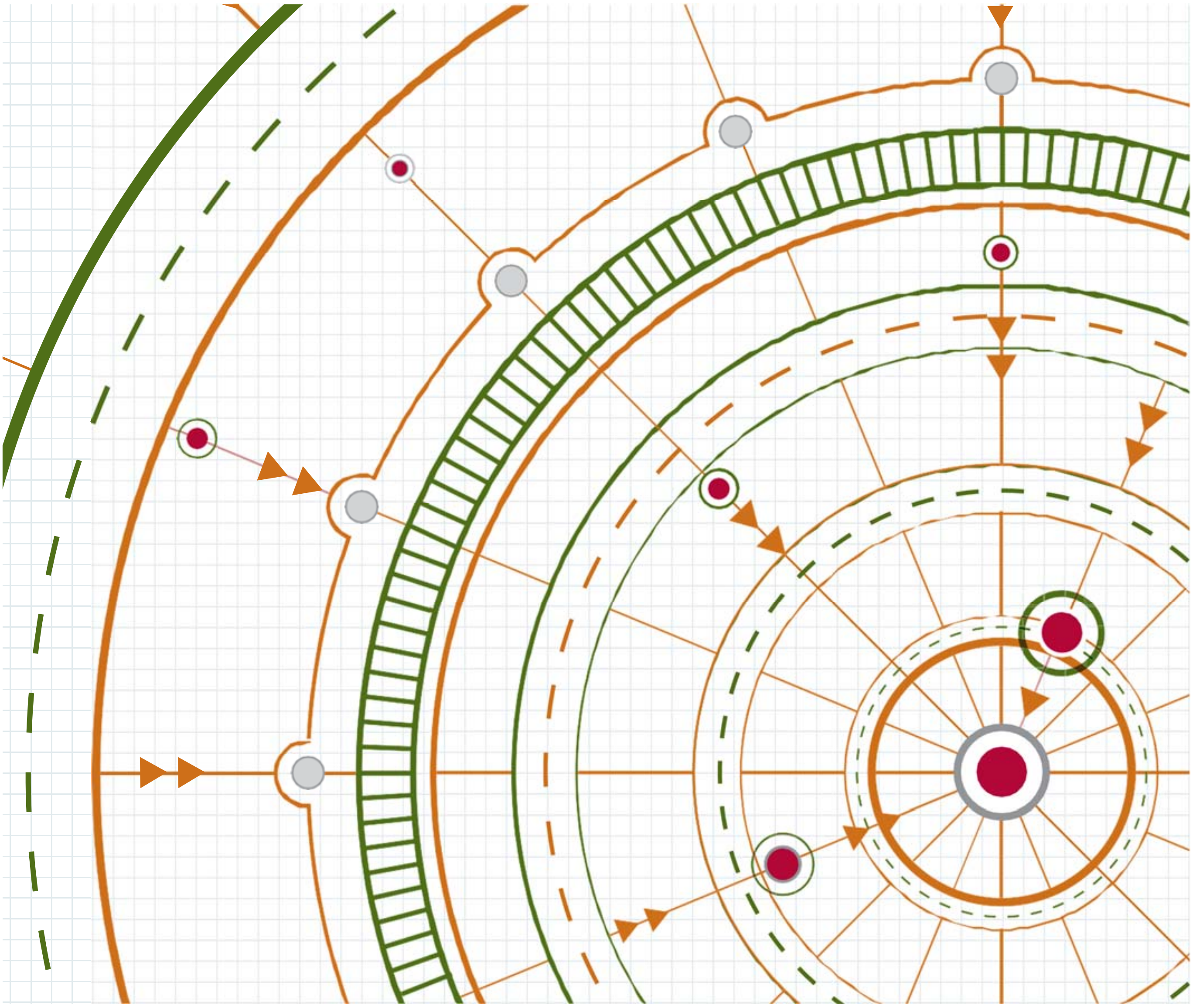
IFRS for SMEs® Standard (2015) + Q&As

IFRS® Foundation—Supporting Material for the *IFRS for SMEs* Standard

Module 31—Hyperinflation



IFRS®

IFRS® Foundation
Supporting Material
for the *IFRS for SMEs®* Standard

including the full text of
Section 31 *Hyperinflation*
of the *IFRS for SMEs* Standard
issued by the International Accounting Standards Board in October 2015

with extensive explanations, self-assessment questions and case studies

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Module 31—Hyperinflation

The accounting requirements applicable to small and medium-sized entities (SMEs) discussed in this module are set out in the *IFRS for SMEs* Standard, issued by the International Accounting Standards Board (Board) in October 2015.
This module has been prepared by IFRS Foundation education staff.
The contents of Section 31 *Hyperinflation* of the *IFRS for SMEs* Standard are set out in this module and shaded grey. The Glossary of terms of the *IFRS for SMEs* Standard (Glossary) is also part of the requirements. Terms defined in the Glossary are reproduced in **bold type** the first time they appear in the text of Section 31. The notes and examples inserted by the education staff are not shaded. These notes and examples do not form part of the *IFRS for SMEs* Standard and have not been approved by the Board.

INTRODUCTION

Which version of the *IFRS for SMEs*® Standard?

When the *IFRS for SMEs* Standard was first issued in July 2009, the Board said it would undertake an initial comprehensive review of the Standard to assess entities' experience of the first two years of its application and to consider the need for any amendments. To this end, in June 2012, the Board issued a Request for Information: *Comprehensive Review of the IFRS for SMEs*. An Exposure Draft proposing amendments to the *IFRS for SMEs* Standard was subsequently published in 2013, and in May 2015 the Board issued *2015 Amendments to the IFRS for SMEs* Standard.

The document published in May 2015 only included amended text, but in October 2015, the Board issued a fully revised edition of the Standard, which incorporated additional minor editorial amendments as well as the substantive May 2015 revisions. This module is based on that version.

The *IFRS for SMEs* Standard issued in October 2015 is effective for annual periods beginning on or after 1 January 2017. Earlier application was permitted, but an entity that did so was required to disclose the fact.

Any reference in this module to the *IFRS for SMEs* Standard refers to the version issued in October 2015.

This module

This module focuses on the general requirements for preparing and presenting the financial statements of an entity whose functional currency is that of a hyperinflationary economy applying Section 31 *Hyperinflation* of the *IFRS for SMEs* Standard. It introduces the subject and reproduces the official text along with explanatory notes and examples designed to enhance understanding of the requirements. The module identifies the significant judgements required in preparing and presenting the financial statements of an entity whose functional currency is that of a hyperinflationary economy. In addition, the module includes questions designed to test your understanding of the requirements and case studies that provides a practical opportunity to apply the requirements of the *IFRS for SMEs* Standard.

Module 31—Hyperinflation

Upon successful completion of this module, you should, within the context of the *IFRS for SMEs* Standard, be able to:

- understand the financial reporting requirements for an entity whose functional currency is the currency of a hyperinflationary economy applying the *IFRS for SMEs* Standard;
- assess indicators of hyperinflation in order to determine whether a particular economy is hyperinflationary;
- demonstrate an understanding of the significant judgements and estimates required when accounting for transactions and other events in a hyperinflationary environment;
- measure and present gains or losses on net monetary position;
- restate financial statements to reflect the measuring unit that is applicable at the end of the reporting period; and
- present and disclose information relevant to the financial statements of an entity whose functional currency is that of a hyperinflationary economy.

IFRS for SMEs Standard

The *IFRS for SMEs* Standard is intended to apply to the general purpose financial statements of entities that do not have public accountability (see Section 1 *Small and Medium-sized Entities*).

The *IFRS for SMEs* Standard is comprised of mandatory requirements and other non-mandatory material.

The non-mandatory material includes:

- a preface, which provides a general introduction to the *IFRS for SMEs* Standard and explains its purpose, structure and authority;
- implementation guidance, which includes illustrative financial statements and a table of presentation and disclosure requirements;
- the Basis for Conclusions, which summarises the Board's main considerations in reaching its conclusions in the *IFRS for SMEs* Standard issued in 2009 and, separately, in the 2015 Amendments; and
- the dissenting opinion of a Board member who did not agree with the issue of the *IFRS for SMEs* Standard in 2009 and the dissenting opinion of a Board member who did not agree with the 2015 Amendments.

In the *IFRS for SMEs* Standard, Appendix A: Effective date and transition, and Appendix B: Glossary of terms, are part of the mandatory requirements.

In the *IFRS for SMEs* Standard, there are appendices to Section 21 *Provisions and Contingencies*, Section 22 *Liabilities and Equity* and Section 23 *Revenue.* These appendices provide non-mandatory guidance.

The *IFRS for SMEs* Standard has been issued in two parts: Part A contains the preface, all the mandatory material and the appendices to Section 21, Section 22 and Section 23; and Part B contains the remainder of the material mentioned above.

Further, the SME Implementation Group (SMEIG), which assists the Board with supporting implementation of the *IFRS for SMEs* Standard, publishes implementation guidance as 'questions and answers' (Q&As). These Q&As provide non-mandatory, timely guidance on specific accounting questions raised with the SMEIG by entities implementing the *IFRS for SMEs* Standard and other interested parties. At the time of issue of this module (November 2018) the SMEIG has not issued any Q&As relevant to this module.

Module 31—Hyperinflation

Introduction to the requirements

The objective of general purpose financial statements of a small or medium-sized entity is to provide information about the entity's financial position, performance and cash flows that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs. Such users include, for example, owners who are not involved in managing the business, existing and potential creditors and credit rating agencies.

The objective of Section 31 is to prescribe the accounting treatment and disclosure requirements for an entity whose functional currency is that of a hyperinflationary economy.

What has changed since the 2009 *IFRS for SMEs* Standard

There are consequential changes to paragraphs 31.8–31.9 relating to addition of an option to use the revaluation model for property, plant and equipment held by an entity.

All the changes are covered in this Module.

Module 31—Hyperinflation

REQUIREMENTS AND EXAMPLES

Scope of this section

31.1 This section applies to an entity whose **functional currency** is the currency of a hyperinflationary economy. It requires such an entity to prepare **financial statements** that have been adjusted for the effects of hyperinflation.

Notes

Applying Section 30 *Foreign Currency Translation*, an entity is required to prepare its financial statements using its functional currency. An entity's functional currency is the currency of the primary economic environment in which it operates (see the Glossary of terms of the *IFRS for SMEs* Standard (Glossary)). Management is required to use judgement with the requirements and guidance of paragraphs 30.2–30.5 to determine the applicable functional currency.

It is not useful to report, without restatement, the financial performance, financial position and cash flows of an entity whose functional currency is the currency of a hyperinflationary economy. Money loses purchasing power at such a rate that comparing amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading. A decrease in the purchasing power of a currency is expressed by the increase of prices in an economy (that is, when the same nominal amount of money can purchase fewer goods or services).

The pervasive and recurring increase of prices in an economy is often called inflation. Concepts related to inflation (and hyperinflation) are usually associated with price levels in general rather than with prices of a few or particular goods. Another frequent attribute of the definition of inflation is recurrence, that is, to be considered inflation, a rise in general price levels has to occur for at least a certain period of time (one year). Hyperinflation in particular is often characterised in literature as an ongoing (recurrent) and more significant increase in general price levels.[1]

The example below illustrates the erosive effect of hyperinflation on the purchasing power of an entity with material monetary assets.

[1] Fischer, S., Sahay, R. and Végh, C. A. Modern Hyper- and High Inflations. *Journal of Economic Literature*, vol. 40, No. 3 (September 2002), pp. 837–880.

Example—the effect of hyperinflation on the purchasing power of monetary assets

Ex 1 **On 31 December 20X1, SME A was formed when its owner contributed CU100,000[(2)] in cash to the entity. SME A held the cash throughout 20X2 and did not enter into any other transactions.**

In 20X2, general price levels rose by 100%, representing an increase in the relevant general price index from 100 to 200 in 20X2.

Because SME A's only assets are monetary, in 20X2 when general price levels increased by 100%, SME A's resources lost purchasing power. In other words, SME A's CU100,000 would purchase half as many goods and services at the end of 20X2 as it could have purchased on 31 December 20X1.

Example—the effect of hyperinflation on the purchasing power of a non-monetary asset

Ex 2 **The facts are the same as in Example 1. However, in this example, on 1 January 20X2, SME A used the cash contributed by the owner to purchase a plot of land for CU100,000 (SME A held only land throughout 20X2 and did not enter into any other transactions). The entity intends to build a factory on the land, in which it intends to manufacture a product.**

In 20X2, general price levels rose by 100% in the primary economic environment in which SME A operates.

