

# Financial Reporting in Hyperinflationary Economies

Every Zimbabwean is  
billionaire.....



# Overview

*To call hyperinflation strictly an economic problem is to overlook its wrenching cultural implications and a general collapse in a system of values.*

- ❑ IAS 29 Financial Reporting in Hyperinflationary Economies was issued by the IASC in July 1989, & reformatted in 1994.

# Overview

- IAS 29 related interpretation is:
  - IFRIC 7 : Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (issued November 2005).

# Scope

- IAS 29 is applied to
  - individual financial statements, & consolidated financial statements, of any entity
  - whose functional currency is the currency of a hyperinflationary economy.



# Overview hyperinflation

- **In a hyperinflationary economy,**
  - reporting of profit or loss & financial position in the local currency without restatement is not useful because:

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# Overview hyperinflation

- money loses purchasing power at such a rate that comparison of amounts from transactions & other events that have occurred at different times, even within same accounting period, is misleading.



# Identifying a hyperinflationary economy

- **Hyperinflation is indicated by**
  - characteristics of the economic environment of a country which include, but are not limited to, the following:

# Identifying a hyperinflationary economy

- the general population prefers to keep its wealth in non-monetary assets
- or
- in a relatively stable foreign currency



# Identifying a hyperinflationary economy

- the general population regards monetary amounts
  - not in terms of the local currency but
  - in terms of a relatively stable foreign currency



# Identifying a hyperinflationary economy

- Sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period
- Interest rates, wages and prices are linked to a price index

# Identifying a hyperinflationary economy

- The cumulative inflation rate over three years is approaching, or exceeds 100%.



# The restatement of financial statements

- Restatement of FSs per IAS 29 requires
  - application of certain procedures as well as judgement.



# The restatement of financial statements

- consistent application of these procedures & judgement from period to period is more important than the precise accuracy of the resulting amounts included in the restated FSs (IAS29.10).



# The restatement of financial statements

- ❑ FS of an entity whose functional currency is of a hyperinflationary economy ,whether prepared on historical cost basis or current cost approach are stated in terms of measuring unit current at end of reporting period.



# The restatement of financial statements

- corresponding figures in relation to prior periods are also restated.
- gain or loss on net monetary position is included in profit or loss and separately disclosed.

# The restatement of financial statements

- ❑ IAS 29 FS should be definitive :
  - presentation as a supplement to unrestated FS is not permitted.
  - furthermore, separate presentation of FS before restatement is discouraged.

# The restatement of financial statements

- **The gain or loss on the net monetary position**
  - is included in profit or loss & separately disclosed.

# The restatement of financial statements

## □ Restatement process involve:

- selection & use of the general price index
- segregating monetary & non-monetary items
- restatement of statement of financial position
- restatement of shareholders' equity.
- restatement of comprehensive income.
- taxation.



# The restatement of financial statements

- restatement of statement of cash flows
- comparatives
- consolidated financial statements.
- economy ceasing to be hyperinflationary
- disclosures

# The restatement of financial statements

- Selection and use of the general price index
  - IAS 29 requires use of a general price index that reflects changes in general purchasing power.

# The restatement of financial statements

- it is preferable that all entities that report in currency of the same economy use the same index.
- judgment is required to determine general price index in some situations.

# The restatement of financial statements

- ❑ **Statement of financial position (historical cost FS)**
  - amounts not already expressed in terms of the measuring unit current at end of the reporting period are restated by applying a general price index.

# The restatement of financial statements

- monetary items are not restated as they are already expressed in terms of monetary unit current at end of reporting period.
- As & Ls linked by agreement to changes in prices are adjusted per agreement

# The restatement of financial statements

- non-monetary items carried at amounts current at end of the reporting period, e.g. NRV & FV - are not restated.
- consistent with the established principles of historical cost accounting, if the restated amounts of non-monetary assets exceed the recoverable amounts, IAS36 applies.

# The restatement of financial statements

- ❑ **Statement of financial position (current cost FS)**
  - items at current cost are not restated because they are already expressed in the unit of measurement current end of the reporting period.

