

COMMUNICATION TO MEMBERS: DEVELOPMENTS ON PUBLISHED CPI INDICES

BACKGROUND

The Zimbabwe statistical office announced in August 2020 that commencing from June 2020 they are now publishing blended inflation and Consumer Price Index (CPI). This entails the blending of the inflation for prices that are quoted in US dollars (US\$) and inflation for prices quoted in ZWL. This follows the promulgation of Statutory instrument 185 of 2020 which allowed entities to quote and sell goods and services in both US\$ and ZWL.

They will however continue to publish the ZWL CPI.

EFFECTS OF THE DEVELOPMENTS ON FINANCIAL REPORTING

FUNCTIONAL CURRENCY

Statutory Instrument 185 of 2020 permitted companies to charge for their goods and services in US\$ and ZWL. Entities that see an increase in US\$ transactions over ZWL transactions will need to do an assessment of whether their functional currency has changed from ZWL to US\$ in accordance with International Accounting Standard (“IAS”) 21 The effects of changes in foreign exchange rates.

INFLATION ADJUSTING FINANCIALS

Selection and use of the general price index in the restatement of financial statements in accordance with IAS 29 requires the use of a general price index that reflects changes in **general purchasing power**. In Zimbabwe, the currency which was assessed to be in hyperinflation is the ZWL. Entities that still use the ZWL as the functional currency should continue to use the ZWL CPI and not a blended CPI in the preparation of Inflation adjusted financials.

A blended inflation index is not appropriate in the preparation of inflation adjusted financial statements as the financials are prepared in a particular functional currency (either ZWL or USD) and not reported in a blended currency. Similarly, any inflation index should also be specific to the reporting currency. Therefore, those entities whose functional currency is ZWL should continue preparing hyperinflation accounts using the ZWL CPI.

For more information and clarifications on the above , please contact the ICAZ technical desk on technical@icaz.org.zw or macdonaldc@icaz.org.zw

END