Because SME A's only assets are non-monetary, in 20X2 when general price levels increased by 100%, it is likely that SME A's purchasing power remained constant. In other words, assuming the value of the land measured in nominal currency units increased by 100%, if SME A had sold its land at the end of 20X2, it could have used the proceeds from the sale to purchase as many goods and services on 31 December 20X2 as it could have purchased originally with the CU100,000 cash it received from the owner on 31 December 20X1. This assumes the nominal selling price of the land increases at least at the rate of inflation. Consequently, being invested in a non-monetary asset (land) prevented the decline of SME A's purchasing power in 20X2.

(2) In this example, and in all other examples in this module, monetary amounts are denominated in 'currency units (CU)' and, unless otherwise specified, tax effects are ignored.

Module 31—Hyperinflation

Hyperinflationary economy

31.2 This section does not establish an absolute rate at which an economy is deemed hyperinflationary. An entity shall make that judgment by considering all available information including, but not limited to, the following possible indicators of hyperinflation:

(a) the general population prefers to keep its wealth in non-monetary **assets** or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power.

(b) the general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency.

(c) sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short.

(d) interest rates, wages and prices are linked to a price index.

(e) the cumulative inflation rate over three years is approaching, or exceeds, 100 per cent.

Notes

Determining whether an economy is hyperinflationary requires judgement and does not depend solely on the level of cumulative inflation over a certain period of time. It is preferable that all entities that report in the currency of the same hyperinflationary economy should apply Section 31 from the same date. Nevertheless, Section 31 applies to the financial statements of any entity from the beginning of the reporting period in which it identifies the existence of hyperinflation in the economy of a country in whose currency it reports (see paragraph 31.9). As noted in paragraph 10 of IAS 29 *Financial Reporting in Hyperinflationary Economies*, the consistent application of judgement from period to period is more important than the precise accuracy of the resulting amounts included in the restated financial statements. The absolute level of inflation and the cumulative inflation rate over a certain period of time can indicate hyperinflation. However, indicators are not conclusive on their own and hyperinflation analysis usually requires the assessment of various indicators.

Examples—identifying a hyperinflationary economy

Ex 3 **SME A is located in Country X, which is its primary economic environment. General price levels in Country X, expressed in its local currency, have risen during the last 15 years at an average annual rate of 3% per year. Country X is considered to be a safe country to invest in due to its stability. Both local and foreign agents consider the local currency purchasing power to be stable. Local agents prefer to have their savings in Country X's local currency rather than in any other currency.**

Country X is not hyperinflationary. Accumulated inflation for three years is about 9% (far below the 100% indicative rate). Economic agents in Country X do not appear to avoid the local currency as a wealth reserve, because of its price stability (there are only modest changes in the currency's purchasing power).

Ex 4 **SME B's primary economic environment is Country W. General price levels in Country W, expressed in its local currency, have been rising during the last five years at an average rate of 40% per year. Market agents generally consider Country W's risk as high, mainly due to political instability that leads to uncertain economic policy and loose monetary policy. Both local and foreign agents generally avoid holding financial positions in the local currency. Financial assets denominated in local currency are usually cash equivalents with high liquidity and subject to interest rates that reflect future expected inflation. Household savings are often used to buy properties (non-monetary assets) that are considered 'safe assets' that generally prevent losses in the purchasing power of the local currency.**

Most indicators of hyperinflation relate to economic agents' preferences and terms of contracts in the economy (in a hyperinflationary economy, agents avoid holding cash for more than a short time because its purchasing power decreases quickly). Consequently, in a hyperinflationary economy, agents quickly convert cash into non-monetary assets (property or inventories), financial assets that offer at least inflation-adjusted restatement on the basis of price indexes, or into other more stable currencies in order to preserve their purchasing power.

In hyperinflationary conditions, contracts that determine future cash flows between parties often contain indexing clauses to ensure that amounts of future cash flows that were agreed at current prices (at the contract date) preserve the purchasing power of such cash flows when settled in terms of cash.

Country W is hyperinflationary—economic agents in Country W avoid the local currency as a wealth reserve because there is a high risk of unexpected volatility in price levels that could significantly deteriorate currency purchasing power. Furthermore, accumulated inflation in three years exceeds the 100% indicative rate.

Measuring unit in the financial statements

31.3 All amounts in the financial statements of an entity whose functional currency is the currency of a hyperinflationary economy shall be stated in terms of the measuring unit current at the end of the **reporting period**. The comparative information for the previous period required by paragraph 3.14, and any information presented in respect of earlier periods, shall also be stated in terms of the measuring unit current at the **reporting date**.

Notes

The objective of the financial statements of a small or medium-sized entity (SME) is to provide information about the financial position, financial performance and cash flows of the entity that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs.

The information provided in financial statements must be relevant to the economic decision-making needs of users. To be relevant, information must be capable of influencing the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations. In a hyperinflationary economy, financial information is unlikely to be relevant to users in assessing future cash flows unless nominal amounts are restated at price levels that are current at the end of the reporting period.

In addition, users must be able to compare the financial statements of an entity through time and across entities to identify trends in its financial position and performance. The measurement and presentation of the financial effects of similar transactions and other events and conditions must therefore be carried out in a consistent way over time for that entity. In hyperinflationary conditions, information must be restated to price levels that are applicable at the end of the latest reporting period presented. If this is not done, comparability in terms of the purchasing power of amounts presented in the financial statements would be weakened due to significantly different price levels at each reporting period.

Paragraphs 31.5–31.13 provide mandatory application guidance on how to restate amounts by applying the measuring unit that is current at the end of the reporting period. Paragraph 31.14 applies when hyperinflation ceases and paragraph 31.15 specifies the disclosures that should be provided.

31.4 The restatement of financial statements in accordance with this section requires the use of a general price index that reflects changes in general purchasing power. In most economies there is a recognised general price index, normally produced by the government, that entities will follow.

Notes

SMEs whose functional currency is the currency of a hyperinflationary economy must restate their financial statements for the effects of changes in general purchasing power. These restatements must be completed applying Section 31–using a general price index reflecting changes in general purchasing power (see paragraph 31.3). Such a general price index should be reliable and reflect changes in the prices of a wide variety of goods and services that are relevant to the economy for which inflation is being measured.

It is preferable that all entities that report in the currency of the same economy use the same index (see paragraph 37 of IAS 29).[3] Most countries issue or announce several price indexes, of which the consumer price index is usually the most suitable for this purpose. This is because it is measured at the end of the supply chain and reflects the impact of prices on the general population's consumption. Features of a reliable general price index are that it:

- has a wide range of reference, that is, it includes most goods and services produced in the economy, in order to reflect varying price fluctuations;
- accurately reflects price changes;
- is updated regularly, preferably monthly;
- is consistent, uniform and continuous; and
- is free from bias.

A general price index may not be available for periods for which the restatement of non-monetary items is required. In these circumstances an entity may refer to full

[3] In the absence of explicit guidance in the *IFRS for SMEs* Standard an entity can (but is not required to), in accordance with paragraph 10.6, consider the requirements and guidance in full IFRS Standards.

IFRS Standards for additional guidance, particularly to paragraph 17 of IAS 29, which specifies that it may be necessary to use an estimate based, for example, on movements in the exchange rate between the functional currency and a relatively stable foreign currency.[4]

Procedures for restating historical cost financial statements

Statement of financial position

31.5 **Statement of financial position** amounts not expressed in terms of the measuring unit current at the end of the reporting period are restated by applying a general price index.

31.6 **Monetary items** are not restated because they are expressed in terms of the measuring unit current at the end of the reporting period. Monetary items are money held and items to be received or paid in money.

31.7 Assets and **liabilities** linked by agreement to changes in prices, such as index-linked bonds and loans, are adjusted in accordance with the agreement and presented at this adjusted amount in the restated statement of financial position.

31.8 All other assets and liabilities are non-monetary:

(a) some non-monetary items are carried at amounts current at the end of the reporting period, such as net realisable value and **fair value**, so they are not restated. All other non-monetary assets and liabilities are restated.

(b) most non-monetary items are carried at cost or cost less **depreciation**; hence they are expressed at amounts current at their date of acquisition. The restated cost, or cost less depreciation, of each item is determined by applying to its historical cost and accumulated depreciation the change in a general price index from the date of acquisition to the end of the reporting period.

(ba) some non-monetary items are carried at amounts current at dates other than that of acquisition or the reporting date, for example, **property, plant and equipment** that has been revalued at some earlier date. In these cases, the **carrying amounts** are restated from the date of the revaluation.

(c) the restated amount of a non-monetary item is reduced, in accordance with Section 27 *Impairment of Assets*, when it exceeds its **recoverable amount**.

Notes

Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed and determinable number of units of currency (see Glossary). Monetary assets include but are not restricted to cash, cash equivalents and financial assets. Monetary liabilities include but are not restricted to loans payable (debt), trade and other payables and provisions. Monetary items are directly exposed to the effects of changes in currency purchasing power as these items are expected to be settled in cash denominated in the affected currency. Consequently, monetary items are not restated because their nominal contracted values express the actual estimate of cash flows

[4] In the absence of explicit guidance in the *IFRS for SMEs* Standard an entity can (but is not required to), in accordance with paragraph 10.6, consider the requirements and guidance in full IFRS Standards.

associated with those items, unless contractually subject to indexation, which does not change their monetary substance.

Monetary items can be subject to indexation or denominated in a foreign currency and, accordingly, their exposure to changes in the purchasing power of an entity's functional currency depends on the variation of their respective price index or exchange-rate variation. For such items, balances on the statement of financial position are restated applying the contracted index or exchange rate.

All other items are non-monetary items. Non-monetary assets include but are not restricted to inventories, property, plant and equipment and intangibles. The purchasing power of non-monetary assets is frequently protected from general price changes because increases in general price levels usually increase the nominal (unadjusted) value of non-monetary assets. Consequently, non-monetary items usually do not generate gains or losses due to changes in the purchasing power of a currency. In hyperinflationary conditions, the carrying amounts of non-monetary items stated at historical cost are restated using a general price index in order to reflect the constant purchasing power embodied in their respective expected future cash flows. If the restated carrying amount of a non-monetary asset exceeds its recoverable amount, its restated carrying amount must be reduced to its recoverable amount applying Section 27 *Impairment of Assets*.

Non-monetary items such as property, plant and equipment carried at amounts current at dates other than that of acquisition or the reporting date as permitted by Section 17 *Property, Plant and Equipment* under the revaluation model are restated from the date of revaluation. At the beginning of the first period when the entity starts to apply Section 31, any revaluation surplus that arose in previous periods is eliminated. As such, retained earnings are derived from all the other amounts in the restated statement of financial position, in other words, a balancing figure (see paragraph 31.9).

Non-monetary items measured at net realisable value or fair value are not restated and may generate gains or losses due to variations of their values above or below inflation (see Example 18).

Restating a non-monetary item under hyperinflation may give rise to a temporary difference between the carrying amount of such an item in the financial statements and the tax base the entity expects will affect taxable profit when the carrying amount of the item is recovered or settled. Temporary differences are accounted for applying Section 29 *Income Tax*. Throughout this module, there are many examples of restated statement of financial position items. However, for simplicity, deferred tax effects are ignored. Example 24 illustrates the deferred tax effects of restating amounts in terms of the measuring unit that is current at the end of the reporting period.

Examples—procedures for restating historical financial statements

Ex 5 **On 30 November 20X1, SME B acquired inventory in exchange for CU200,000 cash. SME B had not sold any of the inventory by 31 December 20X1 (SME B's reporting date). On 31 December 20X1, the estimated selling price less costs to sell of the inventory is CU230,000. The general price index increased by 100% in 20X1 (including a 10% increase in December).**

Applying Section 31, the inventory (a non-monetary item) in hyperinflationary conditions must be restated by applying a general price index. SME B acquired the inventory for CU200,000. As inflation during the period between acquisition and the reporting date was 10%, the restated amount for inventory is CU220,000 (CU200,000 cost × 1.1 inflation factor).

Applying Section 27, the inventory must be tested for impairment. The inventory is not impaired because its cost (restated under hyperinflation) of CU220,000 is lower than its estimated selling price less costs to sell (CU230,000). Consequently, no impairment loss is recognised.

Ex 6 **The facts are the same as in Example 5. However, in this example, on 31 December 20X1 the estimated selling price less costs to sell of inventory is CU215,000.**

Applying Section 31, the inventory is first restated from its original amount of CU200,000 to CU220,000 (see Example 5). The inventory is tested for impairment by comparing its estimated selling price less costs to sell (CU215,000) to its restated amount (CU220,000). Applying Section 27, an impairment loss of CU5,000 (restated carrying amount less net selling price) must be recognised in profit or loss and the carrying amount of inventory at 31 December 20X1 is CU215,000.

