KPMG

IFRS Briefing Sheet

IFRIC Interpretation 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*

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On 24 November 2005, the International Financial Reporting Interpretations Committee (IFRIC) published its Interpretation 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*. This IFRS Briefing Sheet summarises IFRIC 7, which assists entities when starting to restate their financial statements under IAS 29.

Background and objectives

The Interpretation was developed in response to concerns raised by entities regarding how their financial statements should be restated under IAS 29 in the period that they identify the existence of hyperinflation in the economy of their functional currency. Specifically, there was uncertainty regarding whether the opening balance sheet should be restated to reflect changes in prices before that date. Questions also were raised with respect to the calculation of opening deferred tax items.

Requirements

The Interpretation requires that in the year in which an entity identifies the existence of hyperinflation in the economy of its functional currency, the entity should restate for the effects of inflation as if it always had done this restatement.

The entity's opening balance sheet of the earliest period presented is restated as follows:

- non-monetary items measured at historical cost must be restated to reflect the effect of inflation from the date that those assets were acquired and liabilities were incurred or assumed until the balance sheet date of the current reporting period;
- non-monetary items measured at revalued amounts (for example, using the revaluation approach under IAS 16 *Property, Plant and Equipment* or IAS 38 *Intangible Assets*) must recognise the effect of inflation and be restated from the date that those carrying amounts were determined until the balance sheet date of the current reporting period.

Deferred tax items are recognised and measured in accordance with IAS 12 *Income Taxes* at the closing balance sheet date.

For the purposes of calculating deferred tax items in the opening

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balance sheet, the nominal carrying amounts of non-monetary items first are restated by adjusting for the effects of inflation from the date of acquisition (or revaluation) to the *opening balance sheet date*. Then the deferred tax items are remeasured in accordance with IAS 12 based upon the restated carrying amounts. Last, the deferred tax items are remeasured by applying the effects of inflation from the opening balance sheet to the end of the reporting period.

In the rare circumstances that the entity does not have the information necessary to restate its non-monetary items under (e.g., no detailed records of acquisition dates), an independent assessment of the fair value of these items could be used as the basis for the restatement.

If the entity is a first-time adopter and it used the 'fair value as deemed cost' exemption in IFRS 1 *First-time Adoption of International Financial Reporting Standards*, then the entity would restate its non-monetary items for periods after the date of the fair value measurement. Under IFRS 1, the fair value measurement exemption is available for property, plant and equipment, and in some instances for investment property and intangible assets.

The IFRIC confirmed that the restatement of the financial statements for the reporting period in which an entity identifies the existence of hyperinflation should be consistent with the restatement approach applied in subsequent reporting periods.

A worked example accompanies the Interpretation to illustrate the accounting for entities whose functional currencies are hyperinflationary for the first time.

Effective date

The Interpretation applies when an entity identifies the existence of hyperinflation in the economy of its functional currency for annual periods beginning on or after 1 March 2006. Earlier application is encouraged.

If you would like further information on any of the matters discussed in this issue of *IFRS Briefing Sheet*, please talk to your usual local KPMG contact or call any of KPMG firms' offices.

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