

Financial Reporting in Hyperinflationary Economies (IAS 29)

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1. Objective and core idea

IAS 29 deals with how an entity whose **functional currency** is that of a **hyperinflationary economy** should present its financial statements so that they reflect **current purchasing power** at the end of the reporting period.

In a hyperinflationary environment, historical cost figures become misleading because the currency loses purchasing power rapidly. IAS 29 therefore requires:

- **Restatement of financial statements** into units of **current purchasing power** using a **general price index**.
- **Recognition of a net monetary gain or loss** arising from holding monetary items during inflation.
- **Clear disclosures** so users understand that the financial statements have been restated.

The standard does **not** change the underlying measurement bases (historical cost vs current cost) but overlays a **purchasing power adjustment**.

2. Scope and key definitions

2.1 Scope

Scope: IAS 29 applies to the **financial statements (including consolidated financial statements)** of any entity whose **functional currency** is the currency of a **hyperinflationary economy**.

It applies to:

- **Separate financial statements** of a parent or individual entity.
- **Consolidated financial statements** of a group.
- **Any general-purpose financial statements** prepared under IFRS.

It does **not** apply merely because an entity operates in a high-inflation country; it applies when the **functional currency itself** is hyperinflationary.

2.2 Functional currency

Functional currency: The currency of the primary economic environment in which the entity operates (IAS 21). IAS 29 is triggered when this functional currency is hyperinflationary.

2.3 Hyperinflationary economy – indicators

IAS 29 does not set a single numeric threshold, but provides **indicators**. Management must apply judgement.

Common indicators include:

- **Cumulative inflation over three years** approaching or exceeding **100%**.
- **General population prefers to hold wealth** in:
 - Non-monetary assets (property, commodities), or
 - Stable foreign currencies.
- **Prices quoted in a foreign currency** (e.g. USD) rather than the local currency.
- **Interest rates, wages and prices** indexed to a **price index**.
- **Credit sales at very short terms** because of rapid loss of purchasing power.

Important: The 100% over three years is a **guideline**, not a hard rule. The overall economic environment and behaviour of market participants matter.

3. Conceptual foundation – purchasing power and monetary vs non-monetary items

3.1 Purchasing power and general price index

In hyperinflation, the same nominal amount of currency buys **less goods and services** over time. IAS 29 requires that financial statements be expressed in **units of current purchasing power** at the reporting date.

This is done using a **general price index**, typically:

- A **consumer price index (CPI)** or similar broad inflation index.
- The index must be:
 - **General** (not specific to one industry or product).
 - **Consistent** and **reliable**.
 - Available for all relevant dates (transaction dates, reporting dates).

Restatement factor:

If the general price index at the reporting date is I_{end} and at the transaction date is I_{orig} , the restatement factor is:

$$\text{Factor} = \frac{I_{\text{end}}}{I_{\text{orig}}}$$

The historical amount is multiplied by this factor to express it in **current purchasing power**.

3.2 Monetary vs non-monetary items

IAS 29 relies heavily on the distinction between **monetary** and **non-monetary** items.

- **Monetary items:**

- Units of currency held and assets/liabilities to be received or paid in a fixed or determinable number of currency units.
- Examples:
 - Cash and bank balances.
 - Trade receivables and payables.
 - Loans receivable and payable.
 - Provisions to be settled in fixed amounts of currency.
- Their **nominal amount** is fixed, but their **purchasing power** changes with inflation.
- **Non-monetary items:**
 - Items that are **not** monetary.
 - Examples:
 - Property, plant and equipment.
 - Intangible assets.
 - Inventories.
 - Investments in equity instruments.
 - Equity (share capital, reserves).
 - Their carrying amounts are based on **historical cost** or **current value** and must be **restated** to reflect current purchasing power.

Key idea: Monetary items are already expressed in current nominal currency units, but their **real value** changes. Non-monetary items are expressed in **old purchasing power units** and must be restated.

4. Restatement of financial statements – historical cost basis

IAS 29 sets out a systematic restatement process for **historical cost financial statements**.

4.1 General principle

At the end of each reporting period:

- **All amounts** in the financial statements (including comparatives) are expressed in **units of current purchasing power** of the functional currency.
- Restatement is done using a **general price index**.
- The **net monetary gain or loss** is recognised in **profit or loss**.

4.2 Statement of financial position (“balance sheet”)

4.2.1 Non-monetary assets

Non-monetary assets at historical cost (e.g. PPE, inventories, intangible assets):

- Restate from the date of **acquisition** or **capitalisation** to the **reporting date** using the general price index.

Example:

- PPE acquired on 1 Jan 20X3 for R1,000.
- General price index:
 - 1 Jan 20X3: 100
 - 31 Dec 20X5: 250
- Restated amount at 31 Dec 20X5:

$$\text{Restated PPE} = 1,000 \times \frac{250}{100} = \text{R2,500}$$

Depreciation is also restated (see statement of comprehensive income section – Par. 4.3).

Non-monetary assets at fair value:

- If an asset is already measured at **current fair value** at the reporting date (e.g. investment property at fair value), it is **not restated** further, because it already reflects current prices.

4.2.2 Inventories

Inventories measured at **historical cost**:

- Restate from the date of **acquisition** or **production** to the reporting date.
- If inventories are measured at **net realisable value** (NRV) at the reporting date, and NRV reflects current prices, no further restatement is needed.

4.2.3 Monetary assets and liabilities

Monetary items (cash, receivables, payables, loans):

- **Not restated** because they are already expressed in current nominal currency units.
- However, holding monetary items during inflation creates a **net monetary gain or loss**:
 - Holding **monetary liabilities** during inflation → **gain** (you repay with less purchasing power).
 - Holding **monetary assets** during inflation → **loss** (they lose purchasing power).

This net effect is recognised in profit or loss (see Paragraph 4.4).

4.2.4 Equity

Equity components (excluding retained earnings):

- **Share capital and share premium**:
 - Restate from the dates of **contribution** to the reporting date using the general price index.

- **Other reserves:**
 - Restate from the dates they arose (e.g. revaluation reserve date) to the reporting date.

Retained earnings:

- Become the **balancing figure** after restating assets, liabilities and other equity components and recognising the net monetary gain or loss.

4.3 Statement of comprehensive income (“income statement”)

All items in the **statement of comprehensive income** are expressed in **current purchasing power**.

4.3.1 Revenue and expenses

- **Revenue and expenses** are restated from the dates they were **recognised** to the reporting date.
- For **high-frequency transactions** (e.g. daily sales, wages), entities often use a **weighted average index** for the period rather than restating each transaction individually.

Example:

- Sales during the year: R10,000.
- Average index during the year: 200.
- Index at reporting date: 250.

$$\text{Restated sales} = 10,000 \times \frac{250}{200} = \text{R}12,500$$

4.3.2 Depreciation and amortisation

Depreciation and amortisation:

- First, restate the **underlying asset** to current purchasing power.
- Then, compute depreciation based on the **restated amount**.
- Alternatively, restate the **depreciation charge** recognised during the year from the date of recognition (or average index) to the reporting date.

4.3.3 Finance costs and income

Interest income and expense:

- Restate from the dates they were recognised to the reporting date.
- The **real effect** of inflation on monetary items is captured separately as the **net monetary gain or loss** (see Par. 4.4).

4.4 Net monetary gain or loss

The **net monetary gain or loss** is a central concept in IAS 29.

4.4.1 Concept

Because monetary items are not restated, but their **real value** changes with inflation, the entity experiences:

- A **loss** from holding **net monetary assets** (they lose purchasing power).
- A **gain** from holding **net monetary liabilities** (you repay with less purchasing power).

IAS 29 requires that this **net effect** be recognised in **profit or loss**.

4.4.2 Calculation (conceptual)

There is no single prescribed formula, but conceptually:

1. **Determine net monetary position** at various points (e.g. beginning and end of period).
2. **Estimate the loss or gain** due to inflation on that net position.
3. The **balancing figure** arising from restating non-monetary items and equity often represents the **net monetary gain or loss**.

In practice, many entities:

- Restate all non-monetary items and equity.
- Compare the restated equity with the sum of:
 - Opening restated equity.
 - Restated profit or loss (excluding monetary gain/loss).
 - Restated contributions/distributions.
- The difference is the **net monetary gain or loss**.

4.4.3 Presentation

- Recognised in **profit or loss**.
- Presented as a **separate line item**, often titled “Gain (loss) on net monetary position”.
- This helps users distinguish between:
 - Operating performance, and
 - The effect of inflation on monetary items.

5. Current cost financial statements

IAS 29 also addresses entities that already prepare **current cost financial statements** (e.g. using current replacement cost).

5.1 Principle

For current cost financial statements:

- The **current cost amounts** are already at current prices.
- IAS 29 still requires expressing them in **units of current purchasing power**.

5.2 Restatement approach

- **Current cost non-monetary items:**
 - Already at current prices, but may need adjustment for **general purchasing power** (if current cost is specific price, not general price).
- **Monetary items:**
 - Same treatment as in historical cost—no restatement, but net monetary gain or loss recognised.
- **Statement of comprehensive income:**
 - Current cost income and expenses are restated to current purchasing power using the general price index.

The mechanics are similar, but the starting point is **current cost** rather than historical cost.

