In depth
A look at current financial reporting issues

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IAS 29 becomes applicable in Argentina

At a glance

IAS 29, 'Financial reporting in hyper-inflationary economies', should be applied by entities with a functional currency of the Argentine peso for accounting periods ending on or after 1 July 2018; and it should be applied as if the economy had always been hyper-inflationary. This In depth explains the application of IAS 29.

Application of IAS 29 'Financial reporting in hyper-inflationary economies'

Entities with a functional currency of the Argentine peso are required to apply IAS 29 in accounting periods ending on or after 1 July 2018. Please refer to 'IAS 29 becomes applicable in Argentina- PwC In brief' for further details. IAS 29 should be applied as if the economy had always been hyper-inflationary.

Restatement procedures

The restatement procedures are as follows:

- Selection of a general price index.
- Segregation of monetary and non-monetary items.
- Restatement of non-monetary items (excluding shareholders' equity).
- Restatement of shareholders' equity.
- Restatement of comprehensive income.
- Taxation.
- Calculation and proof of the monetary gain or loss.
- Statement of cash flows.
- Comparatives.
- Group reporting.
- Economy becomes hyper-inflationary in an interim period.
- Other considerations.

Presentation of restated financial statements as supplementary information to un-restated financial statements is not permitted.

Selection of a general price index

IAS 29 requires non-monetary assets and liabilities, shareholders' equity and comprehensive income to be restated in terms of a measuring unit current at the period end. IAS 29 also requires the use of a general price index to reflect changes in purchasing power, and it states that, *"It is preferable that all entities that report in the currency of the same economy use the same index"*.

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Judgement is required to determine the general price index in some situations.

The Government Board of the Argentine Federation of Professional Councils of Economic Sciences (FACPCE) issued Resolution JG 539/18, which prescribes the indices to be used by entities with a functional currency of the Argentine peso for the application of the restatement procedures. These indices are largely based on the Wholesale Price Index for periods up to 31 December 2016 and the Retail Price Index thereafter. The detailed table of indices will be published monthly by FACPCE.

Segregation of monetary and non-monetary items

Management should restate all balance sheet amounts that are not expressed in terms of the measuring unit current at the balance sheet date. Monetary items do not need to be restated, because they represent money held, to be received or to be paid. Monetary items are therefore already expressed in current purchasing power at the reporting date.

Examples of monetary items are:

Monetary assets	**Monetary liabilities**
Cash and amounts due from banks Marketable debt securities Trade receivables and provision for doubtful receivables Notes receivable and other receivables Contract assets (IFRS 15)	Trade payables Accrued expenses and other payables Current income taxes and withholding taxes payable Borrowings and notes payable Lease liabilities Pensions and other employee benefits to be paid in cash Liabilities recognised for puttable equity instruments Refund liabilities (IFRS 15)

Examples of non-monetary items are:

Non-monetary assets	**Non-monetary liabilities**
Pre-paid expenses Inventories and provision for inventory obsolescence Marketable equity securities Investments in associates Property, plant and equipment Right-of-use assets (IFRS 16) Intangible assets	Deferred income (for example, government grants) Shareholders' equity Contract liabilities (IFRS 15)

Restatement of non-monetary items (excluding shareholders' equity)

Non-monetary assets and liabilities are restated in terms of the measuring unit current at the end of the reporting period. An entity should use the increase in the general price index from the transaction date when they were first recognised to the end of the reporting period.

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No restatement is required for non-monetary assets and liabilities carried at amounts current at the end of the reporting period, such as net realisable value or fair value.

Non-monetary assets and liabilities carried at historical cost

Most non-monetary items are carried at cost or cost less depreciation, and so they are expressed at amounts current at the date of acquisition. The restated cost, or cost less depreciation, of each item is determined by applying the change in a general price index from the date of acquisition to the end of the reporting period to the item's historical cost and accumulated depreciation. Property, plant and equipment (that is carried at cost less depreciation), inventories of raw materials and merchandise, goodwill, patents, trademarks and similar assets are therefore restated from the dates of their purchase. Partly finished and finished goods included in inventory are restated from the dates on which the costs of purchase and of conversion were incurred.

Detailed records of the acquisition dates of items of property, plant and equipment might be unavailable or not possible to estimate. In such rare circumstances, it might be necessary to use an independent professional valuation of the items as the basis for their restatement in the first period of application of IAS 29. It is expected that entities with effective internal controls over financial reporting would have the systems in place containing detailed records of property, plant and equipment.

