

## **IPSAS 10—FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES**

### **Acknowledgment**

This International Public Sector Accounting Standard is drawn primarily from International Accounting Standard (IAS) 29 (reformatted 1994), “Financial Reporting in Hyperinflationary Economies” published by the International Accounting Standards Committee (IASC). The International Accounting Standards Board (IASB) and the International Accounting Standards Committee Foundation (IASCF) were established in 2001 to replace IASC. The International Accounting Standards (IASs) issued by IASC remain in force until they are amended or withdrawn by IASB. Extracts from IAS 29 are reproduced in this publication of the Public Sector Committee of the International Federation of Accountants with the permission of IASB.

The approved text of the IASs is that published by IASB in the English language, and copies may be obtained directly from IASB Publications Department, 7th Floor, 166 Fleet Street, London EC4A 2DY, United Kingdom.

E-mail: [publications@iasb.org](mailto:publications@iasb.org)

Internet: <http://www.iasb.org>

IASs, exposure drafts and other publications of IASC and IASB are copyright of the IASCF.

“IAS,” “IASB,” “IASC,” “IASCF” and “International Accounting Standards” are trademarks of IASCF and should not be used without the approval of IASCF.

**IPSAS 10—FINANCIAL REPORTING IN  
HYPERINFLATIONARY ECONOMIES**

**CONTENTS**

	Paragraph
Scope .....	1–6
Definitions .....	7
The Restatement of Financial Statements .....	8–36
Statement of Financial Position.....	14–28
Statement of Financial Performance .....	29
Surplus or Deficit on Net Monetary Position .....	30–31
Cash Flow Statement.....	32
Corresponding Figures .....	33
Consolidated Financial Statements.....	34–35
Selection and Use of the General Price Index .....	36
Economies Ceasing to be Hyperinflationary .....	37
Disclosures.....	38–39
Effective Date .....	40–41
Appendix — Restatement of Financial Statements	
Comparison with IAS 29	

*The standards, which have been set in bold type, should be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the “Preface to International Public Sector Accounting Standards.” International Public Sector Accounting Standards are not intended to apply to immaterial items.*

## Scope

1. **An entity which prepares and presents financial statements under the accrual basis of accounting should apply this Standard to the primary financial statements, including the consolidated financial statements, of any entity that reports in the currency of a hyperinflationary economy.**
2. **This Standard applies to all public sector entities other than Government Business Enterprises.**
3. In a hyperinflationary economy, reporting of operating results and financial position in the local currency without restatement is not useful. Money loses purchasing power at such a rate that comparison of amounts from transactions and other events that have occurred at different times, even within the same reporting period, is misleading.
4. This Standard does not establish an absolute rate at which hyperinflation is deemed to arise. It is a matter of judgment when restatement of financial statements in accordance with this Standard becomes necessary. Hyperinflation is indicated by characteristics of the economic environment of a country which include, but are not limited to, the following:
  - (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; and
  - (e) The cumulative inflation rate over three years is approaching, or exceeds, 100%.
5. It is preferable that all entities that report in the currency of the same hyperinflationary economy apply this Standard from the same date. Nevertheless, this Standard applies to the financial statements of any entity

from the beginning of the reporting period in which it identifies the existence of hyperinflation in the country in whose currency it reports.

6. Government Business Enterprises (GBEs) are required to comply with International Accounting Standards (IASs) issued by the International Accounting Standards Committee. The Public Sector Committee's Guideline No. 1, "Financial Reporting by Government Business Enterprises" notes that IASs are relevant to all business enterprises, regardless of whether they are in the private or public sector. Accordingly, Guideline No. 1 recommends that GBEs should present financial statements that conform, in all material respects, to IASs.

### Definitions

7. The following terms are used in this Standard with the meanings specified:

**Carrying amount of an asset** is the amount at which an asset is recognized in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

**Carrying amount of a liability** is the amount at which a liability is recognized in the statement of financial position.

**Cash** comprises cash on hand and demand deposits.

**Monetary items** are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money.

**Non-monetary items** are items that are not monetary items.

Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.

### The Restatement of Financial Statements

8. Prices change over time as the result of various specific or general political, economic and social forces. Specific forces such as changes in supply and demand and technological changes may cause individual prices to increase or decrease significantly and independently of each other. In addition, general forces may result in changes in the general level of prices and therefore in the general purchasing power of money.

