This document is prepared for the purposes of offering guidance to the members of the Institute of Chartered Accountants of Zimbabwe on implementing International Accounting Standard (“IAS”) 29, Financial Reporting in Hyper Inflationary Economies. It should not be used for any other purpose without the consent of the Institute of Chartered Accountants of Zimbabwe (“ICAZ”)

The Implementation Guidance should be read in conjunction with IAS 29 and the Public Accountants and Auditors Board (“PAAB”) Pronouncement 01/19 on the application of IAS29: Financial Reporting in Hyperinflationary Economies in Zimbabwe, and is not meant to replace or contravene what is contained in IAS 29 or the PAAB Pronouncement.
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1. BACKGROUND

The Public Accountants and Auditors Board (PAAB) in their circular 01/19 communicated that the factors and characteristics to apply the International Accounting Standard (“IAS”) 29, Financial Reporting in Hyper-Inflationary Economies had been met in Zimbabwe. Entities reporting in Zimbabwe are now required to apply the requirements of IAS 29 with effect from 1 July 2019. IAS 29 states that 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 accounting period, is misleading. The purpose of this guidance is to assist entities in the implementation of IAS 29.

2. CRITERIA FOR ASSESSING APPLICABILITY OF IAS 29

The criteria for assessing whether or not an economy is in hyperinflation is provided for in IAS 29. However, IAS 29 does not establish an absolute rate at which hyperinflation is deemed to arise. It is a matter of judgement when restatement of financial statements in accordance with this Standard becomes necessary (IAS 29:03)

Hyperinflation is indicated by characteristics of the economic environment of a country which include, but are not limited to, the following: IAS 29:03(a-b)

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 [IAS 29:3a].

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 [IAS 29:3b]

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 [IAS 29:3c]

d) Interest rates, wages and prices are linked to a price index [IAS 29:3c]

e) The cumulative inflation rate over three years is approaching, or exceeds, 100%. [IAS 29:3c]

The assessment of the applicability of IAS 29 to Zimbabwe concluded that the above factors are substantially met resulting in the pronouncement by PAAB that there is consensus within the accounting and auditing profession that IAS 29 is now applicable in Zimbabwe. To comply with International Financial Reporting Standards, entities in Zimbabwe are now required to apply IAS 29.
3. KEY GUIDANCE ON IAS29 IMPLEMENTATION

In accordance with IAS 29, the financial statements of an entity whose functional currency is the currency of a hyperinflationary economy, whether they are based on a historical cost approach or a current cost approach, shall be stated in terms of the measuring unit current at the end of the reporting period.

3.1 Inflation Indices and Adjusting Factors

IAS 29 requires that non-monetary assets and liabilities, shareholders’ equity and comprehensive income be restated in terms of a measuring unit current at the reporting period end. IAS 29 also requires the use of a general price index to reflect changes in purchasing power, and it states that, “It is preferable that all entities that report in the currency of the same economy use the same index”. IAS 29 par 4. Preparers are therefore advised to use the CPI Index.

The Zimbabwe Statistical Office (“ZIMSTATS”) is the official source of all national statistics including inflation figures and the CPI index for the application of restatement of figures. Preparers are advised to refer to the Reserve Bank of Zimbabwe (RBZ) website for the Zimstats CPI indices or directly request the same from ZIMSTATS.

The year on year CPI indices are used to calculate the inflation adjusting factor which is then applied to the historical figures to arrive at the inflation adjusted numbers. The adjusting factor is computed as illustrated in the table below:

Calculation of adjusting factor IFRIC 7 – Illustrative example

<table>
<thead>
<tr>
<th>General price indices</th>
<th>Conversion factors at 31 Dec 20X4</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 20X2(^{(a)})</td>
<td>95</td>
</tr>
<tr>
<td>December 20X3</td>
<td>135</td>
</tr>
<tr>
<td>December 20X4</td>
<td>223</td>
</tr>
</tbody>
</table>

\(^{(a)}\) For example, the conversion factor for December 20X2 is 2.347 = 223/95.

