

EXPOSURE DRAFT

STATEMENT OF STANDARD ACCOUNTING PRACTICE
FINANCIAL REPORTING
IN HYPERINFLATIONARY ECONOMIES

*The standards, which have been set in **bold italic type**, should be read in the context of the background material and implementation guidance and in the context of the Foreword to Statements of Standard Accounting Practice, Interpretations and Accounting Guidelines. Statements of Standard Accounting Practice are not intended to apply to immaterial items (see paragraph 8 of the Foreword).*

Scope

- 1. *This Statement shall be applied to the primary financial statements, including the consolidated financial statements, of any entity whose functional currency is the currency of a hyperinflationary economy.***

2. 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.

3. This Statement 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 this Statement 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. 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. Prices may be quoted in that 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 rate over three years is approaching, or exceeds, 100%.
4. It is preferable that all enterprises that report in the currency of the same hyperinflationary economy apply this Statement from the same date. Nevertheless, this Statement applies to the financial statements of any enterprise from the beginning of the reporting period in which it identifies the existence of hyperinflation in the country in whose currency it reports.

The Restatement of Financial Statements

5. Prices change over time as the result of various specific or general political, economic and social forces. Specific forces such as changes in supply and demand and technological changes may cause individual prices to increase or decrease significantly and independently of each other. In addition, general forces may result in changes in the general level of prices and therefore in the general purchasing power of money.
6. In most countries, primary financial statements are prepared on the historical cost basis of accounting without regard either to changes in the general level of prices or to increases in specific prices of assets held, except to the extent that property, plant and equipment and investments may be revalued. Some enterprises, however, present primary financial statements that are based on a current cost approach that reflects the effects of changes in the specific prices of assets held.
7. In a hyperinflationary economy, financial statements, whether they are based on a historical cost approach or a current cost approach, are useful only if they are expressed in terms of the measuring unit current at the balance sheet date. As a result, this Statement applies to the primary financial statements of enterprises reporting in the currency of a hyperinflationary economy. Presentation of the information required by this Statement as a supplement to unrestated financial statements is not permitted. Furthermore, separate presentation of the financial statements before restatement is discouraged.

8. *The financial statements of an entity whose functional currency is the currency of a hyperinflationary economy, whether they are based on a historical cost approach or a current cost approach, shall be stated in terms of the measuring unit current at the balance sheet date. The corresponding figures for the previous period required by SSAP 1, Presentation of Financial Statements, and any information in respect of earlier periods should also be stated in terms of the measuring unit current at the balance sheet date unless paragraph 40 (b) of SSAP [], The Effects of Changes in Foreign Exchange Rates, applies.*
9. *The gain or loss on the net monetary position should be included in net income and separately disclosed.*
10. The restatement of financial statements in accordance with this Statement requires the application of certain procedures as well as judgement. The consistent application of these procedures and judgements from period to period is more important than the precise accuracy of the resulting amounts included in the restated financial statements.

Historical Cost Financial Statements

Balance Sheet

11. Balance sheet amounts not already expressed in terms of the measuring unit current at the balance sheet date are restated by applying a general price index.
12. Monetary items are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date. Monetary items are money held and items to be received or paid in money.
13. Assets and liabilities linked by agreement to changes in prices, such as index linked bonds and loans, are adjusted in accordance with the agreement in order to ascertain the amount outstanding at the balance sheet date. These items are carried at this adjusted amount in the restated balance sheet.
14. All other assets and liabilities are non-monetary. Some non-monetary items are carried at amounts current at the balance sheet date, such as net realisable value and market value, so they are not restated. All other non-monetary assets and liabilities are restated.
15. Most non-monetary items are carried at cost or cost less depreciation; hence they are expressed at amounts current at their date of acquisition. The restated cost, or cost less depreciation, of each item is determined by applying to its historical cost and accumulated depreciation the change in a general price index from the date of

acquisition to the balance sheet date. Hence, property, plant and equipment, investments, inventories of raw materials and merchandise, goodwill, patents, trademarks and similar assets are restated from the dates of their purchase. Inventories of partly-finished and finished goods are restated from the dates on which the costs of purchase and of conversion were incurred.