6. Specific items and statements

6.1 Taxes

Income tax:

- Based on **taxable profit**, which is determined under tax law (not IAS 29).
- IAS 29 requires that the **tax expense** be restated to current purchasing power.
- Deferred tax balances (monetary or non-monetary depending on nature) are treated accordingly:
 - Deferred tax assets and liabilities are generally **monetary** and not restated, but the **tax expense** is restated.

6.2 Statement of cash flows

Cash flows:

- Presented in **current purchasing power units** at the reporting date.
- Cash flows during the period are restated using the **general price index** from the date of the cash flow to the reporting date.
- For frequent cash flows, a **weighted average index** may be used.

The statement of cash flows shows nominal cash movements, but IAS 29 overlays a purchasing power adjustment so that all amounts are comparable in real terms.

6.3 Corresponding figures (comparatives)

Comparative figures:

- Must be **restated** into units of **current purchasing power** at the **current reporting date**.
- This means:
 - Prior year figures are restated using the **change in the general price index** from the prior year reporting date to the current reporting date.
- Users can then compare **real performance**, not nominal amounts.

6.4 Consolidated financial statements

For a group:

- If the **parent's functional currency** is hyperinflationary, IAS 29 applies to the **consolidated financial statements**.
- Subsidiaries whose functional currency is also hyperinflationary:
 - Their financial statements are restated in their own functional currency to current purchasing power.
 - Then translated into the parent's presentation currency under IAS 21.
- Subsidiaries with **non-hyperinflationary functional currencies**:
 - Their financial statements are **not restated** under IAS 29.
 - They are translated under IAS 21 as usual.

Where a foreign operation becomes hyperinflationary, IFRIC 7 provides guidance on applying the restatement approach under IAS 29.

7. Economies ceasing to be hyperinflationary

When an economy **ceases to be hyperinflationary**:

- The entity **stops applying IAS 29** from the beginning of the period in which hyperinflation ceases.
- The amounts expressed in **current purchasing power** at the end of the last hyperinflationary period become the **basis** for subsequent financial reporting.
- No "reverse" restatement is done; the restated amounts become the new historical amounts.

This ensures continuity and avoids oscillating between restated and non-restated bases.

8. Disclosures

IAS 29 requires **clear and specific disclosures**, so users understand the impact of hyperinflation.

Key disclosures include:

- **Fact of restatement:**
 - A statement that the financial statements and corresponding figures have been **restated** for the effects of hyperinflation.
- **Price index used:**
 - The **general price index** used.
 - The **level of the index** at:
 - The beginning of the period.
 - The end of the period.
- **Measurement basis:**
 - Whether the financial statements are prepared on the basis of:
 - **Historical cost**, or
 - **Current cost**.
- **Net monetary gain or loss:**
 - The amount of the **gain or loss on the net monetary position** recognised in profit or loss.
- **Functional and presentation currency:**
 - Confirmation that the entity measures its results and financial position in its **functional currency**.
 - If the financial statements are presented in a different currency, disclosure that translation is done under IAS 21.

Additional useful disclosures (often provided in practice):

- **Narrative explanation of:**
 - The nature of hyperinflation in the economy.
 - Key indicators considered.
 - How the general price index was selected.
- **Impact analysis:**
 - Qualitative discussion of how restatement affects key performance measures.

9. Worked example

Let's walk through an example to make the mechanics concrete.

9.1 Scenario

Entity A operates in a hyperinflationary economy. Its functional currency is CU (currency units).

General price index:

- 1 Jan 20X5: 100
- Average for 20X5: 180
- 31 Dec 20X5: 200

Statement of financial position at 31 December 20X5 (before IAS 29 restatement):

- PPE (acquired 1 Jan 20X4): CU 1,000 (Index was 90 at the time)
- Inventories (acquired evenly during 20X5): CU 500
- Cash in bank: CU 300
- Trade receivables: CU 200
- Trade payables: CU 400
- Share capital (contributed 1 Jan 20X3): CU 600 (Index was 80 at the time)
- Retained earnings: CU 1,000

Statement of profit or loss for 20X5 (before restatement):

- Sales: CU 3,000
- Cost of sales: CU 1,500
- Depreciation: CU 100
- Other expenses: CU 800
- Profit: CU 600

9.2 Restatement steps

9.2.1 Restate non-monetary assets

PPE:

- Acquired 1 Jan 20X4.
- Index at 1 Jan 20X4 was: 90.
- Restatement factor:

$$\text{Factor} = \frac{200}{90} \approx 2.22$$

$$\text{Restated PPE} = 1,000 \times 2.22 = \text{CU } 2,220$$

Inventories:

- Acquired evenly during 20X5.
- Use average index of 180.
- Restatement factor:

$$\text{Factor} = \frac{200}{180} \approx 1.11$$

$$\text{Restated inventories} = 500 \times 1.11 = \text{CU } 555$$

Monetary items (cash, receivables, payables) are **not restated**.

9.2.2 Restate equity (excluding retained earnings)

Share capital:

- Contributed 1 Jan 20X3.
- Index at 1 Jan 20X3: 80.
- Restatement factor:

$$\text{Factor} = \frac{200}{80} = 2.5$$

$$\text{Restated share capital} = 600 \times 2.5 = \text{CU } 1,500$$

9.2.3 Restate income statement

Use average index 180 for 20X5.

Sales:

$$\text{Restated sales} = 3,000 \times \frac{200}{180} = \text{CU } 3,333$$

Cost of sales:

$$\text{Restated cost of sales} = 1,500 \times \frac{200}{180} = \text{CU } 1,667$$

Depreciation:

$$\text{Restated depreciation} = 100 \times \frac{200}{180} = \text{CU } 111$$

Other expenses:

$$\text{Restated other expenses} = 800 \times \frac{200}{180} = \text{CU } 889$$

Restated profit before net monetary gain/loss:

$$\text{Profit} = 3,333 - 1,667 - 111 - 889 = \text{CU } 666$$

9.2.4 Net monetary gain or loss (conceptual)

Now, compare:

- Restated non-monetary assets and equity.
- Monetary items.
- Restated profit.

The difference needed to make the **restated statement of financial position balance** is the **net monetary gain or loss**.

The balancing figure is recognised in profit or loss as “**Loss on net monetary position**” (or gain, depending on whether it is a debit or a credit).

10. Interaction with other standards

10.1 IAS 21 – Effects of changes in foreign exchange rates

IAS 29 interacts closely with IAS 21:

- An entity measures its results and financial position in its **functional currency**.
- After restatement under IAS 29, the financial statements may be **presented in any currency** by translating under IAS 21.
- For foreign operations that become hyperinflationary, IAS 21 and IFRIC 7 provide guidance on:
 - When to apply IAS 29.
 - How to present exchange differences.

10.2 IFRIC 7 – Applying the restatement approach under IAS 29

IFRIC 7 clarifies:

- How to apply IAS 29 when an entity’s functional currency becomes hyperinflationary.
- How to restate deferred tax items.
- The sequence:
 1. Restate non-monetary items.
 2. Recognise deferred tax on restated amounts.
 3. Recognise net monetary gain or loss.

11. Practical considerations and judgement

11.1 Selecting the general price index

Entities must:

- Choose an index that is:
 - **Broad-based** (e.g. CPI).
 - **Reliable** and **publicly available**.
- Apply it **consistently**.
- Disclose the index and its levels.

11.2 Systems and data

Implementing IAS 29 requires:

- Historical data on:
 - Acquisition dates and amounts of non-monetary assets.
 - Dates and amounts of equity contributions.
 - Timing of major revenue and expense items.
- Access to the **general price index** for all relevant dates.

Many entities:

- Use **approximation techniques** (e.g. average index for the period).
- Focus on **material items** for precise restatement.

11.3 Judgement on hyperinflation

Management must:

- Assess indicators regularly.
- Consider:
 - Cumulative inflation.
 - Behaviour of market participants.
 - Regulatory and economic environment.
- Document the basis for concluding that the economy is hyperinflationary (or ceases to be).

12. Summary – what IAS 29 is *really* doing

IAS 29 is not just a mechanical restatement exercise; it is about **protecting the meaning of financial information** in environments where the currency is rapidly losing value.

In essence, IAS 29:

- **Re-expresses all figures** in terms of **current purchasing power**,
- **Separates:**
 - Operating performance, and
 - The effect of inflation on monetary items (net monetary gain/loss),
- **Demands transparency** through detailed disclosures,

in order to enhance the **comparability** of financial statements from one period to the next.

13. Comprehensive Question Bank (MCQs, theory, calculations)

1. Multiple-choice questions (MCQs)

1.1 Core concepts and indicators

Q1 IAS 29 applies when:

- a) The entity's presentation currency is hyperinflationary
- b) The entity's functional currency is hyperinflationary
- c) The entity has a foreign subsidiary in a hyperinflationary economy
- d) The entity's shareholders reside in a hyperinflationary country

Q2 Which of the following is **not** an indicator of a hyperinflationary economy under IAS 29?

- a) Cumulative inflation over three years approaches or exceeds 100%
- b) The general population prefers to hold wealth in non-monetary assets or foreign currency
- c) Prices are quoted in a foreign currency
- d) The government publishes a budget deficit

Q3 Under IAS 29, which statement is **most accurate** regarding the 100% inflation guideline?

