ACCOUNTING STANDARDS BOARD

STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES

(GRAP 10)

Issued by the
Accounting Standards Board

February 2010

Acknowledgement

The Standard of Generally Recognised Accounting Practice (GRAP) on *Financial Reporting in Hyperinflationary Economies* is based on the International Public Sector Accounting Standard (IPSAS) 10 on *Financial Reporting in Hyperinflationary Economies* from the *Handbook of International Public Sector Accounting Pronouncements* of the International Public Sector Accounting Standards Board (IPSASB), published by the International Federation of Accountants (IFAC) in July 2001 and is used with the permission of the IFAC.

International Federation of Accountants

529 Fifth Avenue, 6th Floor

New York, New York 10017 USA

Internet: http://www.ifac.org

GRAP 10

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Standard of Generally Recognised Accounting Practice

Financial Reporting in Hyperinflationary Economies

FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES

This Standard was originally issued by the Accounting Standards Board (the Board) in July 2007. Since then, it has been amended by:

- Improvements to the Standards of GRAP, issued by the Board in February 2010.
- Consequential amendments when the following Standards of GRAP became effective:
  - GRAP 21 *Impairment of Non-cash-generating Assets*
  - GRAP 24 *Presentation of Budget Information in Financial Statements*
  - GRAP 26 *Impairment of Cash-generating Assets*
- Improvements to the Standards of GRAP, issued by the Board in November 2013.
- Consequential amendments when the following Standards of GRAP became effective:
  - GRAP 105 *Transfer of Functions Between Entities Under Common Control*
  - GRAP 106 *Transfer of Functions Between Entities Not Under Common Control*
  - GRAP 107 *Mergers*

Introduction

This pronouncement is set out in paragraphs .01 to .41. All paragraphs in this pronouncement have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This pronouncement should be read in the context of its objective, its basis for conclusions and/or the basis for conclusions of its international equivalent, if applicable, the *Preface to the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*[1].

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Directives should be read in conjunction with the applicable Standards of GRAP and Interpretations of the Standards of GRAP.

[1] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

Objective

.01 The objective of this Standard is to prescribe the accounting treatment in the consolidated and individual financial statements of an entity whose functional currency is the currency of a hyperinflationary economy. This Standard also specifies the accounting treatment where the economy ceases to be hyperinflationary.

Scope

.02 An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard to the financial statements, including the consolidated financial statements, of any entity whose functional currency is the currency of a hyperinflationary economy.

.03 In a hyperinflationary economy, reporting of financial performance 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.

.04 This Standard 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. 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%.

.05 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.

Definitions

.06 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 recognised 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 recognised in the statement of financial position.*

***Functional currency** is the currency of the primary economic environment in which the entity operates.*

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

Terms defined in other Standards of GRAP are used in this Standard with the same meaning as in those other Standards.

The restatement of financial statements

.07 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.

.08 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 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.

.09 Entities that include budgetary information in their financial statements to facilitate comparisons with the budget in accordance with the Standard of GRAP on *Presentation of Budget Information in Financial Statements*, should also restate this information in accordance with this Standard.

.10 The financial statements of an entity whose functional currency is the currency of a hyperinflationary economy shall be stated in terms of the measuring unit current at the reporting date. The corresponding figures for the previous period required by the Standard of GRAP on Presentation of Financial Statements (GRAP 1) and any information in respect of earlier periods, shall also be stated in terms of the measuring unit current at the reporting date. For the purpose of presenting comparative amounts in a different presentation

currency, paragraphs .43(b) and .44 of the Standard of GRAP on The Effects of Changes in Foreign Exchange Rates (GRAP 4) apply.

.11 The gain or loss on the net monetary position shall be separately disclosed in the statement of financial performance.

.12 The restatement of financial statements in accordance with this Standard requires the application of certain procedures as well as judgement. The consistent application of these procedures and judgements 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

.13 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.

.14 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.

.15 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.

.16 All other assets and liabilities are non-monetary. Some non-monetary items are carried at amounts current at the reporting date, such as net realisable value, current replacement cost and fair value, so they are not restated. All other non-monetary assets and liabilities are restated.

