IAS 29 FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES

FACT SHEET

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This fact sheet is based on existing requirements as at 31 December 2015 and it does not take into account recent standards and interpretations that have been issued but are not yet effective.

IMPORTANT NOTE

This fact sheet is based on the requirements of the International Financial Reporting Standards (IFRSs). In some jurisdictions, the IFRSs are adopted in their entirety; in other jurisdictions the individual IFRSs are amended. In some jurisdictions the requirements of a particular IFRS may not have been adopted. Consequently, users of the fact sheet in various jurisdictions should ascertain for themselves the relevance of the fact sheet to their particular jurisdiction. The application date included below is the effective date of the initial version of the standard.

IASB APPLICATION DATE (NON-JURISDICTION SPECIFIC)

IAS 29 was adopted by the IASB in April 2001. IAS 29 had originally been issued by the IASC in July 1989.

IAS 29 is applicable for annual reporting periods commencing on or after 1 January 1990.

SCOPE

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

In a hyperinflationary economy, reporting of operating results and financial position in the local currency without restatement is not useful. Money loses purchasing power at such a rate that comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

IAS 29 does not establish an absolute rate at which hyperinflation is deemed to arise; it is a matter of judgement when restatement of financial statements in accordance with IAS 29 becomes necessary.

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

a. the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency (e.g. amounts of local currency held are immediately invested to maintain purchasing power);
b. the general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency (e.g. prices may be quoted in that stable currency);
c. sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short;
d. interest rates, wages and prices are linked to a price index; and
e. the cumulative inflation over three years is approaching, or exceeds, 100 per cent.

RECOGNITION AND MEASUREMENT

IAS 29 requires:

- the financial statements of an entity whose functional currency is the currency of a hyperinflationary economy (based on a historical cost approach or a current cost approach) to be stated in terms of the measuring unit current at the reporting period;
- the corresponding figures for the previous period required by IAS 1 *Presentation of Financial Statements* (as revised in 2007) and any information in respect of earlier periods to be stated in terms of the measuring unit current at the end of the reporting period; and
- the gain or loss on the net monetary position to be included in net income and separately disclosed.

The accounting treatment is depicted below:

Entity

Functional currency is the currency of a hyperinflationary economy

Functional currency is not the currency of a hyperinflationary economy

Historical cost financial statements

Statement of financial position

Non-monetary assets shall be restated by applying the change in the general price index from the date of acquisition or re-measurement to the end of the reporting period. Monetary items and non-monetary items carried at amounts current at reporting period are not restated because they already reflect the current monetary unit.

At the beginning of the first period of application of IAS 29, the components of owners' equity, except retained earnings and any revaluation surplus, are restated by applying a general price index from the dates the components were contributed or otherwise arose. Any revaluation surplus that arose in previous periods is eliminated. Restated retained earnings are derived from all the other amounts in the restated statement of financial position.

At the end of the first period and in subsequent periods, all components of owners' equity are restated by applying a general price index from the beginning of the period or the date of contribution, if later. The movements for the period in owners' equity are disclosed in accordance with IAS 1.

Statement of comprehensive income

All amounts restated by applying the change in the general price index from the date of original recognition.

Gain or loss on net monetary position

The gain or loss on the net monetary position is included in profit or loss. The adjustment to those assets and liabilities linked by agreement to changes in prices is offset against the gain or loss on net monetary position.

Other income and expense items, such as interest income and expense, and foreign exchange differences related to invested or borrowed funds, are also associated with the net monetary position.

Current cost financial statements

Statement of financial position

No restatement.

Statement of comprehensive income

All amounts need to be restated into the measuring unit current at the end of the reporting period by applying a general price index.

Gain or loss on net monetary position

The gain or loss on the net monetary position is included in profit or loss. The adjustment to those assets and liabilities linked by agreement to changes in prices is offset against the gain or loss on net monetary position.

Other income and expense items, such as interest income and expense, and foreign exchange differences related to invested or borrowed funds, are also associated with the net monetary position.