- a) IAS 29 requires exactly 100% inflation over three years
- b) IAS 29 requires more than 100% inflation in a single year
- c) IAS 29 uses 100% over three years as a guideline, not a strict threshold
- d) IAS 29 does not mention any numerical guideline

Q4 Which of the following is a **monetary item** under IAS 29?

- a) Inventories
- b) Property, plant and equipment
- c) Trade receivables
- d) Goodwill

Q5 Which of the following is a **non-monetary item** under IAS 29?

- a) Bank overdraft
- b) Trade payables
- c) Trade receivables
- d) Investment in equity instruments measured at cost

Q6 The primary objective of IAS 29 is to:

- a) Change all measurement bases to fair value
- b) Express financial statements in units of current purchasing power
- c) Eliminate the effects of foreign exchange differences
- d) Require entities to use US dollars in hyperinflationary economies

Q7 Under IAS 29, the general price index used for restatement should be:

- a) Specific to the entity's industry only
- b) A broad, general index such as CPI
- c) Determined by the auditor
- d) Based solely on foreign exchange rates

Q8 Which of the following best describes the **net monetary gain or loss**?

- a) The gain or loss on revaluing PPE
- b) The gain or loss from holding net monetary assets or liabilities during inflation
- c) The gain or loss on foreign currency translation
- d) The gain or loss on disposal of non-monetary assets

1.2 Restatement mechanics – historical cost

Q9 In a hyperinflationary economy, non-monetary assets measured at historical cost are:

- a) Not restated because they are already at current prices
- b) Restated using a general price index from acquisition date to reporting date
- c) Restated using foreign exchange rates
- d) Written down to nil

Q10 Monetary items (e.g. cash, receivables, payables) are:

- a) Restated using the general price index
- b) Not restated, but give rise to a net monetary gain or loss
- c) Always measured at fair value
- d) Eliminated from the statement of financial position

Q11 Revenue and expenses in the statement of profit or loss are typically restated:

- a) From the beginning of the year using the opening index only
- b) Using the closing index only
- c) From the dates of recognition, often approximated using an average index
- d) Not restated at all

Q12 Which line item is most likely to present the net monetary gain or loss?

- a) Other comprehensive income
- b) Profit or loss – separate line item
- c) Equity – directly in retained earnings without going through profit or loss
- d) Statement of cash flows

Q13 Share capital contributed many years ago in a hyperinflationary economy is:

- a) Left at nominal historical amount
- b) Restated from contribution date to reporting date using the general price index

- c) Restated using foreign exchange rates only
- d) Eliminated and replaced with retained earnings

Q14 Comparative figures in hyperinflationary financial statements are:

- a) Presented at their original nominal amounts
- b) Restated to the purchasing power of the prior year only
- c) Restated to the purchasing power of the current reporting date
- d) Not presented at all

1.3 Consolidation and foreign operations

Q15 In consolidated financial statements, if the parent's functional currency is hyperinflationary:

- a) IAS 29 applies only to the parent's separate financial statements
- b) IAS 29 applies to the consolidated financial statements as well
- c) IAS 29 does not apply because consolidation removes hyperinflation
- d) IAS 29 applies only to foreign subsidiaries

Q16 A foreign subsidiary's functional currency is hyperinflationary. Its financial statements are first:

- a) Translated under IAS 21, then restated under IAS 29
- b) Restated under IAS 29 in its functional currency, then translated under IAS 21
- c) Translated using historical rates only
- d) Ignored in consolidation

Q17 A subsidiary with a **non-hyperinflationary** functional currency within a group whose parent's functional currency is hyperinflationary:

- a) Must restate its financial statements under IAS 29
- b) Its financial statements are not restated under IAS 29
- c) Must change its functional currency
- d) Is excluded from consolidation

1.4 Transition and cessation

Q18 When an economy **becomes** hyperinflationary, IAS 29 is applied:

- a) Prospectively from the date of the next annual report only
- b) From the beginning of the reporting period in which hyperinflation is identified
- c) Only after three years of hyperinflation
- d) Retrospectively for all prior years

Q19 When an economy **ceases** to be hyperinflationary:

- a) IAS 29 is reversed and prior restatements are undone

- b) IAS 29 continues to be applied for three more years
- c) IAS 29 is discontinued from the beginning of the period in which hyperinflation ceases, and restated amounts become the new basis
- d) The entity must change its functional currency

1.5 Disclosures and presentation

Q20 Which of the following is **required** disclosure under IAS 29?

- a) The name of the auditor
- b) The general price index used and its level at the beginning and end of the period
- c) The detailed methodology of the index calculation
- d) The personal inflation expectations of management

Q21 IAS 29 requires disclosure of:

- a) Whether the financial statements are based on historical cost or current cost
- b) Only fair value measurements
- c) Only monetary items
- d) Only non-monetary items

Q22 The net monetary gain or loss is:

- a) Recognised in other comprehensive income
- b) Recognised in profit or loss
- c) Recognised directly in equity
- d) Not recognised at all

1.6 Mixed topics

Q23 Which of the following best describes the treatment of investment property measured at fair value in a hyperinflationary economy?

- a) Restated using the general price index from acquisition date
- b) Not restated further because fair value already reflects current prices
- c) Eliminated from the financial statements
- d) Converted to historical cost

Q24 In the statement of cash flows under IAS 29:

- a) Cash flows are presented at nominal amounts only
- b) Cash flows are restated to the purchasing power at the reporting date
- c) Cash flows are restated to the purchasing power at the transaction date
- d) Cash flows are not presented

Q25 Deferred tax assets and liabilities (assume they are monetary) in a hyperinflationary economy are:

- a) Restated using the general price index
- b) Not restated, but tax expense is restated
- c) Eliminated
- d) Recognised in other comprehensive income only

2. Theory questions

2.1 Short-answer

Q26 Define a **hyperinflationary economy** in the context of IAS 29 and list at least **three indicators** that an economy is hyperinflationary.

Q27 Explain the difference between **monetary** and **non-monetary** items under IAS 29, giving **two examples** of each.

Q28 Briefly explain why IAS 29 requires financial statements to be expressed in **units of current purchasing power** rather than nominal currency units.

Q29 Describe the general approach to restating **non-monetary assets** measured at historical cost in a hyperinflationary economy.

Q30 Explain the concept of **net monetary gain or loss** and why it arises in hyperinflationary financial statements.

2.2 Long-form

Q31 Discuss the **objective** of IAS 29 and explain how the standard seeks to achieve this objective. In your answer, refer to:

- The role of the general price index
- The restatement of non-monetary items
- The recognition of net monetary gain or loss
- The importance of comparability for users of financial statements.

Q32 An entity operates in a hyperinflationary economy and prepares financial statements on a **historical cost basis**. Explain, with reference to IAS 29, how the following are treated:

- Property, plant and equipment
- Inventories
- Share capital and reserves
- Revenue and expenses
- Comparative figures.

Q33 Explain the **transition** to IAS 29 when an economy becomes hyperinflationary. Your answer should cover:

- Identification of hyperinflation
- Restatement of opening balances
- Treatment of comparative figures
- Interaction with IAS 21 and IFRIC 7.

Q34 Discuss the **consolidation issues** that arise when a group includes entities operating in hyperinflationary economies. In your answer, consider:

- Parent and subsidiary functional currencies
- Restatement of subsidiary financial statements
- Translation under IAS 21
- Presentation in consolidated financial statements.

Q35 Describe the **disclosure requirements** under IAS 29 and explain why these disclosures are important for users of financial statements in hyperinflationary economies.

3. Calculation scenarios

3.1 PPE restatement

Q36 Entity A operates in a hyperinflationary economy. General price index:

- 1 Jan 20X3: 80
- 1 Jan 20X4: 90
- 1 Jan 20X5: 100
- 31 Dec 20X5: 200

PPE was acquired on **1 Jan 20X4** for CU 1,200. Depreciation is straight-line over 10 years, no residual value.

Required:

- a) Calculate the **restated carrying amount** of PPE at 31 Dec 20X5.
- b) Calculate the **restated depreciation charge** for 20X5.

3.2 Inventories and revenue

Q37 Entity B operates in a hyperinflationary economy. General price index:

- 1 Jan 20X5: 100
- Average for 20X5: 150
- 31 Dec 20X5: 180

During 20X5:

- Sales (recognised evenly throughout the year): CU 9,000
- Cost of sales (inventories purchased evenly): CU 5,400

Required:

- a) Restate **sales** to the purchasing power at 31 Dec 20X5.
- b) Restate **cost of sales** to the purchasing power at 31 Dec 20X5.
- c) Compute the **restated gross profit**.

3.3 Net monetary position – qualitative

Q38 Entity C's monetary items at 1 Jan 20X5 and 31 Dec 20X5 are:

- 1 Jan 20X5:
 - Cash: CU 500
 - Trade receivables: CU 300
 - Trade payables: CU 600
- 31 Dec 20X5:
 - Cash: CU 700
 - Trade receivables: CU 400
 - Trade payables: CU 900

General price index:

- 1 Jan 20X5: 100
- 31 Dec 20X5: 200

Required:

- a) Determine whether the entity has **net monetary assets or liabilities** at the beginning and end of the period.
- b) Explain qualitatively whether the entity is likely to have a **net monetary gain or loss** due to inflation.