Non-monetary assets that have been restated following the guidance in IAS 29 are still subject to impairment assessment in accordance with the relevant guidance. If an asset's recoverable amount is less than its restated amount, the asset is written down, even if no impairment of the asset was required in the historical cost financial statements. Any impairment charge is recognised in profit or loss.

Entities that have tested assets for impairment in previous reporting periods should consider whether the restatement of asset carrying values for inflation would affect the outcome of the impairment test. Adjustments to the outcome of a previous impairment test should be made without using hindsight. Entities should also consider whether there are any indications suggesting that assets that were not tested in previous periods are impaired.

Non-monetary assets and liabilities carried at fair value or revalued amounts

Some non-monetary items might be carried at amounts current at dates other than the acquisition date or the balance sheet date. This would include, for example, property, plant and equipment that has been revalued under the revaluation model allowed by IAS 16. In such cases, the carrying amounts are updated so that they are expressed in terms of the carrying amounts at the end of the reporting period by restating the revalued carrying amounts from the date of the revaluation.

Restatement of shareholders' equity

At the beginning of the first period when IAS 29 is applied, the components of shareholders' equity, excluding retained earnings and any revaluation surplus, are restated by applying a general price index from the dates on which the items were contributed or otherwise arose. This includes reserves created by amounts recognised in other comprehensive income.

Any revaluation surplus that arose in previous periods is eliminated. Retained

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earnings are restated for the balancing figure derived from the other amounts in the restated opening balance sheet.

At the end of the first period and in subsequent periods, all components of shareholders' equity are restated by applying a general price index from the beginning of the period or the date of contribution, if later. The movements for the period in shareholders' equity are disclosed in accordance with IAS 1.

Share capital presented on the balance sheet is expressed in terms of purchasing power at the end of the reporting period. However, an entity can present the historical cost share capital and the related IAS 29 adjustment separately, in the statement of changes in equity or in the notes, with the appropriate description.

Restatement of comprehensive income

All items in comprehensive income for the current year are restated by applying the change in the general price index from the dates when the items of income and expense were originally recorded. Current year restated net income is added to the balance of the restated opening retained earnings.

Income statement items, such as interest income and expense, and foreign exchange differences related to invested or borrowed funds are adjusted for inflation and, along with the monetary gain or loss, presented as separate line items in the income statement.

Taxation

Current income tax expenses are restated for movements in the general price index. Most hyper-inflationary entities are likely to need to use a monthly or quarterly average. This will require current tax to be calculated on the basis of the entity's monthly or quarterly taxable income; this is then restated in terms of purchasing power at the end of the reporting period, using the increase in the general price index from the related month or quarter until the reporting date.

Deferred tax is calculated as follows:

- Calculate deferred tax expense or income, and deferred tax liability or asset by reference to the temporary differences and other tax attributes in the IFRS historical financial statements.
- Calculate deferred tax in relation to temporary differences arising from the restatement of non-monetary assets and liabilities. Deferred tax is calculated in full on the temporary differences arising from the restatement of non-monetary assets and liabilities.
- There is no need to adjust the closing deferred tax asset or liability for inflation. This is because the closing deferred tax position is calculated based on the temporary differences between the tax base and the IAS 29 adjusted IFRS balance sheet (that is, expressed in the measuring unit current at the end of the reporting period).
- A practical approach to deferred taxes is to recognise a charge or credit to the income tax line in the income statement equal to the difference between the opening deferred tax asset or liability adjusted to year end purchasing power and the closing deferred tax asset or liability.

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- Opening deferred tax is calculated as if IAS 29 had always been applied. It is calculated for temporary differences between tax bases of assets and liabilities and their carrying amounts expressed in the purchasing power at the start of the reporting period (opening balance sheet date). The balance is then inflated to the purchasing power at the end of the reporting period.
- The movement in the deferred tax balance for the reporting period includes a monetary gain or loss on tax bases of assets and liabilities.

An example of the detailed calculation for deferred taxes when applying the restatement approach in IAS 29 is set out below:

At 10 December 20X9	**Carrying IFRS value**	**Tax base**	**Temporary difference**	**Deferred tax asset/ (Deferred tax liability) * 30%**	
Property, plant and equipment	400	300	(100)	(30)	
Investment in associate	200	150	(50)	(15)	
Inventories	300	250	(50)	(15)	
Deferred income (government grant)	(200)	(100)	100	30	
Opening deferred tax (net) in 10 December 20X9 purchasing power				**(30)**	(a)
20Y0 inflation of 50% (from conversion factor 1.5)				(15)	(b)
Opening deferred tax (net) in 10 December 20Y0 purchasing power				**(45)**	(c)
At 10 December 20Y0					
Property, plant and equipment	550	250	(300)	(90)	
Investment in associate	250	150	(100)	(30)	
Inventories	400	350	(50)	(15)	
Deferred income (government grant)	(250)	(200)	50	15	
Deferred tax (net) at 10 December 20Y0				**(120)**	(d)
Movement of deferred tax liability for the current period				(75)	(e)

