IAS 29 CONSOLIDATION WHICH INCLUDES A SUBSIDIARY WHOSE FUNCTIONAL CURRENCY IS NOT HYPERINFLATIONARY

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Background

Pursuant to the initial implementation guidance issued by ICAZ, the Institute is issuing this guidance to further assist preparers to report in accordance with IAS 29. This guidance is aimed at assisting preparers in their consolidation procedures when the parent company is reporting in ZWL and the subsidiary is reporting in a currency which is not in hyperinflation.

Current Year Amounts

A parent that reports in the currency of a hyper-inflationary economy might have subsidiaries that do not report in the currencies of hyper-inflationary economies. The financial statements of such subsidiaries are dealt with initially in accordance with IAS 21. This means that items included in comprehensive income are translated at the rates on the dates of transactions (or an average rate), and balance sheet items are translated at the closing rates.

Comparatives

With regards to the comparative amounts, IAS 29 par. 35 requires that the financial statements of subsidiaries that do not report in the currencies of hyperinflationary economies are dealt with in accordance with IAS 21. IAS 21 par. 39 and 40 give detailed guidance on translation to the presentation currency.

The results and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:

a. assets and liabilities for each statement of financial position presented (i.e. including comparatives) shall be translated at the closing rate at the date of that statement of financial position;
b. income and expenses for each statement presenting profit or loss and other comprehensive income (i.e. including comparatives) shall be translated at exchange rates at the dates of the transactions; and
c. all resulting exchange differences shall be recognised in other comprehensive income.

For practical reasons, a rate that approximates the exchange rates at the dates of the transactions, for example an average rate for the period, is often used to translate income and expense items. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

The standards require that the comparative figures for a currency which is not hyperinflationary are converted at the rates as at the comparative year-end dates. The amounts of the entity will be dealt with in accordance with IAS 21, and not IAS 29.

For more information and or guidance on this and related matters, contact Owen Mavengere, the Technical Manager at the Institute of Chartered Accountants of Zimbabwe on email owenm@icaz.org.zw or technical@icaz.org.zw

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