16. Detailed records of the acquisition dates of items of property, plant and equipment may not be available or capable of estimation. In these rare circumstances, it may be necessary, in the first period of application of this Statement, to use an independent professional assessment of the value of the items as the basis for their restatement.
17. A general price index may not be available for the periods for which the restatement of property, plant and equipment is required by this Statement. In these rare circumstances, it may be necessary to use an estimate based, for example, on the movements in the exchange rate between the functional currency and a relatively stable foreign currency.
18. Some non-monetary items are carried at amounts current at dates other than that of acquisition or that of the balance sheet, for example property, plant and equipment that has been revalued at some earlier date. In these cases, the carrying amounts are restated from the date of the revaluation.
19. The restated amount of a non-monetary item is reduced, in accordance with appropriate Statements of Standard Accounting Practice, when it exceeds the amount recoverable from the item's future use (including sale or other disposal). Hence, in such cases, restated amounts of property, plant and equipment, goodwill, patents and trademarks are reduced to recoverable amount, restated amounts of inventories are reduced to net realisable value and restated amounts of current investments are reduced to market value.
20. An investee that is accounted for under the equity method may report in the currency of a hyperinflationary economy. The balance sheet and income statement of such an investee are restated in accordance with this Statement in order to calculate the investor's share of its net assets and results of operations. Where the restated financial statements of the investee are expressed in a foreign currency they are translated at closing rates.
21. The impact of inflation is usually recognised in borrowing costs. It is not appropriate both to restate the capital expenditure financed by borrowing and to capitalise that part of the borrowing costs that compensates for the inflation during the same period. This part of the borrowing costs is recognised as an expense in the period in which the costs are incurred.

22. An entity may acquire assets under an arrangement that permits it to defer payment without incurring an explicit interest charge. Where it would require undue cost or effort to impute the amount of interest, such assets are restated from the payment date and not the date of purchase.
23. [Deleted]
24. At the beginning of the first period of application of this Statement, 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 balance sheet.
25. 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 SSAP 1, Presentation of Financial Statements.

Income Statement

26. This Statement requires that all items in the income statement are expressed in terms of the measuring unit current at the balance sheet date. Therefore all amounts need to be restated by applying the change in the general price index from the dates when the items of income and expenses were initially recorded in the financial statements.

Gain or Loss on Net Monetary Position

27. In a period of inflation, an enterprise holding an excess of monetary assets over monetary liabilities loses purchasing power and an enterprise with an excess of monetary liabilities over monetary assets gains purchasing power to the extent the assets and liabilities are not linked to a price level. This gain or loss on the net monetary position may be derived as the difference resulting from the restatement of non-monetary assets, owners' equity and income statement items and the adjustment of index linked assets and liabilities. The gain or loss may be estimated by applying the change in a general price index to the weighted average for the period of the difference between monetary assets and monetary liabilities.
28. The gain or loss on the net monetary position is included in net income. The adjustment to those assets and liabilities linked by agreement to changes in prices made in accordance with paragraph 13 is offset against the gain or loss on net monetary position. Other income statement 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. Although such items are separately

disclosed, it may be helpful if they are presented together with the gain or loss on net monetary position in the income statement.

Current Cost Financial Statements

Balance Sheet

29. Items stated at current cost are not restated because they are already expressed in terms of the measuring unit current at the balance sheet date. Other items in the balance sheet are restated in accordance with paragraphs 11 to 25.

Income Statement

30. The current cost income statement, before restatement, generally reports costs current at the time at which the underlying transactions or events occurred. Cost of sales and depreciation are recorded at current costs at the time of consumption; sales and other expenses are recorded at their money amounts when they occurred. Therefore all amounts need to be restated into the measuring unit current at the balance sheet date by applying a general price index.

Gain or Loss on Net Monetary Position

31. The gain or loss on the net monetary position is accounted for in accordance with paragraphs 27 and 28.

Taxes

32. The restatement of financial statements in accordance with this Statement may give rise to differences between taxable income and accounting income. These differences are accounted for in accordance with SSAP 12, Income Taxes.