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3.2 Monetary and Non-Monetary Items

Preparers should restate all statement of financial position amounts that are not expressed in terms of the measuring unit current at the date of the statement of financial position. Monetary items do not need to be restated as they are already expressed in current purchasing power at the reporting date (IAS 29 par12). Non-Monetary items should be restated with the exception of those measured at net realisable value or fair value. (IAS 29 par 12).

The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency, examples include pensions and other employee benefits to be paid in cash (IAS 21 par 16). Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency, examples include amounts prepaid for goods and services; goodwill; intangible assets; inventories; property, plant and equipment (IAS 21 par 16).

3.3 Restatement of Non-Monetary Items Carried at Historical Cost

Non-monetary items (excluding shareholders’ equity) are restated in terms of the measuring unit current at the end of the reporting period. An entity should use the increase in the general price index from the transaction date when they were first recognised to the end of the reporting period. (IAS 29 par 29)

No restatement is required for non-monetary assets and liabilities carried at amounts current at the end of the reporting period, such as net realisable value or fair value. Refer to section 3.4 below. (IAS 29 par 14)

Some non-monetary items are carried at historical cost or historical cost less accumulated depreciation, and so they are expressed at amounts current at the date of acquisition. The restated cost, or restated cost less restated accumulated depreciation, of each item is determined by applying the change in a general price index from the date of acquisition to the end of the reporting period to the item’s historical cost and accumulated depreciation. Property, plant and equipment (that is carried at historical cost less accumulated depreciation), inventories of raw materials and merchandise, goodwill, patents, trademarks and similar assets are therefore restated from the dates of their purchase. Partly finished and finished goods included in inventory are restated from the dates on which the costs of purchase and of conversion were incurred. (IAS 29 par 15)

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Detailed records of the acquisition dates of items of property, plant and equipment might be unavailable or not possible to estimate. Furthermore, the economic impact of changes in functional currency in 2009, and/or in 2019 may pose estimation challenges with respect to the determination of the restated value of the non-monetary item, depending on how far back the date of acquisition is. In such circumstances, it is necessary to carry out an independent professional valuation of the items as the basis for their restatement in the first period of application of IAS 29, or alternatively apply and disclose the judgement adopted with respect to the deemed date of acquisition of the non-monetary item, after considering the changes in functional currency. (IAS 29 par 16)

It is advised that any such judgements be agreed upon upfront with the entity’s external auditors, appreciating that such agreements, depending on materiality and impact, does not necessarily obviate the possibility of modified audit opinions as a result.

Non-monetary assets that have been restated following the guidance in IAS 29 are still subject to impairment assessment in accordance with the relevant standards. (IAS 29 par 19)

3.4 Restatement of Non-Monetary Items Carried at Fair Value or Revalued Amounts

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

3.5 Restatement of Shareholders’ Equity

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

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.

Share capital presented on the statement of financial position is expressed in terms of measuring unit current at the end of the reporting period.

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3.6 Restatement of Comprehensive Income

All items in comprehensive income for the current year are restated by applying the change in the index from the dates when the items of income and expense were originally recorded.

Current year restated net income is added to the balance of the restated opening retained earnings.

For further guidance with examples on items that require specific treatment such as cost of sales, depreciation etc. refer to the IFAC website [International Financial Reporting Interpretations Committee (IFRIC) Draft Interpretation D5 on applying IAS29 Financial Reporting in Hyperinflationary Economies for the first time.]

3.7 Deferred Tax

An entity re-measures the deferred tax items in accordance with IAS 12 after it has restated the nominal carrying amounts of its non-monetary items at the date of the opening statement of financial position of the reporting period by applying the measuring unit at that date.

The deferred tax items are restated for the change in the measuring unit from the date of the opening statement of financial position of the reporting period to the end of that reporting period.

3.8 Gain or loss on net monetary position

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

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

The gain or loss on the net monetary position is included in profit or loss. The adjustment to those assets and liabilities linked by agreement to changes in prices made in accordance with IAS 29 para 13 is offset against the gain or loss on net monetary position. Other income and expense
items, such as interest income and expense, and foreign exchange differences related to invested or borrowed funds, are also associated with the net monetary position. (IAS 29 par 28)
Although such items are separately disclosed, it may be helpful if they are presented together with the gain or loss on net monetary position in the statement of comprehensive income. (IAS 29 par 28)

3.9 Statement of Cash flows

The statement of cash flows shall be compiled from the restated figures.

