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International Financial Reporting Interpretations Committee

IFRIC DRAFT INTERPRETATION D5

Applying IAS 29 *Financial Reporting in Hyperinflationary Economies* for the First Time

Comments to be received by 14 May 2004

IFRIC Draft Interpretation D5 *Applying IAS 29* Financial Reporting in Hyperinflationary Economies *for the First Time* is published by the International Accounting Standards Board (IASB) for comment only. Comments on the draft Interpretation should be submitted in writing so as to be received by **14 May 2004**.

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INVITATION TO COMMENT

The International Accounting Standards Board's International Financial Reporting Interpretations Committee (IFRIC) invites comments on any aspect of this draft Interpretation *Applying IAS 29* Financial Reporting in Hyperinflationary Economies *for the First Time*. Comments are most helpful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments should be submitted in writing so as to be received no later than **14 May 2004**.

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IFRIC *International Financial Reporting Interpretations Committee*

IFRIC DRAFT INTERPRETATION D5

Applying IAS 29 *Financial Reporting in Hyperinflationary Economies* for the first time

IFRIC [draft] Interpretation 5 *Applying IAS 29* Financial Reporting in Hyperinflationary Economies *for the First Time* is set out in paragraphs 1-7. The scope and authority of Interpretations are set out in paragraphs 1 and 8-10 of the IFRIC Mandate and Operating Procedures. [Draft] IFRIC 5 is accompanied by an Illustrative Example and a Basis for Conclusions.

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References

- IAS 29 *Financial Reporting in Hyperinflationary Economies*

Background

1 This [draft] Interpretation provides guidance on how to apply the requirements of IAS 29 *Financial Reporting in Hyperinflationary Economies* in the first year an entity identifies the existence of hyperinflation in the economy of its functional currency and restates its financial statements in accordance with IAS 29.

Issues

2 The questions addressed in this [draft] Interpretation are:

(a) how should the requirement "…stated in terms of the measuring unit current at the balance sheet date" in paragraph 8 of IAS 29 be interpreted when an entity first applies the Standard?

(b) how should an entity account for opening deferred tax items in its restated financial statements?

(c) in which circumstances does the general restatement approach in IAS 29 not apply?

Consensus

3 In the first year an entity identifies the existence of hyperinflation in the economy of its functional currency, the entity shall apply IAS 29 as if it had always applied the Standard. Therefore, the entity's opening balance sheet at the beginning of the earliest annual period presented in the financial

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statements shall be restated to reflect the effect of inflation from the date the assets were acquired and the liabilities were incurred until the balance sheet date of the current reporting period.

4 At the balance sheet date, deferred tax items are recognised and measured in accordance with IAS 12 *Income Taxes*. However, because an entity is required to start applying IAS 29 as if it had always applied the Standard, the deferred tax figures in the opening balance sheet for the reporting period shall be determined as follows:

(a) the entity remeasures the deferred tax items in accordance with IAS 12 after it has restated the nominal carrying amounts of its non-monetary items at the date of the opening balance sheet of the current reporting period by applying the measuring unit at that date.

(b) the deferred tax items remeasured in accordance with item (a) above are restated for the change in the measuring unit from the date of the opening balance sheet of the current reporting period up to the balance sheet date.

(c) the entity applies the approach in items (a) and (b) above to the restatement of deferred tax items in the opening balance sheet of any comparative periods presented in the restated financial statements for the first year the entity applies IAS 29. For the purpose of this Interpretation, “the opening balance sheet of the current reporting period” in items (a) and (b) is read as “the opening balance sheet of the comparative period”.

5 After an entity for the first time has restated its financial statements, all corresponding figures in the financial statements for a subsequent reporting period, including deferred tax items, are restated by applying the change in the measuring unit for that subsequent reporting period only to the restated financial statements for the previous reporting period.

6 The general restatement approach in IAS 29 cannot be applied when detailed records of the acquisition dates of property, plant and equipment are not available or capable of estimation. In these rare circumstances, an entity uses an independent professional assessment of the fair value of the items as the basis of their restatement. Equally, if a general price index is not available for the periods for which the restatement of property, plant

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and equipment is required by the Standard, 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.

