Indian Accounting Standard (Ind AS) 29

Financial Reporting in Hyperinflationary Economies

Contents

	Paragraphs
SCOPE	**1–4**
THE RESTATEMENT OF FINANCIAL STATEMENTS	**5–37**
Historical cost financial statements	**11–28**
Balance sheet	11–25
Statement of profit and loss	26
Gain or loss on net monetary position	27–28
Current cost financial statements	**29–31**
Balance sheet	29
Statement of profit and loss	30
Gain or loss on net monetary position	31
Taxes	**32**
Statement of cash flows	**33**
Corresponding figures	**34**
Consolidated financial statements	**35–36**
Selection and use of the general price index	**37**
ECONOMIES CEASING TO BE HYPERINFLATIONARY	**38**
DISCLOSURES	**39–40**

APPENDICES

A. ***Applying the Restatement Approach under Ind AS 29 Financial Reporting in Hyperinflationary Economies***

1. Comparison with IAS 29, *Financial Reporting in Hyperinflationary Economies*

Indian Accounting Standard (Ind AS) 29

Financial Reporting in Hyperinflationary Economies

(This Indian Accounting Standard includes paragraphs set in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)

Scope

1 This Standard shall be applied to the 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 Standard 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 Standard 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 entities that report in the currency of the same hyperinflationary economy apply this Standard from the same date. Nevertheless, this Standard applies to the financial statements of any entity 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 Entities that prepare financial statements on the historical cost basis of accounting do so without regard either to changes in the general level of prices or to increases in specific prices of recognised assets or liabilities. The exceptions to this are those assets and liabilities that the entity is required, or chooses, to measure at fair value. For example, property, plant and equipment may be revalued to fair value and biological assets are generally required to be measured at fair value. Some entities, however, present 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 end of the reporting period. As a result, this Standard applies to the financial statements of entities reporting in the currency of a hyperinflationary

economy. Presentation of the information required by this Standard 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 end of the reporting period. The corresponding figures for the previous period required by Ind AS 1, *Presentation of Financial Statements* and any information in respect of earlier periods shall also be stated in terms of the measuring unit current at the end of the reporting period. For the purpose of presenting comparative amounts in a different presentation currency, paragraphs 42(b) and 43 of Ind AS 21, *The Effects of Changes in Foreign Exchange Rates* apply.

9 The gain or loss on the net monetary position shall be included in profit or loss and separately disclosed.

10 The restatement of financial statements in accordance with this Standard 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 end of the reporting period 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 end of the reporting period. 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 end of the reporting period. 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 end of the reporting period, such as net realisable value and fair 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 end of the reporting period. For example, property, plant and equipment, 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 Standard, 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 Standard. 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.

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 Indian Accounting Standards, when it exceeds its recoverable amount. For example, restated amounts of property, plant and equipment, goodwill, patents and trademarks are reduced to recoverable amount and restated amounts of inventories are reduced to net realisable 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 statement of profit and loss of such an investee are restated in accordance with this Standard in order to calculate the investor's share of its net assets and profit or loss. When 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 is impracticable to impute the amount of interest, such assets are restated from the payment date and not the date of purchase.

23 [Refer to Appendix 1]

24 At the beginning of the first period of application of this Standard, 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 Ind AS 1.

Statement of profit and loss

26 This Standard requires that all items in the statement of profit and loss are expressed in terms of the measuring unit current at the end of the reporting period. 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 entity holding an excess of monetary assets over monetary liabilities loses purchasing power and an entity 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 items in the statement of profit and loss 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 profit or loss. 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 and expense 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 statement of profit and loss.

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 end of the reporting

period. Other items in the balance sheet are restated in accordance with paragraphs 11 to 25.

Statement of profit and loss

30 The current cost statement of profit and loss, 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 end of the reporting period 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 Standard may give rise to differences between the carrying amount of individual assets and liabilities in the balance sheet and their tax bases. These differences are accounted for in accordance with Ind AS 12, *Income Taxes*.

Statement of cash flows

33 This Standard requires that all items in the statement of cash flows are expressed in terms of the measuring unit current at the end of the reporting period.

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 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. For the purpose of presenting comparative amounts in a different presentation currency, paragraphs 42(b) and 43 of Ind AS 21 apply.

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 Ind AS 21.

