Compiled Interpretation **Interpretation 7**

Applying the Restatement Approach under AASB 129 *Financial Reporting in Hyperinflationary Economies*

This compiled UIG Interpretation applies to annual reporting periods beginning on or after 1 January 2009 that end on or after 30 June 2009. Early application is permitted. It incorporates relevant amendments made up to and including 5 October 2009.

Prepared on 9 November 2009 by the staff of the Australian Accounting Standards Board.

Australian Government

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UIG Interpretation 7 *Applying the Restatement Approach under AASB 129* Financial Reporting in Hyperinflationary Economies (as amended) is set out in paragraphs 1 – Aus5.4. Interpretations are listed in Australian Accounting Standard AASB 1048 *Interpretation and Application of Standards*. 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.

COMPILATION DETAILS

UIG Interpretation 7 *Applying the Restatement Approach under AASB 129* Financial Reporting in Hyperinflationary Economies as amended

This compiled Interpretation applies to annual reporting periods beginning on or after 1 January 2009 that end on or after 30 June 2009. It takes into account amendments up to and including 5 October 2009 and was prepared on 9 November 2009 by the staff of the Australian Accounting Standards Board (AASB).

This compilation is not a separate Interpretation issued by the AASB. Instead, it is a representation of Interpretation 7 (February 2006) as amended by other pronouncements, which are listed in the Table below.

Table of Pronouncements

Pronouncement	**Month issued**	**Application date** ***(annual reporting periods … on or after …)***	**Application, saving or transitional provisions**
Interpretation 7	Feb 2006	*(beginning)* 1 Mar 2006	see (a) below
AASB 2007-8	Sep 2007	*(beginning)* 1 Jan 2009	see (b) below
AASB 2007-10	Dec 2007	*(beginning)* 1 Jan 2009	see (b) below
AASB 2009-6	Jun 2009	*(beginning)* 1 Jan 2009 and *(ending)* 30 Jun 2009	see (c) below
Erratum	Oct 2009	*(beginning)* 1 Jan 2009 and *(ending)* 30 Jun 2009	see (d) below

(a) Entities may elect to apply this Interpretation to annual reporting periods beginning on or after 1 January 2005 but before 1 March 2006.

(b) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009, provided that AASB 101 *Presentation of Financial Statements* (September 2007) is also applied to such periods.

(c) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009, provided that AASB 101 *Presentation of Financial Statements* (September 2007) is also applied to such periods, and to annual reporting periods beginning on or after 1 January 2009 that end before 30 June 2009.

(d) Entities may elect to apply this Erratum to annual reporting periods beginning on or after 1 January 2005, provided that AASB 2009-6 *Amendments to Australian Accounting Standards* is also applied to such periods.

Table of Amendments to Interpretation

Paragraph affected	How affected	By … [paragraph]
2	amended	AASB 2007-8 [6]
3	amended amended amended	AASB 2007-8 [6] AASB 2007-10 [101] Erratum, Oct 2009 [9]
4	amended amended	AASB 2007-8 [6] Erratum, Oct 2009 [10]
Aus5.1	amended	AASB 2007-8 [7, 8]
Aus5.4	amended	AASB 2007-8 [8]

Table of Amendments to Illustrative Example

Paragraph affected	How affected	By … [paragraph]
IE1	amended	AASB 2007-10 [101]
IE2	amended	AASB 2007-8 [6]
IE4-IE5	amended	AASB 2007-8 [6]
IE6	amended amended	AASB 2007-8 [6] AASB 2009-6 [108, 109]

COMPARISON WITH IFRIC 7

Interpretation 7 and IFRIC 7

UIG Interpretation 7 *Applying the Restatement Approach under AASB 129* Financial Reporting in Hyperinflationary Economies as amended incorporates International Financial Reporting Interpretations Committee Interpretation IFRIC 7 *Applying the Restatement Approach under IAS 29* Financial Reporting in Hyperinflationary Economies, issued by the International Accounting Standards Board. Paragraphs that have been added to this Interpretation (and do not appear in the text of IFRIC 7) are identified with the prefix "Aus", followed by the number of the preceding IFRIC paragraph and decimal numbering.