Ex 7 **On 1 January 20X2, SME C acquired land at the cost of CU250,000 upon which to construct a warehouse in the future. The purchase was financed by a bank loan. The loan agreement obliges SME C to pay CU250,000 (the principal amount) 10 years after the grant date and annual interest at a rate composed of the retail price index variation plus a 5% spread payable on 1 January each year for 10 years.**

SME C operates in a hyperinflationary economy. Its reporting period ends on 31 December. In 20X2, the relevant general price index increased by 100% and the retail price index increased by 90%.

On 31 December 20X2, the fair value less costs to sell of SME C's land is CU550,000.

On 1 January 20X2, SME C recognises land (an asset classified as property, plant and equipment) and a financial liability (bank loan) measured at CU250,000.

The loan is a monetary item linked by agreement to changes in prices and interest at 5% per annum applies after agreed restatement based on the retail price index. Consequently, applying paragraph 31.7, on 31 December 20X2 the bank loan (financial liability) including accrued interest is CU498,750 (CU250,000 principal × (1 + 90% increase in the retail price index) × (1 + 5% per loan contract)).

Land intended to be used in the future construction of SME C's new warehouse is a non-monetary item (asset) carried at cost, applying Section 17. Applying paragraph 31.8(b), SME C must restate its carrying amount using the general price index.

Consequently, the carrying amount of the land at 31 December 20X2 is restated by the general inflation index from the acquisition date (1 January 20X2) to the reporting date (31 December 20X2), resulting in a restated carrying amount of CU500,000 (CU250,000 x (1 + inflation rate of 100%)). The restated carrying amount of the land is then, applying Section 27, compared to its fair value less costs to sell. No impairment loss is recognised in 20X2 because the restated carrying amount (CU500,000) is lower than the fair value less costs to sell of the land (CU550,000). Consequently, the carrying amount of the land recognised in SME C's financial statements at 31 December 20X2 is CU500,000.

Ex 8 **On 1 January 20X1, SME D acquires a building in exchange for CU100,000 cash. The building is used by SME D's administrative and sales staff. Management estimated the useful life of the building to be 50 years with no residual value.**

General price inflation for the years ended 31 December 20X1 and 20X2 is 100% in each of the years. If indicators of impairment are present, the building must be tested for impairment.

In this example, the land where the building is situated is ignored.

Applying Section 17, SME D recognised the building at its cost of CU100,000 on 1 January 20X1. The building is then depreciated before being tested for impairment. The depreciable amount of the building restated for inflation is CU200,000 (CU100,000 cost × (1+ 100%)). Inflation-adjusted depreciation for the year ended 31 December 20X1 is CU4,000 (CU200,000 restated depreciable amount ÷ 50 years). Consequently, the restated carrying amount of the building at 31 December 20X1 is CU196,000 (CU200,000 restated cost minus CU4,000 restated accumulated depreciation).

At 31 December 20X2 the depreciable amount of the building restated for inflation is CU400,000 (CU200,000 restated cost at 31 December 20X1 × (1+ 100%)). Inflation-adjusted depreciation for the year ended 31 December 20X2 is CU8,000 (CU400,000 restated depreciable amount ÷ 50 years). Consequently, the restated carrying amount of the building at 31 December 20X2 is CU384,000 (CU400,000 restated cost minus CU16,000 restated accumulated depreciation).

Ex 9 **The facts are the same as in Example 8. However, in this example, SME D holds the building to earn lease rental. On 31 December 20X1, SME D measures the fair value of the building at CU205,000.**

Because SME D accounts for the property as an investment property using the fair value model, at 31 December 20X1 SME D must use the fair value model to measure its investment property. Consequently, it measures its investment property at CU205,000 (expressed in terms of the measuring unit that is current at 31 December 20X1).

The carrying amount of the building is not restated (see paragraph 31.8).

Ex 10 **On 1 January 20X1, SME D acquires a plot of land in exchange for CU100,000 cash. The land is used by SME D's administrative and sales staff. General price inflation for the years ended 31 December 20X1 and 20X2 is 100% in each of the years. SME D adopts the revaluation model in accounting for the land. On 30 June 20X1, SME D determined that the fair value of the land is CU205,000 (when the general price index has increased by 60%) when it used the property as a collateral for a borrowing.**

In this example, the building or office premises situated in the land is ignored.

Date	
1 January 20X1	SME D recognises the land at its cost of CU100,000 (see paragraph 17.9).
30 June 20X1	If financial statements are prepared at this date: • Restated historical cost (for inflation) = CU160,000 (CU100,000 cost × (1+ 60%). • The land is measured at its revalued amount of CU205,000, the difference of CU45,000 compared to its restated historical cost of CU160,000 is treated as required by Section 17 as revaluation surplus.
31 December 20X1	If financial statements are prepared at this date: • Restated historical cost (for inflation) = CU200,000 (CU100,000 cost × (1 + 100%). • The land is measured at its restated revalued amount of CU256,250. Applying paragraph 31.8(ba), the fair value of CU205,000 determined in 30 June 20X1 is restated from that date (CU205,000 × (1 + 25%); 25% = CU40,000 / CU160,000, the incremental increase in 31 December 20X1 from 30 June 20X1 on the historical cost as a result of restatement). • Revaluation surplus is reported at CU56,250 that is determined either as (a) the difference between the restated revalued amount and restated historical cost or (b) restating the revaluation surplus determined on 30 June 20X1 = CU45,000 × (1 + 25%).

31.9 At the beginning of the first period of application of this section, the components of **equity**, except retained earnings and any revaluation surplus, are restated by applying a general price index from the dates the components were contributed or otherwise arose. Any revaluation surplus that arose in previous periods is eliminated. Restated retained earnings are derived from all the other amounts in the restated statement of financial position.

31.10 At the end of the first period and in subsequent periods, all components of **owners'** equity are restated by applying a general price index from the beginning of the period or the date of contribution, if later. The changes for the period in owners' equity are disclosed in accordance with Section 6 *Statement of Changes in Equity and Statement of Income and Retained Earnings*.

The components of equity represent the residual interest of owners in an entity. Applying Section 31, owners' interest (equity) is restated using a general price index that reflects changes in general purchasing power. Restatement provides owners with more relevant information with which to make decisions about providing resources to the entity.

For cost-benefit reasons, retained earnings and revaluation surplus at the beginning of the first period of hyperinflation are derived indirectly from all the other amounts in the restated statement of financial position measured applying Section 31. Thereafter, Section 31 is applied to restate all equity items (including retained earnings and revaluation surplus) using a general price index.

Examples—restating equity items

Ex 11 **On 1 January 20X2, SME A's functional currency was deemed to be hyperinflationary for the first time after considering that the cumulative inflation rate over the previous three years has exceeded 100% and is expected to continue in the foreseeable future. SME A's statement of financial position at 31 December 20X1 comprised CU100,000 cash and cash equivalents, CU50,000 trade receivables, CU10,000 trade payables, CU100,000 contributed capital and CU40,000 retained earnings.**

On 1 January 20X2, the general price index is 135. The capital was contributed on 1 January 20X1, when the general price index was 100.

SME A determines the restated amount of retained earnings at 1 January 20X2 applying paragraphs 31.9 and 31.10 as follows:

SME A's assets and liabilities are monetary items. SME A has two equity items: capital and retained earnings. Accordingly, only capital must be restated from its contribution date (1 January 20X1) to the beginning of the first period Section 31 is applied because the general price index has risen 35% (35 points ÷ 100 points) from 1 January 20X1 to 1 January 20X2. Restated capital as of 1 January 20X2 is CU135,000 (CU100,000 x (1 + inflation rate of 35%)).

Finally, the opening balance of retained earnings in its 20X2 financial statements are derived from all other items in the statement of financial position at 31 December 20X1 as follows:

(+) Cash and cash equivalents	CU100,000
(+) Trade receivables	CU50,000
(-) Trade payables	(CU10,000)
(-) Restated capital	(CU135,000)
Restated retained earnings at 1 January 20X2	**CU5,000**

Ex 12 **The facts are the same as in Example 11. Inflation for the year ended 31 December 20X2 was 100%.**

Assuming monetary items—cash and cash equivalents, trade receivables and trade payables—are unchanged at 31 December 20X2, capital and retained earnings must be restated by applying the inflation rate for 20X2, as follows:

Capital:

Initial balance (31 December 20X2) × (270[a]/100 inflation factor January 20X1 to December 20X2) = CU270,000.

Restatement effect for 20X2 = CU135,000 (CU270,000 restated balance minus CU135,000 initial balance).

Retained Earnings (before profit or loss for current period)

Initial balance at 31 December 20X2 (CU5,000) × (270/135 inflation factor January 20X2 to December 20X2) = CU10,000.

Journal entries:

Dr Loss on net monetary position	CU140,000	
Cr Paid-in capital		CU135,000
Cr Retained earnings		CU5,000

To recognise the restatement of equity items.

The loss recognition on net monetary position will be discussed in paragraph 31.13. It is important to mention that hyperinflationary accounting leads to the recognition of gains or losses due to net monetary item exposures, which is equivalent to the restatement effect on non-monetary items and equity components.

In this example it is assumed that SME A had no transactions in 20X2. Nevertheless, its monetary items were subject to the loss in purchasing power of the currency unit. Consequently, SME A recognises a CU140,000 loss in 20X2. That loss becomes part of its retained earnings. Consequently, accumulated losses at 31 December 20X2 total CU130,000 (CU10,000 restated opening retained earnings minus a CU140,000 loss on net monetary position in 20X2).

SME A's statement of financial position at 31 December 20X2 is as follows:

Cash and cash equivalents	CU100,000
Trade receivables	CU50,000
Total Assets	**CU150,000**
Trade Payables	CU10,000
Capital	CU270,000
Accumulated losses	(CU130,000)
Total Liabilities and Equity	**CU150,000**

Changes in retained earnings for the year ended 31 December 20X2 are as follows:

Restated opening balance—01/01/X2	**CU10,000**
Net loss for 20X2	(CU140,000)
Closing balance—31/12/X2	**(CU130,000)**

[a] Price index at 1 January 20X2 is 135 and inflation for the year ended 31 December 20X2 is 100%. Accordingly, price index at 31 December 20X2 is 270 (135 × (1 + 100%)).

Statement of comprehensive income and income statement

31.11 All items in the **statement of comprehensive income** (and in the **income statement**, if presented) shall be expressed in terms of the measuring unit current at the end of the reporting period. Consequently, all amounts need to be restated by applying the change in the general price index from the dates when the items of **income** and **expenses** were initially recognised in the financial statements. If general inflation is approximately even throughout the period, and the items of income and expense arose approximately evenly throughout the period, an average rate of inflation may be appropriate.

Notes

In order to measure all items in the statement of comprehensive income in terms of the measuring unit that is current at the end of the reporting period, all nominal amounts of income and expenses are restated by applying the relevant general price index from the date of recognition to the reporting date. Judgement is required to determine whether using an average rate of inflation for the period (rather than an effective-date-to-reporting-date inflation rate) is appropriate for such restatement.

When the inflation rate is increasing constantly and income and expenses are incurred evenly throughout the year (comprehensive income is not subject to significant volatility or seasonality in the year), for cost-benefit reasons, restatement by applying an average inflation rate is permitted.

Changes in non-monetary items recognised as income or expenses

When an entity's non-monetary items are recognised as income (eg some deferred income) or as an expense (eg depreciation) the calculation is based on the restated underlying item.

Example—restatement of income and expenses

Ex 13 **SME B provides cleaning services under long-term contracts. SME B recognised CU100,000 revenue in each month in 20X1. The relevant general price index rose 3% each month in 20X1.**

In nominal terms SME B's revenue was earned evenly in 20X1. Because SME B's functional currency lost significant purchasing power during 20X1, SME B restates all items of income and expense to express them in the measuring unit that is current at the end of the reporting period as follows:[5]

Month	Nominal amount	Accumulated inflation to year-end (rounded to two decimals)	Restated amount
December	CU100,000	0.00%	CU100,000
November	CU100,000	3.00%	CU103,000
October	CU100,000	6.09%	CU106,090
September	CU100,000	9.27%	CU109,270
August	CU100,000	12.55%	CU112,550
July	CU100,000	15.93%	CU115,930
June	CU100,000	19.41%	CU119,410
May	CU100,000	22.99%	CU122,990
April	CU100,000	26.68%	CU126,680
March	CU100,000	30.48%	CU130,480
February	CU100,000	34.39%	CU134,390
January	CU100,000	38.42%	CU138,420
Total	**CU1,200,000**		**CU1,419,210**

Because the inflation rate and revenues are stable, an average annual inflation rate could be used, as follows:

CU1,200,000 x {[(1 + 0.03) ^ 12] ^ 0.5} = **CU1,432,863**

Although restatement applying average rates usually does not generate exactly the same figure compared to a transaction-by-transaction restatement, since general inflation is approximately even throughout the period the difference is immaterial. In this example, in the absence of evidence to the contrary, the difference appears to be immaterial.