Effective date

7 An entity shall apply this [draft] Interpretation when it identifies the existence of hyperinflation in the economy of its functional currency for annual periods beginning on or after [date to be set at 3 months after the Interpretation is finalised]. Earlier application is encouraged. If an entity applies this [draft] Interpretation to financial statements of periods beginning before [above date], it shall disclose that fact.

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Illustrative Example

This example accompanies, but is not part of, the [draft] Interpretation.

IE1 This example illustrates the restatement approach of IAS 29 when an entity first restates for the effects of inflation under the Standard. In particular, the example illustrates the restatement of:

- non-monetary items carried at cost (or depreciated cost)
- non-monetary items carried at fair value
- non-monetary items accounted for using the equity-method
- deferred tax items.

As the example is intended only to illustrate the mechanics of the restatement approach in IAS 29, it does not illustrate an entity's complete IFRS financial statements, including cash flow statements and required disclosures.

Facts

IE2 An entity's IFRS balance sheet at 31 December 20X4 and its income statement for 20X4 (before restatement) are as follows:

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Note	**Balance sheet**	**20X4* CU million**	20X3 CU million
	Assets		
	Non-current assets		
1	Property, plant and equipment	300	400
2	Financial assets	130	100
3	Investments accounted for using the equity method	100	-
		530	500
	Current assets		
4	Inventories	100	50
	Trade and other receivables	380	100
	Cash and cash equivalents	240	120
		720	270
	Total assets	1,250	770
	Liabilities		
	Non-current liabilities		
	Interest-bearing loans	240	150
5	Deferred tax liability	30	20
		270	170
	Current liabilities		
	Trade and other payables	100	50
	Current tax liability	71	-
		171	50
	Total liabilities	441	220

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* In this example, monetary amounts are denominated in currency units (CU).

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Note	**Balance sheet**	**20X4* CU million**	20X3 CU million
6	**Equity**		
	Issued capital	400	400
	Revaluation reserve	30	-
	Retained earnings	379	150
	Total equity	809	550
	Total liabilities and equity	1,250	770

	Income statement	**20X4 CU million**
	Revenue	1,550
7	Cost of goods sold	-1,150
	Marketing, general and administrative expenses	-80
	Finance costs	-50
	Share of the after-tax profit of associate	40
	Profit before tax	310
	Tax expense	-81
	Net profit	229

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Notes

1 *Property, plant and equipment*

All property, plant and equipment was acquired in December 20X2. Property, plant and equipment is depreciated over its useful life which is 5 years.

2 *Financial assets*

Financial assets, which were all acquired in December 20X3, are classified as available-for-sale and are carried at fair value. Fair value adjustments are taken directly to equity.

3 *Investments accounted for using the equity method*

On 31 January 20X4, the entity acquired 40 per cent of another entity, 'the associate', for CU60 million. The associate started operations on that date. The associate's after-tax profit for 20X4 was CU100 million, and at 31 December 20X4 its nominal equity was CU250.

4 *Inventories*

For the measurement of inventories, the FIFO method was used. Goods in stock at 31 December 20X4 amounted CU100 million, of which CU30 million were classified as finished goods and CU70 million were classified as raw materials. Finished goods and raw materials were all bought/ manufactured in December 20X4.

Goods in stock at 31 December 20X3 of CU50 million were all classified as raw materials and were bought in December 20X3.

5 *Deferred tax liability*

The deferred tax liability at 31 December 20X4 of CU30 million is measured as the taxable temporary difference between the carrying amount of property, plant and equipment of 300 and their tax bases of 200. There are no other temporary differences which the entity expects would result in tax consequences at the time the entity recovers or settles the carrying amount of its assets and liabilities. The applicable tax rate is 30 per cent.

Similarly, the deferred tax liability at 31 December 20X3 of CU20 million is measured as the taxable temporary difference between the carrying amount of property, plant and equipment of CU400 and their tax bases of CU333.

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6 *Equity*

The entity started operations by the end of 20X2. Its capital of CU400 million was issued in December 20X2.

