IFRIC 7

Applying the restatement approach under ias 29, financial reporting in hyperinflationary economies

REFERENCES

IAS 12 Income taxes
IAS 29 Financial information in hyperinflationary economies

ISSUE

The following guidance is designed for an entity which has identified the existence of hyperinflation in the economy of its functional currency, where this economy was not hyperinflationary during the previous reporting period. The entity therefore restates its financial statements in accordance with IAS 29.

The questions addressed in IFRIC 7 are:

- How should the provision "... stated in terms of the measuring unit current at the end of the reporting period" in paragraph 8 of IAS 29 be interpreted when applying IAS 29?
- How should an entity account for deferred tax items in its restated opening financial statements?

POSITION ADOPTED

- In the situation described above, the entity must apply the provisions of IAS 29 as if this economy had always been hyperinflationary.

Therefore in relation to non-monetary items measured at historical cost, the entity's opening statement of financial position presented in the financial statements at the beginning of the earliest period presented in the financial statements (that is, the beginning of the comparative period) must be restated to reflect the effects of inflation from the date when the values of the assets and liabilities were determined (i.e. from the date of acquisition of the asset for assets accounted for at historical cost, and the incurring of the liability), until the end of the reporting period.

- At the end of the reporting period, deferred tax items are recognized and measured in accordance with IAS 12. However, deferred tax figures appearing in the opening statement of financial position for the period must be determined, as follows:

  ✓ The entity re-measures the deferred tax items relating to the restatement of the nominal carrying amounts of its non-monetary items at the date of the opening statement of financial position, by applying the measurement unit at that date;

  ✓ The re-measured deferred tax items as above are then restated to take into account the change in measurement unit from the date of the opening statement of financial position through to the end of that reporting period.

This method is also used to restate deferred tax items appearing in the opening statement of financial position for the comparative reporting periods N-1 and previous.

When an entity has a single comparative reporting period, all the corresponding amounts in the financial statements for the period N are restated by applying the change in measurement unit only to the financial statements restated for the period N-1