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Accounting

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Global

Accounting Alert – December 2023 Hyperinflationary update

Executive Summary

According to the World Economic Outlook (WEO) report issued by the International Monetary Fund (IMF) in October 2023, and based on economic conditions that currently exist in Ghana, Sierra Leone and Haiti, these countries are now considered to be hyperinflationary from 31 December 2023. Therefore, reporting entities in those countries will be required to apply IAS 29 'Financial Reporting in Hyperinflationary Economies'. Consequently, any entities with interim or annual financial reporting requirements at 31 December 2023 or thereafter should reflect IAS 29 in their IFRS financial statements.

The WEO report also identifies that South Sudan might no longer be in a hyperinflationary economy from 31 December 2023.

From 31 December 2023 onwards there are thirteen countries around the world where IAS 29 should be applied, when entities want to state they are in full compliance with IFRS. These countries are: Argentina, Ethiopia, Ghana, Haiti, Iran, Lebanon, Sierra Leone, Sudan, Suriname, Turkey, Venezuela, Yemen (which should be closely monitored) and Zimbabwe.

Recapping the requirements of IAS 29

IAS 29 lists factors that indicate when an economy is hyperinflationary. One of the indicators of hyperinflation is if cumulative inflation over a three-year period approaches, or is in excess of 100 per cent.

The mechanics of restatement

IAS 29 requires amounts in the statement of financial position that are not already expressed in terms of the measuring unit current at the end of the reporting period, are restated by applying a general price index. In summary:

- assets and liabilities linked by agreement to changes in prices, such as index linked bonds and loans, are adjusted in accordance with the agreement;
- non-monetary items carried at current amounts at the end of the reporting period (such as net realisable value and fair value) are not restated;
- all other non-monetary assets and liabilities are restated;
- monetary items (ie money held and items to be received or paid in money) are not restated because they are already expressed in terms of the monetary unit currency at the end of the reporting period; and
- all items in the statement of comprehensive income should be expressed using the measuring unit current at the end of the reporting period, so all amounts need to be restated from the dates when the items of income and expenditure were originally recorded in the financial statements.

Other important factors that should be taken into consideration when applying IAS 29

IAS 29 sets out specific requirements on how to restate prior period comparatives. It requires corresponding figures for the previous reporting period to be restated by applying a general price index so that the comparative financial statements are presented in terms of the measuring unit current at the end of the reporting period.

IAS 29 may result in the creation of additional temporary differences under IAS 12 'Income Taxes'. This is because the restatement of items under IAS 29 will often lead to adjustments to the carrying amounts of items without corresponding changes to their tax bases. Be mindful that IAS 12 requires these adjustments to be recognised in profit or loss.

Impairment testing should also not be overlooked. IAS 29 requires any restated non-monetary items to be reduced when it exceeds its recoverable amount, even if those assets were not previously considered impaired under historical cost accounting. It will be important when preparing financial statements to consider whether the restatement of asset carrying values affects the results of impairment tests that were conducted in previous reporting periods, and whether there are any indicators of impairment for assets that were not tested for impairment in previous periods.

IFRIC decisions relating to hyperinflation

The IFRS Interpretations Committee (IFRIC) have previously considered a number of accounting issues in relation to dealing with hyperinflation. These include:

- translating a hyperinflationary foreign operation and presenting exchange differences;
- accounting for cumulative exchange differences before a foreign operation becomes hyperinflationary;
- presenting comparative amounts when a foreign operation first comes hyperinflationary; and
- consolidation of a non-hyperinflationary subsidiary by a hyperinflationary parent.

We encourage careful consideration of these issues when preparing IFRS financial statements and applying IAS 29.

Our thoughts

IAS 29 is not a Standard that can be quickly implemented, particularly in group situations. Careful consideration needs to be given to the IFRIC guidance dealing with situations where there is a hyperinflationary parent that has subsidiaries who also report in a hyperinflationary currency versus situations where a non-hyperinflationary parent has subsidiaries that report in a hyperinflationary currency. Also be mindful of how a hyperinflationary parent with subsidiaries that do not report in a hyperinflationary currency should be accounted for given the requirements set out in IAS 21 'The Effects of Changes in Foreign Exchange Rates'.

Any reporting entity considering IAS 29 for the first time will have to adapt their existing accounting systems to be able to process the hyperinflationary adjustments. It is important they understand the mechanics of adjusting for hyperinflation so they can restate in their financial statements both current and comparative periods.

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