7 *Cost of goods sold*

Cost of goods sold comprises:	CU million
Direct material	700
Direct labour	300
Depreciation related to production facilities	60
Other indirect production costs	120
Increase in finished goods	-30
Total cost of goods sold	1,150

IE3 Assume that the entity identifies* the existence of hyperinflation in April 20X4 and therefore applies IAS 29 from the beginning of 20X4. The entity restates its financial statements based on the following general price indices and conversion factors:

* The identification of hyperinflation is based on the entity's judgement of the criteria in paragraph 3 of IAS 29.

	General price indices	Conversion factors at 31 Dec 20X4
December 20X2*	95	2.347
December 20X3	135	1.652
January 20X4	147	1.517
February 20X4	157	1.420
March 20X4	167	1.335
April 20X4	173	1.289
May 20X4	176	1.267
June 20X4	178	1.253
July 20X4	183	1.219
August 20X4	188	1.186
September 20X4	197	1.132
October 20X4	205	1.088
November 20X4	214	1.042
December 20X4	223	1.000

* For example, the conversion factor for December 20X2 is 2.347=223/95.

Restatement

IE4 The restatement approach in IAS 29 is based on the following requirements:

- Non-monetary items carried at cost or cost less depreciation should be restated by applying to their historical cost and accumulated depreciation the change in a general price index from the date of acquisition to the balance sheet date.
- Non-monetary items carried at a revalued amount (eg fair value or net realisable value) should be restated by applying to their revalued amount the change in a general price index from the date of revaluation to the balance sheet date.
- Monetary items should not be restated because they are already expressed in the monetary unit current at the balance sheet date.

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- All items in the income statement should be 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. That is, expenses reflecting consumption of an asset measured at its cost are restated by applying the change in the general price index from the date when the asset was acquired.
- Deferred taxes should be accounted for in accordance with IAS 12.
- Corresponding figures for the previous reporting period should be presented in terms of the measuring unit current at the end of the reporting period.

IE5 Therefore, in the first year the entity in this example identifies the existence of hyperinflation, it restates its balance sheet at 31 December 20X4 and its income statement for 20X4 as follows:

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Note	Balance sheet (restated)	20X4 CU million	20X3 CU million
	Assets		
	Non-current assets		
1	Property, plant and equipment	704	939
2	Financial assets	130	165
3	Investments accounted for using the equity method	120	-
		954	1,104
	Current assets		
4	Inventories	103	83
	Trade and other receivables	380	165
	Cash and cash equivalents	240	198
		723	446
	Total assets	1,677	1,550
	Liabilities		
	Non-current liabilities		
	Interest-bearing loans	240	248
5	Deferred tax liability	151	117
		391	365
	Current liabilities		
	Trade and other payables	100	83
	Current tax liability	71	-
		171	83
	Total liabilities	562	448

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Note	**Balance sheet (restated)**	**20X4**	20X3
		CU million	CU million
6	**Equity**		
	Issued capital	939	939
	Retained earnings	176	163
	Total equity	1,115	1,102
	Total liabilities and equity	1,677	1,550

	Income statement (restated)	**20X4**
		CU million
	Revenue	1,905
	Cost of goods sold	-1,526
	Marketing, general and administrative expenses	-144
2	Impairment of financial assets	-35
	Finance costs	-61
7	Monetary loss	-34
3	Share of the after-tax profit of associate	29
	Profit before tax	134
	Tax expense	-121
	Net profit	13
	The restatement of the income statement is further specified in the notes and in paragraph IE6 below.	

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Notes

1 *Property, plant and equipment*

All property, plant and equipment was purchased in December 20X2 and depreciated over a 5-year period. Property, plant and equipment is restated to reflect the change in the general price level since acquisition, ie the conversion factor is 2.347 (223/95).

