


GUIDANCE ON IAS 29 FINANCIAL ACCOUNTING IN HYPERINFLATIONARY ECONOMIES




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Background

Considering the prevailing multi-currency environment, the Ministry of Finance and Economic Development has made it mandatory to compute and publish a currency weighted average rate of inflation, also known as the blended rate. This requirement is enforced through the gazetting of Statutory Instrument (SI) 27 of 2023. While we acknowledge the rationale and usefulness of a weighted average rate as a measure of purchasing power loss over time in a multi-currency environment, this rate is not suitable for entities whose functional currency is the ZWL and who adhere to the International Accounting Standard 29 - Financial Reporting in Hyperinflationary Economies (IAS 29).

Financial statements are prepared using a single unit of monetary measure or currency. An entity evaluates its business model and identifies the monetary unit that predominantly influences its transactions, designating it as its functional currency. All other currencies used in transactions are treated as foreign currencies and converted to the functional currency to generate a unified set of financial data and information.

The conclusion reached by the Public Accountants and Auditors Board is that the inflation data of our local currency (ZWL) meets the definition of a hyperinflationary currency. Consequently, financial statements presented in ZWL must comply with the requirements of IAS 29. This standard stipulates the use of a General Price Index of the hyperinflationary currency as the basis for restatement. However, the lack of accessibility to the ZWL inflation data poses a reporting challenge.

Problem statement

In the absence of the ZWL inflation indices, how should preparers comply with IAS 29?

Our interpretation and guidance

When drafting IAS 29, standard setters had foreseen the current scenario. In paragraph 17, the standard permits preparers to estimate the inflation rate, offering various methods of estimation. One such method involves using the exchange rate movement between the functional currency and a relatively stable foreign currency to determine the general price index.

Estimation presents challenges such as lack of comparability, the risk of errors, and complexity. These challenges can lead to financial statements that are not fairly presented. To address these concerns, standard setters encourage the use of the same general price indices for all preparers in the relevant currency environment (IAS 29.37).



While the standard suggests estimating the inflation rate using the exchange rate between a hyperinflationary currency and a stable currency, our prior guidance on the application of International Financial Reporting Standards 21 clarifies that achieving the aforementioned consistency (IAS 29.37) may not be possible. The IFRS literature also advises users to rely on exchange rates obtained from a fully free-floating exchange market. The Central Bank announced that such a market was established from the auction held on May 23, 2023 going forward. It's important to note that using exchange rates alone may not fully meet the definition of a general price index, as some goods and services are not directly influenced by exchange rate fluctuations.

Considering the challenges associated with using exchange rates, we propose that users estimate the inflation rate in Zimbabwe (ZWL) using official publicly available information. ZIMSTAT publishes monthly statistics on the Total Consumption Poverty Line (TCPL) in ZWL, which measures the amount required to purchase both non-food and food items. By analysing the correlation between the movement in TCPL and the officially published Consumer Price Index (CPI) from January 2021 to December 2022, we observed an exceedingly strong relationship with a correlation coefficient of 0.99. Consequently, the estimated CPI after February 2023 can be derived by adjusting the last published CPI based on the monthly movement of the TCPL. An illustration will be separately shared together with this paper.

Although we encourage members to use the TCPL estimation approach to achieve market wide consistency, members are still permitted to develop their own estimates. Where entities have used other estimation techniques, attention must be given to the requirements of International Accounting Standard 1 - Presentation of Financial Statements. It is crucial to provide information that allows users of financial statements to compare them with those of other entities. Paragraph 125 of the standard, which includes the need to disclose the sensitivity of carrying amounts to the methods, assumptions, and estimates underlying their calculation, including the reasons for the sensitivity, becomes particularly significant.

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