Entities that comply with Interpretation 7 as amended will simultaneously be in compliance with IFRIC 7 as amended.

INTERPRETATION 7

UIG Interpretation 7 was issued in February 2006.

This compiled version of Interpretation 7 applies to annual reporting periods beginning on or after 1 January 2009 that end on or after 30 June 2009. It incorporates relevant amendments contained in other AASB pronouncements up to and including 5 October 2009 (see Compilation Details).

URGENT ISSUES GROUP

INTERPRETATION 7

APPLYING THE RESTATEMENT APPROACH UNDER AASB 129 FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES

References

Accounting Standard AASB 112 *Income Taxes*

Accounting Standard AASB 129 *Financial Reporting in Hyperinflationary Economies*

Background

1 This Interpretation provides guidance on how to apply the requirements of AASB 129 *Financial Reporting in Hyperinflationary Economies* in a reporting period in which an entity identifies[1] 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 AASB 129.

1 The identification of hyperinflation is based on the entity's judgement of the criteria in paragraph 3 of AASB 129.

Issues

2 The questions addressed in this Interpretation 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 AASB 129 be interpreted when an entity applies the Standard?

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

Consensus

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 AASB 129 as if the economy had always been hyperinflationary. Therefore, in relation to non-monetary items measured at historical cost, the entity's opening statement of financial position 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 statement of financial position 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 AASB 112 *Income Taxes*. However, the deferred tax figures in the opening statement of financial position for the reporting period shall be determined as follows:

(a) the entity remeasures the deferred tax items in accordance with AASB 112 after it has restated the nominal carrying amounts of its non-monetary items at the date of the opening statement of financial position of the reporting period by applying the measuring unit at that date; and

(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 statement of financial position 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 statement of financial position of any comparative periods presented in the restated financial statements for the reporting period in which the entity applies AASB 129.

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.

Application

Aus5.1 This Interpretation applies to:

(a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001* and that is a reporting entity;

(b) general purpose financial statements of each other reporting entity; and

(c) financial statements that are, or are held out to be, general purpose financial statements.

Aus5.2 This Interpretation applies to annual reporting periods beginning on or after 1 March 2006.
[Note: For application dates of paragraphs changed or added by an amending pronouncement, see Compilation Details.]

Aus5.3 This Interpretation may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 March 2006, permitting early application in the context of adopting all Australian equivalents to International Financial Reporting Standards for such periods. Early application is encouraged. An entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act may apply this Interpretation to such annual reporting periods when an election has been made in accordance with subsection 334(5) of the Corporations Act in relation to AASB 1048 *Interpretation and Application of Standards*. When an entity applies this Interpretation to such an annual reporting period, it shall disclose that fact.

Aus5.4 The requirements specified in this Interpretation apply to the financial statements where information resulting from their application is material in accordance with AASB 1031 *Materiality*.

Effective Date of IFRIC 7

6 [Deleted by the UIG]

ILLUSTRATIVE EXAMPLE

This example accompanies, but is not part of, UIG Interpretation 7. The UIG considers that the example is an essential feature of the Interpretation.

IE1 This example illustrates the restatement of deferred tax items when an entity restates for the effects of inflation under AASB 129 *Financial Reporting in Hyperinflationary Economies*. As the example is intended only to illustrate the mechanics of the restatement approach in AASB 129 for deferred tax items, it does not illustrate an entity's complete Australian-equivalents-to-IFRSs financial statements.

Facts

IE2 An entity's Australian-equivalents-to-IFRSs statement of financial position at 31 December 20X4 (before restatement) is as follows:

Note	**Statement of financial position**	**20X4**[(a)] **CU million**	**20X3 CU 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	20
	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 20X2. 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 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 base of 200. 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 base of CU333.