9. In a hyperinflationary economy, financial statements are useful only if they are expressed in terms of the measuring unit current at the reporting date. As a result, this Standard applies to the primary financial statements of entities reporting in the currency of a hyperinflationary economy. Presentation of the information required by this Standard as a supplement to unrestated financial statements is not permitted. Furthermore, separate presentation of the financial statements before restatement is discouraged.
10. Many entities in the public sector include in their financial statements the related budgetary information, to facilitate comparisons with the budget. Where this occurs, the budgetary information should also be restated in accordance with this Standard.
11. **The financial statements of an entity that reports in the currency of a hyperinflationary economy should be stated in terms of the measuring unit current at the reporting date. The corresponding figures for the previous period required by International Public Sector Accounting Standard (IPSAS) 1, “Presentation of Financial Statements,” and any information in respect of earlier periods, should also be stated in terms of the measuring unit current at the reporting date.**
12. **The surplus or deficit on the net monetary position should be separately disclosed in the statement of financial performance.**
13. The restatement of financial statements in accordance with this Standard requires the application of certain procedures as well as judgment. The consistent application of these procedures and judgments from period to period is more important than the precise accuracy of the resulting amounts included in the restated financial statements.

#### **Statement of Financial Position**

14. Statement of financial position amounts not already expressed in terms of the measuring unit current at the reporting date are restated by applying a general price index.
15. Monetary items are not restated because they are already expressed in terms of the monetary unit current at the reporting date. Monetary items are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money.
16. Assets and liabilities linked by agreement to changes in prices, such as index linked bonds and loans, are adjusted in accordance with the agreement in order to ascertain the amount outstanding at the reporting date. These items are carried at this adjusted amount in the restated statement of financial position.

17. All other assets and liabilities are non-monetary. Some non-monetary items are carried at amounts current at the reporting date, such as net realizable value and market value, so they are not restated. All other non-monetary assets and liabilities are restated.
18. 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 reporting date. Hence, property, plant and equipment, investments carried at cost, inventories of raw materials and merchandise, goodwill, patents, trademarks and similar assets are restated from the dates of their purchase. Inventories of partly-finished and finished goods are restated from the dates on which the costs of purchase and of conversion were incurred.
19. Detailed records of the acquisition dates of items of property, plant and equipment may not be available or able to be estimated. In these circumstances, it may be necessary, in the first period of application of this Standard, to use an independent professional assessment of the value of the items as the basis for their restatement.
20. A general price index may not be available for the periods for which the restatement of property, plant and equipment is required by this Standard. In these rare circumstances, it may be necessary to use an estimate based, for example, on the movements in the exchange rate between the reporting currency and a relatively stable foreign currency.
21. Some non-monetary items are carried at amounts current at dates other than that of acquisition or that of the statement of financial position, 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.
22. To determine whether the restated amount of a non-monetary item has become impaired and should be reduced an entity applies relevant impairment tests in international and/or national accounting standards. Hence, in such cases, restated amounts of property, plant and equipment, goodwill, patents and trademarks are reduced to recoverable amount, restated amounts of inventories are reduced to net realizable value and restated amounts of current investments are reduced to market value.
23. An investee that is accounted for under the equity method may report in the currency of a hyperinflationary economy. The statement of financial position and statement of financial performance of such an investee are

restated in accordance with this Standard in order to calculate the investor's share of its net assets/equity and results of operations. Where the restated financial statements of the investee are expressed in a foreign currency they are translated at closing rates.

24. The impact of inflation is usually recognized in borrowing costs. It is not appropriate both to restate the capital expenditure financed by borrowing and to capitalize that part of the borrowing costs that compensates for the inflation during the same period. This part of the borrowing costs is recognized as an expense in the period in which the costs are incurred.
25. An entity may acquire assets under an arrangement that permits it to defer payment without incurring an explicit interest charge. Where it is impracticable to impute the amount of interest, such assets are restated from the payment date and not the date of purchase.
26. IPSAS 4, "The Effects of Changes in Foreign Exchange Rates" permits an entity to include foreign exchange differences on borrowings in the carrying amount of assets following a severe and recent devaluation. Such a practice is not appropriate for an entity reporting in the currency of a hyperinflationary economy when the carrying amount of the asset is restated from the date of its acquisition.
27. At the beginning of the first period of application of this Standard, the components of net assets/equity, except accumulated surpluses/deficits and any revaluation reserve, are restated by applying a general price index from the dates the components were contributed or otherwise arose. Any revaluation reserve that arose in previous periods is eliminated. Restated accumulated surpluses/deficits are derived from all the other amounts in the restated statement of financial position.
28. At the end of the first period and in subsequent periods, all components of net assets/equity are restated by applying a general price index from the beginning of the period or the date of contribution, if later. The movements for the period in net assets/equity are disclosed in accordance with IPSAS 1.