.17 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. For example, property, plant and equipment, inventories of raw materials and merchandise, 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.

.18 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.

.19 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 circumstances, it may be necessary to use an estimate based, for example, on the movements in the exchange rate between the functional currency and a relatively stable foreign currency.

.20 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.

.21 To determine whether the restated amount of a non-monetary item has become impaired and should be reduced, an entity applies the Standards of GRAP on *Impairment of Cash-generating Assets* or *Impairment of Non-cash-generating Assets,* as appropriate. Hence, in such cases, restated amounts of property, plant and equipment, patents and trademarks are reduced to recoverable amount or recoverable service amount and restated amounts of inventories are reduced to net realisable value or current replacement cost.

.22 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 the investee's net assets and surplus or deficit. Where the restated financial statements of the investee are expressed in a foreign currency they are translated at closing rates.

.23 The impact of inflation is usually recognised in borrowing costs. It is not appropriate both to restate the capital expenditure financed by borrowing and to capitalise that part of the borrowing costs that compensates for the inflation during the same period. This part of the borrowing costs is recognised as an expense in the period in which the costs are incurred.

.24 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.

.25 At the beginning of the first period of application of this Standard, the components of net assets, except accumulated surpluses or 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 or deficits are derived from all the other amounts in the restated statement of financial position.

.26 At the end of the first period and in subsequent periods, all components of net assets 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 are disclosed in accordance with GRAP 1.

Statement of financial performance

.27 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 expense were initially recorded.

Gain or loss on net monetary position

.28 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 gain or loss on the net monetary position may be derived as the difference resulting from the restatement of non-monetary assets, net assets and items in the statement of financial performance and the adjustment of index-linked assets and liabilities. The gain or loss may be estimated by applying the change in a general price.

.29 The gain or loss on the net monetary position is included in surplus or deficit. The adjustment to those assets and liabilities linked by agreement to changes in prices made in accordance with paragraph .15 is offset against the gain or loss 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 gain or loss on net monetary position in the statement of financial performance.

Cash flow statement

.30 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

.31 Corresponding figures for the previous reporting period 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. For the purpose of presenting comparative amounts in a different presentation currency, paragraphs .43(b) and .44 of GRAP 4 apply.

.32 In the reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, not having been hyperinflationary in the prior period, the entity should apply the requirements of this Standard as if the economy had always been hyperinflationary.

Consolidated financial statements

.33 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 GRAP 4.

.34 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

.35 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

.36 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 shall 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

.37 The following disclosures shall 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 functional 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.

.38 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

Initial adoption of the Standards of GRAP

.39 ***An entity shall apply this Standard for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999 as amended.***

Entities already applying Standards of GRAP

.40 ***A new paragraph .01 was added and paragraph .06 was amended by the Improvements to the Standards of GRAP issued in April 2014. An entity shall apply these amendments for annual financial statements covering periods beginning on or after 1 April 2015. Earlier application is encouraged. If an entity applies these amendments for a period beginning before 1 April 2015, it shall disclose that fact.***

Withdrawal of the Standard of GRAP on *Financial Reporting in Hyperinflationary Economies* (2007)

.41 This Standard supersedes the Standard of GRAP on *Financial Reporting in Hyperinflationary Economies* issued in 2007.

Comparison with the International Public Sector Accounting Standard on *Financial Reporting in Hyperinflationary Economies* (July 2001)

This Standard is drawn primarily from the International Public Sector Accounting Standard on *Financial Reporting in Hyperinflationary Economies* (IPSAS 10). The main differences between this Standard and IPSAS 10 are as follows:

- Certain changes have been made to the paragraphs relating to the translation of a net monetary position. IPSAS 10 refers to "surplus and deficit" while this Standard refers to "gains and losses".
- Reference to "primary" financial statements has been deleted throughout.
- This Standard uses different terminology from IPSAS 10, in certain instances. The most significant examples are the use of the terms "net assets", "financial performance" and "functional/presentation currency". The equivalent terms in IPSAS 10 are "net assets/equity", "results" and "reporting currency" respectively.