Cash Flow Statement

33. This Statement requires that all items in the cash flow statement are expressed in terms of the measuring unit current at the balance sheet date.

Corresponding Figures

34. Corresponding figures for the previous reporting period, whether they were 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

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terms of the measuring unit current at the end of the reporting period. Information that is disclosed in respect of earlier periods is also expressed in terms of the measuring unit current at the end of the reporting period.

Consolidated Financial Statements

35. A parent that reports in the currency of a hyperinflationary economy may have subsidiaries that also report in the currencies of hyperinflationary economies. The financial statements of any such subsidiary need to be restated by applying a general price index of the country in whose currency it reports before they are included in the consolidated financial statements issued by its parent. Where such a subsidiary is a foreign subsidiary, its restated financial statements are translated at closing rates. The financial statements of subsidiaries that do not report in the currencies of hyperinflationary economies are dealt with in accordance with SSAP [], Accounting for the Effects of Changes in Foreign Exchange Rates.
36. If financial statements with different reporting dates are consolidated, all items, whether non-monetary or monetary, need to be restated into the measuring unit current at the date of the consolidated financial statements.

Selection and Use of the General Price Index

37. The restatement of financial statements in accordance with this Statement requires the use of a general price index that reflects changes in general purchasing power. It is preferable that all enterprises that report in the currency of the same economy use the same index.

Economies Ceasing to be Hyperinflationary

38. *When an economy ceases to be hyperinflationary and an enterprise discontinues the preparation and presentation of financial statements prepared in accordance with this Statement, it should 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 its subsequent financial statements.*

Disclosures

39. *The following disclosures shall be made:*
- (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 balance sheet date;

(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 balance sheet date and the movement in the index during the current and the previous reporting period.*

40. The disclosures required by this Statement are needed to make clear the basis of dealing with the effects of inflation in the financial statements. They are also intended to provide other information necessary to understand that basis and the resulting amounts.

Effective Date

- 41. *The accounting practices set out in this Statement should be regarded as standard in respect of financial Statements relating to periods beginning on or after [date to be inserted after exposure].***

Amendments to Existing SSAPs

This Statement amends existing Statements of Standard Accounting Practice as set out below. For the purpose of this publication, the new text is shaded and the deleted text is shaded and struck through.

Amendments to SSAP 12, Income Taxes, Appendix A (Paragraph 18)

Hyperinflation

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18. ~~Not used~~ Non-monetary assets are restated in terms of the measuring unit current at the balance sheet date (see SSAP [], Financial Reporting in Hyperinflationary Economies) and no equivalent adjustment is made for tax purposes. *(notes: (1) the deferred tax is charged in the income statement; and (2) if, in addition to the restatement, the non-monetary assets are also revalued, the deferred tax relating to the revaluation is charged to equity and the deferred tax relating to the restatement is charged in the income statement).*

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Amendments to SSAP 25, Appendix 2 (Paragraphs 33A, 33B and 33C)

Interim Financial Reporting in Hyperinflationary Economies

- 33A. Interim financial reports in hyperinflationary economies are prepared by the same principles as at financial year end.
- 33B. SSAP [], Financial Reporting in Hyperinflationary Economies, requires that the financial statements of an enterprise that reports in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at balance sheet date, and the gain or loss on the net monetary position is included in net income. Also, comparative financial data reported for prior periods is restated to the current measuring unit.
- 33C. Enterprises follow those same principles at interim dates, thereby presenting all interim data in the measuring unit as of the end of the interim period, with the resulting gain or loss on the net monetary position included in the interim period's net income. Enterprises do not annualise the recognition of the gain or loss. Nor do they use an estimated annual inflation rate in preparing an interim financial report in a hyperinflationary economy.

Amendments to SSAP 34, Employee Benefits, Paragraph 76

76. An enterprise determines the discount rate and other financial assumptions in nominal (stated) terms, unless estimates in real (inflation-adjusted) terms are more reliable, for example, in a hyper-inflationary economy ([see SSAP \[\], Financial Reporting in Hyperinflationary Economies](#)), or where the benefit is index-linked and there is a deep market in index-linked bonds of the same currency and term.