

IFRIC issues guidance on restatements of financial reporting

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The International Financial Reporting Interpretations Committee (IFRIC) today issued an Interpretation—IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies.

The Interpretation clarifies the requirements under IAS 29 relating to two issues that constituents had raised with the IFRIC:

- how comparative amounts in financial statements should be restated when an entity identifies the existence of hyperinflation in the economy of the currency in which its financial statements are measured (its 'functional currency'); and
- how deferred tax items in the opening balance sheet should be restated.

Introducing IFRIC 7 Robert Garnett, IASB member and chairman of the IFRIC, said:

Although hyperinflation has become less common in recent years, the IFRIC believed it should respond to queries on how the existing IASB Standard on adjusting for the effects of hyperinflation should be applied. This Interpretation should assist entities in economies now moving into hyperinflation, and entities facing that prospect in the future, by clarifying the information that will be needed to apply the Standard.

Subscribers to the IASB's Comprehensive Subscription Service can view the Interpretation from the secure online services area of the IASB's Website (www.iasb.org). Those wishing to subscribe should contact:

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NOTES TO EDITORS

About the Interpretation

- 1 IAS 29 sets out the procedures for restating amounts in the financial statements of an entity whose functional currency is subject to hyperinflation. It also provides guidance on determining when an economy is hyperinflationary.
- 2 The main requirements of the Interpretation are:
 - In the period in which the economy of an entity's functional currency becomes hyperinflationary, the entity shall apply the requirements of IAS 29 as though the economy had always been hyperinflationary. The effect of this requirement is that restatements of non-monetary items carried at historical cost are made from the dates at which those items were first recognised; for other non-monetary items the restatements are made from the dates at which revised current values for those items were established.
 - Deferred tax amounts in the opening balance sheet are determined in two stages:
 - (a) Deferred tax items are remeasured in accordance with IAS 12 after restating the nominal carrying amounts of the non-monetary items in the opening balance sheet by applying the measuring unit at that date.
 - (b) The deferred tax items remeasured in this way are restated for the change in the measuring unit from the date of the opening balance sheet to the date of the closing balance sheet.
- 3 An illustrative example of the deferred tax restatements accompanies the Interpretation.

About the IFRIC

- 4 The IFRIC is the interpretative arm of the IASB and first met in February 2002. It comprises 12 voting members (all part-time) drawn from a variety of countries and professional backgrounds, and it meets about nine times a year under a non-voting chairman. The IFRIC's principal role is to consider, on a timely basis within the context of International Financial Reporting Standards and the IASB *Framework*, accounting issues that are likely to receive divergent or unacceptable treatment in the absence of authoritative guidance, with a view to reaching consensus on the appropriate accounting treatment. In developing Interpretations, the IFRIC works closely with similar national interpretation committees.

About the IASB

- 5 The IASB, based in London, began operations in 2001. It is funded by contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations. The 14 IASB members (12 of whom are full-time) are drawn from nine countries and have a variety of professional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB co-operates with national accounting standard-setters to achieve convergence in accounting standards around the world.
- 6 A Deloitte & Touche study indicates that 94 countries either require or permit the use of IFRSs for publicly traded companies beginning in 2005. Some other jurisdictions, including Australia, New Zealand, the Philippines and Singapore, base their national practices on international standards. In September 2002 the IASB and the US standard-setter, the Financial Accounting Standards Board, reached an agreement to work towards the convergence of existing US and international practices and the joint development of future standards. In October 2004, the IASB and the Accounting Standards Board of Japan agreed to initiate discussions about a joint project to minimise differences between IFRSs and Japanese accounting standards towards a final goal of convergence of their standards. In January 2005 the two boards announced their agreement to launch a joint project to reduce differences between IFRSs and Japanese accounting standards, and in March the boards met to decide on the initial programme of work for the project. The Canadian Accounting Standards Board has proposed that Canadian standards for public companies should converge with IFRSs over a five-year transitional period. In November 2005 representatives of the China Accounting Standards Committee of the People's Republic of China and the IASB met in Beijing to discuss the convergence of Chinese accounting standards with IFRSs.