

**PUBLIC BENEFIT ENTITY INTERNATIONAL PUBLIC SECTOR ACCOUNTING  
STANDARD 10 FINANCIAL REPORTING IN HYPERINFLATIONARY  
ECONOMIES (PBE IPSAS 10)**

**Issued September 2014 and incorporates amendments to 31 January 2021**

This Standard was issued on 11 September 2014 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 9 October 2014.

Reporting entities that are subject to this Standard are required to apply it in accordance with the effective dates in paragraphs 39.1 to 39.3.

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Tier 1 and Tier 2 PBE Standard has been issued as part of a revised full set of PBE Standards that incorporate enhancements for not-for-profit public benefit entities.

This Standard, when applied, supersedes PBE IPSAS 10 *Financial Reporting in Hyperinflationary Economies* issued in May 2013.

## **PBE IPSAS 10 FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES**

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**The following is available on the XRB website as additional material:**

IPSASB Basis for Conclusions

Public Benefit Entity International Public Sector Accounting Standard 10 *Financial Reporting in Hyperinflationary Economies* is set out in paragraphs 1–40. All the paragraphs have equal authority. PBE IPSAS 10 should be read in the context of its objective, the NZASB’s Basis for Conclusions on PBE IPSAS 10, the IPSASB’s Basis for Conclusions on IPSAS 10, the *Public Benefit Entities’ Conceptual Framework* and Standard XRB A1 *Application of the Accounting Standards Framework*. PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

## Objective

1. 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. The Standard also specifies the accounting treatment where the economy ceases to be hyperinflationary.

## Scope

- 1A. **An entity that prepares and presents financial statements 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.**
2. [Not used]
- 2.1 **This Standard applies to Tier 1 and Tier 2 public benefit entities.**
3. [Not used]
4. In a hyperinflationary economy, reporting of operating results 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.
5. 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.
  - (e) The cumulative inflation rate over three years is approaching, or exceeds, 100%.
6. 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

7. **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.**

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

**Terms defined in other PBE Standards are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.**

## The Restatement of Financial Statements

8. 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.
9. 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.
10. Many entities include in their financial statements the related budgetary information, to facilitate comparisons with the budget. Where this occurs, the budgetary information should also be restated in accordance with this Standard.
11. **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 comparative information for the previous period required by PBE IPSAS 1 *Presentation of Financial Reports*, 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 47(b) and 48 of PBE IPSAS 4 *The Effects of Changes in Foreign Exchange Rates* apply.**
12. **The surplus or deficit on the net monetary position shall be included in surplus or deficit and separately disclosed.**
13. 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

14. 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.
15. 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.
16. 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.
17. 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 and fair value, so they are not restated. All other non-monetary assets and liabilities are restated.
18. 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, goodwill, 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.
19. 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.

20. 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.
21. 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.
22. To determine whether the restated amount of a non-monetary item has become impaired and should be reduced an entity applies relevant impairment tests in PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets* or PBE IPSAS 26 *Impairment of Cash-Generating Assets*. For example, restated amounts of property, plant and equipment, goodwill, patents and trademarks are reduced to recoverable amount or recoverable service amount where appropriate, and restated amounts of inventories are reduced to net realisable value or current replacement cost. 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 comprehensive revenue and expense of such an investee are restated in accordance with this Standard in order to calculate the investor's share of its net assets/equity and comprehensive revenue and expense. 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/equity, except accumulated comprehensive revenue and expense 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 comprehensive revenue and expense 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/equity 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/equity are disclosed in accordance with PBE IPSAS 1.

### **Statement of Comprehensive Revenue and Expense**

27. This Standard requires that all items in the statement of comprehensive revenue and expense 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 expenses 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/equity and items in the statement of comprehensive revenue and expense and the adjustment of index linked assets and liabilities. The gain or loss may be estimated by applying the change in a general price index to the weighted average for the period of the difference between monetary assets and monetary liabilities.
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 16 is offset against the gain or loss on net monetary position. Other items in the statement of comprehensive revenue and expense, 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 comprehensive revenue and expense.

### **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.

### **Comparative Information**

31. Comparative information for the previous reporting period, whether they were based on a historical cost approach or a current cost approach, 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 47(b) and 48 of PBE IPSAS 4 apply.

### **Consolidated Financial Statements**

32. 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 PBE IPSAS 4.
33. 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**

34. 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**

35. **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**

36. **The following disclosures shall be made:**
- (a) **The fact that the financial statements and the comparative information 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.**
37. 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

38–39. [Not used]

- 39.1 **A public benefit entity shall apply this Standard for annual financial statements covering periods beginning on or after 1 April 2015. Earlier application is permitted for not-for-profit public benefit entities as long as the full suite of PBE Standards is applied at the same time.**
- 39.2 ***2018 Omnibus Amendments to PBE Standards*, issued in November 2018, amended paragraph 9. An entity shall apply that amendment for annual financial statements covering periods beginning on or after 1 January 2019. Earlier application is permitted.**
- 39.3 **PBE IPSAS 40 *PBE Combinations* issued in July 2019, amended paragraph 22. An entity shall apply that amendment when it applies PBE IPSAS 40.**

## Withdrawal and Replacement of PBE IPSAS 10 (May 2013)

40. This Standard, when applied, supersedes PBE IPSAS 10 *Financial Reporting in Hyperinflationary Economies* issued in May 2013.



## **Basis for Conclusions**

*This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 10.*

BC1. The New Zealand Accounting Standards Board (NZASB) has not modified the recognition and measurement requirements in IPSAS 10 *Financial Reporting in Hyperinflationary Economies* for application by Tier 1 and Tier 2 public benefit entities. Where applicable, disclosure concessions have been identified for Tier 2 entities and the language generalised for use by public benefit entities. The NZASB considered that the requirements of IPSAS 10 are appropriate for application by public benefit entities.