(5) In this example, for ease of calculation, it is assumed that revenue first qualified for recognition on the last day of the month in which it was earned.

Ex 14 **On 31 October 20X2, SME C receives CU200,000 cash (non-refundable) for services to be provided on 30 November 20X2 (50%) and on 31 December 20X2 (50%). The relevant general price index is 200 on 31 October 20X2, 300 on 30 November 20X2 and 400 on 31 December 20X2 (SME C's reporting date).**

On 31 October 20X2, the CU200,000 consideration received in advance is recognised as a service obligation (non-monetary item). As SME C provides the service, the service obligation reduces with a corresponding amount recognised in income.

Date	*General price index*	*Liability CU*	*Revenue at recognition date CU*	*Restated revenue up to 31 December 20X2 CU*
31 October 20X2	200	200,000	–	–
adjustment		100,000		
30 November 20X2	300	300,000[(a)]		
30 November 20X2		(150,000)[(a)]	150,000[(a)]	200,000[(c)]
1 December 20X2		150,000		
adjustment		50,000		
31 December 20X2		200,000[(b)]		
31 December 20X2	400	(200,000)[(b)]	200,000[(b)]	200,000[(d)]
31 December 20X2		–		
Total restated revenue for the two month period ended 31 December 20X2				**400,000**

(a) The non-monetary liability is restated from 31 October to 30 November by multiplying the original amount of CU200,000 by 300/200 general price index. On 30 November 20X2, 50% of the restated amount (CU300,000) is recognised as revenue = CU150,000.

(b) The CU150,000 non-monetary liability at 1 December 20X2 is restated to 31 December 20X2 by multiplying CU150,000 by 400/300 general price index = CU200,000. On 31 December 20X1 the restated amount (CU200,000) is recognised as revenue when the service is provided.

(c) The revenue recognised on 30 November 20X2 is restated to the reporting date (31 December 20X2) by multiplying the CU150,000 originally recognised by 400/300 general price index.

(d) No restatement because the revenue was recognised on the reporting date (31 December 20X2).

Ex 15 **On 31 December 20X0, SME D acquires a machine in exchange for CU100,000 cash. SME D depreciates the machine on the straight-line method. Management estimates the machine's residual value to be zero and its useful life to be 10 years.**

The general price index was 10 on 1 January 20X1, 20 on 31 December 20X1 and 30 on 31 December 20X2.

Before calculating depreciation for 20X1, SME D applies the general price index to the nominal amount of the machine to express the machine in the measuring unit that is current at 31 December 20X1, as follows: CU100,000 × 20/10 = CU200,000. Depreciation for the year ended 31 December 20X1 is then calculated: CU200,000 restated carrying amount ÷ 10-year useful life = CU20,000 depreciation for the year ended 31 December 20X1.

At 31 December 20X1 the restated carrying amount of the machine is CU180,000 (CU200,000 gross carrying amount minus CU20,000 accumulated depreciation).

Before calculating depreciation for 20X2, SME D applies the change in general price index from the date of acquisition to the end of the reporting period to the machine's historical cost and accumulated depreciation. This is to express the machine in the measuring unit that is current at 31 December 20X2, as follows: historical cost: CU100,000 × 30/10 = CU300,000; accumulated depreciation: CU20,000 × 30/20 = 30,000. Depreciation for the year ended 31 December 20X2 is then calculated as follows: CU270,000 restated carrying amount ÷ 9-year remaining useful life including 20X2 = CU30,000 depreciation for the year ended 31 December 20X2. Alternatively, this can be calculated as the restated cost of CU300,000 divided by the useful life of 10 years.

The comparative amount presented for depreciation for 20X1 is CU30,000, calculated as follows: CU20,000 presented in the 20X1 statement of financial position × 30/20, the increase in the general price index since 20X1. The comparative amount of gross carrying amount for 20X1 is CU300,000, calculated as follows: CU200,000 presented in the 20X1 statement of financial position × 30/20 the increase in the general price index since 20X1.

Examples—restating amounts (and comparative amounts) in a measuring unit that is current at the end of the reporting period

Ex 16 **The facts are the same as in Example 1. SME A's nominal (unrestated) trial balance at 31 December 20X1 and 20X2 is as follows:**

	31 December 20X2	*31 December 20X1*
	CU–Dr(Cr)	*CU–Dr(Cr)*
Share capital	(100,000)	(100,000)
Cash and cash equivalents	100,000	100,000

Because general price levels rose by 100%, the currency unit has lost its purchasing power and the 31 December 20X2 trial balance is restated as follows:

	Nominal CU–Dr(Cr)	*Calculation*	*Restated CU–Dr(Cr)*	*Reference to Section 31*
Share capital	(100,000)	200/100 index × CU100,000	(200,000)	31.10
Expense—loss on net monetary position	–	Balancing figure	100,000	31.13
Cash	100,000	No restatement necessary	100,000	31.6
	–		–	

The CU100,000 cash on 31 December 20X2 has half the purchasing power that same nominal amount had on 31 December 20X1. Comparable amounts are calculated by restating prior period balances in terms of the measuring unit that is current at the end of the reporting period. Accordingly, a CU100,000 loss arises from the restatement of share capital at 31 December 20X2 and SME A's statement of financial position at 31 December 20X2 (with comparative amounts for 20X1) is as follows:

	31 December 20X2	*31 December 20X1*	
	CU	*CU*	
Share capital	200,000	200,000	
Accumulated deficit	(100,000)	–	
Total equity	**100,000**	**200,000**	
Asset—cash	**100,000**	**200,000**	(a)

To reflect the extent of the decline in the entity's purchasing power in 20X2, SME A's comparative amounts (at 31 December 20X1) for share capital and cash are increased by the hyperinflation factor (in this example 100%).

[(a)] Calculation for the cash comparative amount: CU100,000 cash held at 31 December 20X1 × 200/100 hyperinflation factor for 20X2 = CU200,000. CU200,000 is therefore the adjusted amount at which cash is presented in SME A's 20X2 financial statements as the comparative amount (at 31 December 20X1).

Calculation for the share capital comparative amount: CU100,000 share capital at 31 December 20X1 × 200/100 hyperinflation factor for 20X2 = CU200,000. CU200,000 is therefore the adjusted amount at which share capital is presented in SME A's 20X2 financial statements as the comparative amount (at 31 December 20X1).

SME A's statement of comprehensive income for the year ended 31 December 20X2 will result to a loss—loss on net monetary position on restatement to measuring unit current at 31 December 20X2, amounting to CU100,000.

In summary, price levels increased 100% and SME A has kept the resources received from its owners in a monetary asset (cash) which is exposed to purchasing power loss under hyperinflation. Consequently, the statement of comprehensive income reflects the loss of purchasing power of cash held during the year whereas the restated equity balance in the entity's financial position reflects 'real' capital contributed by owners and the reduction in constant purchasing power terms of owners' interest due to the loss of purchasing power of its cash.

Ex 17 **The facts are the same as in Example 2. SME A's nominal trial balance at 31 December 20X1 and 20X2 is as follows:**

	31 December 20X2	*31 December 20X1*
	CU–Dr(Cr)	*CU–Dr(Cr)*
Share capital	(100,000)	(100,000)
Property, plant and equipment (land)	100,000	100,000

In 20X2, general price levels rose by 100% and the currency unit lost its purchasing power due to hyperinflation. SME A's 31 December 20X2 trial balance is restated as follows:

	Nominal	*Calculation:*	*Restated*	*Reference to Section 31*
	CU–Dr(Cr)		*CU–Dr(Cr)*	
Share capital	(100,000)	200/100 index × CU100,000	(200,000)	31.10
Expense—loss on net monetary position		Balancing figure	–	31.13
Land	100,000	200/100 index × CU100,000	200,000	31.8(b)
	–		–	

The land at 31 December 20X2 represents the same purchasing power as the land at 31 December 20X1. Comparable amounts are calculated by restating prior period balances in the measuring unit that is current at the end of the reporting period.

SME A's statement of financial position at 31 December 20X2 (with comparative amounts for 20X1) is as follows:

	31 December 20X2	*31 December 20X1*
	CU	*CU*
Equity—share capital	200,000	200,000
Asset—property, plant and equipment (land)	200,000	200,000

To reflect the stability in the entity's purchasing power in 20X2, SME A's comparative amounts (at 31 December 20X1) for share capital and land are increased by the hyperinflation factor (in this example 100%).

Calculation for the land comparative amount: CU100,000 land held at 31 December 20X1 × 200/100 hyperinflation factor for 20X2 = CU200,000. CU200,000 is therefore the adjusted amount at which property, plant and equipment is presented in SME A's 20X2 financial statements as the comparative amount (at 31 December 20X1).

Calculation for the share capital comparative amount: CU100,000 share capital at 31 December 20X1 × 200/100 hyperinflation factor for 20X2 = CU200,000. CU200,000 is therefore the adjusted amount at which share capital is presented in SME A's 20X2 financial statements as the comparative amount (at 31 December 20X1).

In summary, price levels increased 100% and SME A invested the resources received from its owners in a non−monetary asset (land) which is not exposed to loss of purchasing power under hyperinflation. Consequently, the restated statement of financial position reflects 'real' capital contributed by owners and the constant purchasing power of the owners' interest due to the investment of funds in a non-monetary asset which is 'protected' from inflation.

Ex 18 **The facts are the same as in Example 17. However, in this example, SME A intends to recover the carrying amount of the land through capital appreciation. At 31 December 20X2 the fair value of SME A's investment property is CU210,000.**

SME A's nominal trial balance at 31 December 20X1 and 20X2 is as follows:

	31 December 20X2	*31 December 20X1*
	CU–Dr(Cr)	*CU–Dr(Cr)*
Share capital	(100,000)	(100,000)
Income—fair value increase	(110,000)	–
Investment property	210,000	100,000

In 20X2, the general price levels rose by 100% and the currency unit lost its purchasing power due to hyperinflation. The 31 December 20X2 trial balance is restated as follows:

	Nominal CU–Dr(Cr)	*Calculation:*	*Restated CU–Dr(Cr)*	*Reference to Section 31*
Share capital	(100,000)	200/100 index × CU100,000	(200,000)	31.10
Income—fair value increase	(110,000)	200/200 index × CU100,000	(110,000)	31.11
Expense—loss on net monetary position		Balancing figure	100,000	31.13
Investment property	210,000	No restatement necessary	210,000	31.8(a)
	–		–	

Because the investment property was remeasured to its fair value on 31 December 20X2, its nominal carrying amount is determined using the measuring unit that is current at 31 December 20X2 (it is a non-monetary item that is not subject to restatement since it is already carried at an amount that is current at 31 December 20X2).

One way to prepare SME A's statement of comprehensive income for the year ended 31 December 20X2 is as follows:

	31 December 20X2
	CU
Income—increase in the fair value of investment property	110,000
Expense—loss on net monetary position	(100,000)
Profit for the year	10,000

SME A's statement of financial position at 31 December 20X2 (with comparative amounts for 20X1) is as follows:

	31 December 20X2	*31 December 20X1*
	CU	*CU*
Share capital	200,000	200,000
Retained profit	10,000	–
Total equity	**210,000**	**200,000**
Asset—investment property	**210,000**	**200,000**

To reflect the inflation-adjusted growth in SME A's purchasing power in 20X2, comparative amounts (at 31 December 20X1) for share capital and land are increased by the hyperinflation factor (in this example 100%).

Calculation for the land comparative amount: CU100,000 land held at 31 December 20X1 × 200/100 hyperinflation factor for 20X2 = CU200,000. CU200,000 is therefore the adjusted amount at which investment property is presented in SME A's 20X2 financial statements as the comparative amount (at 31 December 20X1).

Calculation for the share capital comparative amount: CU100,000 share capital at 31 December 20X1 × 200/100 hyperinflation factor for 20X2 = CU200,000. CU200,000 is therefore the adjusted amount at which share capital is presented in SME A's 20X2 financial statements as the comparative amount (at 31 December 20X1).

