards, leading to inconsistent application across global jurisdictions.

- Ind AS 2 (Inventories): Used when assets are held for sale in the ordinary course of business, applying the “lower of cost or net realizable value.”

- Ind AS 38 (Intangible Assets): The default category for most holdings, typically requiring a “cost-less-impairment” model.

- Ind AS 32 (Financial Instruments): Generally deemed inapplicable because digital assets often lack a contractual right to cash or sovereign backing.

## Classification Principles

The note emphasizes that **no new asset category is created**. Till a new specific standard is planned and issued, Digital assets can be classified under existing accounting standards based on their characteristics and intended use.

### (a) Inventory

Digital assets are classified as inventory when:

Held for sale in the ordinary course of business

Held for trading by brokers, traders, or exchanges

Examples:

Crypto exchanges holding cryptocurrencies for trading

Market makers dealing in digital assets

Measurement:

Lower of cost and net realisable value (NRV)

For broker-traders, fair value less costs to sell may be used where applicable

### (b) Intangible Assets

Digital assets held for investment or long-term appreciation typically qualify as intangible assets because:

They are identifiable

Non-monetary

Without physical substance

Measurement:

Initially measured at cost

Subsequently measured using the cost model (revaluation model generally not permitted due to lack of active markets)

Subject to impairment testing

Indefinite useful life is generally presumed unless evidence suggests otherwise.

### (a) Financial Assets – Generally Not Applicable

The note clarifies that most cryptocurrencies do not meet the definition of financial assets because:

They do not give rise to a contractual right to receive cash or another financial asset

However, certain tokens that represent contractual rights (e.g., security tokens) may require evaluation under financial instruments standards.

## Initial Recognition

Digital assets are recognised when:

The entity controls the asset

It is probable that future economic benefits will flow to the entity

Cost can be reliably measured

Cost includes:

Purchase price

Directly attributable costs

Transaction fees (e.g., blockchain transaction charges)

Self-generated digital assets (e.g., mining):

Recognition depends on whether recognition criteria are met

Costs directly attributable to mining may be capitalised once recognition threshold is crossed



## Subsequent Measurement

### Inventory

- Measured at lower of cost and NRV
- NRV based on observable market prices
- Write-downs recognised in profit or loss

### Intangible Assets

- Cost less accumulated impairment losses
- No amortisation where useful life is indefinite
- Annual impairment testing required

### Reversal of impairment:

- Permitted only if allowed under applicable standards
- For intangibles with indefinite life, impairment reversals may be allowed where justified

## Impairment Considerations

Due to high volatility, impairment indicators are frequent. Examples include:

- Significant decline in market value
- Adverse regulatory changes
- Loss of access to digital wallets or private keys

### Recoverable amount:

- Higher of value in use and fair value less costs of disposal
- Market prices from active exchanges may be used where available

## Income Recognition

Income arising from digital assets may include:

- Trading gains or losses
- Gains or losses on disposal
- Mining rewards

### Recognition principles:

- Gains recognised only upon realisation
- Unrealised gains are not recognised under cost-based models
- Mining income recognised when the entity obtains control over the mined asset

## Measurement of Fair Value

Where fair value is relevant (e.g., NRV, broker-trader inventory):

- Observable prices from active exchanges should be used
- In absence of active markets, valuation techniques may be applied
- Consistency in valuation methodology is critical

## Presentation in Financial Statements

Digital assets can be presented based on classification:

- Inventory under current assets
- Intangible assets

Separate disclosure is encouraged due to materiality and volatility.



## Regulatory and Compliance Considerations

The note highlights the evolving regulatory environment in India and globally. Entities are expected to:

Monitor regulatory developments

Ensure compliance with tax, FEMA, and AML requirements

Exercise professional judgement in absence of explicit regulation

## Key Takeaways

The ICAI report states that the status quo is unsustainable. Amending existing standards is a “stop-gap” measure that does not solve the inherent uniqueness of digital assets. The path forward requires a standalone accounting standard that addresses recognition, measurement, and disclosure in a unified manner. Furthermore, the following are some of the takeaways:

Digital assets are not cash or financial assets in most cases

Classification depends on business model and purpose of holding

Cost-based accounting with impairment is the default approach

High emphasis on judgement, documentation, and disclosures

Conservative approach encouraged due to volatility and regulatory uncertainty

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