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

IE3 Assume that the entity identifies the existence of hyperinflation in, for example, April 20X4 and therefore applies AASB 129 from the beginning of 20X4. 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 20X4**
December 20X2[(a)]	95	2.347
December 20X3	135	1.652
December 20X4	223	1.000

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

Restatement

IE4 The restatement of the entity's 20X4 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 AASB 112 *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 Interpretation.

IE5 Therefore the entity restates its statement of financial position at 31 December 20X4 as follows:

Note	**Statement of financial position (restated)**	**20X4**	**20X3**
		CU million	**CU 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 20X2 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, that is 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

2 *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 base 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 base of CU333. 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 AASB 112, that is 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 AASB 129, it (a) remeasures its comparative deferred tax items in accordance with AASB 112 after it has restated the nominal carrying amounts of its non-monetary items at the date of the opening statement of financial position 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 statement of financial position of the current period up to the end of the reporting period.

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

	CU 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 20X4	151

	CU million
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 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

IE6 In this example, the restated deferred tax liability is increased by CU34 to CU151 from 31 December 20X3 to 31 December 20X4. That increase, which is included in profit or loss in 20X4, 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:

	CU million
Effect on deferred tax liability because of a decrease in the taxable temporary difference of property, plant and equipment (– CU235 + CU133) × 30%	31
Loss on tax base because of inflation in 20X4 (CU333 × 1.652 – CU333) × 30%	(65)
Net increase of deferred tax liability	(34)
Debit to profit or loss in 20X4	34

The loss on tax base is a monetary loss. Paragraph 28 of AASB 129 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 comprehensive income.

BASIS FOR CONCLUSIONS ON IFRIC 7

This IFRIC Basis for Conclusions accompanies, but is not part of, UIG Interpretation 7. The UIG considers that this Basis for Conclusions is an essential feature of the Interpretation. An IFRIC Basis for Conclusions may be amended to reflect the requirements of the UIG Interpretation and AASB Accounting Standards where they differ from the corresponding International pronouncements.

In this Basis for Conclusions the terminology has not been amended to reflect the changes made by IAS 1 Presentation of Financial Statements *(as revised in 2007).*

Introduction

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.

Background

BC2 The IFRIC was asked for guidance on how an entity should restate its financial statements when 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 should be measured in accordance with IAS 12 *Income Taxes*. However, it was not clear how an entity should account for the corresponding deferred tax figures.

BC4 In response, the IFRIC developed and published Draft Interpretation D5 *Applying IAS 29* Financial Reporting in Hyperinflationary Economies *for the First Time* for public comment in March 2004. It received 30 letters in response to the proposals.

Basis for consensus

The restatement approach

BC5 In developing D5, the IFRIC observed that the purpose of restating financial statements in hyperinflationary economies in accordance with

IAS 29 is to reflect the effect on an entity of changes in general purchasing power. Paragraph 2 of IAS 29 states:

> 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.

This purpose applies to the financial statements of the first reporting period in which 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 are still met).

BC6 The IFRIC considered the meaning of paragraph 4 of IAS 29, which states:

> … 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 IFRIC noted that some may interpret this provision as restricting the restatement of an entity's opening balance sheet in the reporting period in which it identifies the existence of hyperinflation. Consequently, 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 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 ... [emphasis added]

BC7 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, which identifies when an entity has to comply with the Standard. The paragraph clarifies that an entity applies the requirements of the Standard to its financial statements from the beginning of the reporting period to the balance sheet date and not only from the date when it identifies the existence of hyperinflation. However, paragraph 4 does not deal with the restatement and presentation of the financial statements (either at the balance sheet date or 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 reporting period in which the entity identifies the existence of hyperinflation.

BC8 The IFRIC concluded that, in the context of the purpose of the Standard, the restatement of the financial statements for the reporting period in which an entity identifies the existence of hyperinflation should be consistent with the restatement approach applied in subsequent reporting periods.