	Historical CU million	Restated CU million
Cost of property, plant and equipment	500	1,174
Depreciation 20X3	-100	-235
Carrying amount 31 December 20X3	400	939
Depreciation 20X4	-100	-235
Carrying amount 31 December 20X4	300	704

The restated depreciation charge in 20X4 is allocated as follows:

Production costs (CU6 to finished goods, cf note 4 below)	140
Marketing, general and administrative expenses	95
Total	235

2 *Financial assets*

Available-for-sale financial assets are carried at fair value of CU130 million at the balance sheet date. Because the assets are revalued at the balance sheet date, they are not restated. The restated cost of financial assets is CU165 million and, as a consequence, the entity recognises a loss of CU35 million in its income statement. See paragraph 19 of IAS 29.

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3 *Investments accounted for using the equity method*

On 31 January 20X4, the entity acquired 40 per cent of another entity, 'the associate', for CU60 million. The associate's after-tax profit was CU100 million, and at 31 December 20X4 its nominal equity was CU250 million. The functional currency of the associate is the currency of the entity (investor). Hence, the associate restates its financial statements in accordance with paragraph 20 of IAS 29. The associate's restated after-tax profit was CU73 million, and at 31 December 20X4 its restated equity was CU300 million. The entity restates its initial investment in the associate by a conversion factor of 1.517 (223/147) and recognises its share of the associate's after-tax profit, as specified below:

	Historical CU million	Restated CU million
Cost of acquisition 31 January 20X4	60	91
Share of after-tax profit	40	29
Share of net assets at 31 December 20X4	100	120

4 *Inventories*

For the measurement of inventories, the FIFO method was used. Goods in stock at 31 December 20X4 were all bought/manufactured in December 20X4.

Nominal	Total CU million
Finished goods	30
Less historical depreciation included in finished goods	-3
	27
Raw materials	70

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Conversion factor:

Restated	Total CU million
Finished goods (excluding depreciation)*	27
Restated depreciation included in finished goods (note 1)	6
	33
Raw materials	70

Goods in stock at 31 December 20X3 of CU50 million were all classified as raw materials and were bought in December 20X3. Therefore, those goods are restated by a conversion factor of 1.652 (223/135).

5 *Deferred tax liability*

The nominal deferred tax liability at 31 December 20X4 of CU30 million is measured as the taxable temporary difference between the carrying amount of property, plant and equipment of CU300 and their tax bases of CU200. Similarly, the deferred tax liability at 31 December 20X3 of CU20 million is measured as the taxable temporary difference between the carrying amount of property, plant and equipment of CU400 and their tax bases of CU333. The applicable tax rate is 30 per cent.

* In this example, the effect of restatement of finished goods is minor and the restated amount is rounded off to the nominal amount.

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In its restated financial statements, the entity at the balance sheet date remeasures deferred tax items in accordance with the general provisions in IAS 12*, ie based on its restated financial statements. However, because deferred tax items are a function of carrying amounts of assets or liabilities and their tax bases, an entity cannot restate its comparative deferred tax items by applying a general price index. Instead, in the first year an entity applies IAS 29, it shall (a) remeasure its comparative deferred tax items in accordance with IAS 12 after it has restated the nominal carrying amounts of its non-monetary items at the date of the opening balance sheet of the current reporting period by applying the measuring unit at that date, and (b) restate the remeasured deferred tax items for the change in the measuring unit from the date of the opening balance sheet of the current period up to the balance sheet date.

In the example, the restated deferred tax liability is calculated as follows:

	CU million
At the balance sheet date:	
Restated carrying amounts of property, plant and equipment (see note 1)	704
Tax base	-200
Temporary difference	504
@ 30 per cent tax rate = Restated deferred tax liability 31 December 20X4	151
Comparative deferred tax figures:	
Restated carrying amounts of property, plant and equipment [either 400*1.421 (conversion factor 1.421=135/95), or 939/1.652 (conversion factor 1.652=223/135)]	568
Tax base	-333
Temporary difference	235

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* Paragraph 18 of Appendix A to IAS 12 states that: "Non-monetary assets are restated in terms of the measuring unit current at the balance sheet date (see IAS 29 *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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@ 30 per cent tax rate =		
Restated deferred tax liability 31 December 20X3 at the general price level at the end of 20X3		71
Restated deferred tax liability 31 December 20X3 at the general price level at the end of 20X4 (conversion factor 1.652=223/135)		117

6 *Equity*

Issued capital is restated as follows: CU400 million * 223/95 = CU939 million.