# Restatement of financial statements

## □ Restatement of shareholders' equity

- shareholders' equity components excluding retained earnings & revaluation reserves are restated indexed to the dates when the capital was contributed.
- any revaluation surplus that arose in previous periods is eliminated entirely, as will be subsumed in restated retained earnings.

# The restatement of financial statements

- retained earnings account itself is the most complex to analyse and in practice is often treated as a balancing figure after all other SFP accounts have been restated

# The restatement of financial statements

- alternatively, each year's retained earnings is adjusted by a ratio of indices, the numerator being the general price level as of the date of SFP and the denominator being the price level as of the end of the year for which the earnings were reported

# The restatement of financial statements

- Reductions of retained earnings for dividends paid should be adjusted similarly.

# The restatement of financial statements

- **Statement of comprehensive income (historical FS)**
  - *all* items in statement of SPLOCI are expressed in terms of the measuring unit current at end of reporting period.

# The restatement of financial statements

- as such all amounts are restated by applying change in general price index from dates items of income & expenses were initially recorded in FS.

# The restatement of financial statements

- ❑ **Statement of comprehensive income (current cost FS)**
  - *all* amounts are restated into measuring unit current at end of reporting period by applying change in general price index from dates items of income & expenses were initially recorded in FS.

# The restatement of financial statements

## □ Taxes

- Current income tax expenses are restated for movements in the general price index.
- Most hyper-inflationary entities are likely to need to use a monthly or quarterly average.

# The restatement of financial statements

- This will require current tax to be calculated on the basis of the entity's monthly or quarterly taxable income;
- this is then restated in terms of purchasing power at the end of the reporting period, using the increase in the general price index from the related month or quarter until the reporting date.

# The restatement of financial statements

- Deferred tax is calculated as follows:
  - Calculate deferred tax expense or income, and deferred tax liability or asset by reference to the temporary differences and other tax attributes in the IFRS historical financial statements.

# The restatement of financial statements

- Calculate deferred tax in relation to temporary differences arising from the restatement of non-monetary assets and liabilities.
- Deferred tax is calculated in full on the temporary differences arising from the restatement of non-monetary assets and liabilities.

# The restatement of financial statements

## □ Statement of cash flows

- all items in SCF are expressed in terms of measuring unit current at end of reporting period.
- changes in working capital should be inflation-adjusted changes.
- IAS 29 has no detailed guidance for SCF

# The restatement of financial statements

## □ Comparatives

- prior year comparatives, for both monetary & non-monetary items, are restated in terms of the measuring unit current at end of latest reporting period.

# The restatement of financial statements

- if prior year FS have already been prepared to conform to IAS 29, the current year change in the general price index is applied to the prior year FS

# The restatement of financial statements

## □ Consolidated financial statements

- A parent that reports in the currency of a hyper-inflationary economy might have subsidiaries that also report in the currencies of hyper-inflationary economies.
- FS of such subsidiaries are restated by applying a general price index of the country in whose currency it reports

# The restatement of financial statements

before being included in CFS issued by the parent.

- where such subsidiary is a foreign subsidiary, its restated FS are translated at closing rates.
- FS of subsidiaries that do not report in the currencies of hyperinflationary economies are dealt with per IAS 21.

# The restatement of financial statements

## □ Economies ceasing to be hyperinflationary

- when an economy ceases to be hyperinflationary it shall treat the restated amounts at the end of the previous reporting period as the basis for CAs in its subsequent FS.

# The restatement of financial statements

## □ Disclosures

- the fact that the FS & the corresponding figures for previous periods have been restated for changes in the general purchasing power of the functional currency &
- as a result, are stated in terms of the measuring unit current at the end of the reporting period;

# The restatement of financial statements

- whether the FS are based on
  - \* a historical cost approach or
  - \* a current cost approach;
- the identity and level of the price index
  - \* at the end of the reporting period &
  - \* the movement in the index during
  - \* the current and the previous reporting period.