Deloitte.

December 2005 – IFRIC Special

Audit

IAS Plus.

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IFRIC 7 on Applying the Restatement Approach under IAS 29

On 24 November, the International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 7 Applying the Restatement Approach under IAS 29, ***Financial Reporting in Hyperinflationary Economies***. The Interpretation clarifies the requirements in the reporting period in which an entity starts to apply IAS 29 regarding:

- how comparative amounts in financial statements should be restated; and
- how deferred tax items in the opening balance sheet should be restated.

Scope

IFRIC 7 provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period. An entity identifies the existence of hyperinflation by applying judgement in its particular circumstances and considering various criteria including those set out in paragraph 3 of IAS 29.

Restatement of comparative amounts – general

The issue

Paragraph 8 of IAS 29 requires that, when preparing the financial statements of an entity whose functional currency is the currency of a hyperinflationary economy, the corresponding amounts for the previous period reported in accordance with IAS 1 Presentation of Financial Statements and any other information in respect of earlier periods should be "…stated in terms of the measuring unit current at the balance sheet date". The IFRIC was asked for guidance as to how an entity should restate its comparatives when it starts to apply IAS 29.

There had been uncertainty as to whether the opening balance sheet at the beginning of the reporting period should be restated to reflect changes before that date. This is the principal issue addressed by the Interpretation.

The consensus

The IFRIC concluded that in the period in which the economy of an entity's functional currency becomes hyperinflationary, the entity should apply the requirements of IAS 29 as though the economy had always been hyperinflationary. The effect of this requirement is that restatements of non-monetary items carried at historical cost are made from the dates at which those items were first recognised – not just from the date of the opening balance sheet presented. Where non-monetary items are carried in the opening balance sheet at amounts current at dates other than those of acquisition or incurrence (e.g. machinery revalued to fair value after acquisition but before the opening balance sheet date), that restatement should reflect the effect of inflation from the dates those carrying amounts were determined until the closing balance sheet date of the reporting period.

Deferred tax items

The issue

The IFRIC was asked for guidance on the accounting for deferred tax items in the opening balance sheet for the reporting period in which an entity identifies the existence of hyperinflation.

The consensus

The IFRIC has clarified that, in the opening balance sheet, deferred tax amounts are determined in two stages:

- deferred tax items are remeasured in accordance with IAS 12 **Income Taxes** after restating the carrying amounts of the non-monetary items in the opening balance sheet by applying the measuring unit current at that date; and
- the deferred tax items remeasured in this way are then restated for the change in the measuring unit from the date of the opening balance sheet to the date of the closing balance sheet.

An illustrative example of the deferred tax restatements accompanies the Interpretation. The example indirectly illustrates that restatement of property, plant and equipment acquired at a date prior to the identification of the existence of hyperinflation shall reflect the change in the general price level since acquisition.

Effective date and transition

Entities are required to apply IFRIC 7 for annual periods beginning on or after 1 March 2006. Earlier application is encouraged. If an entity applies IFRIC 7 to financial statements for a period beginning before 1 March 2006, that fact should be disclosed.

Changes in accounting policies arising from the implementation of IFRIC 7 should be accounted for in accordance with the requirements of IAS 8 **Accounting Policies, Changes in Accounting Estimates and Errors**. Therefore, where practicable, such changes in accounting policies should be applied retrospectively.

First-time adopters

After considering the IASB's basis for conclusions in IFRS 1, the IFRIC concluded that IFRIC 7 should apply to first-time adopters. In practice, the option available to first-time adopters to use fair value or a previous revaluation as deemed cost at the transition date for certain assets will reduce the need for first-time adopters to restate their financial statements.

Designed and produced by The Creative Studio at Deloitte, London.

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