BC9 Some respondents to D5 expressed concerns about whether the restatement approach in IAS 29 was always practicable for preparers and whether it provided decision-useful information to users. Though the IFRIC understood those concerns, the IFRIC observed 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.

BC10 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 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.

BC11 The IFRIC observed that, in developing IFRS 1 *First-time Adoption of International Financial Reporting Standards*, the International Accounting Standards 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:

> 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.

BC12 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 otherwise have to apply IAS 29 at its transition to IFRSs applies the fair value measurement exemption of IFRS 1, it would apply IAS 29 to periods only after the date for which the fair value was determined. Such remeasurements would therefore reduce the need for a first-time adopter to restate its financial statements.

BC13 The IFRIC noted that the exemptions from the general restatement approach for preparers that already apply IFRSs, as stated in paragraph BC10 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. Nevertheless, the IFRIC concluded that the application of the exemptions in the Standards is 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 applying the restatement approach under IAS 29 would require amendments of the Standard itself, rather than an Interpretation.

BC14 Respondents to D5 also argued that the procedures, as proposed to be clarified, are inconsistent with the accounting for a change in functional currency under IAS 21 *The Effect of Changes in Foreign Exchange Rates*, which in their view is comparable to moving into a state of hyperinflation. Moreover, they noted that retrospective application is also inconsistent with the US GAAP approach, which accounts for a change in hyperinflation status prospectively.

BC15 In relation to the reference to a change in functional currency, the IFRIC observed that the existence of hyperinflation may (but not necessarily should) initiate such a change. The IFRIC noted that a change in functional currency is a change in the currency that is normally used to determine the pricing of an entity’s transactions. As clarified in paragraph BC5 above, the purpose of restatement for the effects of hyperinflation is to reflect the effect of changes in purchasing power in the economy of an entity's functional currency. Therefore, the IFRIC did not believe that the application of accounting for hyperinflation should be based on the accounting for the change in an entity's functional currency.

BC16 The IFRIC also observed that respondents' reference to prospective application under US GAAP reflects requirements only for investments in foreign entities in hyperinflationary economies. In this case, paragraph 11 of SFAS 52 *Foreign Currency Translation* states:

> The financial statements of a foreign entity in a highly inflationary economy shall *be remeasured as if the functional currency were the reporting currency*. Accordingly, the financial statements of those entities shall be remeasured into the reporting currency according to the requirements of paragraph 10 … [emphasis added]

Therefore, under US GAAP a foreign entity's financial statements are remeasured into its investor's functional currency. The IFRIC noted that this approach is different from the restate/translate approach under IFRSs. US GAAP provides different guidance for reporting entities operating with a hyperinflationary functional currency. APB Statement No. 3 *Financial Statements Restated for General Price-Level Changes* is also based on a restatement approach, and would require retrospective application, as under IAS 29. The IFRIC observed that for the purpose of presenting comparative amounts in a different presentation currency under IFRSs paragraphs 42(b) and 43 of IAS 21 apply. In such instances, an entity will have relief from the required restatement of comparatives under IAS 29. Paragraph BC22 of IAS 21 explains the reasoning for this specific exemption as follows:

> … If exchange rates fully reflect differing price levels between the two economies to which they relate, the SIC-30 approach will result in the same amounts for the comparatives as were reported as current year amounts in the prior year financial statements. Furthermore, the Board noted that in the prior year, the relevant amounts had been already expressed in the non-hyperinflationary presentation currency, and there was no reason to change them.

BC17 D5 proposed that applying the restatement approach under IAS 29 should be regarded as a change in circumstances, rather than a change in accounting policy. Some respondents to D5 believed this was inconsistent. This is because 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 an entity would not apply IAS 29 retrospectively. However, the IFRIC observed that IAS 29 contains specific requirements on this point, as noted in paragraphs BC5–BC16 above. The IFRIC concluded that the opening balance sheet for the reporting period in which an entity identifies the existence of hyperinflation ought to be restated as if the entity had always applied the restatement approach under IAS 29. The IFRIC reconfirmed its view that this treatment is similar to the retrospective application of a change in accounting policy described in IAS 8.