There are two specific features of the cash flow statement to be considered:
- net income before tax is adjusted for the monetary gain or loss for the period; and
- the monetary gain or loss on cash and cash equivalents is presented separately.

3.10 Comparatives

The prior year comparatives, for both monetary and non-monetary items, are restated in terms of the measuring unit current at the end of the latest reporting period. The opening balances will have to be restated by applying the appropriate adjusting factor(s) based on CPI index at the reporting date.

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

For the purpose of presenting comparative amounts in a different presentation currency, IAS 21 - The Effects of Changes in Foreign Exchange Rates, apply and balances should be translated at the closing exchange rate in accordance with IAS 21:42(b) and IAS 21:43.

For the purposes of IAS 29, the effective date of change of currency to be used is the one in line with IAS 21. Where the functional and presentation currency of the corresponding figures was the US$, the US$ financial information should be converted to the Zimbabwe dollar (ZWL) at an exchange rate of 1:1 between US$ and ZWL.

In applying the paragraph above, comparatives from the period prior to the date of functional currency change should be translated at a rate of 1:1 and thereafter comparatives restated by
applying the CPI index to the reporting date in accordance with paragraph 3.1 of this implementation guidance.

3.11 Translations of transactions incurred in another currency

Transactions in currencies other than the ZWL$ should be translated at the closing interbank exchange rate first before applying the adjusting factor to restate from the transaction date to the reporting date. To assess the appropriate exchange rate to use refer [IFRIC® Update, September 2018, Agenda Decision, ‘Determination of the exchange rate when there is a long-term lack of exchangeability (IAS 21 The Effects of Changes in Foreign Exchange Rates)’]

3.12 Group Reporting

A parent that reports in the currency of a hyper-inflationary economy might have subsidiaries that also report in the currencies of hyper-inflationary economies. The financial statements of such subsidiaries are restated by applying the CPI index of the country in whose currency it reports before they are included in the consolidated financial statements issued by the parent. The restated financial statements of foreign subsidiaries are translated at closing rates.

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

3.13 Presentation and Disclosure

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

The gain or loss on net monetary position should be included in profit or loss and separately disclosed. Preparers are advised to include the proof of monetary gain/loss as a note to the financial statements.

Preparers should describe, in the accounting policy note, the methodology used in applying IAS 29. The following information should be disclosed:

- the fact that the financial statements and the comparatives have been restated and, as a result, that they are stated in terms of the measuring unit current at the balance sheet date; and

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• whether the financial statements are based on a historical cost approach or a current cost approach; and
• the identity and level of the price index at the balance sheet date and the movement in the index during the current and previous reporting periods.
• Entities may also consider disclosing the three-year cumulative inflation at the balance sheet date.
• Any significant judgements made in applying IAS 29 should be disclosed in accordance with the requirements in paragraph 122 of IAS 1, ‘Presentation of Financial Statements’.
• Entities with subsidiaries that have a functional currency that is the currency of a hyper-inflationary economy should consider explaining in their accounting policies the application of paragraph 43 of IAS 21. Such entities should also consider explaining that comparative amounts presented previously in a stable currency are not restated, together with the policy adopted for recognising the differences between the closing equity of the previous year and the opening equity of the current year (see ‘Translation adjustments when applying IAS 29 on an ongoing basis’ above).

Whilst cognisant of para 7 of IAS 29, in light of multi stakeholders (e.g. tax authorities, sector regulators etc.) who are amongst the users of financial statements, it is recommended that preparers exercise professional judgement in considering the presentation of historical financial information as supplementary information alongside the primary Inflation adjusted financial statements in terms of the requirements of IAS 29.

Where historical financial information is presented alongside IFRS financial statements adjusted for IAS 29, it must be made quite clear which set represents the primary financial statements. [PAAB Pronouncement 01/19 on the application of IAS 29: Financial Reporting in Hyperinflationary Economies in Zimbabwe]

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