#### **Statement of Financial Performance**

29. This Standard requires that all items in the statement of financial performance are expressed in terms of the measuring unit current at the reporting date. Therefore all amounts need to be restated by applying the change in the general price index from the dates when the items of revenue and expenses were initially recorded.

**Surplus or Deficit on Net Monetary Position**

30. 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. This surplus or deficit on the net monetary position may be derived as the difference resulting from the restatement of non-monetary assets, accumulated surpluses/deficits and items in the statement of financial performance and the adjustment of index linked assets and liabilities. The surplus or deficit may be estimated by applying the change in a general price index to the weighted average for the period of the difference between monetary assets and monetary liabilities.
31. The surplus or deficit on the net monetary position is included in the statement of financial performance. The adjustment to those assets and liabilities linked by agreement to changes in prices made in accordance with paragraph 16 is offset against the surplus or deficit on net monetary position. Other items in the statement of financial performance, such as interest revenue and expense, and foreign exchange differences related to invested or borrowed funds, are also associated with the net monetary position. Although such items are separately disclosed, it may be helpful if they are presented together with the surplus or deficit on net monetary position in the statement of financial performance.

**Cash Flow Statement**

32. This Standard requires that all items in the cash flow statement are expressed in terms of the measuring unit current at the reporting date.

**Corresponding Figures**

33. Corresponding figures for the previous reporting period, whether they were based on a historical cost approach or a current cost approach, are restated by applying a general price index so that the comparative financial statements are presented in terms of the measuring unit current at the end of the reporting period. Information that is disclosed in respect of earlier periods is also expressed in terms of the measuring unit current at the end of the reporting period.

**Consolidated Financial Statements**

34. A controlling entity that reports in the currency of a hyperinflationary economy may have controlled entities that also report in the currencies of hyperinflationary economies. The financial statements of any such controlled entity need to be restated by applying a general price index of the country in whose currency it reports before they are included in the consolidated financial statements issued by its controlling entity. Where

such a controlled entity is a foreign controlled entity, its restated financial statements are translated at closing rates. The financial statements of controlled entities that do not report in the currencies of hyperinflationary economies are dealt with in accordance with IPSAS 4.

35. If financial statements with different reporting dates are consolidated, all items, whether non-monetary or monetary, need to be restated into the measuring unit current at the date of the consolidated financial statements.

#### **Selection and Use of the General Price Index**

36. The restatement of financial statements in accordance with this Standard requires the use of a general price index that reflects changes in general purchasing power. It is preferable that all entities that report in the currency of the same economy use the same index.

#### **Economies Ceasing to be Hyperinflationary**

37. **When an economy ceases to be hyperinflationary and an entity discontinues the preparation and presentation of financial statements prepared in accordance with this Standard, it should treat the amounts expressed in the measuring unit current at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements.**

#### **Disclosures**

38. **The following disclosures should be made:**
- (a) **The fact that the financial statements and the corresponding figures for previous periods have been restated for the changes in the general purchasing power of the reporting currency and, as a result, are stated in terms of the measuring unit current at the reporting date; and**
  - (b) **The identity and level of the price index at the reporting date and the movement in the index during the current and the previous reporting periods.**
39. The disclosures required by this Standard are needed to make clear the basis of dealing with the effects of hyperinflation in the financial statements. They are also intended to provide other information necessary to understand that basis and the resulting amounts.

