INTERPRETATION OF STATUTORY BOARD FINANCIAL REPORTING STANDARD

INT SB-FRS 107

Applying the Restatement Approach under SB-FRS 29 *Financial Reporting in Hyperinflationary Economies*
Illustrative Example

This Guidance is applicable for annual reporting period beginning on 1 January 2019.

Illustrative example

This example accompanies, but is not part of, INT SB-FRS 107.

IE1 This example illustrates the restatement of deferred tax items when an entity restates for the effects of inflation under SB-FRS 29 *Financial Reporting in Hyperinflationary Economies*. As the example is intended only to illustrate the mechanics of the restatement approach in SB-FRS 29 for deferred tax items, it does not illustrate an entity's complete SB-FRS financial statements.

Facts

IE2 An entity's SB-FRS statement of financial position at 31 December 20X4 (before restatement) is as follows:

Note	Statement of financial position	20X4[1]	20X3
		CU million	CU million
	ASSETS		
1	Property, plant and equipment	300	400
	Other assets	XXX	XXX
	Total assets	XXX	XXX
	EQUITY AND LIABILITIES		
	Total equity	XXX	XXX
	LIABILITIES		
2	Deferred tax liability	30	20
	Other liabilities	XXX	XXX
	Total liabilities	XXX	XXX
	Total equity and liabilities	XXX	XXX

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[1] In this example, monetary amounts are denominated in 'currency units (CU)'.

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Notes

1 *Property, plant and equipment*

All items of property, plant and equipment were acquired in December 20X2. Property, plant and equipment are depreciated over their useful life, which is five years.

2 *Deferred tax liability*

The deferred tax liability at 31 December 20X4 of CU30 million is measured as the taxable temporary difference between the carrying amount of property, plant and equipment of 300 and their tax base of 200. The applicable tax rate is 30 per cent. Similarly, the deferred tax liability at 31 December 20X3 of CU20 million is measured as the taxable temporary difference between the carrying amount of property, plant and equipment of CU400 and their tax base of CU333.

IE3 Assume that the entity identifies the existence of hyperinflation in, for example, April 20X4 and therefore applies SB-FRS 29 from the beginning of 20X4. The entity restates its financial statements on the basis of the following general price indices and conversion factors:

	General price indices	***Conversion factors at 31 Dec 20X4***
December 20X2[2]	*95*	*2.347*
December 20X3	*135*	*1.652*
December 20X4	*223*	*1.000*

Restatement

IE4 The restatement of the entity's 20X4 financial statements is based on the following requirements:

- Property, plant and equipment are restated by applying the change in a general price index from the date of acquisition to the end of the reporting period to their historical cost and accumulated depreciation.
- Deferred taxes should be accounted for in accordance with SB-FRS 12 *Income Taxes*.
- Comparative figures for property, plant and equipment for the previous reporting period are presented in terms of the measuring unit current at the end of the reporting period.
- Comparative deferred tax figures should be measured in accordance with paragraph 4 of the Interpretation.

[2] For example, the conversion factor for December 20X2 is 2.347 = 223/95.

IE5 Therefore the entity restates its statement of financial position at 31 December 20X4 as follows:

Note	Statement of financial position (restated)	20X4	20X3
		CU million	CU million
	ASSETS		
1	Property, plant and equipment	704	939
	Other assets	XXX	XXX
	Total assets	XXX	XXX
	EQUITY AND LIABILITIES		
	Total equity	XXX	XXX
	LIABILITIES		
2	Deferred tax liability	151	117
	Other liabilities	XXX	XXX
	Total liabilities	XXX	XXX
	Total equity and liabilities	XXX	XXX

Notes

1 *Property, plant and equipment*

All items of property, plant and equipment were purchased in December 20X2 and depreciated over a five-year period. The cost of property, plant and equipment is restated to reflect the change in the general price level since acquisition, ie the conversion factor is 2.347 (223/95).

	Historical CU million	Restated CU million
Cost of property, plant and equipment	500	1,174
Depreciation 20X3	(100)	(235)
Carrying amount 31 December 20X3	400	939
Depreciation 20X4	(100)	(235)
Carrying amount 31 December 20X4	300	704

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2 *Deferred tax liability*

The nominal deferred tax liability at 31 December 20X4 of CU30 million is measured as the taxable temporary difference between the carrying amount of property, plant and equipment of CU300 and their tax base of CU200. Similarly, the deferred tax liability at 31 December 20X3 of CU20 million is measured as the taxable temporary difference between the carrying amount of property, plant and equipment of CU400 and their tax base of CU333. The applicable tax rate is 30 per cent.

In its restated financial statements, at the end of the reporting period the entity remeasures deferred tax items in accordance with the general provisions in SB-FRS 12, ie on the basis of its restated financial statements. However, because deferred tax items are a function of carrying amounts of assets or liabilities and their tax bases, an entity cannot restate its comparative deferred tax items by applying a general price index. Instead, in the reporting period in which an entity applies the restatement approach under SB-FRS 29, it (a) remeasures its comparative deferred tax items in accordance with SB-FRS 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 current reporting period by applying the measuring unit at that date, and (b) restates the remeasured deferred tax items for the change in the measuring unit from the date of the opening statement of financial position of the current period up to the end of the reporting period.

In the example, the restated deferred tax liability is calculated as follows:

	CU million
At the end of the reporting period:	
Restated carrying amount of property, plant and equipment (see note 1)	704
Tax base	(200)
Temporary difference	504
@ 30 per cent tax rate = Restated deferred tax liability 31 December 20X4	151
Comparative deferred tax figures:	
Restated carrying amount of property, plant and equipment [either 400 × 1.421 (conversion factor 1.421 = 135/95), or 939/1.652 (conversion factor 1.652 = 223/135)]	568
Tax base	(333)
Temporary difference	235
@ 30 per cent tax rate = Restated deferred tax liability 31 December 20X3 at the general price level at the end of 20X3	71
Restated deferred tax liability 31 December 20X3 at the general price level at the end of 20X4 (conversion factor 1.652 = 223/135)	117

IE6 In this example, the restated deferred tax liability is increased by CU34 to CU151 from 31 December 20X3 to 31 December 20X4. That increase, which is included in profit or loss in 20X4, reflects (a) the effect of a change in the taxable temporary difference of property, plant and equipment, and (b) a loss of purchasing power on the tax base of property, plant and equipment. The two components can be analysed as follows:

	CU million
Effect on deferred tax liability because of a decrease in the taxable temporary difference of property, plant and equipment (-CU235 + CU133) × 30%	31
Loss on tax base because of inflation in 20X4 (CU333 × 1.652 – CU333) × 30%	(65)
Net increase of deferred tax liability	(34)
Debit to profit or loss in 20X4	34

The loss on tax base is a monetary loss. Paragraph 28 of SB-FRS 29 explains this as follows:

> The gain or loss on the net monetary position is included in net income. The adjustment to those assets and liabilities linked by agreement to changes in prices made in accordance with paragraph 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. 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.