IAS 29
Financial reporting in hyperinflationary economies

1. Objective

IAS 29 sets out the accounting policies to be implemented to reflect the effects of losses in monetary value in the financial statements of entities operating in hyperinflationary economies.

2. Scope

IAS 29 states that there is no absolute inflation rate above which an economic environment may be deemed to be hyperinflationary.
It gives precedence to professional judgment, whilst referring to certain characteristics that may be used to describe a hyperinflationary situation.

These characteristics:

- the general population prefers to keep its wealth in the form of non-monetary assets or in relatively stable foreign currencies;
- local prices may be quoted in terms of more stable foreign currencies;
- sales and purchases on credit terms take into account in the prices agreed for the transaction the depreciation of the currency, even if the period of the transaction is short;
- interest rates, wages and prices are linked to a price index;
- the cumulative inflation rate over three consecutive years is close to or exceeds 100%.

The Standard also justifies the reasons why the financial statements must be corrected for the effects of hyperinflation.

In such a case, it can be observed that:

- identical transactions, even occurring over a short period of time, are not properly accounted for, because they occur at significantly different prices;
- such a situation leads to misleading information obtained by reporting transaction in the currency of the hyperinflationary economy without restate-

ment; and reporting operating results and financial position in the currency of a hyperinflationary economy without restatement generates values that do not have genuine significance, for example, in terms of amortized cost or fair value.

The spirit behind this Standard involves presenting the financial position at the end of the reporting period at a value that is as close as possible to the value that would have resulted if all the transactions had occurred at the end of the reporting period, thus **adjusting for the effects of currency depreciation** for the country in which the entity operates.

3. Accounting impact

The specific accounting treatment required for the financial statements of an entity operating in a hyperinflationary economy must commence as soon as the entity has identified the existence of hyperinflation in the country in whose currency it reports.
The restating of the accounts in a hyperinflationary economy must therefore be applied simultaneously for all entities operating in the country in question.
Restatements will vary according to the method used to measure the transactions: either historical cost or current cost.

3.1 In the event that the financial statements are prepared on a historical cost basis

- The following **balance sheet items** are not restated:
  - ✓ all monetary items, because they are converted at the closing rate;
  - ✓ any non-monetary items measured at fair value or a net realizable value, since they are measured in amounts which are current at the balance sheet date.

All the other items must be restated.

The restatement is carried out by applying the change in the general price index from the date of acquisition to the balance sheet date, to the item's historical cost.

- For the **income statement** (statement of comprehensive income), a general price index is applied to items of income and expense for changes in the index between the date when the items were first recorded, and the balance sheet date.

The impact of the conversion should be presented separately from the profit or loss for the period.

3.2 In the event that the transactions are recorded at current cost

- For **balance sheet items**, no restatement is required, as the items are already expressed in terms of the measuring unit current at the balance sheet date.
- For the **income statement** (statement of comprehensive income): a general price index is applied to the current value of the transactions and the impact is presented separately from the profit or loss for the period.

The impact of the restatement may give rise to a deferred tax adjustment.

3.3 Presentation of the financial statements

When presenting the financial statements, corresponding figures for the previous reporting period should be restated by applying a general price index so that they are presented on the basis of measuring units current at the end of the reporting period. **Unadjusted comparative amounts should not be presented.**
It is recommended that the **previous financial statements** be presented using **the same closing rate** for the general price index as that used for the financial statements of the current reporting period.
All items in the statement of cash flows should be expressed in terms of the measuring unit current at the balance sheet date.
When an economy ceases to be hyperinflationary, the amounts expressed in the measuring unit current at the end of the previous reporting period then become the carrying amounts in subsequent financial statements.

4. Disclosure

The notes to the financial statements must clearly state that the financial statements have been restated so as to reflect the effects of hyperinflation.
The notes must also state which restatement method was used.
Likewise, information must be provided regarding the price index used (identity, methods of determination, level of the index at the end of the reporting period, and movements during the current and previous reporting periods).
Finally, any impact on equity must be identified.