

ACCOUNTING STANDARD

AASB 129

July 2004

Financial Reporting in Hyperinflationary Economies



Australian Government

**Australian Accounting
Standards Board**

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The Customer Service Officer
Australian Accounting Standards Board
Level 3
530 Collins Street
Melbourne Victoria 3000
AUSTRALIA

Postal address:
PO Box 204 Collins St West
Melbourne Victoria 8007
AUSTRALIA

Phone: (03) 9617 7637
Fax: (03) 9617 7608
E-mail: publications@aaasb.com.au
Website: www.aasb.com.au

Other enquiries:

Phone: (03) 9617 7600
Fax: (03) 9617 7608
E-mail: standard@aaasb.com.au

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Australian Accounting Standard AASB 129 *Financial Reporting in Hyperinflationary Economies* is set out in paragraphs Aus1.1 – 40. All the paragraphs have equal authority. AASB 129 is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation and Application of Standards*, which identifies the Australian Accounting Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

PREFACE

Reasons for Issuing AASB 129

The Australian Accounting Standards Board (AASB) is implementing the Financial Reporting Council's policy of adopting the Standards of the International Accounting Standards Board (IASB) for application to reporting periods beginning on or after 1 January 2005. The AASB has decided it will continue to issue sector-neutral Standards, that is, Standards applicable to both for-profit and not-for-profit entities, including public sector entities. Except for Standards that are specific to the not-for-profit or public sectors or that are of a purely domestic nature, the AASB is using the IASB Standards as the "foundation" Standards to which it adds material detailing the scope and applicability of a Standard in the Australian environment. Additions are made, where necessary, to broaden the content to cover sectors not addressed by an IASB Standard and domestic, regulatory or other issues.

The IASB defines International Financial Reporting Standards (IFRSs) as comprising:

- (a) International Financial Reporting Standards;
- (b) International Accounting Standards; and
- (c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

The Australian equivalents to IFRSs are:

- (a) Accounting Standards issued by the AASB that are equivalent to Standards issued by the IASB, being AASBs 1 – 99 corresponding to the IFRS series and AASBs 101 – 199 corresponding to the IAS series; and
- (b) Interpretations issued by the AASB corresponding to the Interpretations adopted by the IASB, as listed in AASB 1048 *Interpretation and Application of Standards*.

Main Features of this Standard

Application Date

This Standard is applicable to annual reporting periods beginning on or after 1 January 2005. To promote comparability among the financial reports of Australian entities, early adoption of this Standard is not permitted.

First-time Application and Comparatives

Application of this Standard will begin in the first annual reporting period beginning on or after 1 January 2005 in the context of adopting all Australian equivalents to IFRSs. The requirements of AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, the Australian equivalent of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, must be observed. AASB 1 requires prior period information, presented as comparative information, to be restated as if the requirements of this Standard had always applied. This differs from previous Australian requirements where changes in accounting policies did not require the restatement of the income statement and balance sheet of the preceding period.

Main Requirements

AASB 129 establishes specific standards for entities reporting in the currency of a hyperinflationary economy. As the Australian economy is not hyperinflationary, AASB 129 is relevant only in understanding the financial report of a foreign entity whose functional currency is the currency of a hyperinflationary economy, before it is translated into the presentation currency for inclusion in the financial report of an Australian entity. AASB 121 *The Effects of Changes in Foreign Currency Exchange Rates* prescribes the recognition, measurement and disclosure of foreign currency transactions and the translation of financial reports from functional to presentation currency.

Differences

This Standard does not supersede any equivalent Australian Accounting Standard. Accordingly, no description of differences is provided.

COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS

AASB 129 and IAS 29

AASB 129 is equivalent to IAS 29 *Financial Reporting in Hyperinflationary Economies* issued by the IASB.

Paragraphs that have been added to this Standard (and do not appear in the text of the equivalent IASB Standard) are identified with the prefix “Aus”, followed by the number of the relevant IASB paragraph and decimal numbering. Paragraphs that apply only to not-for-profit entities begin by identifying their limited applicability.

This Standard is accompanied by an illustrative example of restatement based on the example in IPSAS 10 *Financial Reporting in Hyperinflationary Economies*. IAS 29 does not provide an illustrative example.

Compliance with IAS 29

Entities that comply with AASB 129 will simultaneously be in compliance with IAS 29.

AASB 129 and IPSAS 10

International Public Sector Accounting Standards (IPSASs) are issued by the Public Sector Committee of the International Federation of Accountants.

IPSAS 10 *Financial Reporting in Hyperinflationary Economies* (July 2001) is drawn primarily from the then-current version of IAS 29. The main difference between IPSAS 10 and AASB 129 is that IPSAS 10 includes commentary additional to that in AASB 129 to clarify the applicability of the Standard to accounting by public sector entities.

ACCOUNTING STANDARD AASB 129

The Australian Accounting Standards Board makes Accounting Standard AASB 129 *Financial Reporting in Hyperinflationary Economies* under section 334 of the *Corporations Act 2001*.

Dated 15 July 2004

D.G. Boymal
Chair – AASB

ACCOUNTING STANDARD AASB 129

FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES

Application

- Aus1.1** This Standard applies to:
- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;
 - (b) general purpose financial reports of each other reporting entity; and
 - (c) financial reports that are, or are held out to be, general purpose financial reports.
- Aus1.2** This Standard applies to annual reporting periods beginning on or after 1 January 2005.
- Aus1.3** This Standard shall not be applied to annual reporting periods beginning before 1 January 2005.
- Aus1.4** The requirements specified in this Standard apply to the financial report where information resulting from their application is material in accordance with AASB 1031 *Materiality*.
- Aus1.5** Notice of this Standard was published in the *Commonwealth of Australia Gazette* No S 294, 22 July 2004.

Scope

1. **This Standard shall be applied to the individual 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 report 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. 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 entities, 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 reporting date. As a result, this Standard applies to the primary 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 reporting date. The corresponding figures for the previous period required by AASB 101 *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 reporting date. For the purpose of presenting comparative amounts in a different presentation currency, paragraphs 42(b) and 43 of AASB 121 *The Effects of Changes in Foreign Exchange Rates* apply.**
9. **The gain or loss on the net monetary position shall be included in net income 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 reporting 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 reporting 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 reporting 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 reporting 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 reporting 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 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 Australian Accounting Standards, 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 Standard 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 is impracticable to impute the amount of interest, such assets are restated from the payment date and not the date of purchase.
23. [Deleted by the IASB]
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 AASB 101 *Presentation of Financial Statements*.

Income Statement

26. This Standard requires that all items in the income statement are expressed in terms of the measuring unit current at the reporting 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 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 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 reporting 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 reporting 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 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 AASB 112 *Income Taxes*.

Cash Flow Statement

33. This Standard requires that all items in the cash flow statement are expressed in terms of the measuring unit current at the reporting 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 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 AASB 121 *The Effects of Changes in Foreign Exchange Rates* 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 AASB 121 *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 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 reports 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 reporting 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 reporting date and the movement in the index during the current and the previous reporting period.**

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.

Effective Date of IAS 29

41. [Deleted by the AASB]