**Effective Date**

40. **This International Public Sector Accounting Standard becomes effective for annual financial statements covering periods beginning on or after July 1, 2002. Earlier application is encouraged.**
41. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

## Appendix

### Restatement of Financial Statements

*This appendix is illustrative only and does not form part of the standards. The purpose of the appendix is to illustrate the application of the standards and to assist in clarifying their meaning.*

The Standard sets out the requirements for the restatement of financial statements, including the consolidated financial statements, of entities reporting in the currency of a hyperinflationary economy.

The following example illustrates the process for restatement of financial statements. In preparing this illustration:

- The surplus on net monetary position for the period was indirectly derived as the difference resulting from the restatement of non-monetary assets and liabilities, accumulated surpluses/deficits and items in the statement of financial performance (see paragraph 30).
- Inventory on hand at the end of the reporting period was assumed to have been acquired later in the reporting period when the general inflation index was 170.
- The general price index was 120 at the beginning of the period, 180 at the end of the period and it averaged 150 during the period.
- Revenue and expenses, other than depreciation, are assumed to accrue evenly throughout the reporting period.
- Assets whose historical cost was 7,500 were completely depreciated and scrapped; their salvage value was zero.

## Financial Reporting Under Hyperinflation

### Example

Statement of Financial Position	1.1.X0 (Per IPSAS 12)	31.12.X0 (Unadjusted)	Indexation Factor	31.12.X0 (Per IPSAS 12)	Surplus/Deficit on Net Monetary Position
Cash and investments	5,000	10,000	–	10,000	–
Inventories	–	2,000	180/170	2,118 <i>Restated</i>	118
<i>Physical assets:</i>					
Historical cost	47,500	40,000	180/120	60,000	20,000
Accum. depreciation	<u>(22,500)</u>	<u>(20,000)</u>	180/120	<u>(30,000)</u>	<u>(10,000)</u>
Net book value	<u>25,000</u>	<u>20,000</u>	180/120	<u>30,000</u> <i>Restated</i>	10,000
<b>Total Assets</b>	<b><u>30,000</u></b>	<b><u>32,000</u></b>		<b><u>42,118</u></b>	
Borrowings	<u>26,000</u>	<u>26,000</u>	–	<u>26,000</u>	
<b>Net Assets</b>					
Brought forward	<b>4,000</b>	<b>4,000</b>	180/120	6,000 <i>Restated</i>	(2,000)
Net surplus for period (see below)		<u>2,000</u>	See below	<u>10,118</u>	<u>1,100</u>
	<b><u>4,000</u></b>	<b><u>6,000</u></b>		<b><u>16,118</u></b>	<b><u>9,218</u></b>
<b>Statement of Financial Performance</b>					
Revenues		50,000	180/150	60,000 <i>Restated</i>	10,000
Depreciation		(5,000)	180/120	(7,500) <i>Restated</i>	(2,500)
Other expenses		(43,000)	180/150	(51,600) <i>Restated</i>	(8,600)
Surplus on net monetary position				<u>9,218</u>	
Surplus for the year		<u>2,000</u>		<u>10,118</u>	<u>(1,100)</u>

NB: The Standard (paragraph 29) requires that statement of financial performance items be restated using the movement in the index from the dates that the transactions were recorded. In this example, items of revenue and expense, other than depreciation, accrue evenly over the reporting period and an average inflation rate has been applied. The surplus on net monetary position has been derived indirectly (see final column) by applying the general price index to the non-monetary items in the statement of financial position and the statement of financial performance (paragraph 30).

### **Comparison with IAS 29**

International Public Sector Accounting Standard (IPSAS) 10, “Financial Reporting in Hyperinflationary Economies” is drawn primarily from International Accounting Standard (IAS) 29, “Financial Reporting in Hyperinflationary Economies.” The main differences between IPSAS 10 and IAS 29 are as follows:

- Commentary additional to that in IAS 29 has been included in IPSAS 10 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 10 uses different terminology, in certain instances, from IAS 29. The most significant examples are the use of the terms “entity,” “revenue,” “statement of financial performance,” “statement of financial position” and “net assets/equity” in IPSAS 10. The equivalent terms in IAS 29 are “enterprise,” “income,” “income statement,” “balance sheet” and “equity.”
- IAS 29 contains guidance on the restatement of current cost financial statements. IPSAS 10 does not include this guidance.
- IPSAS 10 contains an appendix which illustrates the process of the restating of financial statements, using an indirect method, of an entity reporting in the currency of a hyperinflationary economy.