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IAS® Standard 29 Financial Reporting in Hyperinflationary Economies



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- **The IAS Standard 29 Financial Reporting in Hyperinflationary Economies defines the rules for preparing the financial statements of an entity or a group of entities, when the functional currency of the entity is the currency of a hyperinflationary economy.**

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- The IAS Standard 29 Financial Reporting in Hyperinflationary Economies defines the rules for preparing the financial statements of an entity or a group of entities, when the functional currency of the entity is the currency of a hyperinflationary economy.
- **If a business operates in a hyperinflationary economy, money loses its purchasing power at a high rate, and comparing amounts without recalculation becomes misleading.**

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The three-year cumulative inflation rate is approaching or exceeding 100%.

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Gain or loss on the net monetary position the difference of recalculated non-monetary assets, equity and profit (loss) elements by price index (IAS 29.27).

Elements of Recalculation of Financial Statements in a Hyperinflationary Economy

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Recalculation of the current year financial statements using the measuring unit current at the end of the reporting period.



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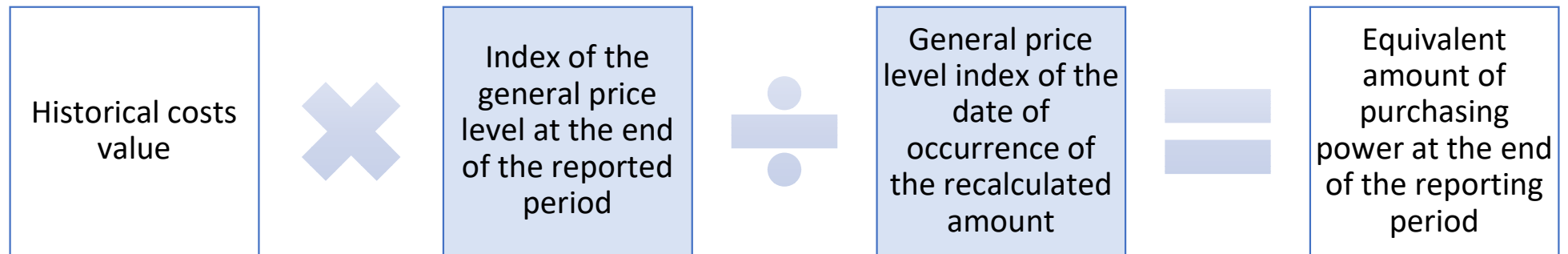


Recalculation of the previous year financial statements using the measuring unit current at the end of the reporting period.



Recognition of gain or loss on the net monetary position.

Recalculation of Amounts Using a General Price Level Index



Example of Assets Recalculation in Hyperinflation Economies

Inventory

The entity purchased inventory on July 5, 20x1 for CU5,000 and did not use it until the end of the year. The inventory balance on 31 December, 20x1 remained at CU5,000.

Example of Assets Recalculation in Hyperinflation Economies

Inventory

The entity purchased inventory on July 5, 20x1 for CU5,000 and did not use it until the end of the year. The inventory balance on 31 December, 20x1 remained at CU5,000.

It is known that the price index on July 5, 20x1 was 150 and the price index on December 31, 20x1 was 185. Therefore, the value of inventories must be recalculated according to the level of the general price index: CU5,000 x 185/150 = ~CU6,167.

Inventories will be shown in the statement of the financial position (December 31, 20x1) for CU6,167.

Estimation of Net Realisable Value

The value of inventories was recalculated using the general level of the price index:

$$\frac{CU5,000 \times 185/150}{\sim CU6,167}$$



Estimated net realisable value of inventories at the end of the reporting period:

CU5,800



Inventories are shown in the statement of financial position at:

CU5,800

How to Prepare a Statement of Profit or Loss and Other Comprehensive Income in a Hyperinflationary Economy?

Examples of Revenue and Expense Recalculation in Hyperinflation Economies

Examples in hyperinflation economies

In 20x1, a entity sold services and recognized revenue:
January 5 for CU20,000
April 10 for CU10,000
July 20 for CU20,000
October 30 for CU30,000
Total 20x1 revenue: CU80,000.

Price index application

<u>Month</u>	<u>Price index, 20x1</u>
January	110
April	80
July	100
October	130
December	150

Examples of Revenue and Expense Recalculation in Hyperinflation Economies

Alternative 1: Recalculation of each period revenue

<u>Month</u>	<u>Revenue, CU</u>	<u>Price index level</u>	<u>Recalculated revenue, CU</u>
<i>January</i>	<i>20,000</i>	<i>150/110</i>	<i>27,272.73</i>
<i>April</i>	<i>10,000</i>	<i>150/80</i>	<i>18,750.00</i>
<i>July</i>	<i>20,000</i>	<i>150/100</i>	<i>30,000.00</i>
<i>October</i>	<i>30,000</i>	<i>150/130</i>	<i>34,615.38</i>
Total revenue:			110,638.11

Examples of Revenue and Expense Recalculation in Hyperinflation Economies

Alternative II: Recalculation of revenue using the weighted average

The average price index is calculated: $(110+150)/2=130$

Revenue is recalculated: $CU80,000 \times 150/130 = \mathbf{CU92,307.69}$

Preparation of Financial Statements when the Current Cost Method is Used

- If an entity uses the current cost method, depending on the financial statements, elements of financial statements are not recalculated.
- However, in some cases, they must be recalculated using the same methodology as presented in the historical cost way.

Preparation of Financial Statements when the Current Cost Method is Used

If elements of accounting are presented at current value, they are not recalculated.