Deferred tax items

BC18 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 reporting period in which an entity identifies the existence of hyperinflation.

BC19 The IFRIC observed that paragraph 32 of IAS 29 states:

> 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 IAS 12 *Income Taxes*.

Therefore, at the closing balance sheet date of the reporting period an entity remeasures its deferred tax items on the basis of the restated financial statements, rather than by 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.

BC20 In developing D5, 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; or

(c) remeasurement of deferred tax items as if the economy of the entity's functional currency had always been hyperinflationary.

BC21 D5 proposed clarifying that deferred tax items are neither clearly monetary nor non-monetary in nature. This was because deferred tax items are determined by the assets' (and liabilities') relative carrying amounts and tax bases. However, some respondents to D5 objected to that view, for various reasons. Some argued that deferred tax items, by nature, are received or paid in a fixed or determinable number of units of currency, and so should be considered as monetary items in accordance with paragraph 8 of IAS 21. Others noted that general practice is to classify deferred taxes as non-monetary items.

BC22 When considering respondents' comments the IFRIC confirmed that its conclusion in paragraph BC17 above should also apply to deferred tax items. In other words, the deferred tax items in the opening balance sheet for the reporting period in which an entity identifies the existence of hyperinflation should be calculated as if the environment had always been hyperinflationary, i.e. option (c) in paragraph BC20. Although the IFRIC acknowledged that deferred tax items may meet the definition of monetary items it noted that the purposes of option (c) would not be achieved if opening deferred tax items were restated in the same manner as applied generally for monetary items.

BC23 The IFRIC observed that some respondents to D5 suggested that deferred tax items in the opening balance sheet should be remeasured after restating the opening balance sheet with the measurement unit current at the closing balance sheet date of the reporting period. In the IFRIC's view, that proposal would (in case of a deferred tax liability) overstate the deferred tax item recognised in the opening balance sheet and, accordingly, understate the costs recognised in the reporting period. This is because the loss on the tax base caused by the inflation in the reporting period would be recognised directly in opening equity. The IFRIC illustrated this by the following example:

> At the end of Year 1, a non-monetary asset is restated at the measurement unit current at that date. Its restated amount is CU1,000 and its tax base is CU500. If the tax rate is 30 per cent, the entity would remeasure a deferred tax liability of CU150. In Year 2 inflation is 100 per cent. Assuming that nothing has changed the entity would, in its restated financial statements, recognise an asset of CU2,000 (both at the closing balance sheet date of the reporting period and in the comparative figures). At the closing balance sheet date, the deferred tax liability is remeasured at CU450 ((CU2,000 – CU500) × 0.3). However, if the comparative deferred tax liability is remeasured after restating the asset by the measuring unit current at the closing balance sheet date of the reporting period, the entity should recognise an opening deferred tax liability of CU450, and there would be no impact on profit or loss (CU450 – CU450). On the other hand, if the comparatives are stated as proposed in D5, the restated opening deferred tax liability would be CU300 ((CU1,000 – CU500) × 0.3) × 100% + CU150). Accordingly, the entity should recognise a loss of CU150 (CU450 – CU300),

which is the loss of purchasing power on the tax base in the reporting period.

BC24 The IFRIC observed that paragraph 18 of Appendix A to IAS 12 explains:[1]

> 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;*[2] *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*[3] *and the deferred tax relating to the restatement is charged in the income statement.)*

BC25 Consequently, the IFRIC confirmed its conclusion that restatement of comparative deferred tax items would require an entity, first, to remeasure its deferred tax items on the basis of 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.

1 Paragraph 18 has been amended as a consequence of the changes made by IAS 1 *Presentation of Financial Statements* (as revised in 2007).

2 IAS 1 (revised 2007) requires an entity to present all income and expense items in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income).

3 Under IAS 1 (revised 2007), such effect is recognised in other comprehensive income.