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Deferred tax entries in 20Y0

	Dr	Cr	References
Net monetary loss	15		(b)
Income tax expense	75		(e)
Deferred tax liability		(90)	(b + e)

The deferred tax liability at 10 December 20Y0 is calculated as follows:

(a) Opening balance of deferred tax liability of 30, calculated after restatement of non-monetary items by applying the measuring unit at 10 December 20X9.

(b) The net monetary loss of 15 on the tax base because of inflation in the year 20Y0, debited to the income statement and disclosed separately.

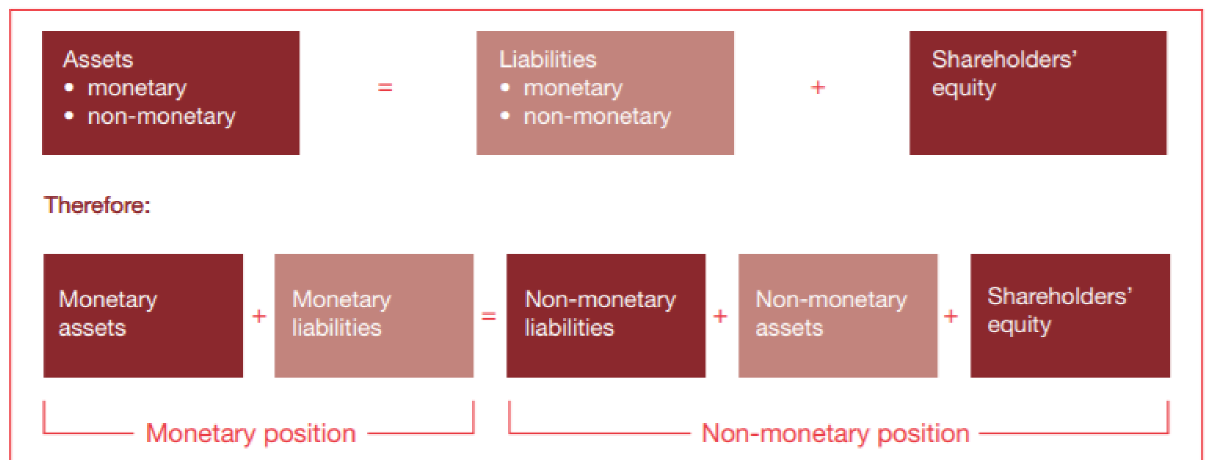
(c) Inflated opening balance of the deferred tax liability to 45.

(d) Ending balance of the deferred tax liability of 120, calculated after restatement of non-monetary items by applying the measuring unit at 10 December 20Y0.

(e) The effect on the deferred tax liability of the movement in the taxable temporary difference of the non-monetary items, debited to the income statement as tax expense of 75.

Calculation and proof of the monetary gain or loss

One of the objectives of IAS 29 is to account for the financial gain or loss that arises from holding monetary assets or liabilities during a reporting period (the monetary gain or loss). All monetary assets and liabilities (net monetary position) held during the year are represented in the financial statements, either by non-monetary assets and liabilities recognised on the balance sheet, or by transactions recorded in comprehensive income or directly in equity. These can be shown more clearly in the diagram below:



The monetary gain or loss can be calculated as the difference between the historical cost amounts and the result from the restatement of non-monetary items, shareholders' equity, items in the statement of comprehensive income and the adjustment of index-linked items to year end purchasing power.

The monetary gain or loss is calculated based on the entity's monetary position, and it is reported as a separate item in the restated statement of comprehensive income.

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It is possible to calculate the gain or loss on the entity's daily net monetary position. The costs of such a calculation, however, are likely to be onerous. The monetary gain or loss can be estimated by applying the change in a general price index to the weighted average, for the period, of the difference between monetary assets and monetary liabilities. The weighted average of the opening monetary position and the monetary position at year end can be used for the purpose of this calculation. This approach can be used to assess the reasonableness of the monetary gain or loss derived by restating the non-monetary assets and liabilities. It is possible, however, for a difference to arise between the monetary gain or loss in the income statement and the estimate, as calculated by the proof, if the monetary position has not been relatively constant throughout the year. A more accurate proof of the monetary gain or loss can be obtained by using the quarterly or monthly weighted average monetary position if the monetary position is changing significantly.