Example:

The entity measures inventories at fair value, with the fair value of the inventories determined in the end of reporting period at CU10,000. ***The value of these inventories at CU10,000 will be presented in the statements of the financial position.***

Preparation of Financial Statements when the Current Cost Method is Used

In case of statement of profit or loss and other comprehensive income, the cost of sales and depreciation will be recognized at the time the acquisition of the asset has been recognized at its current value and the other expenses (sales and administrative) are recognized when incurred, recalculation of all the amounts will be needed using a general price index.

Examples of Statement of Profit or Loss

Example:

The entity purchased the building in June 20x1 for CU200,000, which will be used for 10 years. Throughout 20x1, the depreciation expenses are estimated at CU10,000.

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Depreciation is recalculated from the recalculated value of the building at the level of the general price index. **The general price index was 110 in June and 150 in December.**

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Depreciation is then calculated on the indexed value of the building **CU200,000 x 150/110 = CU272,727.27.**

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Depreciation is recalculated from the recalculated value of the building at the level of the general price index. The general price index was 110 in June and 150 in December.

Depreciation is then calculated on the indexed value of the building $CU200,000 \times 150/110 = CU272,727.27$. **Then depreciation for 20x1 is $CU272,727.27 / 10 \text{ years} / 12 \text{ months} \times 6 \text{ months} = CU13,636.36$.** *The depreciation value CU13,636 will be presented in the statement of profit or loss and other comprehensive income.*

Examples of Financial Statements: Statement of Cash Flows

Elements of cash flow statement shall be presented in terms of the measuring unit current at the end of the period.

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Example:

The cash flow statement shows that the entity had a **loan of CU200,000** in April. The general price index was 120 in April and 150 in December.

Examples of Financial Statements: Statement of Cash Flows

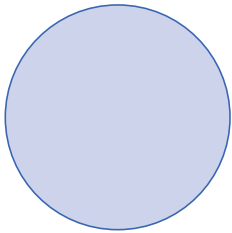
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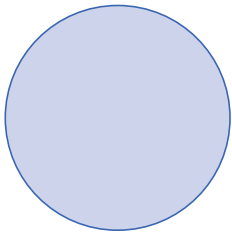
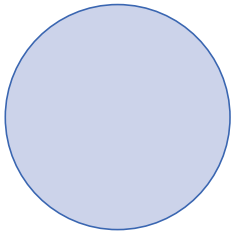
The cash flow statement shows that the entity had a loan of CU200,000 in April. The general price index was 120 in April and 150 in December.

The value of the loan received will be recalculated **CU200,000 x 150/120 = CU250,000**. *The loan value CU250,000 will be presented in the cash flows statement.*

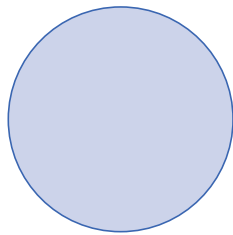
Disclosure of Information for Financial Statements in a Hyperinflationary Economy



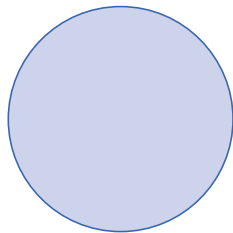
Information about accounting elements recalculations due changes in the purchasing power of the functional currency.



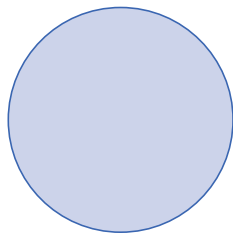
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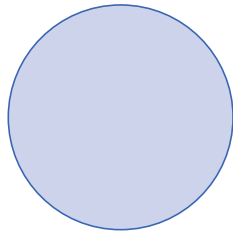
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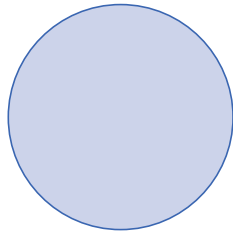
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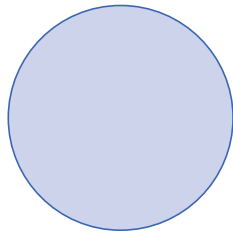
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Information on the identity and level of the price index at the end of the reporting period and the movement of the index.

Practical Examples

Statements of the financial position		
Item	Current year, CU	Previous year, CU
Cash	30,000	30,000
Total:	30,000	30,000
Share capital	30,000	30,000
Total:	30,000	30,000

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It is needed to prepare a restated statement of the financial position and a profit and loss account after estimating the impact of inflation on the general price level index. **The general price level estimated in 20x2 increased by 60%.**

Practical Examples

**converted currency units*

Statements of the financial position						
Item	Current year			Previous year		
	CU	Index level	CCU*	CU	Index level	CCU*
Cash	30,000	-	30,000	30,000	160/100	48,000
Total:	30,000		30,000	30,000		48,000
Share capital	30,000	160/100	48,000	30,000	160/100	48,000
Profit	-	30,000-48,000	(18,000)			
Total:	30,000		30,000	30,000		48,000
Gain (loss) on the net monetary position	Formed as a result of the following recalculation: Share capital 30,000 – 48,000 = - CU18,000 Total: -CU18,000			Formed as a result of the following recalculation: Cash 48,000-30,000 = CU18,000 Share capital 30,000 – 48,000 = - CU18,000 Total: CU0.00		

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Practical Examples

**converted currency units*

Statements of the financial position			Statement of profit or loss and other comprehensive income		
Item	Current year, CCU*	Previous year, CCU*	Item	Current year, CCU*	Previous year, CCU*
Cash	30,000	48,000	Gain (loss)	(18,000)	-
Total:	30,000	48,000			
Share capital	48,000	48,000			
Profit (loss)	(18,000)				
Total:	30,000	48,000	Total:	(18,000)	-



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