SME A's inflation-adjusted net assets (and consequently its purchasing power) increased by CU10,000 in 20X2 (CU110,000 fair value increase minus CU100,000 loss attributable to hyperinflation). In other words, the increased purchasing power results from the 110% (or CU110,000) increase in the fair value of SME A's investment property, which exceeds the 100% increase in general price inflation in 20X2 (as reflected in the CU100,000 loss on restatement of share capital at 31 December 20X2). By restating the amount in the financial statements, users of SME A's financial statements are provided with information about SME A's financial performance for the year ended 31 December 20X2 and its financial position at 31 December 20X2. This information is relevant to making decisions about providing resources to SME A.

Ex 19 **The facts are the same as in Example 1. In addition, in this example, during 20X3 when the index was on average 300, SME A earned CU30,000 revenue for services it provided in exchange for cash. The relevant inflation index was 400 at 31 December 20X3.**

The general price levels rose by 100% due to hyperinflation and the currency unit has lost purchasing power for each of the past two years. The 31 December 20X3 trial balance is restated as follows:

	Nominal CU–Dr(Cr)	*Calculation:*	*Restated CU–Dr(Cr)*	*Reference to Section 31*
Share capital	(100,000)	400/100 index × CU100,000	(400,000)	31.10
Retained earnings—revenue: 20X3	(30,000)	400/300 index × CU30,000	(40,000)	31.11
Retained earnings—loss on net monetary position		Balancing figure	310,000	31.13
Cash	130,000	No restatement necessary	130,000	31.6
	–		–	

SME A's statement of income and retained earnings for the year ended 31 December 20X3 (with comparative amounts for 20X2) is as follows:

	20X3 CU	*20X2 CU*
Revenue from providing services	40,000	–
Loss on the net monetary position on restating for hyperinflation	(110,000) [(a)]	(200,000) [(b)]
Loss for the year	**(70,000)**	**(200,000)**
Opening accumulated deficit	(200,000)	–
Closing accumulated deficit	**(270,000)**	**(200,000)**

(a) CU310,000 cumulative loss on net monetary position recognised to 31 December 20X3 (see restated trial balance above) minus CU200,000[(b)] relating to 20X2 = CU110,000 loss recognised for the year ended 31 December 20X3.

(b) CU100,000 loss on net monetary position recognised in 20X2 (see Example 16) × 400/200 restated for hyperinflation to 31 December 20X4 = CU200,000.

SME A's statement of financial position at 31 December 20X3 (with comparative amounts for 20X3) is as follows:

	31 December 20X3	*31 December 20X2*
	CU	*CU*
Share capital	400,000	400,000
Accumulated deficit	(270,000)	(200,000)
Total equity	**130,000**	**200,000**
Asset—cash	**130,000**	**200,000**

To reflect the inflation-adjusted growth in SME A's purchasing power in 20X2, comparative amounts (at 31 December 20X2) for share capital and cash are increased by the hyperinflation factor.

Calculation for the cash comparative amount: CU100,000 cash held at 31 December 20X2 × 400/200 hyperinflation factor for 20X3 = CU200,000. CU200,000 is therefore the adjusted amount at which cash is presented in SME A's 20X3 financial statements as the comparative amount (at 31 December 20X2).

Calculation for the share capital comparative amount: CU100,000 share capital at 31 December 20X1 × 400/100 hyperinflation factor since 20X1 = CU400,000. CU400,000 is therefore the adjusted amount at which share capital is presented in SME A's 20X3 financial statements as the comparative amount (at 31 December 20X3).

SME A's inflation-adjusted net assets (and consequently its purchasing power) decreased by CU70,000 in 20X3 when it generated CU30,000 nominal profit. The decreased purchasing power results from the increase in general price inflation (as reflected in the CU110,000 loss on the net monetary position), which exceeds the inflation-adjusted income (CU40,000) generated during 20X3. Users of SME A's financial statements are provided with information about SME A's financial performance for the year ended 31 December 20X3 and its financial position at 31 December 20X3. This information is relevant to making decisions about providing resources to SME A.

Ex 20 **The facts are the same as in Example 19. In addition, in this example, during 20X4, when the index was on average 600, SME A earned CU60,000 revenue for services it provided in exchange for cash. The relevant inflation index was 800 at 31 December 20X4.**

In hyperinflationary environments, comparing figures in different measuring units is misleading. In nominal terms, SME A's revenue in 20X4 (CU60,000) is 100% higher than its revenue in 20X3 (CU30,000). However, after restating revenue in terms of the currency unit at the end of the latest reporting period, it is apparent that the trend in revenue is static (CU80,000 for each of 20X3 and 20X4).

Because of hyperinflation in 20X4, where general price levels rose by 100%, the currency unit lost purchasing power compared to each of the previous three years. The 31 December 20X4 trial balance is restated as follows:

	Nominal CU–Dr(Cr)	*Calculation:*	*Restated CU–Dr(Cr)*	*Reference to Section 31*
Share capital	(100,000)	800/100 index × CU100,000	(800,000)	31.10
Retained earnings—revenue: 20X4	(60,000)	800/600 index × CU60,000	(80,000)	31.11
Retained earnings—revenue: 20X3	(30,000)	800/300 index × CU30,000	(80,000)	31.10
Retained earnings—cumulative loss on net monetary position		Balancing figure	770,000[a]	31.13
Cash	190,000	No restatement necessary	190,000	31.6
	–		–	

[a] Alternative calculation of the cumulative loss on restatement: CU700,000 share capital (CU800,000 restated minus CU100,000 nominal) + CU20,000 revenue in 20X4 (CU80,000 restated minus CU60,000 nominal) + CU50,000 revenue for 20X3 (CU80,000 restated minus CU30,000 nominal) = CU770,000 cumulative exchange loss on restatement.

SME A's statement of income and retained earnings for the year ended 31 December 20X4 (with comparative amounts for 20X3 and 20X2) is as follows:

	20X4 CU		*20X3 CU*		*20X2 CU*	[e]
Revenue from providing services	80,000		80,000	[a]	–	
Loss on the net monetary position on restating for hyperinflation	(150,000)	[d]	(220,000)	[c]	(400,000)	[b]
Loss for the year	**(70,000)**		**(140,000)**		**(400,000)**	
Opening accumulated deficit	(540,000)		(400,000)		–	
Closing accumulated deficit	**(610,000)**		**(540,000)**		**(400,000)**	

[a] Because SME A's functional currency is that of a hyperinflationary economy, comparative amounts for its financial performance must be restated in terms of the measuring unit that is current at 31 December 20X4. The restatement provides relevant and comparable information for use by existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Calculation for the revenue amount: CU30,000 revenue for the year ended 31 December 20X3 × 800/300 hyperinflation factor = CU80,000. CU80,000 is therefore the adjusted amount at which revenue is presented in SME A's 20X4 financial statements as the comparative amount (for the year ended 31 December 20X3).

[b] CU100,000 loss on net monetary position recognised in 20X2 (see Example 16) × 800/200 restated for hyperinflation to 31 December 20X4 = CU400,000. Alternatively, CU200,000 restated loss on net monetary position recognised in 20X3 as comparative figure (see Example 19) × 800/400 restated for hyperinflation to 31 December 20X4 = CU400,000.

[c] CU110,000 loss on net monetary position recognised in 20X3 (see Example 19) × 800/400 restated for hyperinflation to 31 December 20X4 = CU220,000.

[d] CU770,000 cumulative loss on net monetary position recognised to 31 December 20X4 (see restated trial balance above) minus CU220,000[c] relating to 20X3 minus CU400,000[b] relating to 20X2 = CU150,000 loss recognised for the year ended 31 December 20X4.

[e] The comparative amounts in 20X2 are for illustrative purpose only.

SME A’s statement of financial position at 31 December 20X4 (with comparative amounts for 20X3 and 20X2) is as follows:

	31 December 20X4 CU		31 December 20X3 CU		31 December 20X2 CU	
Share capital	800,000	[a]	800,000	[a]	800,000	[a]
Accumulated deficit	(610,000)		(540,000)		(400,000)	
Total equity	**190,000**		**260,000**		**400,000**	
Asset—cash	**190,000**		**260,000**	[a]	**400,000**	[a]

[a] To reflect the inflation-adjusted growth in SME A’s purchasing power in 20X2, comparative amounts (at 31 December 20X3 and 20X2) for share capital and cash are increased by the hyperinflation factor, as follows:

- Calculation for the cash comparative amount (20X3): CU130,000 cash held at 31 December 20X3 × 800/400 hyperinflation factor for 20X4 = CU260,000. CU260,000 is therefore the adjusted amount at which cash is presented in SME A’s 20X4 financial statements as the comparative amount (at 31 December 20X3).
- Calculation for the cash comparative amount (20X2): CU100,000 cash held at 31 December 20X2 × 800/200 hyperinflation factor for 20X4 = CU400,000. CU400,000 is therefore the adjusted amount at which cash is presented in SME A’s 20X4 financial statements as the comparative amount (at 31 December 20X2).
- Calculation for the share capital comparative amounts: CU100,000 share capital at 31 December 20X1 × 800/100 hyperinflation factor to 31 December 20X4 = CU800,000. CU800,000 is therefore the adjusted amount at which share capital is presented in SME A’s 20X4 financial statements as the comparative amounts (at 31 December 20X3 and 31 December 20X2).

SME A’s inflation-adjusted net assets (and consequently its purchasing power) decreased by CU140,000 in 20X3 (CU400,000 adjusted cash at 31 December 20X2 minus CU260,000 adjusted cash at 31 December 20X3) and by further CU70,000 in 20X4 (CU260,000 adjusted cash at 31 December 20X3 minus CU190,000 adjusted cash at 31 December 20X4). Users of SME A’s financial statements (existing and potential investors, lenders and other creditors) are provided with relevant information about SME A’s financial position at 31 December 20X4 and its financial performance for the year ended 31 December 20X4. This information is presented in a context (adjusted for changes in purchasing power) that is relevant for making decisions about providing resources to SME A. Contrary to economic reality, unadjusted financial information would misleadingly reflect SME A’s financial performance and its financial position as improving over time (from 20X2 to 20X4).

Module 31—Hyperinflation

Statement of cash flows

31.12 An entity shall express all items in the **statement of cash flows** in terms of the measuring unit current at the end of the reporting period.

Notes

The statement of cash flows provides information about the changes in an entity's cash and cash equivalents for a reporting period.

Under hyperinflationary conditions, to provide relevant and comparable cash flow information, nominal cash flows are adjusted for the effects of general price-level changes during the reporting period. Consequently, amounts in the statement of cash flows are expressed on the basis of the purchasing power of an entity's functional currency at the end of the reporting period (the measuring unit that is current at the end of the reporting period).

Examples—statement of cash flows

Ex 21 **An entity that has constant monthly cash receipts from customers of CU100 (on the first day of each month—January to December 20X1) would account for total nominal cash inflows from customers of CU1,200 (CU100 × 12 months) for the year ended 31 December. However, in a hyperinflationary economy (assume a 10% inflation per month) the purchasing power of nominal currency units changes significantly over only a short time.**

To measure the amount of cash receipts from customers (CU1,200) using the measuring unit at 31 December 20X1, nominal cash inflows from customers must be restated by the inflation rate from the date the cash was received to 31 December 20X1, as follows:

Date of cash receipt	*Nominal cash inflow CU*	*Accumulated inflation to year-end* [(a)]	*Restated cash inflow CU* [(b)]
1 January	100	213.84%	313.84
1 February	100	185.31%	285.31
1 March	100	159.37%	259.37
1 April	100	135.79%	235.79
1 May	100	114.36%	214.36
1 June	100	94.87%	194.87
1 July	100	77.16%	177.16
1 August	100	61.05%	161.05
1 September	100	46.41%	146.41
1 October	100	33.10%	133.10
1 November	100	21.00%	121.00
1 December	100	10.00%	110.00
Total	**1,200**		**2,352.26**

(a) Accumulated inflation to 31 December 20X1 is calculated using the following formula:
Accumulated inflation = ((1 + 10%) ^ number of months to 31 December 20X1) − 1

(b) Restated cash inflows are calculated using the following formula:
Restated cash inflows = (1 + accumulated inflation) × nominal cash inflow

Ex 22 SME A, a consulting partnership, was incorporated on 1 December 20X2, when the partners collectively contributed capital of CU100,000 in cash. SME A's functional currency is the currency of a hyperinflationary economy. In December 20X2, SME A entered into the following transactions:

- 10 December: CU30,000 accrual of accounts payable to service suppliers
- 11 December: recognised CU50,000 revenue for services rendered (CU20,000 due on 20 December 20X2 and CU30,000 due on 1 January 20X3)
- 20 December: CU20,000 cash receipt from customers
- 25 December: CU25,000 payment to suppliers.