Any revaluation reserve in the nominal IFRS financial statements should be eliminated in the restated balance sheet.

7 *Monetary loss*

	Historical CU million	Restated CU million
Net monetary assets 1 January 20X4	20	32
Sales	1,550	1,905
Direct materials purchased (see paragraph IE6 below)	-720	-888
Direct labour	-300	-370
Indirect production costs (excluding depreciation)	-120	-148
Marketing, general and administrative expenses (excluding depreciation)	-40	-49
Finance costs	-50	-61
Taxes payable	-71	-87
Acquisition of associate	-60	-91
Nominal net monetary assets 31 December 20X4	209	

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Net monetary assets restated 31 December 20X4 (as if there was no monetary loss)		243
Less nominal net monetary assets 31 December 20X4		-209
Monetary loss		34
Direct materials purchased:		
Used in production	700	901
Less raw materials in stock 1 January 20X4	-50	-83
Raw materials in stock 31 December 20X4	70	70
Total purchase in 20X4	720	888

IE6 IAS 29 requires that all items in the income statement are expressed in terms of the measuring unit current at the balance sheet date. Therefore, the restatement of the income statement in paragraph IE5 above could be illustrated as follows:

Historical	**Jan**	**Feb**	**March**	**April**	**May**	**June**	**July**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
Sales	50	80	120	180	200	210	190	140	130	100	80	70	**1550**
Direct material	22	36	56	82	90	96	88	60	57	43	40	30	**700**
Direct labour	8	16	24	38	40	40	40	26	26	19	13	10	**300**
Depreciation	5	5	5	5	5	5	5	5	5	5	5	5	**60**
Overhead cost	7	8	10	13	13	13	13	10	10	8	8	7	**120**
Increase in inventories													**-30**
Gen. overhead cost	3	3	4	3	3	4	3	3	4	3	3	4	**40**
Depreciation	3	3	4	3	3	4	3	3	4	3	3	4	**40**
Financial expenses	4	4	4	4	4	4	4	4	4	4	5	5	**50**
Profit before tax	-2	5	13	32	42	44	34	29	20	15	3	5	**270**
Tax expense (payable)	5	6	6	6	6	6	6	6	6	6	6	6	**71**
Tax expense (deferred)													**10**
Profit after tax													**189**
Profit from associate													**40**
Net profit													**229**

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Conversion factors	1.517	1.420	1.335	1.289	1.267	1.253	1.219	1.186	1.132	1.088	1.042	1.000	
Restated	**Jan**	**Feb**	**March**	**April**	**May**	**June**	**July**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
Sales	76	114	160	232	253	263	232	166	147	109	83	70	1905
Direct material													901
Direct labour	12	23	32	49	51	50	49	31	29	21	14	10	370
Depreciation				*See note 1 of paragraph IE5 above*									140
Overhead cost	11	11	13	17	16	16	16	12	11	9	8	7	148
Increase in inventories				*See note 4 of paragraph IE5 above*									-33
Gen. overhead cost	5	4	5	4	4	5	4	4	5	3	3	4	49
Depreciation				*See note 1 of paragraph IE5 above*									95
Financial expenses	6	6	5	5	5	5	5	5	5	4	5	5	61
Impairment (financial assets)				*See note 2 of paragraph IE5 above*									35
Monetary loss				*See note 7 of paragraph IE5 above*									34
Profit before tax													105
Tax expense (payable)	8	9	8	8	8	8	7	7	7	7	6	6	87
Tax expense (deferred)													34
Profit after tax													-16
Profit from associate				*See note 3 of paragraph IE5 above*									29
Net profit													13

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Restatement of direct materials purchased and calculation of direct materials used in production:

Nominal values:													
In stock (beginning of period)	50	53	50	69	87	97	101	88	78	71	53	25	50
Direct materials purchased	25	33	75	100	100	100	75	50	50	25	12	75	720
Used in production	22	36	56	82	90	96	88	60	57	43	40	30	-700
In stock (end of period)	53	50	69	87	97	101	88	78	71	53	25	70	70
Purchased materials restated	38	47	100	129	127	125	91	59	57	27	13	75	888
In stock 1 January 20X4													83
Direct materials purchased													888
Raw materials in stock 31 December 20X4													-70
Used in production (restated)													901

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Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the [draft] Interpretation.