Translate the restated financial statements of the foreign entity to the presentation currency of the group using the closing rate

Apply IAS 21 *The Effects of Changes in Foreign Exchange Rates* to translate the financial statements of the foreign entity to the presentation currency of the group

Statement of Cash Flows

IAS 29 requires that all items in the statement of cash flows are expressed in terms of the measuring unit current at the reporting period.

Corresponding figures

Prior reporting period's corresponding figures (whether based on a historical cost approach or a current cost approach) are restated by applying a general price index so that the comparative financial statements are presented in terms of the measuring unit current at the end of the reporting period.

Consolidated financial statements

A parent that reports in the currency of a hyperinflationary economy may have subsidiaries that also report in the currencies of hyperinflationary economies. These subsidiaries' financial statements need to be restated by applying a general price index of the country in whose currency it reports before consolidation by the parent. Where the subsidiary is a foreign subsidiary, its restated financial statements are translated at closing rates.

Where the financial statements with different ends of the reporting periods are consolidated, all items (monetary or non-monetary) shall be restated into the measuring unit current at the date of the consolidated financial statements.

Selection and use of the general price index

The restatement of financial statements in accordance with IAS 29 requires the use of a general price index that reflects changes in general purchasing power. It is preferable that all entities use the same index, particularly when it involves the same economy.

Economies ceasing to be hyperinflationary

When an economy ceases to be hyperinflationary and an entity discontinues the application of IAS 29, the entity shall treat the amounts expressed in the measuring unit current at the end of the previous reporting period as the basis for the carrying amounts in the subsequent financial statements.

DISCLOSURES

Refer to Appendix 1 for a checklist to assist with IAS 29 disclosure requirements.

RELATED INTERPRETATION

- IFRIC 7 *Applying the Restatement Approach* under IAS 29 *Financial Reporting in Hyperinflationary Economies*

AUSTRALIAN SPECIFIC REQUIREMENTS

The Australian equivalent standard is AASB 129 *Financial Reporting in Hyperinflationary Economies* and is applicable for annual reporting periods commencing on or after 1 January 2005. The Australian equivalent interpretation is Interpretation 7 *Applying the Restatement Approach* under IAS 29 *Financial Reporting in Hyperinflationary Economies*.

REDUCED DISCLOSURE REQUIREMENTS (RDR)

On 30 June 2010, the Australian Accounting Standards Board published AASB 1053 *Application of Tiers of Australian Accounting Standards* (and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*) which established a differential reporting framework, consisting of two Tiers of reporting requirements for preparing general purpose financial statements:

a. Tier 1: Australian Accounting Standards; and

b. Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

A Tier 2 entity is a 'reporting entity' as defined in SAC 1 *Definition of the Reporting Entity* that does not have 'public accountability' as defined in AASB 1053 and is not otherwise deemed to be a Tier 1 entity by AASB 1053.

RDR is applicable to annual periods beginning on or after 1 July 2013.

When developing AASB 1053, the AASB concluded that the Australian Government and state, territory and local governments should be subject to Tier 1 requirements. The AASB also decided that General Government Sectors of the Australian Government and state and territory governments should continue to apply AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, without the reduction in disclosures provided by Tier 2. Other public sector entities are able to apply Tier 2 reporting requirements.

Disclosure requirements under Tier 2 are the same as those under Tier 1 for this standard.

APPENDIX 1 – DISCLOSURE CHECKLIST

This checklist can be used to review your financial statements. You should complete the "Yes / No / N/A" column about whether the requirement is included. To ensure the completeness of disclosures, provide an explanation for "No" answers.

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IAS 29.39	Has the entity disclosed the following: a. the fact that the financial statements and the corresponding figures for previous periods have been restated for the changes in the general purchasing power of the functional currency and, as a result, are stated in terms of the measuring unit current at the end of the reporting period; b. whether the financial statements are based on a historical cost approach or a current cost approach; and c. the identity and level of the price index at the end of the reporting period and the movement in the index during the current and previous reporting period?		

OTHER MATTERS

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