36 If financial statements with different ends of the reporting periods 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 Standard requires the use of a general price index that reflects changes in general purchasing power. It is preferable that all entities 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 entity discontinues the preparation and presentation of financial statements prepared in accordance with this Standard, it shall 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 end of the reporting period;

(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 end of the reporting period and the movement in the index during the current and the previous reporting period.

(d) the duration of the hyperinflationary situation existing in the economy.

40 The disclosures required by this Standard 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.

Appendix A

Applying the Restatement Approach under Ind AS 29 Financial Reporting in Hyperinflationary Economies

This Appendix is an integral part of the Indian Accounting Standard (Ind AS) 29, Financial Reporting in Hyperinflationary Economies

Background

1 This Appendix provides guidance on how to apply the requirements of Ind AS 29 in a reporting period in which an entity identifies* the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and the entity therefore restates its financial statements in accordance with Ind AS 29.

Issues

2 The questions addressed in this Appendix are:

(a) how should the requirement '… stated in terms of the measuring unit current at the end of the reporting period' in paragraph 8 of Ind AS 29 be interpreted when an entity applies the Standard?

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

Accounting Treatment

3 In the reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, not having been hyperinflationary in the prior period, the entity shall apply the requirements of Ind AS 29 as if the economy had always been hyperinflationary. Therefore,

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

in relation to non-monetary items measured at historical cost, the entity's opening balance sheet at the beginning of the earliest period presented in the financial statements shall be restated to reflect the effect of inflation from the date the assets were acquired and the liabilities were incurred or assumed until the end of the reporting period. For non-monetary items carried in the opening balance sheet at amounts current at dates other than those of acquisition or incurrence, that restatement shall reflect instead the effect of inflation from the dates those carrying amounts were determined until the end of the reporting period.

4 At the end of the reporting period, deferred tax items are recognised and measured in accordance with Ind AS 12. However, 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 Ind AS 12 after it has restated the nominal carrying amounts of its non-monetary items at the date of the opening balance sheet of the reporting period by applying the measuring unit at that date.

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

The entity applies the approach in (a) and (b) in restating the deferred tax items in the opening balance sheet of any comparative periods presented in the restated financial statements for the reporting period in which the entity applies Ind AS 29.

5 After an entity 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.

Illustrative example

This example accompanies, but is not part of, Appendix A.

IE1 This example illustrates the restatement of deferred tax items when an entity restates for the effects of inflation under Ind AS 29 *Financial Reporting in Hyperinflationary Economies*. As the example is intended only to illustrate the mechanics of the restatement approach in Ind AS 29 for deferred tax items, it does not illustrate an entity's complete financial statements.

Facts

IE2 An entity's balance sheet at 31 December 20X2 (before restatement) is as follows:

Note	**Balance Sheet**	**20X2 (Rs) million**	20X1 (Rs) million
	ASSETS		
1	Property, plant and equipment	300	400
	Other assets	XXX	XXX
	Total assets	XXX	XXX
	EQUITY AND LIABILITIES		
	Total equity	XXX	XXX
	Liabilities		
2	Deferred tax liability	30	30
	Other liabilities	XXX	XXX
	Total liabilities	XXX	XXX
	Total equity and liabilities	XXX	XXX

Notes

1 *Property, plant and equipment*
All items of property, plant and equipment were acquired in December 20X0. Property, plant and equipment are depreciated over their useful life, which is five years.

2 *Deferred tax liability*
The deferred tax liability at 31 December 20X2 of Rs 30 million is measured as the taxable temporary difference between the carrying amount of property, plant and equipment of Rs.300 and their tax base of Rs.200. The applicable tax rate is 30 per cent.

Similarly, the deferred tax liability at 31 December 20X1 of Rs 20 million is measured as the taxable temporary difference between the carrying amount of property, plant and equipment of Rs 400 and their tax base of Rs 333.

IE3 Assume that the entity identifies the existence of hyperinflation in, for example, April 20X2 and therefore applies Ind AS 29 from the beginning of 20X2. The entity restates its financial statements on the basis of the following general price indices and conversion factors.

	General price indices	**Conversion factors at 31 Dec 20X2**
December 20X0 (a)	95	2.347
December 20X1	135	1.652
December 20X2	223	1.000

(a) For example, the conversion factor for December 20X0 is 2.347=223/95

Restatement

IE4 The restatement of the entity's 20X2 financial statements is based on the following requirements:

- Property, plant and equipment are restated by applying the change in a general price index from the date of acquisition to the end of the reporting period to their historical cost and accumulated depreciation.
- Deferred taxes should be accounted for in accordance with Ind AS 12, *Income Taxes*.
- Comparative figures for property, plant and equipment for the previous reporting period are presented in terms of the measuring unit current at the end of the reporting period.
- Comparative deferred tax figures should be measured in accordance with paragraph 4 of the Appendix A.