BC1 This Basis for Conclusions summarises the IFRIC´s considerations in reaching its consensus. Individual IFRIC members gave greater weight to some factors than to others.

BC2 The IFRIC was asked for guidance on how an entity shall restate its financial statements in the first year it starts to apply IAS 29 *Financial Reporting in Hyperinflationary Economies*. There was uncertainty whether the opening balance sheet at the beginning of the reporting period should be restated to reflect changes in prices before that date.

BC3 In addition, there was uncertainty about the measurement of comparative deferred tax items in the opening balance sheet. IAS 29 states that at the balance sheet date deferred tax items of the restated financial statements shall be measured in accordance with IAS 12 *Income Taxes*. However, it is not clear how an entity should account for the corresponding deferred tax figures.

The restatement approach

BC4 The IFRIC observed that the objective of restating financial statements in hyperinflationary economies in accordance with IAS 29 is to reflect a change in an entity's general purchasing power. This objective applies to the financial statements of the first year an entity identifies the existence of hyperinflation in the economy of its functional currency as well as to subsequent reporting periods (if the criteria for a hyperinflationary economy still are met).

BC5 The IFRIC considered the meaning of paragraph 4 of IAS 29, which states: "…this Standard 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 IFRIC noted that some may interpret this provision as restricting the restatement of an entity's opening balance sheet in the first year it applies IAS 29, so that the opening balance sheet should be restated to reflect the change in a general price index for the reporting period only and not for changes in a general price index before the beginning of the reporting period, even though some balance sheet items may have been acquired or assumed before that date. However, the IFRIC also noted that paragraph 34 of IAS 29 requires: "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

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statements are presented in 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...”

BC6 The IFRIC considered a possible inconsistency between the restriction in paragraph 4 of IAS 29 and the requirement in paragraph 34. The IFRIC noted that paragraph 4 is a scope paragraph, being only about when an entity has to comply with the Standard. The paragraph clarifies that an entity has to restate its financial statements from the beginning of the reporting period to the balance sheet date and not only from the date it identifies the existence of hyperinflation. However, the paragraph does not deal with the restatement and presentation of the financial statements (neither at the balance sheet date nor in relation to the comparative figures). Hence, paragraph 4 of IAS 29 does not exclude from the restatement of an entity’s opening balance sheet changes in the general price level before the beginning of the first year the entity applies the Standard.

BC7 The IFRIC noted that, in the context of the objective of the Standard, the restatement of the financial statements for the first year an entity identifies the existence of hyperinflation should be consistent with the restatement approach applied in subsequent reporting periods.

BC8 The IFRIC agreed that the restatement for the effects of inflation for the first time should be considered to be a change in circumstances. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, paragraph 16, states that a change in circumstances is not a change in accounting policy and, hence, an entity would not apply IAS 29 retrospectively. However, the IFRIC observed that IAS 29 contains specific requirements in this regard, as noted in paragraphs BC4-BC7 above. The IFRIC concluded that the opening balance sheet for the first year an entity identifies the existence of hyperinflation ought to be restated as if the entity had always applied IAS 29. The IFRIC noted that this treatment is similar to the retrospective application of a change in accounting policy described in IAS 8.

Deferred tax items

BC9 The IFRIC was asked for guidance on the accounting for deferred tax items when an entity restates its financial statements according to IAS 29. In particular, the IFRIC was asked for guidance on measuring deferred tax items in the opening balance sheet for the first year an entity identifies the existence of hyperinflation.

BC10 The IFRIC observed that paragraph 32 of IAS 29 states that “The restatement of financial statements in accordance with this Standard may give rise to differences between taxable income and accounting income.