3.4 Integrated restatement and net monetary gain/loss

Q39 Entity D operates in a hyperinflationary economy. General price index:

- 1 Jan 20X4: 90
- 1 Jan 20X5: 100
- Average for 20X5: 150
- 31 Dec 20X5: 200

Statement of financial position at 31 Dec 20X5 (before IAS 29 restatement):

- PPE (acquired 1 Jan 20X4): CU 2,000

- Inventories (acquired evenly during 20X5): CU 800
- Cash: CU 500
- Trade receivables: CU 400
- Trade payables: CU 900
- Share capital (contributed 1 Jan 20X3, index then 80): CU 1,000
- Retained earnings: CU 1,800

Statement of profit or loss for 20X5 (before restatement):

- Sales: CU 6,000
- Cost of sales: CU 3,600
- Depreciation: CU 200
- Other expenses: CU 1,400
- Profit: CU 800

Required:

- Restate **PPE, inventories, share capital, and income statement items** to the purchasing power at 31 Dec 20X5.
- Prepare a **restated statement of financial position** at 31 Dec 20X5 (structure and key figures).
- Determine the **balancing figure** representing the **net monetary gain or loss** and indicate whether it is a gain or a loss.

3.5 Comparatives

Q40 Entity E applies IAS 29. General price index:

- 31 Dec 20X4: 120
- 31 Dec 20X5: 180

Profit for 20X4 (reported in last year's financial statements at 20X4 purchasing power): CU 1,200.

Required:

- Restate the **20X4 profit** to the purchasing power at 31 Dec 20X5 for use as a comparative in the 20X5 financial statements.
- Explain why this restatement is necessary.

3.6 Consolidation – hyperinflationary subsidiary

Q41 Parent P's functional currency is CU and is **not** hyperinflationary. Subsidiary S's functional currency is ZU and **is** hyperinflationary.

General price index for ZU:

- 1 Jan 20X5: 100
- 31 Dec 20X5: 250

S's financial statements (in ZU) at 31 Dec 20X5 are prepared on a historical cost basis and show:

- PPE (acquired 1 Jan 20X4, index then 80): ZU 4,000
- Inventories (acquired evenly during 20X5): ZU 1,500
- Monetary assets: ZU 1,000
- Monetary liabilities: ZU 2,000
- Equity (share capital and retained earnings): ZU 4,500

Required:

- a) Explain the **sequence of steps** to incorporate S into P's consolidated financial statements under IAS 29 and IAS 21.
- b) Indicate which items in S's financial statements must be **restated** before translation.

3.7 Transition to hyperinflation

Q42 Entity F's functional currency becomes hyperinflationary in 20X5. IAS 29 is applied for the first time in the financial statements for the year ended 31 Dec 20X5.

Required:

- a) Explain how **opening balances** at 1 Jan 20X5 are treated under IAS 29.
- b) Explain how **comparative figures** for 20X4 are restated.
- c) Briefly describe the role of **IFRIC 7** in this transition.

3.8 Cessation of hyperinflation

Q43 Entity G has applied IAS 29 for several years. In 20X8, the economy stabilises and is no longer considered hyperinflationary.

Required:

- a) Explain how IAS 29 is applied (or discontinued) in 20X8.
- b) Describe what happens to the **restated amounts** at the end of 20X7 when preparing financial statements for 20X8.

4. Answer key and solutions

4.1 MCQ answer key

- Q1: b
- Q2: d
- Q3: c
- Q4: c
- Q5: d
- Q6: b
- Q7: b
- Q8: b
- Q9: b
- Q10: b
- Q11: c
- Q12: b
- Q13: b
- Q14: c
- Q15: b
- Q16: b
- Q17: b
- Q18: b
- Q19: c
- Q20: b
- Q21: a
- Q22: b
- Q23: b
- Q24: b
- Q25: b

4.2 MCQ brief explanations (for revision)

Q1 – IAS 29 applies when the **functional currency** is hyperinflationary.

Q2 – Budget deficit is not an IAS 29 indicator; the others are behavioural/price indicators.

Q3 – 100% over three years is a **guideline**, not a strict rule.

Q4 – Trade receivables are monetary (fixed currency units).

Q5 – Equity investments at cost are non-monetary.

Q6 – Objective: express FS in **current purchasing power**.

Q7 – Use a broad general index (e.g. CPI).

Q8 – Net monetary gain/loss = effect of holding net monetary items in inflation.

Q9 – Non-monetary assets at historical cost are restated from acquisition date to reporting date.

Q10 – Monetary items are not restated; they generate net monetary gain/loss.

Q11 – Revenue/expenses restated from recognition dates, often using an average index.

Q12 – Net monetary gain/loss is shown as a separate line in **profit or loss**.

Q13 – Share capital is restated from contribution date to reporting date.

Q14 – Comparatives are restated to **current reporting date** purchasing power.

Q15 – If parent's functional currency is hyperinflationary, IAS 29 applies to consolidated FS as well as its own separate financial statements.

Q16 – Subsidiary is restated under IAS 29, then translated under IAS 21.

Q17 – Non-hyperinflationary subsidiaries are not restated under IAS 29.

Q18 – IAS 29 is applied from the **beginning of the period** in which hyperinflation is identified.

Q19 – IAS 29 is discontinued; restated amounts become the new basis going forward.

Q20 – Must disclose index used and its level at beginning and end of period.

Q21 – Must disclose whether FS are based on historical cost or current cost.

Q22 – Net monetary gain/loss is recognised in **profit or loss**.

Q23 – Fair value already reflects current prices; no further restatement.

Q24 – Cash flows are restated to purchasing power at reporting date.

Q25 – Deferred tax balances (monetary) are not restated, but tax expense is restated.

4.3 Suggested points for theory answers

Q26 – Hyperinflation definition and indicators

- **Definition:** Economy where the currency's purchasing power is lost so rapidly that historical cost information is meaningless.
- **Indicators (any three):**
 - Cumulative inflation over three years approaching/exceeding 100%.
 - Population prefers to hold wealth in non-monetary assets or foreign currency.
 - Prices quoted in foreign currency.

- Wages, prices, interest rates indexed.
- Very short credit terms.

Q27 – Monetary vs non-monetary items

- **Monetary:** Fixed/determinable currency units. Examples: cash, bank balances, trade receivables, loans, payables.
- **Non-monetary:** Not fixed currency units. Examples: PPE, inventories, intangible assets, equity investments, share capital.

Q28 – Why current purchasing power?

- Nominal amounts lose meaning when inflation is high.
- Users need comparability in **real terms**, not nominal.
- Restatement using a general price index aligns all figures to the same purchasing power date.

Q29 – Restating non-monetary assets

- Identify acquisition date and historical cost.
- Apply restatement factor:

$$\text{Factor} = \frac{\text{Index at reporting date}}{\text{Index at acquisition date}}$$

- Multiply historical cost by factor to get restated amount.
- Restate accumulated depreciation similarly or recompute based on restated cost.

Q30 – Net monetary gain or loss

- Monetary items are not restated but lose/gain real value.
- Holding **net monetary assets** → loss (inflation erodes value).
- Holding **net monetary liabilities** → gain (repay with less purchasing power).
- The net effect is recognised in profit or loss as “gain (loss) on net monetary position”.

Q31 – Objective of IAS 29 and how it is achieved

1. Objective of IAS 29

Core objective: IAS 29 aims to ensure that the financial statements of an entity whose **functional currency** is that of a **hyperinflationary economy** are presented in a way that reflects **current purchasing power**, so that:

- Amounts are **comparable** over time.
- Users can make **meaningful economic decisions** based on the financial information.

In a hyperinflationary environment, historical cost figures quickly become misleading because the currency loses purchasing power rapidly. IAS 29 therefore overlays a **purchasing power adjustment** on top of existing measurement bases.

2. Role of the general price index

General price index:

- IAS 29 requires the use of a **general price index** (e.g. CPI) that reflects overall inflation in the economy.
- The index must be:
 - Broad-based (not specific to one product or industry).
 - Reliable and consistently available.
 - Applicable to all relevant dates (transaction dates, reporting dates).

Mechanics:

- Each historical amount is multiplied by a **restatement factor**:

$$\text{Factor} = \frac{\text{Index at reporting date}}{\text{Index at original date}}$$

- This converts historical amounts into **units of current purchasing power** at the reporting date.

3. Restatement of non-monetary items

IAS 29 distinguishes between **monetary** and **non-monetary** items:

- **Non-monetary items** (e.g. PPE, inventories, intangible assets, equity investments, share capital) are measured at historical cost or current value and must be **restated**.
- Restatement is done from the **date of acquisition or contribution** to the **reporting date** using the general price index.

Examples:

- PPE acquired in a prior year is restated by applying the factor from acquisition date index to reporting date index.
- Share capital contributed many years ago is restated from contribution date to reporting date.

This ensures that all non-monetary items are expressed in **current purchasing power units**, making them comparable with current period amounts.

4. Recognition of net monetary gain or loss

Monetary items (cash, receivables, payables, loans):

- Are **not restated**, because they are already expressed in current nominal currency units.
- However, their **real value** changes with inflation.

Holding monetary items during inflation leads to:

- **Net monetary loss** if the entity holds **net monetary assets** (their purchasing power erodes).
- **Net monetary gain** if the entity holds **net monetary liabilities** (they are repaid with less purchasing power).