The calculation and proof of the monetary gain or loss that arises on the carrying amounts of monetary assets and liabilities is an important element of applying IAS 29. Restatement in accordance with IAS 29 requires the application of certain procedures and judgement. It is therefore necessary to verify that the results are reasonable; the proof might reveal restatement errors.

Statement of cash flows

All items in the statement of cash flows are expressed in a measuring unit current at the balance sheet date; they are therefore restated by applying the relevant conversion factors from the date on which the transaction originated. There is no detailed guidance for this area in IAS 29. An entity should therefore consider the broad objectives of IAS 29 and IAS 7 to appropriately present and disclose the effects of inflation on cash and cash equivalents.

There are two specific features of the cash flow statement to be considered:

- net income before tax is adjusted for the monetary gain or loss for the period; and
- the monetary loss on cash and cash equivalents is presented separately.

Comparatives

The prior year comparatives, for both monetary and non-monetary items, are restated in terms of the measuring unit current at the end of the latest reporting period. If prior year financial statements have already been prepared to conform to IAS 29, the current year change in the general price index is applied to the prior year financial statements.

IAS 1 requires entities to present an additional balance sheet as at the beginning of the preceding period where the entity applies a change in accounting policy retrospectively, makes a retrospective restatement of items, or reclassifies items in its financial statements. The initial application of IAS 29, however, does not fall within those categories, but it is rather a change in circumstances [IFRIC 7 para BC 17], and therefore no additional balance sheet is required.

Group reporting

A parent with functional currency of a hyper-inflationary economy

A parent that reports in the currency of a hyper-inflationary economy might have subsidiaries that also report in the currencies of hyper-inflationary economies. The financial statements of such subsidiaries are restated by applying a general price index of the country in whose currency it reports before they are included in the

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consolidated financial statements issued by the parent. The restated financial statements of foreign subsidiaries are translated at closing rates. The financial statements of subsidiaries that do not report in the currencies of hyper-inflationary economies are dealt with initially in accordance with IAS 21. This means that items included in comprehensive income are translated at the rates on the dates of transactions (or an average rate), and balance sheet items are translated at the closing rates. We believe it is acceptable, but not required, for items included in comprehensive income that are first translated in accordance with IAS 21 then to be restated in accordance with IAS 29 from the transaction date.

An investee that is accounted for using the equity method in the consolidated financial statements might report in the currency of a hyper-inflationary economy. The statement of financial position and statement of comprehensive income of such an investee are restated in accordance with IAS 29 in order to calculate the investor's share of its net assets and profit or loss. The restated financial statements of the investee are translated at closing rates if they are expressed in a foreign currency.

A parent might consolidate subsidiaries that report in the currency of a hyper-inflationary economy and whose reporting periods end on different dates from the parent's reporting period end. In this case, all items in the subsidiaries' financial statements, whether non-monetary or monetary, are restated into the measuring unit current at the period-end date of the parent's consolidated financial statements.

A subsidiary, associate or joint arrangement with functional currency of a hyper-inflationary economy

Entities that have subsidiaries with the currency of Argentina as their functional currency should consider paragraph 43 of IAS 21, which requires the financial statements of a subsidiary entity that has the functional currency of a hyper-inflationary economy to be restated in accordance with IAS 29 before being included in the consolidated financial statements. Hyper-inflation accounting is applied to all of the subsidiary's assets and liabilities before translation. This might include any goodwill and fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation. All amounts in the subsidiary's financial statements are then translated at the closing rate. Comparative amounts presented previously in a stable currency are not restated.

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- *Translation adjustments when IAS 29 is first applied by an entity that presents its consolidated financial statements in a stable currency*

  The comparative amounts in financial statements presented in a stable currency are not adjusted for subsequent changes in the price level or exchange rates. Opening equity reported in the stable currency will be affected by the cumulative effect of restating non-monetary items from the date they were first recognised and the effect of translating those balances to the closing rate. This will result in a difference between the closing equity of the previous year and the opening equity of the current year. In our view, there is an accounting policy choice between recognising this difference directly in equity and recognising it in other comprehensive income as a translation adjustment.

  For example, country A enters hyper-inflation in November 20X9. A subsidiary in country A is required to report its annual financial statements for the year ended 31 December 20X9 to its foreign parent in a stable currency. The comparative information in the parent's consolidated financial statements is not restated, because it has already been presented in the stable currency. The difference between the closing balance of shareholders' equity of the subsidiary in country A at 31 December 20X8 and the opening balance at 1 January 20X9 could be recognised in equity or in other comprehensive income as a translation adjustment. The accounting policy adopted should be disclosed clearly.