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These differences are accounted for in accordance with IAS 12 *Income Taxes*." Therefore, at the balance sheet date an entity remeasures its deferred tax items based on the restated financial statements, rather than applying the general restatement provisions for monetary items or non-monetary items. However, the IFRIC noted that it was not clear how an entity should account for its comparative deferred tax items.

BC11 The IFRIC considered the following options:

(a) restatement of deferred tax items as monetary items;

(b) restatement of deferred tax items as non-monetary items;

(c) remeasurement of deferred tax items as if the entity had always applied IAS 29.

BC12 In relation to items (a) and (b) above, the IFRIC noted that deferred tax items are neither clearly monetary nor non-monetary in nature. This is because deferred tax items are determined by the assets' (and liabilities') relative carrying amounts and tax bases. The IFRIC further noted that its conclusion in paragraph BC8 above also should apply to deferred tax items. As a consequence, the IFRIC agreed that the deferred tax items in the opening balance sheet for the reporting period in the first year an entity identifies the existence of hyperinflation should be calculated as if the entity had always applied IAS 29, ie item (c) above. The IFRIC concluded that this would require an entity, first, to remeasure its deferred tax items based on the financial statements of the previous reporting period, which have been restated by applying a general price index reflecting the price level at the end of that period. Secondly, the entity should restate those calculated deferred tax items by the change in the general price level for the reporting period.

Exemptions from the restatement approach

BC13 Some IFRIC members expressed concerns about whether the restatement approach in IAS 29 always was practicable for preparers and whether it provided decision-useful information to users. It was noted, though, that such concerns reflected broader aspects related to the accounting for hyperinflation in general, rather than how an entity has to apply the current Standard for the first time.

BC14 Nevertheless, the IFRIC considered how an entity should apply the Standard if, for example, detailed records of the acquisition dates of items of property, plant and equipment are not available. The IFRIC noted that, in those circumstances, paragraph 16 of IAS 29 states: "… In these rare circumstances, it may be necessary, in the first period of application of this Standard, to use an independent professional assessment of the value of the items as the basis for their restatement." The IFRIC also noted that a

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similar exemption exists when a general price index may not be available. Paragraph 17 of IAS 29 states: "… In these 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."

BC15 The IFRIC observed that, in developing IFRS 1 *First-time Adoption of International Financial Reporting Standards*, the Board discussed whether IFRS 1 should exempt first-time adopters of IFRSs from the effects of restatement in their first IFRS financial statements. Paragraph BC67 of IFRS 1 states that: "Some argued that the cost of restating financial statements for the effects of hyperinflation in periods before the date of transition to IFRSs would exceed the benefits, particularly if the currency is no longer hyperinflationary. However, the Board concluded that such restatement should be required, because hyperinflation can make unadjusted financial statements meaningless or misleading."

BC16 However, the IFRIC also observed that first-time adopters of IFRSs could use, for example, the fair value at transition date as deemed cost for property, plant and equipment, and, in some instances, also for investment property and intangible assets. Hence, if a first-time adopter that would have to apply IAS 29 at its transition to IFRSs applies the fair value measurement exemption of IFRS 1, the first-time adopter would apply IAS 29 to periods only after the date for which the fair value was determined. Such remeasurements therefore would reduce the need for a first-time adopter to restate its financial statements.

BC17 The IFRIC noted that the exemptions from the general restatement approach for preparers that already apply IFRSs, as stated in paragraph BC14 above, apply only in specific circumstances, whereas a first-time adopter may always elect to use the fair value remeasurement exemption for property, plant and equipment in IFRS 1. The IFRIC concluded that the application of the exemptions in the Standards are clear and, therefore, extending the exemptions in IAS 29 to permit preparers that already apply IFRSs to elect fair value remeasurement of property, plant and equipment when restating in accordance IAS 29 for the first time would require amendments of the Standard itself, rather than an Interpretation.

BC18 Some IFRIC members observed that it is not clear from IAS 29 which values an entity should use as a basis for the restatement if it applies the exemption in paragraph 16 of the Standard, ie if it uses an independent professional assessment. The IFRIC agreed to clarify that, in such instances, the values thus determined should reflect fair value.

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