IAS 29 requires:

- Recognition of a **net monetary gain or loss** in **profit or loss**.
- Presentation as a **separate line item**, often “Gain (loss) on net monetary position”.

This separates:

- Operating performance (revenues, expenses, etc.), and
- The effect of inflation on monetary items.

5. Importance of comparability for users

Hyperinflation distorts nominal figures:

- Profit, assets, and equity can appear higher or lower purely due to inflation, not real performance.
- Without restatement, comparing current year to prior year is meaningless.

IAS 29 enhances comparability by:

- Restating **current year** and **comparative** figures to the **same purchasing power date** (the current reporting date).
- Allowing users to compare performance and financial position in **real terms**, not nominal.

This supports:

- Better assessment of trends.
- More accurate evaluation of returns, margins, and solvency.
- Improved decision-making by investors, creditors, and other stakeholders.

Q32 – Treatment of key items under IAS 29 (historical cost basis)

An entity operates in a hyperinflationary economy and prepares financial statements on a **historical cost basis**. IAS 29 overlays restatement requirements.

1. Property, plant and equipment (PPE)

Measurement:

- PPE is initially measured at **historical cost** under IAS 16.
- Under IAS 29, PPE is **restated** to current purchasing power.

Restatement:

- Identify **acquisition date** and **historical cost**.
- Apply restatement factor:

$$\text{Factor} = \frac{\text{Index at reporting date}}{\text{Index at acquisition date}}$$

- Restate both:
 - **Cost** of PPE.
 - **Accumulated depreciation** (either by restating each year's depreciation or using an approximation).

Result:

- PPE carrying amount reflects **current purchasing power** at the reporting date.

2. Inventories

Measurement:

- Inventories are measured at **lower of cost and net realisable value** under IAS 2.

Restatement:

- If measured at **historical cost**, restate from the date of **acquisition or production** to the reporting date using the general price index.
- If measured at **net realisable value** that already reflects current prices, no further restatement is needed.

Practical approach:

- For inventories acquired evenly during the period, entities often use an **average index** for the period to restate cost.

3. Share capital and reserves

Share capital:

- Historical nominal amount is not meaningful in hyperinflation.
- Restate from the **date of contribution** to the reporting date using the general price index.

Reserves:

- Other reserves (e.g. revaluation reserve) are restated from the dates they arose to the reporting date.

Retained earnings:

- Not restated directly.
- Become the **balancing figure** after:
 - Restating non-monetary assets and other equity components.
 - Recognising net monetary gain or loss.
 - Restating profit or loss.

This ensures that equity components are expressed in current purchasing power units.

4. Revenue and expenses

Revenue and expenses:

- Recognised during the period at nominal amounts.
- Under IAS 29, they are restated from the **dates of recognition** to the reporting date.

Approach:

- For high-frequency items (sales, wages, utilities), entities often use an **average index** for the period.
- Restatement factor:

$$\text{Factor} = \frac{\text{Index at reporting date}}{\text{Average index for the period}}$$

Depreciation and amortisation:

- Either:
 - Restate the **depreciation charge** using the index from recognition date to reporting date, or
 - Restate the **underlying asset** and recompute depreciation based on the restated amount.

Finance costs and tax:

- Interest expense and tax expense are also restated from recognition dates (or average index) to the reporting date.

5. Comparative figures

Comparatives must be expressed in the **same purchasing power units** as current year figures.

Mechanics:

- Prior year figures (e.g. 20X5) were previously expressed in purchasing power at that prior year's reporting date (e.g. index at 31 Dec 20X5).
- For the current year (20X6), comparatives are restated using:

$$\text{Factor} = \frac{\text{Index at current reporting date}}{\text{Index at prior year reporting date}}$$

- This restates all comparative amounts (statement of financial position, profit or loss, cash flows) to the **current reporting date** purchasing power.

Reason:

- Users can compare current year and prior year in **real terms**, not nominal.
- Without this, trends and performance analysis would be distorted by inflation.

Q33 – Transition to IAS 29 when an economy becomes hyperinflationary

1. Identification of hyperinflation

Management must assess whether the economy is **hyperinflationary** using IAS 29 indicators, such as:

- Cumulative inflation over three years approaching or exceeding **100%**.
- Population preferring to hold wealth in non-monetary assets or foreign currency.
- Prices quoted in foreign currency.
- Wages, prices, interest rates indexed.
- Very short credit terms.

Once hyperinflation is identified, IAS 29 is applied from the **beginning of the reporting period** in which the economy is deemed hyperinflationary.

2. Restatement of opening balances

At the start of the first period of application (e.g. 1 Jan 20X5):

- Opening balances (assets, liabilities, equity) are restated to the **purchasing power at the end of the reporting period** (e.g. 31 Dec 20X5).

Non-monetary items and equity:

- Restate from their original dates (acquisition, contribution, etc.) to the current reporting date using the general price index.

Monetary items:

- Not restated; remain at nominal amounts.

This ensures that the **opening statement of financial position** is expressed in current purchasing power units.

3. Treatment of comparative figures

Comparative figures (e.g. prior year 20X4):

- Were previously presented in nominal terms or in purchasing power at 20X4 reporting date.
- Under IAS 29, they must be restated to the **current reporting date** purchasing power.

Mechanics:

- Apply restatement factor from prior year reporting date index to current year reporting date index.

This applies to:

- Statement of financial position comparatives.
- Statement of profit or loss comparatives.
- Statement of cash flows comparatives.

The result is that both current year and prior year figures are expressed in **the same purchasing power units**, enabling meaningful comparison.

4. Interaction with IAS 21 and IFRIC 7

IAS 21 – Effects of changes in foreign exchange rates:

- Entities measure their results and financial position in their **functional currency**.
- After restatement under IAS 29, financial statements may be **translated** into a presentation currency under IAS 21.
- For foreign operations that become hyperinflationary, IAS 21 and IAS 29 must be applied together.

IFRIC 7 – Applying the restatement approach under IAS 29:

- Provides guidance on **how to apply IAS 29 when an entity's functional currency becomes hyperinflationary**.
- Clarifies the **sequence** of restatement:
 1. Restate non-monetary items and equity.
 2. Restate deferred tax items.
 3. Recognise net monetary gain or loss.
- Ensures consistent application of IAS 29 in the first period of hyperinflation.

Q34 – Consolidation issues with hyperinflationary entities

When a group includes entities operating in hyperinflationary economies, several consolidation issues arise.

1. Parent and subsidiary functional currencies

Parent's functional currency:

- If the parent's functional currency is **hyperinflationary**, IAS 29 applies to the **consolidated financial statements**.

Subsidiaries:

- Subsidiaries whose functional currency is **hyperinflationary**:
 - Must apply IAS 29 to their own financial statements.
- Subsidiaries whose functional currency is **non-hyperinflationary**:
 - Do **not** apply IAS 29.
 - Their financial statements are prepared under normal IFRS (without hyperinflation restatement).

2. Restatement of hyperinflationary subsidiary financial statements

For a subsidiary with a hyperinflationary functional currency:

- Its financial statements are first **restated under IAS 29** in its own functional currency to the **current purchasing power** at the reporting date.
- This includes:
 - Restating non-monetary assets and equity.
 - Restating income and expenses.
 - Recognising net monetary gain or loss.

Only after this restatement are the subsidiary's financial statements used for consolidation.

3. Translation under IAS 21

If the parent's presentation currency differs from the subsidiary's functional currency:

- After IAS 29 restatement, the subsidiary's financial statements are **translated** into the parent's presentation currency under IAS 21.

Translation mechanics:

- Assets and liabilities at **closing exchange rate**.
- Income and expenses at **average exchange rate** (or rates at transaction dates).
- Equity components at historical rates, with exchange differences recognised in **other comprehensive income** (foreign currency translation reserve).

Important:

- IAS 29 restatement is done **before** IAS 21 translation.
- This ensures that the translated amounts reflect both:
 - Current purchasing power in the hyperinflationary economy, and
 - Current exchange rates.

4. Presentation in consolidated financial statements

In the consolidated financial statements:

- Hyperinflationary entities (parent and hyperinflationary subsidiaries) contribute:
 - Restated assets, liabilities, equity.
 - Restated income and expenses.
 - Net monetary gain or loss (aggregated and presented as a separate line item in profit or loss).
- Non-hyperinflationary subsidiaries contribute:
 - Normal IFRS amounts translated under IAS 21 (if foreign).
 - No IAS 29 restatement.

Key presentation points:

- Consolidated **statement of financial position** includes restated amounts for hyperinflationary entities and translated amounts for foreign operations.
- Consolidated **statement of profit or loss** includes:
 - Operating results of all entities.
 - A separate line item for “**Gain (loss) on net monetary position**” arising from hyperinflationary entities.
- Consolidated **equity** includes:
 - Restated share capital and reserves.
 - Foreign currency translation reserves (from IAS 21).
 - Retained earnings including net monetary gains/losses.

Q35 – Disclosure requirements under IAS 29 and their importance

1. Key disclosure requirements

IAS 29 requires specific disclosures to ensure transparency:

a) Statement that financial statements are restated

- The entity must disclose that:
 - The financial statements and corresponding figures have been **restated** for the effects of hyperinflation.
 - IAS 29 has been applied because the functional currency is hyperinflationary.

b) General price index used

- Disclose:
 - The **general price index** used (e.g. CPI).
 - The **level of the index** at:
 - The beginning of the period.
 - The end of the period.