- *Translation adjustments when applying IAS 29 on an ongoing basis*

  The ongoing application of the re-translation of comparative amounts to closing exchange rates under IAS 21 and the hyper-inflation adjustments required by IAS 29 will lead to a difference in addition to the difference arising on the adoption of hyper-inflation accounting. This is because the rate at which the hyper-inflationary currency depreciates against a stable currency is rarely equal to the rate of inflation. We believe that it is appropriate to separate the difference into two components:

  - the adjustments related to equity items recognised directly in equity; and
  - the remaining difference recognised in other comprehensive income as a translation adjustment.

  It would also be acceptable to recognise all of the difference in other comprehensive income, given the economic inter-relationship between inflation and exchange rates, or in equity.

When deciding which policy to apply, entities need to consider the views of the relevant regulators.

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Economy becomes hyper-inflationary in an interim period

IAS 34, 'Interim financial reporting', requires an entity that reports interim financial information to present the statement of comprehensive income for the current interim period and the current year-to-date, together with comparative information for the equivalent periods in the previous year.

An economy might enter hyper-inflation during the second half of an annual reporting period. An entity whose functional currency is hyper-inflationary, or a group with a subsidiary that has a functional currency that has become hyper-inflationary in the current interim period, is not required to restate the previously issued interim reports in this situation. The application of IAS 29 is treated as a non-adjusting post-balance sheet event in the context of previous interim reports.

However, IAS 29 should be applied as if the economy had always been hyper-inflationary. Therefore, an entity that reports, for example, for the nine months to 30 September 2018 should restate all the items in comprehensive income in 2018 from the dates when those items of income and expense were originally recorded.

Entities that report quarterly are also required to report results for the quarter ended 30 September 2018, and they will therefore have to address the catch-up adjustment for the impact of inflation on income and expenses recognised in the previous quarters. Neither IAS 29 nor IAS 34 addresses the allocation of this catch-up adjustment between the current and prior interim periods. We believe that an entity could elect to present the catch-up adjustment in the income statement in the discrete quarter ended 30 September 2018, or as an adjustment to opening equity at the beginning of those periods. An entity should consider the views of the relevant regulator in deciding how to present the catch-up adjustment.

Other considerations

Presentation and disclosure

Entities should consider the following in relation to presentation and disclosure of restated financial statements or financial statements that consolidate subsidiaries with a functional currency of a hyper-inflationary economy:

- The gain or loss on net monetary position should be included in profit or loss and separately disclosed.
- Management should describe, in the accounting policy note, the methodology used in applying IAS 29. The following information should be disclosed:
  - the fact that the financial statements and the comparatives have been restated and, as a result, that they are stated in terms of the measuring unit current at the balance sheet date; and
  - the identity and level of the price index at the balance sheet date and the movement in the index during the current and previous reporting periods.
- Entities may also consider disclosing the three-year cumulative inflation at the balance sheet date.

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- Any significant judgements made in applying IAS 29 should be disclosed in accordance with the requirements in paragraph 122 of IAS 1, 'Presentation of financial statements'.
- Entities with subsidiaries that have a functional currency that is the currency of a hyper-inflationary economy should consider explaining in their accounting policies the application of paragraph 43 of IAS 21. Such entities should also consider explaining that comparative amounts presented previously in a stable currency are not restated, together with the policy adopted for recognising the differences between the closing equity of the previous year and the opening equity of the current year (see 'Translation adjustments when applying IAS 29 on an ongoing basis' above).

Disclosures when IAS 29 is first applied

The initial application of IAS 29 will lead to the recognition of a catch-up adjustment, because IAS 29 is applied as if the economy had always been hyper-inflationary. Entities should consider disclosing the methodology applied in determining the catch-up adjustment and the accounting policy elected (see 'Translation adjustments when IAS 29 is first applied by an entity that presents its consolidated financial statements in a stable currency' above).

Entities should also consider the requirements in IAS 34 in the interim financial statements in which IAS 29 is first applied. IAS 34 requires an entity to explain "the events that are significant to an understanding of the changes in the entity's financial position and performance since the end of the last annual reporting period". [IAS 34 para 15]. Entities should consider disclosing in the accounting policy note the methodology used to apply IAS 29, and its impact on assets, liabilities, equity, net income, and cash flows. [IAS 34 para 16A(c)].

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