The relevant general price index for the period is:

- 1 December 20X2 = 1.00
- 10 December 20X2 = 1.03
- 11 December 20X2 = 1.05
- 20 December 20X2 = 1.08
- 25 December 20X2 = 1.09
- 31 December 20X2 = 1.10

Restated profit for the month ended 31 December 20X2 is CU10,000 (CU52,381 restated revenue minus CU32,039 restated expenses minus CU10,342 loss on net monetary position), calculated as follows:

	Nominal CU–Dr(Cr)	*Calculation:*	*Restated CU–Dr(Cr)*	*Reference to Section 31*
Capital contributions	(100,000)	1.1/1 index × CU100,000	(110,000)	31.10
Income—revenue from services rendered	(50,000)	1.1/1.05 index × CU50,000	(52,381)	31.11
Expenses—in rendering services	30,000	1.1/1.03 index × CU30,000	32,039	31.11
Expense—loss on net monetary position		Balancing figure	10,342	31.13
Liability—trade creditor	(5,000)	No restatement necessary	(5,000)	31.6
Asset—trade debtor	30,000	No restatement necessary	30,000	31.6
Asset—cash	95,000	No restatement necessary	95,000	31.6
	–		–	

The *IFRS for SMEs* Standard does not contain guidance on how to present the gain/loss on net monetary position in the statement of cash flows. Similarly, the guidance is also absent in full IFRS Standards. In practice, different approaches exist. One approach is to attribute the effect of inflation on operating activities as follows:

Statement of cash flows for the month ended 31 December 20x2—indirect method

Operating activities	
Cash flows from operating activities	
Profit for the month	10,000
Changes in operating assets and liabilities	
Increase in receivables	(30,000)
Increase in accounts payable	5,000
Net cash outflow from operating activities	**(15,000)**
Financing activities	
Cash inflow from financing activities—capital contributed by owners	**110,000**
Net increase in cash	***95,000***
Cash at incorporation (1 December 20X2)	***–***
Cash at 31 December 20X2	***95,000***

Statement of cash flows for the month ended 31 December 20x2—direct method

Operating activities	
Cash flows from operating activities	
Cash receipts from customers	20,370[(a)]
Cash payments to suppliers	(25,229)[(b)]
Purchasing power loss in cash	(10,141)[(c)]
Net cash outflow from operating activities	**(15,000)**
Financing activities	
Cash inflow from financing activities—capital contributed by owners	**110,000**
Net increase in cash	***95,000***
Cash at incorporation (1 December 20X2)	***–***
Cash at 31 December 20X2	***95,000***

(a) The cash received from customers is restated from 20 December to 31 December by multiplying the nominal cash inflow CU20,000 by 1.1/1.08 general price index = CU20,370.

(b) The cash paid to suppliers is restated from 25 December to 31 December by multiplying the nominal cash outflow CU25,000 by 1.1/1.09 general price index = CU25,229.

(c) Loss in cash purchasing power can be calculated by hypothetically assuming cash is a non-monetary asset and comparing restated figures with actual monetary figures presented at the end of the reporting period.
The cash received from partners is restated from 1 December to 31 December by multiplying the nominal cash inflow CU100,000 by 1.1/1.0 general price index = CU110,000.
The cash received from customers is restated from 20 December to 31 December by multiplying the nominal cash inflow CU20,000 by 1.1/1.08 general price index = CU20,370.
The cash paid to suppliers is restated from 25 December to 31 December by multiplying the nominal cash outflow CU25,000 by 1.1/1.09 general price index = CU25,229.
Consequently, if cash were a non-monetary asset, its balance on 31 December would be CU105,141 (CU110,000 + CU20,370 – CU25,229). However, cash is a monetary asset and its actual balance on 31 December is CU95,000. By comparing the actual cash balance (CU95,000) with the cash balance that would exist if it were non-monetary ('protected' from losses in purchasing power) of CU105,141, a loss of CU10,141 in the purchasing power of cash is determined for the period ended 31 December.

Another approach is to attribute the effect of inflation on each of the cash flow activities and present the net monetary gain or loss as a reconciling item in the movements of cash and cash equivalents separately.

Regardless of the approach taken, preparers of financial statements should ensure that sufficient disclosures are provided to ensure that the financial statements are well understood. Users of financial statements should be aware of the fact that figures presented in financial statements in a hyperinflationary economy are restated amounts and may differ from the actual underlying cash flows.

Gain or loss on net monetary position

31.13 In a period of inflation, an entity holding an excess of monetary assets over monetary liabilities loses purchasing power, and an entity with an excess of monetary liabilities over monetary assets **gains** purchasing power, to the extent the assets and liabilities are not linked to a price level. An entity shall include in **profit or loss** the gain or loss on the net monetary position. An entity shall offset the adjustment to those assets and liabilities linked by agreement to changes in prices made in accordance with paragraph 31.7 against the gain or loss on net monetary position.

Notes

Monetary items are subject to the effects of changes in price levels. Under hyperinflationary accounting, monetary items lose purchasing power because their fair value does not change with changes in the general price index. Consequently, monetary assets generate losses because they expose the entity to decreasing purchasing power (reductions in the economic benefit of expected cash inflows arising from those monetary assets). Conversely, monetary liabilities generate gains for the entity in real terms.

The net gain or loss arising from exposed monetary items can be calculated directly through the monetary items using a general price index. Alternatively, it can be calculated indirectly as the balancing figure that results from restating all non-monetary and all equity items.

Examples—gain or loss on net monetary position

Ex 23 **The facts are the same as in Example 22. However, in this example, on 1 December 20X2, the owners contributed laptops with a value of CU48,000 and the remainder of the capital, CU52,000, in cash. The owners estimate the useful life of the laptops at two years from 1 December 20X1 and their residual value at nil.**

SME A received laptops in exchange for equity issued. Consequently, the unrestated carrying amount of property, plant and equipment at 1 January 20X2 is CU48,000. That non-monetary asset is restated by applying the inflation rate for the month ended 31 December 20X2, which was 10%. The restated carrying amount at 31 December 20X2 is CU52,800.

Because of hyperinflation in 20X2, where general price levels rose by 100%, the currency unit lost purchasing power, and the 31 December 20X2 trial balance is restated as follows:

	Nominal CU–Dr(Cr)	*Calculation*	*Restated CU–Dr(Cr)*	*Reference to Section 31*
Capital contributions	(100,000)	1.1/1 index × CU100,000	(110,000)	31.10
Income—revenue from services rendered	(50,000)	1.1/1.05 index × CU50,000	(52,381)	31.11
Expenses—in rendering services	30,000	1.1/1.03 index × CU30,000	32,039	31.11
Expense—loss on net monetary position	–	Balancing figure	5,542	31.13
Expense—depreciation	2,000	1.1/1 index × CU2,000	2,200[(a)]	31.11
Liability—trade creditor	(5,000)	No restatement necessary	(5,000)	31.6
Asset—trade debtor	30,000	No restatement necessary	30,000	31.6
Asset—PPE: computers	46,000	1.1/1 index × CU46,000	50,600[(b)]	31.8[(b)]
Asset—cash	47,000	No restatement necessary	47,000	31.6
	–		–	

(a) CU48,000 cost × 1/24 month useful life = CU2,000 depreciation for the month ended 31 December 20X1 before restatement. CU2,000 × 1.1/1 general price index = CU2,200.

(b) CU48,000 cost minus CU2,000 (a) depreciation = CU46,000 carrying amount at 31 December 20X1 before restatement. CU46,000 × 1.1/1 general price index = CU50,600.

Ex 24 **The facts are the same as in Example 23. However, in this example, income tax is not ignored. SME A is subject to an income tax rate of 10% of its unrestated accounting profit (assume that taxable income = unrestated profit). No restatement is allowed for the tax basis of the entity's assets and liabilities. Current tax is recognised on the last day of the year and it is paid in full on the first day of the following year.**

	Nominal CU–Dr(Cr)	*Calculation*	*Restated CU–Dr(Cr)*	*Reference to Section 31*
Capital contributions	(100,000)	1.1/1 index × CU100,000	(110,000)	31.10
Income—revenue from services rendered	(50,000)	1.1/1.05 index × CU50,000	(52,381)	31.11
Expenses—in rendering services	30,000	1.1/1.03 index × CU30,000	32,039	31.11
Expense—loss on net monetary position	–	Balancing figure	5,542	31.13
Expense—depreciation	2,000	1.1/1.1 index × CU2,000	2,200	31.11
Expense—income tax (current)	1,800[a]	1.1/1.1 index × CU1,800	1,800[a]	31.11
Expense—income tax (deferred)	–	-	460[b]	29.15
Liability—trade creditor	(5,000)	No restatement necessary	(5,000)	31.6
Liability—tax payable	(1,800) [a]	No restatement necessary	(1,800)[a]	31.6
Liability—deferred income tax	–		(460)[b]	29.15
Asset—trade debtor	30,000	No restatement necessary	30,000	31.6
Asset—PPE: computers	46,000	1.1/1 index × CU46,000	50,600	31.8
Asset—cash	47,000	No restatement necessary	47,000	31.6
	–		–	

[a] CU1,800 = taxable income × 10% = (CU50,000 minus CU30,000 minus 2,000) × 10%.

[b] CU460 = (restated net assets minus tax basis net assets) × 10% = (CU120,800 minus CU116,200) × 10%. Alternatively, in this example because PPE is the only asset restated, the deferred tax balance can be computed as follows: (CU50,600 minus CU46,000) × 10% = CU460 deferred tax liability.

Section 29 *Income Tax* requires an entity to account for income tax arising from temporary differences (paragraph 29.3 (d)). A temporary difference arises when there is a difference between the carrying amounts and tax bases of assets and liabilities and a deferred tax liability must be recognised when the temporary difference is expected to increase taxable profit in the future.

Because the tax base of the computers is not restated (there is no restatement for the purpose of calculating income tax), future depreciation expense for determining taxable profit will be lower than accounting depreciation expense. Consequently, future taxable income will be greater than accounting profit. Therefore the temporary difference (the difference between the carrying amount of the computers of CU50,600 and the tax base of CU46,000 is subject to deferred income tax expense recognition.

Economies ceasing to be hyperinflationary

31.14 When an economy ceases to be hyperinflationary and an entity discontinues the preparation and presentation of financial statements prepared in accordance with this section, it shall treat the amounts expressed in the **presentation currency** at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements.

Example—economies ceasing to be hyperinflationary

Ex 25 SME A's functional currency is that of a country that experienced hyperinflation from 20X1 to 20X7. Consequently, SME A applied Section 31 when preparing its financial statements from 20X1 to 20X7.

Items in the statement of financial position at 31 December 20X7 (with comparative amounts for 20X6) of the entity at their unrestated and restated amounts follow:

	20X7 Unrestated CU	*20X7 Restated CU*	*20X6 Unrestated CU*	*20X6 Restated CU*
Property, plant and equipment	20	200	21	220
Investment property	1,000	1,000	450	900
Cash	300	300	100	200
Total assets	**1,320**	**1,500**	**571**	**1,320**
Share capital	60	600	60	600
Retained earnings	1,260	900	511	720
Total equity	**1,320**	**1,500**	**571**	**1,320**

Items in the statement of income and retained earnings for the year ended 31 December 20X7 (with comparative amounts for 20X6) of the entity at their unrestated and restated amounts follow:

	20X7 Unrestated CU	*20X7 Restated CU*	*20X6 Unrestated CU*	*20X6 Restated CU*
Rental income	200	300	50	150
Fair value—investment property	550	100	225	-
Depreciation expense	(1)	(20)	(1)	(20)
Loss on net monetary position	-	(200)	-	(100)
Net profit for the year	**749**	**180**	**274**	**30**
Opening retained earnings	511	720	237	690
Closing retained earnings	**1,260**	**900**	**511**	**720**

On 1 January 20X8, hyperinflation ceased. During 20X8, SME A earned (and received) rental income of CU303 and the fair value of its investment property at 31 December 20X8 is CU1,005. On 31 December 20X7, the remaining useful life of SME A's property, plant and equipment is 10 years (no residual value).

Because, starting 1 January 20X8, the functional currency of SME A is no longer the currency of a hyperinflationary economy, restated balances of the statement of financial position at 31 December 20X7 are the basis for the carrying amounts starting 1 January 20X8 and no further restatement is made.