This allows users to understand the magnitude of inflation and the restatement factors.

c) Measurement basis

- Disclose whether the financial statements are prepared on the basis of:
 - **Historical cost**, or
 - **Current cost**.

IAS 29 overlays restatement on top of this basis; users need to know the underlying measurement framework.

d) Net monetary gain or loss

- Disclose the amount of the **gain or loss on the net monetary position** recognised in profit or loss.
- Often presented as a separate line item with explanatory notes.

e) Functional and presentation currency

- Confirm that:
 - The entity measures its results and financial position in its **functional currency**.
 - If the financial statements are presented in a different currency, explain that translation is done under IAS 21.

2. Additional useful disclosures (often provided in practice)

While not all are explicitly mandated, good practice includes:

- **Narrative explanation of:**
 - The nature of hyperinflation in the economy.
 - Key indicators considered in concluding that the economy is hyperinflationary.
 - How the general price index was selected.
- **Impact analysis:**
 - Qualitative discussion of how restatement affects key figures (e.g. profit, equity, assets).
 - Explanation of the net monetary gain or loss and its drivers.

3. Importance of these disclosures

Transparency:

- Hyperinflation and restatement can significantly alter reported figures.
- Users need clear information to understand:
 - Why restatement was done.
 - How it was done.
 - What indices and assumptions were used.

Interpretation of performance:

- Net monetary gain or loss can be large and may dominate profit.
- Disclosing this separately helps users distinguish:
 - Operating performance, and
 - The effect of inflation on monetary items.

Comparability and confidence:

- Disclosing the index levels and measurement basis allows users to:
 - Compare entities within the same economy.
 - Compare periods within the same entity.
- It builds confidence that the financial statements are prepared consistently and in accordance with IFRS.

Decision-usefulness:

- Investors, creditors, and analysts rely on these disclosures to:
 - Adjust their analyses for inflation.
 - Assess real returns and margins.
 - Evaluate solvency and capital maintenance in real terms.

4.4 Worked calculation solutions

Q36 – PPE restatement

a) Restated carrying amount

- Cost at acquisition (1 Jan 20X4): CU 1,200.
- Index at acquisition: 90.
- Index at reporting date (31 Dec 20X5): 200.

Restatement factor:

$$\text{Factor} = \frac{200}{90} \approx 2.22$$

Restated cost:

$$1,200 \times 2.22 \approx \text{CU } 2,664$$

Depreciation: 10-year life → nominal annual depreciation = CU 120.

At 31 Dec 20X5, two years of depreciation have been charged (20X4 and 20X5).

- Nominal accumulated depreciation = $120 \times 2 = 240$.

In practice, you would restate each year's depreciation from its recognition date to 31 December 20X5. For exam purposes, a common simplification is:

- Restate accumulated depreciation using the same factor as cost (if both years are close in index):

$$240 \times 2.22 \approx \text{CU } 533$$

Restated carrying amount:

$$2,664 - 533 \approx \text{CU } 2,131$$

(If the exam gives more detailed indices, you'd restate each year's depreciation separately.)

b) Restated depreciation for 20X5

Nominal depreciation for 20X5: CU 120.

If we assume average index for 20X5 is 150 and closing index is 200:

$$\text{Factor} = \frac{200}{150} = 1.33 \bar{3}$$

Restated depreciation:

$$120 \times 1.33 \bar{3} = \text{CU } 160$$

Q37 – Inventories and revenue**a) Restated sales**

Sales recognised evenly; use average index 150 to closing index 180.

$$\text{Factor} = \frac{180}{150} = 1.2$$

$$\text{Restated sales} = 9,000 \times 1.2 = \text{CU } 10,800$$

b) Restated cost of sales

Same factor (purchases evenly during year):

$$\text{Restated cost of sales} = 5,400 \times 1.2 = \text{CU } 6,480$$

c) Restated gross profit

$$10,800 - 6,480 = \text{CU } 4,320$$

Q38 – Net monetary position (qualitative)

a) Net monetary position

- 1 Jan 20X5:
 - Monetary assets = $500 + 300 = 800$
 - Monetary liabilities = 600
 - Net monetary assets = 200
- 31 Dec 20X5:
 - Monetary assets = $700 + 400 = 1,100$
 - Monetary liabilities = 900
 - Net monetary assets = 200

b) Net monetary gain or loss

The entity holds **net monetary assets** throughout the period. In a hyperinflationary economy, net monetary assets lose purchasing power → **net monetary loss**. Direction: **loss**.

Q39 – Integrated restatement (outline)

Step 1 – Restate non-monetary items

- PPE (acquired 1 Jan 20X4, index 90 → 200):

$$\text{Factor} = \frac{200}{90} \approx 2.22$$

$$\text{Restated PPE} \approx 2,000 \times 2.22 = \text{CU } 4,440$$

- Inventories (average index 150 → 200):

$$\text{Factor} = \frac{200}{150} = 1.33$$

$$\text{Restated inventories} \approx 800 \times 1.33 = \text{CU } 1,064$$

- Share capital (index 80 → 200):

$$\text{Factor} = \frac{200}{80} = 2.5$$

$$\text{Restated share capital} = 1,000 \times 2.5 = \text{CU } 2,500$$

Monetary items (cash, receivables, payables) are not restated.

Step 2 – Restate statement of comprehensive income

Factor from average 150 → 200: 1.33.

- Sales:

$$6,000 \times 1.33 = \text{CU } 7,980$$

- Cost of sales:

$$3,600 \times 1.33 = \text{CU } 4,788$$

- Depreciation:

$$200 \times 1.33 = \text{CU } 266$$

- Other expenses:

$$1,400 \times 1.33 = \text{CU } 1,862$$

Restated profit:

$$7,980 - 4,788 - 266 - 1,862 \approx \text{CU } 1,064$$

Step 3 – Restated statement of financial position

Assets:

- PPE $\approx$ 4,440
- Inventories $\approx$ 1,064
- Cash = 500
- Receivables = 400

Total assets $\approx$ CU 6,404.

Liabilities:

- Trade payables = 900

Equity:

- Share capital $\approx 2,500$
- Retained earnings (balancing figure) = ?

Total equity + liabilities must equal 6,404.

Let retained earnings (restated) be RE .

$$2,500 + RE + 900 = 6,404$$

$$\Rightarrow RE = 3,004$$

Step 4 – Net monetary gain or loss

Nominal retained earnings before restatement: 1,800.

After restatement and including restated profit (1,064), plus any restated opening retained earnings, the difference between the “expected” retained earnings and the balancing figure (3,004) represents the **net monetary gain or loss**.

Given the entity holds **net monetary liabilities** (monetary liabilities 900 vs monetary assets 900? Actually: assets 500 + 400 = 900; liabilities 900 $\rightarrow$ net monetary position $\approx$ nil), the precise sign depends on detailed opening restatements. In exam settings, you’d:

- Compute opening equity in current purchasing power.
- Add restated profit and contributions/distributions.
- Compare to closing restated equity.

The difference is the **net monetary gain or loss**. With net monetary liabilities, you’d expect a **gain**; with net monetary assets, a **loss**.

Q40 – Comparatives

a) Restated 20X4 profit

Index 20X4: 120; index 20X5: 180.

$$\text{Factor} = \frac{180}{120} = 1.5$$

$$\text{Restated 20X4 profit} = 1,200 \times 1.5 = 1,800$$

b) Reason

Comparatives must be expressed in the **same purchasing power units** as current year figures (31 Dec 20X5) so users can compare performance in real terms.

Q41 – Consolidation sequence

a) Sequence

1. Restate S's financial statements in ZU under IAS 29 to 31 Dec 20X5 purchasing power.
2. Translate restated ZU amounts into CU under IAS 21 (using appropriate exchange rates).
3. Consolidate P and S using normal consolidation procedures.

b) Items to restate

- PPE (from acquisition index 80 to 250).
- Inventories (from average index to 250).
- Equity components (share capital, retained earnings).
- Income statement items (if given). Monetary assets and liabilities are not restated but contribute to net monetary gain/loss.

Q42 – Initial application

a) Opening balances

Opening balances at 1 Jan 20X5 are restated to the purchasing power at 31 Dec 20X5 using the general price index. Non-monetary items and equity are adjusted; monetary items remain nominal.

b) Comparatives

20X4 comparatives are restated from 31 Dec 20X4 purchasing power to 31 Dec 20X5 purchasing power using the index ratio.

c) IFRIC 7

IFRIC 7 clarifies the **restatement approach** when an entity's functional currency becomes hyperinflationary, including the order of restating non-monetary items, deferred tax, and recognising net monetary gain/loss.

Q43 – Cessation

a) Discontinuation

IAS 29 is **not** applied in 20X8. The entity stops restating for hyperinflation from the beginning of the period in which the economy ceases to be hyperinflationary.

b) Restated amounts

The amounts expressed in current purchasing power at the end of 20X7 become the **new basis** (new "historical" amounts) for subsequent financial reporting.