IE5 Therefore the entity restates its balance sheet at 31 December 20X2 as follows:

Note	Balance Sheet (restated)	20X2 Rs million	20X1 Rs million
	ASSETS		
1	Property, plant and equipment	704	939
	Other assets	XXX	XXX
	Total assets	XXX	XXX
	EQUITY AND LIABILITIES		
	Total equity	XXX	XXX
	Liabilities		
2	Deferred tax liability	151	117
	Other liabilities	XXX	XXX
	Total liabilities	XXX	XXX
	Total equity and liabilities	XXX	XXX

Notes

1 *Property, plant and equipment*

All items of property, plant and equipment were purchased in December 20X0 and depreciated over a five-year period. The cost of 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 Rs million	Restated Rs million
Cost of property, plant and equipment	500	1,174
Depreciation 20X1	(100)	(235)
Carrying amount 31 December 20X1	400	939
Depreciation 20X2	(100)	(235)
Carrying amount 31 December 20X2	300	704

2 *Deferred tax liability*

The nominal deferred tax liability at 31 December 20X2 of Rs 30 million is measured as the taxable temporary difference between the carrying amount of property, plant and equipment of Rs 300 and their tax base of Rs 200. Similarly, the deferred tax liability at 31 December 20X1 of Rs 20 million is measured as the taxable temporary difference between the carrying amount of property, plant and equipment of Rs 400 and their tax base of Rs 333. The applicable tax rate is 30 per cent.

In its restated financial statements, at the end of the reporting period the entity remeasures deferred tax items in accordance with the general provisions in Ind AS 12, ie on the basis of 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 reporting period in which an entity applies the restatement approach under Ind AS 29, it (a) remeasures its comparative deferred tax items in accordance with Ind AS 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) restates 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 end of the reporting period.

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

	Rs million
At the end of the reporting period:	
Restated carrying amount 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 20X2	151
Comparative deferred tax figures:	
Restated carrying amount 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
@ 30 per cent tax rate = Restated deferred tax liability 31December 20X1at the general price level at the end of 20X1	71
Restated deferred tax liability 31 December 20X1 at the general price level at the end of 20X2(conversion factor 1.652 = 223/135)	117

IE6 In this example, the restated deferred tax liability is increased by Rs 34 to Rs 151 from 31 December 20X1 to 31 December 20X2. That increase, which is included in profit or loss in 20X2, reflects (a) the effect of a change in the taxable temporary difference of property, plant and equipment, and (b) a loss of purchasing power on the tax base of property, plant and equipment. The two components can be analysed as follows:

	Rs million
Effect on deferred tax liability because of a decrease in the taxable temporary difference of property, plant and equipment (-Rs 235 + Rs133) × 30%	31
Loss on tax base because of inflation in 20X2 (Rs 333 × 1.652 – Rs 333) × 30%	(65)
Net increase of deferred tax liability	(34)
Debit to profit or loss in 20X2	34

The loss on tax base is a monetary loss. Paragraph 28 of Ind AS 29 explains this as follows:

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 and expense 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 statement of profit and loss.

Appendix 1

Note: This Appendix is not a part of the proposed Indian Accounting Standard (Ind AS) 29, Financial Reporting in Hyperinflationary Economies. The purpose of this Appendix is only to bring out the differences between the this Indian Accounting Standard and corresponding International Accounting Standard IAS 29, Financial Reporting in Hyperinflationary Economies and IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies.

Comparison with IAS 29, *Financial Reporting in Hyperinflationary Economies and IFRIC 7*

1 Ind AS 29 requires an additional disclosure regarding the duration of the hyperinflationary situation existing in the economy as compared to IAS 29.

2 Paragraph number 23 appears as 'Deleted' in IAS 29. In order to maintain consistency with paragraph numbers of IAS 29, the paragraph number is retained in Ind AS 29.

3 Different terminology is used in this standard, e.g., term 'balance sheet' is used instead of 'Statement of financial position' and 'Statement of profit and loss is used instead of 'Statement of comprehensive income'.