Statement of financial position at 31 December 20X8 (with comparative amounts for 20X7)

	20X8 *CU*	*20X7* *CU*
Property, plant and equipment	180	200
Investment property	1,005	1,000
Cash	603	300
Total assets	**1,788**	**1,500**
Share capital	600	600
Retained earnings	1,188	900
Total equity	**1,788**	**1,500**

Statement of income and retained earnings for the year ended 31 December 20X8 (with comparative amounts for 20X7)

	20X8 *CU*	*20X7* *CU*
Rental income	303	300
Change in fair value of investment property	5	100
Depreciation expense	(20)	(20)
Loss on net monetary position	–	(200)
Profit for the year	**288**	**180**
Opening retained earnings	900	720
Closing retained earnings	**1,188**	**900**

Disclosures

31.15 An entity to which this section applies shall disclose the following:

(a) the fact that financial statements and other prior period data have been restated for changes in the general purchasing power of the functional currency;

(b) the identity and level of the price index at the reporting date and changes during the current reporting period and the previous reporting period; and

(c) amount of gain or loss on monetary items.

Example—disclosures

Ex 26 **An entity whose functional currency is that of a hyperinflationary economy could satisfy the requirements of paragraph 31.15 as follows:**

SME A
Statement of income and retained earnings for the year ended 31 December 20X2

	20X2	*20X1*
	CU	*CU*
Revenue from providing services	40,000	–
Loss on the net monetary position on restating for hyperinflation	(110,000)	(200,000)
Loss for the year	**(70,000)**	**(200,000)**
Opening accumulated deficit	(200,000)	–
Closing accumulated deficit	**(270,000)**	**(200,000)**

SME A
Accounting policies and explanatory notes to the financial statements for the year ended 31 December 20X2 [extract]

2. Basis of preparation and accounting policies [extract]

Measuring unit

Because the primary economic environment in which the entity operates (Country X) is experiencing hyperinflation, all amounts (including all comparative amounts) in these financial statements are stated in terms of currency units (CU) as at 31 December 20X2. Restating for general inflation provides information that is comparable over time.

The general price index published by the government of Country X is used in restating amounts to CU at 31 December 20X2. The index was 400 at 31 December 20X2, 200 at 31 December 20X1 and 100 at 31 December 20X0. The rate of inflation was constant (100% per year) in 20X1 and 20X2.

The effect of general inflation on the net monetary position is included as a separate line item within profit or loss ('Net loss on net monetary position') in the statement of comprehensive income.

SIGNIFICANT ESTIMATES AND OTHER JUDGEMENTS

Applying the requirements of the *IFRS for SMEs* Standard to transactions and events often requires the exercise of judgement, including making estimates. Information about significant judgements made by an entity's management and key sources of estimation uncertainty are useful when assessing an entity's financial position, performance and cash flows. Consequently, in accordance with paragraph 8.6, an entity must disclose the judgements—apart from those involving estimates—that its management has made when applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Furthermore, applying paragraph 8.7, an entity must disclose information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Other sections of the *IFRS for SMEs* Standard require disclosure of information about particular judgements and estimation uncertainties.

Identifying hyperinflation

Determining whether an economy is experiencing hyperinflation requires judgement. An entity exercises that judgement by considering all available information including, but not limited to, the possible indicators of hyperinflation listed in paragraph 31.2.

Measuring unit

In restating financial information for the effects of hyperinflation, an entity must adjust for the change in the general purchasing power of its currency. In most economies there is a recognised general price index, normally produced by the government that entities will use. When a reliable general price index is not available it is necessary for the entity to estimate general price inflation. An SME may consider similar guidance in IAS 29, for example, on the basis of movements in the exchange rate between the entity's functional currency and a relatively stable foreign currency.

Module 31—Hyperinflation

COMPARISON WITH FULL IFRS STANDARDS

When preparing financial statements that have been adjusted for the effects of hyperinflation for periods beginning on 1 January 2017, the main differences between the requirements of full IFRS Standards (see IAS 29 *Financial Reporting in Hyperinflationary Economies*) and the *IFRS for SMEs* Standard (see Section 31 *Hyperinflation*) are that:

- The *IFRS for SMEs* Standard is drafted in simpler language than that used in full IFRS Standards.
- When a reliable general price index is not available, full IFRS Standards allow entities to use an estimate based, for example, on movements in the exchange rate between the functional currency and a relatively stable foreign currency. The *IFRS for SMEs* Standard contains no such guidance.

Module 31—Hyperinflation

TEST YOUR KNOWLEDGE

Test your knowledge of the requirements for preparing financial statements that have been adjusted for the effects of hyperinflation applying the *IFRS for SMEs* Standard by answering the questions provided.

You should assume that all amounts mentioned are material.

Once you have completed the test, check your answers against those set out beneath it.

Mark the box next to the most correct statement.

Question 1

An economy is deemed hyperinflationary when:

☐ (a) the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power.

☐ (b) the general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency.

☐ (c) sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short.

☐ (d) interest rates, wages and prices are linked to a price index.

☐ (e) the cumulative inflation rate over three years is approaching, or exceeds, 100%.

☐ (f) considering all available information including, but not limited to, (a)–(e) above, the economy is judged to be hyperinflationary.

Question 2

If the functional currency of an entity is that of a hyperinflationary economy, which of the following items are restated for the effects of general inflation (using a general price index)?

☐ (a) Assets and liabilities linked by agreement to changes in prices.

☐ (b) Assets and liabilities carried at fair value (fair value is determined at the end of the reporting period).

☐ (c) Non-monetary assets and non-monetary liabilities carried at cost (or cost less depreciation), non-monetary items carried at amounts current at dates other than that of acquisition or the reporting date (property, plant and equipment that has been revalued at some earlier date) and all equity items.

☐ (d) Monetary assets and monetary liabilities.

Module 31—Hyperinflation

Question 3

An entity farms beef cattle on farmland that it owns.

The fair value of the entity's cattle is readily determinable without undue cost or effort.

The farmland secures a mortgage loan advanced to the entity from a local bank.

The entity has two employees, who receive their monthly salaries on the fifth day of the month following the month in which the service was provided to the entity.

If the entity is operating in a hyperinflationary economy, which of the following items is restated to the measuring unit that is current at the end of the reporting period?

- ☐ (a) bank loan
- ☐ (b) farmland
- ☐ (c) cattle
- ☐ (d) salaries payable.

Question 4

An entity was incorporated on 31 December 20X7. It immediately issued equity instruments in exchange for CU1,000,000 cash. The entity did not enter into any other transactions in 20X7 and 20X8. The functional currency of the entity is the currency of a hyperinflationary economy. Inflation during 20X8 is 40%.

In its financial statements at 31 December 20X8 the entity must present cash at:

- ☐ (a) CU1,000,000 at 31 December 20X8 and CU1,000,000 at 31 December 20X7.
- ☐ (b) CU1,000,000 at 31 December 20X8 and CU1,400,000 at 31 December 20X7.
- ☐ (c) CU1,400,000 at 31 December 20X8 and CU1,000,000 at 31 December 20X7.
- ☐ (d) CU1,400,000 at 31 December 20X8 and CU1,400,000 at 31 December 20X7.

Question 5

The facts are the same as Question 4. The gain or loss on the net monetary position for the year ended 31 December 20X8 is:

- ☐ (a) CU400,000 loss
- ☐ (b) CU400,000 gain
- ☐ (c) zero
- ☐ (d) impossible to measure with the information provided.

Question 6

The facts are the same as in Question 4.

The entity's retained earnings at 31 December 20X8 is:

- ☐ (a) CU400,000 deficit.
- ☐ (b) CU400,000.
- ☐ (c) zero.
- ☐ (d) impossible to determine with the information provided.

Question 7

The facts are the same as in Question 4. However, in this example, the entity received land (instead of cash) in exchange for the equity instruments issued. The entity classifies the land as property, plant and equipment.

The gain or loss on the net monetary position for the year ended 31 December 20X8 is:

- ☐ (a) CU400,000 loss
- ☐ (b) CU400,000 gain
- ☐ (c) zero
- ☐ (d) impossible to measure with the information provided.

Question 8

In 20X1, an entity recognised revenue of CU250,000 on the first day of each of the twelve months.

The entity's functional currency is the currency of a hyperinflationary economy. Inflation is 5% per month.

Revenue for the year ended 31 December 20X1 is:

- ☐ (a) CU3,000,000
- ☐ (b) CU4,178,246
- ☐ (c) CU3,150,000
- ☐ (d) CU2,857,143

Module 31—Hyperinflation

Question 9

An entity's functional currency is the currency of a hyperinflationary economy. The entity's financial position at 31 December 20X5 restated applying Section 31 of the *IFRS for SMEs* Standard is:

- monetary assets: CU200,000
- land—property, plant and equipment: CU300,000
- monetary liabilities: CU150,000
- equity: CU350,000.

The entity's only transaction in 20X6 involved earning revenue of CU80,000 for a service provided on 31 December 20X6. The customer settled in cash on 31 December 20X6. Inflation for the year ended 31 December 20X6 is 80%. The gain or loss on the entity's net monetary position to be included in profit for the year ended 31 December 20X6 is:

☐ (a) gain of CU40,000.

☐ (b) loss of CU40,000.

☐ (c) gain of CU24,000.

☐ (d) gain of CU80,000.

Question 10

The facts are the same as in Question 9.

The entity's profit for the year ended 31 December 20X6 is:

☐ (a) CU80,000

☐ (b) CU40,000

☐ (c) CU144,000

☐ (d) CU104,000.

Module 31—Hyperinflation

Answers

Q1 (f) see paragraph 31.2.

Q2 (c) see paragraphs 31.8 and 31.10.

Q3 (b) see paragraphs 31.6 and 31.8.

Q4 (b) applying paragraph 31.3, all amounts in the financial statements of an entity whose functional currency is the currency of a hyperinflationary economy must be stated in terms of the measuring unit at the end of the reporting period. Comparative amounts as of 31 December 20X7 must also be presented in the measuring unit of the latest reporting period (at 31 December 20X8). Consequently, the figures originally presented in the 20X7 statement of financial position must be restated to be comparable to the latest reporting period (20X8). Because inflation for the year ended 31 December 20X8 is 40%, CU1,000,000 cash balance at 31 December 20X7 must be restated and increased by 40% to be presented as a comparative amount stated in measuring the unit that is current at 31 December 20X8 (CU1,000,000 × 1.40 = CU1,400,000).

Q5 (a) because the only event to be accounted for is the effect of inflation (there are no changes in nominal balances on the statement of financial position), the loss on the entity's net monetary position can be calculated directly by comparing the actual cash balance (CU1,000,000 on 31 December 20X8) and the comparative amount in the same measuring unit (CU1,400,000 on 31 December 20X7 as per Question 4). Because the entity had no cash inflows or outflows, it is clear that the CU400,000 loss in purchasing power of its cash took place (due to inflation of 40%) in 20X8. Another way to calculate the loss on the entity's net monetary position is by calculating the restatement of its equity balance from 31 December 20X7 (CU1,000,000) to 31 December 20X8 (using the inflation rate of 40%).

Q6 (a) the entity had no transactions or events, except for the effects of inflation. The entity would recognise a loss of CU400,000 on its net monetary position in 20X8 (see Question 5). Consequently, on 31 December 20X8 the entity has an accumulated deficit of CU400,000 (the loss accounted for in its statement of comprehensive income for the year ended 31 December 20X8).

Q7 (c) the entity has no monetary item exposure during the period. Because both its equity and land are equal and restated by the same inflation rate there is no gain or loss (there is no loss of purchasing power).

Q8 (b) each monthly revenue of nominal CU250,000 has to be restated by the inflation from the date the revenue was recognised until year-end, according to paragraph 31.11. In this exercise, for instance, accumulated inflation from January to December (12 months) can be calculated as [((1+5%)^12) − 1] = 0.7959 or 79.59%. Consequently, the restated amount is calculated by multiplying the nominal revenue amount for January by (1 + 79.59%). The table below shows accumulated inflation for all months of 20X1 considering 5% monthly inflation and the respective restated amounts.