14. Hyperinflation mega-case study

Multi-year scenario with full restatement walkthrough and suggested solution

1. Case study – scenario

1.1 Background

Group **Alpha** consists of:

- **Parent:** Alpha Holdings (AH)
 - Functional currency: **ZD** (Zedollars)
 - Economy: **hyperinflationary**
 - Prepares financial statements on a **historical cost basis**.
- **Subsidiary 1:** Beta Manufacturing (BM)
 - Functional currency: **ZD** (same hyperinflationary economy as AH).
- **Subsidiary 2:** Gamma Trading (GT)
 - Functional currency: **CU** (stable currency, non-hyperinflationary).

AH presents consolidated financial statements in **ZD**.

The economy of ZD has been hyperinflationary for several years. IAS 29 is applied.

1.2 General price index (ZD economy)

General price index (base year arbitrary):

- 1 Jan 20X3: 80
- 31 Dec 20X3: 100
- 1 Jan 20X4: 100
- 31 Dec 20X4: 140
- 1 Jan 20X5: 140
- 31 Dec 20X5: 200
- 1 Jan 20X6: 200
- Average for 20X6: 260
- 31 Dec 20X6: 300

1.3 Alpha Holdings – key transactions

20X3–20X4 (pre-comparative period)

- 1 Jan 20X3: AH is formed. Share capital issued: **ZD 2,000** (index 80).
- 1 Jul 20X3: AH acquires land for **ZD 1,500** (index 90).
- 1 Jan 20X4: AH acquires a building for **ZD 3,000** (index 100), useful life 30 years, straight-line, no residual value.

20X5 (comparative year)

- 1 Jan 20X5: Opening balances (nominal, before IAS 29 restatement):
 - Land: ZD 1,500
 - Building: ZD 3,000
 - Accumulated depreciation (building): ZD 200 (20X4 only)
 - Inventories: ZD 800 (acquired evenly during 20X4)
 - Cash: ZD 600
 - Trade receivables: ZD 400
 - Trade payables: ZD 900
 - Loan payable (5-year, fixed nominal): ZD 1,500
 - Share capital: ZD 2,000
 - Retained earnings: balancing figure.
- 20X5 Statement of comprehensive income (nominal, before restatement):
 - Sales: ZD 5,000
 - Cost of sales: ZD 3,000
 - Depreciation (building): ZD 100
 - Other operating expenses: ZD 1,200
 - Finance cost (loan interest): ZD 150
 - Profit before tax: ZD 550
 - Income Tax expense: ZD 150
 - Profit for the year: ZD 400.

Assume inventories at 31 Dec 20X5: ZD 900 (acquired evenly during 20X5).

20X6 (current year)

Key events:

- 1 Jan 20X6: Opening balances are those at 31 Dec 20X5 (restated under IAS 29).
- 1 Mar 20X6: New machinery acquired for **ZD 2,400** (index at 1 Mar 20X6: 220). Useful life 8 years, straight-line.
- 1 Jul 20X6: Additional share capital issued: **ZD 1,000** (index 250).
- 20X6 Statement of comprehensive income (nominal, before restatement):
 - Sales: ZD 7,500
 - Cost of sales: ZD 4,500
 - Depreciation (building): ZD 100
 - Depreciation (machinery): ZD 300
 - Other operating expenses: ZD 1,800
 - Finance cost (loan interest): ZD 150
 - Profit before tax: ZD 650
 - Income Tax expense: ZD 200
 - Profit for the year: ZD 450.

Inventories at 31 Dec 20X6: ZD 1,200 (acquired evenly during 20X6).

Monetary items at 31 Dec 20X6 (nominal):

- Cash: ZD 700

- Trade receivables: ZD 500
- Trade payables: ZD 1,000
- Loan payable: ZD 1,500 (unchanged nominal).

1.4 Beta Manufacturing (BM) – hyperinflationary subsidiary

BM's functional currency is ZD (same hyperinflationary economy).

At 31 Dec 20X6 (nominal, before restatement):

- PPE (acquired 1 Jan 20X5, index 140): ZD 2,500
- Inventories (acquired evenly during 20X6): ZD 900
- Monetary assets: ZD 600
- Monetary liabilities: ZD 1,100
- Equity (share capital and retained earnings): ZD 1,900.

BM's profit for 20X6 (nominal): ZD 300.

1.5 Gamma Trading (GT) – non-hyperinflationary subsidiary

GT's functional currency is CU (stable).

At 31 Dec 20X6 (in CU):

- PPE: CU 1,000
- Inventories: CU 400
- Monetary assets: CU 300
- Monetary liabilities: CU 200
- Equity: CU 1,500.
- Profit for 20X6: CU 200.

Exchange rates (CU/ZD):

- Average 20X6: 1 CU = 10 ZD
- Closing 31 Dec 20X6: 1 CU = 11 ZD.

GT is acquired on 1 Jan 20X5; goodwill and detailed consolidation workings are ignored for this case study (the focus is on IAS 29 mechanics).

1.6 Required:

For the year ended **31 Dec 20X6**, for Group Alpha:

1. **Parent-level restatement (AH):**

- Restate AH's **non-monetary assets, equity, and statement of comprehensive income** to the purchasing power at 31 Dec 20X6.
- Identify the **net monetary gain or loss** for AH.
- 2. **Subsidiary BM restatement:**
 - Restate BM's financial statements to 31 Dec 20X6 purchasing power.
- 3. **Subsidiary GT translation:**
 - Explain how GT's financial statements are incorporated into the consolidated financial statements, given that GT's functional currency is non-hyperinflationary.
- 4. **Consolidated overview:**
 - Provide a **high-level consolidated statement of financial position** at 31 Dec 20X6 (major line items only, in ZD).
 - Indicate where the **net monetary gain or loss** appears in the consolidated financial statements.

2. Suggested solution – structured walkthrough

2.1 Step 1 – Restatement factors (ZD economy)

We need restatement factors to bring amounts to **31 Dec 20X6** purchasing power (index 300).

Key indices:

- 1 Jan 20X3: 80
- 1 Jul 20X3: 90
- 1 Jan 20X4: 100
- 31 Dec 20X4: 140
- 1 Jan 20X5: 140
- 31 Dec 20X5: 200
- 1 Jan 20X6: 200
- 1 Mar 20X6: 220
- 1 Jul 20X6: 250
- Average 20X6: 260
- 31 Dec 20X6: 300

Restatement factor formula:

$$\text{Factor} = \frac{\text{Index at 31 Dec 20X6}}{\text{Index at relevant date}}$$

Examples:

- From 1 Jan 20X3 (80) to 31 Dec 20X6 (300):

$$\frac{300}{80} = 3.75$$

- From 1 Jul 20X3 (90) to 31 Dec 20X6 (300):

$$\frac{300}{90} = 3.33 \bar{3}$$

- From 1 Jan 20X4 (100) to 31 Dec 20X6 (300):

$$\frac{300}{100} = 3$$

- From 31 Dec 20X5 (200) to 31 Dec 20X6 (300):

$$\frac{300}{200} = 1.5$$

- From average 20X6 (260) to 31 Dec 20X6 (300):

$$\frac{300}{260} \approx 1.154$$

- From 1 Mar 20X6 (220) to 31 Dec 20X6 (300):

$$\frac{300}{220} \approx 1.364$$

- From 1 Jul 20X6 (250) to 31 Dec 20X6 (300):

$$\frac{300}{250} = 1.2$$

2.2 Step 2 – Parent AH: restatement of non-monetary assets

2.2.1 Land

- Acquired 1 Jul 20X3 for ZD 1,500.
- Index at acquisition: 90.
- Factor: $\frac{300}{90} \approx 3.33 \bar{3}$.

Restated land:

$$1,500 \times 3.33 \bar{3} \approx 5,000$$

2.2.2 Building

- Acquired 1 Jan 20X4 for ZD 3,000.
- Index at acquisition: 100.

- Factor: $\frac{300}{100} = 3$.

Restated building **cost**:

$$3,000 \times 3 = 9,000$$

Depreciation:

- Useful life: 30 years $\rightarrow$ nominal annual depreciation = 100.
- By 31 Dec 20X6, three years of depreciation (20X4, 20X5, 20X6) have been charged.

For exam purposes, we can approximate by restating **accumulated depreciation** using the same factor as cost (if indices are not too different), or restate each year's charge separately. To keep it tractable:

- Nominal accumulated depreciation at 31 Dec 20X6: $100 \times 3 = 300$.
- Assume average index for depreciation charges is close to 200 (mid-period).
- Factor from 200 to 300: $\frac{300}{200} = 1.5$.

Restated accumulated depreciation:

$$300 \times 1.5 = 450$$

Restated building **carrying amount**:

$$9,000 - 450 = 8,550$$

(If you want more precision, you can restate each year's depreciation using the exact indices.)

2.2.3 Machinery (acquired in 20X6)

- Acquired 1 Mar 20X6 for ZD 2,400.
- Index at acquisition: 220.
- Factor: $\frac{300}{220} \approx 1.364$.

Restated machinery **cost**:

$$2,400 \times 1.364 \approx 3,274$$

Depreciation:

- Useful life: 8 years $\rightarrow$ nominal annual depreciation = 300.
- For 20X6, one year's depreciation (assuming full year for simplicity): 300.
- Use average index 260 $\rightarrow$ factor $\frac{300}{260} \approx 1.154$.

Restated depreciation (20X6):

$$300 \times 1.154 \approx 346$$

Restated machinery **carrying amount**:

$$3,274 - 346 \approx 2,928$$

2.2.4 Inventories

Inventories at 31 Dec 20X6: ZD 1,200, acquired evenly during 20X6.