Month	Nominal amount CU (a)	Accumulated inflation to year-end (b)	Restatement factor (c) = [1 + (b)]	Restated amount CU [(c) x (a)]
January	250,000	79.59%	1.7959	448,964
February	250,000	71.03%	1.7103	427,585
March	250,000	62.89%	1.6289	407,224
April	250,000	55.13%	1.5513	387,832
May	250,000	47.75%	1.4775	369,364
June	250,000	40.71%	1.4071	351,775
July	250,000	34.01%	1.3401	335,024
August	250,000	27.63%	1.2763	319,070
September	250,000	21.55%	1.2155	303,877
October	250,000	15.76%	1.1576	289,406
November	250,000	10.25%	1.1025	275,625
December	250,000	5.00%	1.0500	262,500
Total				**4,178,246**

Q9 (b) the effects of inflation on the entity's net monetary position have to be determined, either by calculating gains and losses from monetary items exposed to changes in the purchasing power of the functional currency due to inflation or by restating non-monetary and equity items as a double entry through profit and loss. Using the latter method, land has to be restated for the full year's inflation rate because it was recognised in the financial position for the whole period.

The restatement effect on land is 80% over the initial balance of CU300,000. The net effect of the monetary position is therefore a loss of CU40,000 (gain of CU240,000 from land restatement minus a loss of CU280,000 from equity restatement).

Q10 (b) CU80,000 revenue minus CU40,000 loss on net monetary position (see Question 9) = CU40,000 profit for the year.

Module 31—Hyperinflation

APPLY YOUR KNOWLEDGE

Apply your knowledge of the requirements for preparing financial statements that have been adjusted for the effects of hyperinflation applying the *IFRS for SMEs* Standard by completing the case studies provided.

Once you have completed a case study, check your answers against those set out beneath it.

Case study 1

SME A's functional currency is the currency of a hyperinflationary economy.

SME A—Unrestated statement of financial position at 31 December 20X3 (amounts in thousands)

	20X3	*20X2*
	CU	*CU*
Property, plant and equipment	1,325	1,375
Inventory	536	680
Accounts receivable	300	210
Cash and cash equivalents	50	60
Total	**2,211**	**2,325**
Share capital	400	400
Share premium	100	100
Retained earnings	250	250
Long-term debt	750	770
Accounts payable	711	805
Total	**2,211**	**2,325**

	Historical general price index
Property, plant and equipment	125
Share capital	100
Share premium	110

The general price index on 31 December 20X2 and 31 December 20X3 is 625 and 807, respectively.

Information about the inventories for the year ended 31 December 20X2:

		Cost	*General price index*
		CU	
Raw material	Purchased 22 November	100	610
	Purchased 19 December	110	621
Work in progress	Raw material purchased on 7 October	95	595
	Other direct and indirect costs	160	610
Finished goods	Raw material purchased on 10 September	95	585
	Other direct and indirect costs	120	605

Information about the inventories for the year ended 31 December 20X3:

		Cost	*General price index*
		CU	
Raw material	Purchased 17 November	90	785
	Purchased 18 December	95	800
Work in progress	Raw material purchased on 13 October	80	771
	Other direct and indirect costs	130	789
Finished goods	Raw material purchased on 16 September	50	757
	Other direct and indirect costs	91	782

PART A: Prepare SME A’s statement of financial position restated to the measuring unit that is current at 31 December 20X2.

PART B: Prepare SME A’s statement of financial position restated to the measuring unit that is current at 31 December 20X3, including comparative amounts for 20X2.

In this Case study, for simplicity, income tax is ignored.

Answer to Case study 1

PART A

SME A
Statement of financial position at 31 December 20X2 (all amounts restated to CU'000 at 31 December 20X2).

	20X2	
Property, plant and equipment	6,875.00	(1)
Inventory	702.36	(2)
Accounts receivable	210.00	(3)
Cash and cash equivalents	60.00	(3)
Total assets	**7,847.36**	
Share capital	2,500.00	(4)
Share premium	568.18	(5)
Retained earnings	3,204.18	(6)
Long-term debt	770.00	(3)
Accounts payable	805.00	(3)
Total equity and liabilities	**7,847.36**	

(1) (CU1,375 ÷ 125) × 625 = CU6,875.00

(2)

20X2		Cost	General Price Index	Adjustment	Restated for hyperinflation
Raw material	Purchased 22 November	100	610	625/610	102.46
	Purchased 19 December	110	621	625/621	110.71
Work in progress	Raw material purchased on 7 October	95	595	625/595	99.79
	Other direct and indirect costs	160	610	625/610	163.93
Finished goods	Raw material purchased on 10 September	95	585	625/585	101.50
	Other direct and indirect costs	120	605	625/605	123.97
Total		**680**			**702.36**

(3) Monetary items are not restated because they are already expressed in terms of the measuring unit that is current at the end of the reporting period.

(4) (CU400 ÷ 100) × 625 = CU2,500.00.

(5) (CU100 ÷ 110) × 625 = CU568.18.

(6) CU7,847.36 minus CU2,500.00 minus CU568.18 minus CU770.00 minus CU805.00 = CU3,204.18.

PART B

SME A
Statement of financial position at 31 December 20X3 (all amounts and all comparative amounts restated to CU'000 at 31 December 20X3).

	20X3		*20X2*	
Property, plant and equipment	8,554.20	(2)	8,877.00	(1)
Inventory	552.27	(3)	906.89	(1)
Accounts receivable	300.00	(4)	271.15	(1)
Cash and cash equivalents	50.00	(4)	77.47	(1)
Total assets	**9,456.47**		**10,132.51**	
Share capital	3,228.00	(5)	3,228.00	(1)
Share premium	733.64	(6)	733.64	(1)
Retained earnings	4,033.83	(7)	4,137.23	(1)
Long-term debt	750.00	(4)	994.22	(1)
Accounts payable	711.00	(4)	1,039.42	(1)
Total equity and liabilities	**9,456.47**		**10,132.51**	

(1) All balances of the statement of financial position at 31 December 20X2 must be stated (for comparative purposes) in terms of the measuring unit as at 31 December 20X3. All comparative balances in the statement of financial position at 31 December 20X2 (originally presented in terms of the measuring unit as at 31 December 20X2—see Part A) must be restated to present comparative figures in terms of the measuring unit at the end of the current reporting period (31 December 20X3) as shown below:

	20X2 as originally presented	**Adjustment**	**20X2 as restated**
Property, plant and equipment	6,875.00	807/625	8,877.00
Inventory	702.36	807/625	906.89
Accounts receivable	210.00	807/625	271.15
Cash and cash equivalents	60.00	807/625	77.47
Share capital	2,500.00	807/625	3,228.00
Share premium	568,18	807/625	733.64
Retained earnings	3,204.18	807/625	4,137.23
Long-term debt	770.00	807/625	994.22
Accounts payable	805.00	807/625	1,039.42

(2) (CU1,325 ÷ 125) × 807 = CU8,554.20.

(3)

20X3		Cost	General Price Index	Adjustment	Restated for hyperinflation
Raw material	Purchased 17 November	90	785	807/785	92.52
	Purchased 18 December	95	800	807/800	95.83
Work in progress	Raw materials purchased on 13 October	80	771	807/771	83.74
	Other direct and indirect costs	130	789	807/789	132.97
Finished goods	Raw materials purchased on 16 September	50	757	807/757	53.30
	Other direct and indirect costs	91	782	807/782	93.91
Total		**536**			**552.27**

(4) Monetary items are not restated because they are already expressed in terms of the measuring unit that is current at the end of the reporting period.

(5) (CU400 ÷ 100) × 807 = CU3,228.00.

(6) (CU100 ÷ 110) × 807 = CU733.64.

(7) CU9,456.47 minus CU3,228.00 minus CU733.64 minus CU750.00 minus CU711.00 = CU4,033.83.

Case study 2

SME A's functional currency is the currency of a hyperinflationary economy. SME A was incorporated on 31 December 20X1 when it issued shares in exchange for cash and land (the land is classified as property, plant and equipment).

SME A's statement of financial position on 31 December 20X1 is as follows:

	20X1
	CU
Property, plant and equipment—land	10,000.00
Cash and cash equivalents	5,000.00
Total assets	**15,000.00**
Share capital	15,000.00
Total equity and liabilities	**15,000.00**

During 20X2, SME A entered into the following transactions:

Date	Description
30 June 20X2	Recognition of revenues of CU1,500 from services rendered during the first half of the year, due on 31 December 20X2.
30 June 20X2	Payment of expenses of CU1,900 incurred during the first half of the year.
31 December 20X2	Cash receipt of revenues of CU1,500 earned in the first half of the year.
31 December 20X2	Recognition of revenues of CU1,800 from services rendered during the second half of the year due on 31 January 20X3.
31 December 20X2	Payment of expenses of CU900 incurred during second half of the year.

Consequently, the unrestated statement of financial position at 31 December 20X2 and its unrestated statement of income for year ended 31 December 20X2 are as follows:

SME A—unrestated statement of financial position at 31 December 20X2

	20X2
	CU
Property, plant and equipment—land	10,000.00
Trade receivables	1,800.00
Cash and cash equivalents	3,700.00
Total assets	**15,500.00**
Share capital	15,000.00
Retained earnings	500.00
Total equity and liabilities	**15,500.00**

SME A—unrestated statement of income for the year ended 31 December 20X2

	20X2
	CU
Revenue	3,300.00
Expenses	(2,800.00)
Profit for the year	**500.00**

The relevant general price index is as follows:

Date	***General price index***
31 December 20X1	1.00
Average first half-year	1.50
30 June 20X2	2.00
Average second half-year	3.00
31 December 20X2	4.00

Prepare the statement of financial position at 31 December 20X2 and the statement of income for the year ended 31 December 20X2, stated in terms of the measuring unit that is current at 31 December 20X2.

Answer to Case study 2

SME A—Statement of financial position as at 31 December 20X2 (in currency units)

	31 December 20X2		31 December 20X1	
Property, plant and equipment—land	40,000.00	(1)	40,000.00	(2)
Trade receivables	1,800.00	(3)	–	(1)
Cash and cash equivalents	3,700.00	(3)	20,000.00	(1)
Total assets	**45,500.00**		**60,000.00**	
Share capital	60,000.00	(4)	60,000.00	(1)
Retained earnings	(14,500.00)	(5)	–	(1)
Total equity and liabilities	**45,500.00**		**60,000.00**	

(1) (CU10,000 / 1) × 4 = CU40,000.00.

(2) All balances of the statement of financial position at 31 December 20X1 must be stated (for comparative purposes) in terms of the measuring unit at 31 December 20X2. Accordingly, all comparative balances in the statement of financial position at 31 December 20X1 (originally presented in terms of the measuring unit at 31 December 20X1) must be restated to present comparative figures in terms of the measuring unit at the end of the current reporting period (31 December 20X2) as demonstrated below:

	20X1, as originally presented	Adjustment	20X1 as restated
Property, plant and equipment—land	10,000.00	4.00/1.00	40,000.00
Cash and cash equivalents	5,000.00	4.00/1.00	20,000.00
Share Capital	15,000.00	4.00/1.00	60,000.00

(3) Monetary items are not restated because they are already expressed in terms of the measuring unit that is current at the end of the reporting period.

(4) (CU15,000 / 1) × 4 = CU60,000.00.

(5) CU45,500 minus CU60,000.00 = (CU14,500).

SME A—Statement of income for the year ended 31 December 20X2 (in currency units)

	20X2	
Revenue	6,400.00	(1)
Expenses	(6,266.67)	(2)
Net loss on monetary position	(14,633.33)	(3)
Loss for the period	**(14,500.00)**	

(1)

	Nominal amount	Adjustment	Restated amount
Revenue (first half of the year)	1,500.00	4.00/1.50	4,000.00
Revenue (second half of the year)	1,800.00	4.00/3.00	2,400.00
Total	**3,300.00**		**6,400.00**

(2)

	Nominal amount	Adjustment	Restated amount
Expenses (first half of the year)	1,900.00	4.00/1.50	5,066.67
Expenses (second half of the year)	900.00	4.00/3.00	1,200.00
Total	**2,800.00**		**6,266.67**

(3) Net loss can be obtained as a balancing figure as follows:

Net loss on monetary position = Total assets (restated) – Share capital (restated) + Revenues (restated) – Expenses (restated)

45,500.00 – 60,000.00 - 6,400.00 + 6,266.67 = (14,633.33)

Net loss is also the net result of all restatement adjustments (arising from restatement of non-monetary assets, equity and comprehensive income items):

	Nominal amount at 31 December 20X2	Restated amount at 31 December 20X2	Net gain (loss)
PPE—land	10,000.00	40,000.00	30,000.00
Share capital	(15,000.00)	(60,000.00)	(45,000.00)
Revenues	(3,300.00)	(6,400.00)	(3,100.00)
Expenses	2,800.00	6,266.67	3,466.67
Total			**(14,633.33)**