- Use average index 260 $\rightarrow$ factor $\frac{300}{260} \approx 1.154$.

Restated inventories:

$$1,200 \times 1.154 \approx 1,385$$

2.3 Step 3 – Parent AH: restatement of equity

2.3.1 Share capital

- Original share capital: ZD 2,000 at 1 Jan 20X3 (index 80).
- Factor: $\frac{300}{80} = 3.75$.

Restated original share capital:

$$2,000 \times 3.75 = 7,500$$

Additional share capital:

- Issued 1 Jul 20X6: ZD 1,000 (index 250).
- Factor: $\frac{300}{250} = 1.2$.

Restated additional share capital:

$$1,000 \times 1.2 = 1,200$$

Total restated share capital:

$$7,500 + 1,200 = 8,700$$

2.3.2 Retained earnings

Retained earnings will be determined as a **balancing figure** after:

- Restating non-monetary assets.
- Keeping monetary items at nominal amounts.
- Restating income statement and tax.
- Recognising net monetary gain or loss.

We'll come back to retained earnings after the statement of comprehensive income restatement.

2.4 Step 4 – Parent AH: restatement of statement of comprehensive income (20X6)

Use average index 260 for 20X6 to closing index 300.

Factor:

$$\frac{300}{260} \approx 1.154$$

2.4.1 Sales

Nominal sales: ZD 7,500.

Restated sales:

$$7,500 \times 1.154 \approx 8,655$$

2.4.2 Cost of sales

Nominal cost of sales: ZD 4,500.

Restated cost of sales:

$$4,500 \times 1.154 \approx 5,193$$

2.4.3 Depreciation

- Building: nominal 100 → restated:

$$100 \times 1.154 \approx 115$$

- Machinery: nominal 300 → restated:

$$300 \times 1.154 \approx 346$$

Total restated depreciation:

$$115 + 346 = 461$$

2.4.4 Other operating expenses

Nominal: ZD 1,800.

Restated:

$$1,800 \times 1.154 \approx 2,077$$

2.4.5 Finance cost (loan interest)

Nominal: ZD 150.

Restated:

$$150 \times 1.154 \approx 173$$

2.4.6 Tax expense

Nominal: ZD 200.

Restated:

$$200 \times 1.154 \approx 231$$

2.4.7 Restated profit

Restated profit before tax:

$$8,655 - 5,193 - 461 - 2,077 - 173 \approx 751$$

Restated tax expense: 231.

Restated profit for the year:

$$751 - 231 = 520$$

2.5 Step 5 – Parent AH: monetary items and net monetary gain/loss

Monetary items at 31 Dec 20X6 (nominal, not restated):

- Cash: 700
- Trade receivables: 500
- Trade payables: 1,000
- Loan payable: 1,500

Monetary assets: $700 + 500 = 1,200$. Monetary liabilities: $1,000 + 1,500 = 2,500$.

Net monetary **liabilities**: $2,500 - 1,200 = 1,300$.

Holding net monetary liabilities in a hyperinflationary economy generally results in a **net monetary gain** (you repay with less purchasing power).

The **exact amount** of the net monetary gain or loss is derived as a **balancing figure** when reconciling:

- Restated opening equity.
- Restated profit.
- Restated contributions/distributions.
- Restated closing equity.

For exam purposes, you typically:

1. Restate opening equity to 31 Dec 20X6 purchasing power.
2. Add restated profit and restated share capital issue.
3. Compare to closing restated equity (from restated statement of financial position).
4. The difference is the net monetary gain or loss.

Given AH holds net monetary liabilities, we expect a **net monetary gain** recognised in profit or loss as “Gain on net monetary position”.

2.6 Step 6 – Parent AH: restated statement of financial position (high-level)

At 31 Dec 20X6 (restated):

Assets

- Land: $\approx 5,000$
- Building: $\approx 8,550$
- Machinery: $\approx 2,928$
- Inventories: $\approx 1,385$
- Cash: 700 (monetary, not restated)
- Trade receivables: 500 (monetary, not restated)

Total assets $\approx 19,068$.

Liabilities

- Trade payables: 1,000
- Loan payable: 1,500

Total liabilities: 2,500.

Equity

- Share capital: 8,700
- Retained earnings: balancing figure.

Total equity:

$$19,068 - 2,500 = 16,568$$

Retained earnings (restated):

$$16,568 - 8,700 = 7,868$$

Retained earnings includes:

- Restated opening retained earnings.
- Restated profit for 20X6 (520).
- Net monetary gain (balancing).

You can derive the net monetary gain by comparing restated opening equity plus restated profit and share capital issue to closing equity.

2.7 Step 7 – BM (hyperinflationary subsidiary) restatement

BM's functional currency is ZD; IAS 29 applies directly.

At 31 Dec 20X6 (nominal):

- PPE (acquired 1 Jan 20X5, index 140): ZD 2,500
- Inventories (acquired evenly during 20X6): ZD 900
- Monetary assets: ZD 600
- Monetary liabilities: ZD 1,100
- Equity: ZD 1,900
- Profit for 20X6: ZD 300.

PPE restatement

- Factor from 1 Jan 20X5 (140) to 31 Dec 20X6 (300):

$$\frac{300}{140} \approx 2.143$$

Restated PPE:

$$2,500 \times 2.143 \approx 5,358$$

Inventories restatement

- Use average index 260 → factor $\frac{300}{260} \approx 1.154$.

Restated inventories:

$$900 \times 1.154 \approx 1,039$$

Statement of comprehensive income restatement

Profit for 20X6: 300 nominal.

Assume all income and expenses occur evenly; use factor 1.154.

Restated profit:

$$300 \times 1.154 \approx 346$$

Monetary items are not restated; BM will also have a net monetary gain or loss (BM holds net monetary liabilities: 1,100 vs assets 600 → net liabilities 500 → likely net monetary gain).

BM's restated equity and net monetary gain/loss are then included in consolidation.

2.8 Step 8 – GT (non-hyperinflationary subsidiary) translation

GT's functional currency is CU (stable, non-hyperinflationary). IAS 29 does **not** apply to GT's own financial statements.

To include GT in AH's consolidated financial statements (presentation currency ZD):

1. **No IAS 29 restatement** for GT.
2. Translate GT's financial statements from CU to ZD under **IAS 21**:
 - Assets and liabilities at **closing rate** (1 CU = 11 ZD).
 - Income and expenses at **average rate** (1 CU = 10 ZD).
3. Recognise **exchange differences** in other comprehensive income (if GT is a foreign operation).

Example – GT translation

- PPE: CU 1,000 → ZD 11,000.
- Inventories: CU 400 → ZD 4,400.
- Monetary assets: CU 300 → ZD 3,300.
- Monetary liabilities: CU 200 → ZD 2,200.
- Equity: CU 1,500 → translated using appropriate rates (simplified here).
- Profit: CU 200 → ZD 2,000 (average rate 10).

GT's translated figures are then consolidated with AH and BM.

2.9 Step 9 – Consolidated statement of financial position

At 31 Dec 20X6, in ZD (restated for hyperinflation where applicable):

Assets

- AH land, building, machinery, inventories, monetary assets ($\approx 19,068$).
- BM restated PPE and inventories, monetary assets ($\approx 5,358 + 1,039 + 600$).
- GT translated PPE, inventories, monetary assets ($\approx 11,000 + 4,400 + 3,300$).

Total consolidated assets:

- AH: 19,068
- BM: 7,000* ($\approx 5,358 + 1,039 + 600 = 6,997$)
- GT: 18,700 ($\approx 11,000 + 4,400 + 3,300$)

Total $\approx 44,762$.

Liabilities

- AH monetary liabilities: 2,500.
- BM monetary liabilities: 1,100.
- GT monetary liabilities: 2,200.

Total consolidated liabilities $\approx 5,800$.

Equity

- Consolidated equity $\approx 44,762 - 5,800 \approx 38,962$.
- Comprises:
 - Restated share capital (AH + BM + GT).
 - Restated retained earnings (including profits and net monetary gains/losses).
 - Other components (e.g. foreign currency translation reserve).

2.10 Net monetary gain or loss in consolidated financial statements

- AH and BM both operate in a hyperinflationary economy and hold **net monetary liabilities** → each will recognise a **net monetary gain** in their individual profit or loss.
- In consolidation, these gains are aggregated and presented as a **separate line item** in the consolidated statement of profit or loss, typically labelled:

“Gain on net monetary position”

GT, being non-hyperinflationary, does **not** recognise a net monetary gain or loss under IAS 29.

3. How to use this case for exam practice

- **Step-by-step practice:**
 - Re-do the restatement factors and calculations in Excel or on paper.

- Try to derive the **exact net monetary gain** for AH by fully reconciling opening and closing equity.
 - **Consolidation focus:**
 - Practice explaining the **sequence**: restate hyperinflationary entities → translate foreign operations → consolidate.
 - Be clear on which entities are subject to IAS 29 (AH, BM) and which are not (GT).
 - **Theory integration:**
 - Use this case to anchor your understanding of:
 - Monetary vs non-monetary items.
 - Restatement of non-monetary assets and equity.
 - Net monetary gain or loss.
 - Interaction with IAS 21 in consolidation.
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