### **2018 Omnibus Amendments to PBE Standards**

BC2. In November 2018 the IPSASB issued *Improvements to IPSAS, 2018* which amended IPSAS 10 *Financial Reporting in Hyperinflationary Economies* by replacing the term “primary financial statements” (which is not defined in IPSAS) with the term “financial statements” (which is a defined term). The NZASB amended PBE IPSAS 10 in *2018 Omnibus Amendments to PBE Standards*.

## Illustrative Example

*This example accompanies, but is not part of, PBE IPSAS 10.*

- IE1. This Standard sets out the requirements for the restatement of financial statements, including the consolidated financial statements, of entities reporting in the currency of a hyperinflationary economy.
- IE2. The following example illustrates the process for restatement of financial statements. In preparing this illustration:
- The surplus on net monetary position for the period was indirectly derived as the difference resulting from the restatement of non-monetary assets and liabilities, net assets/equity, and items in the statement of comprehensive revenue and expense (see paragraph 28).
  - Inventory on hand at the end of the reporting period was assumed to have been acquired later in the reporting period, when the general inflation index was 170.
  - The general price index was 120 at the beginning of the period, 180 at the end of the period, and it averaged 150 during the period.
  - Revenue and expenses, other than depreciation, are assumed to accrue evenly throughout the reporting period.
  - Assets whose historical cost was 7,500 were completely depreciated and scrapped; their salvage value was zero.

**Financial Reporting Under Hyperinflation***Example*

<b>Statement of Financial Position</b>	<b>1.1.X0</b> <b>(Per IPSAS 12)</b>	<b>31.12.X0</b> <b>(Un-adjusted)</b>	<b>Indexation</b> <b>Factor</b>	<b>31.12.X0</b> <b>(Per IPSAS 12)</b>	<b>Surplus/ Deficit</b> <b>on Net</b> <b>Monetary</b> <b>Position</b>
Cash and investments	5,000	10,000	–	10,000	–
Inventories	–	2,000	180/170	2,118 <i>Restated</i>	118
<i>Physical assets:</i>					
Historical cost	47,500	40,000	180/120	60,000	20,000
Accum. depreciation	(22,500)	(20,000)	180/120	(30,000)	(10,000)
Net book value	25,000	20,000	180/120	30,000 <i>Restated</i>	10,000
<b>Total Assets</b>	<b>30,000</b>	<b>32,000</b>		<b>42,118</b>	
Borrowings	<b>26,000</b>	<b>26,000</b>	–	<b>26,000</b>	
<b>Net Assets</b>					
Brought forward	<b>4,000</b>	<b>4,000</b>	180/120	6,000 <i>Restated</i>	(2,000)
Net surplus for period (see below)		2,000	See below	10,118	1,100
	<b>4,000</b>	<b>6,000</b>		<b>16,118</b>	<b>9,218</b>
<b>Statement of Comprehensive Revenue and Expense</b>					
Revenues		50,000	180/150	60,000 <i>Restated</i>	10,000
Depreciation		(5,000)	180/120	(7,500) <i>Restated</i>	(2,500)
Other expenses		(43,000)	180/150	(51,600) <i>Restated</i>	(8,600)
Surplus on net monetary position				9,218	
Surplus for the year		<b>2,000</b>		<b>10,118</b>	<b>(1,100)</b>

NB: This Standard (paragraph 27) requires that statement of comprehensive revenue and expense items be restated using the movement in the index from the dates that the transactions were recorded. In this example, items of revenue and expense, other than depreciation, accrue evenly over the reporting period, and an average inflation rate has been applied. The surplus on net monetary position has been derived indirectly (see final column) by applying the general price index to the non-monetary items in the statement of financial position and the statement of comprehensive revenue and expense (paragraph 28).

## Comparison with IPSAS 10

PBE IPSAS 10 *Financial Reporting in Hyperinflationary Economies* is drawn from IPSAS 10 *Financial Reporting in Hyperinflationary Economies*. PBE Standards require the presentation of a statement of comprehensive revenue and expense. IPSASs require the presentation of a statement of financial performance. Other than the impact of this difference, there are no significant differences between PBE IPSAS 10 and IPSAS 10.

## History of Amendments

PBE IPSAS 10 *Financial Reporting in Hyperinflationary Economies* was issued in September 2014.

This table lists the pronouncements establishing and substantially amending PBE IPSAS 10. The table is based on amendments issued as at 31 January 2021.

Pronouncements	Date issued	Early operative date	Effective date (annual financial statements ... on or after ...)
PBE IPSAS 10 <i>Financial Reporting in Hyperinflationary Economies</i>	Sept 2014	Early application is permitted for not-for-profit public benefit entities	1 April 2015
PBE FRS 48 <i>Service Performance Reporting</i>	Nov 2017	Early application is permitted	1 Jan 2022 <sup>1</sup>
<i>Omnibus Amendments to PBE Standards</i>	Nov 2018	Early application is permitted	1 Jan 2019
PBE IPSAS 40 <i>PBE Combinations</i>	July 2019	Early application is permitted	1 Jan 2021

Table of Amended Paragraphs in PBE IPSAS 10		
Paragraph affected	How affected	By ... [date]
Paragraph 9	Amended	2018 <i>Omnibus Amendments to PBE Standards</i> [Nov 2018]
Paragraph 11	Amended	PBE FRS 48 [Nov 2017]
Paragraph 22	Amended	PBE IPSAS 40 [July 2019]
Paragraph 39.2	Added	2018 <i>Omnibus Amendments to PBE Standards</i> [Nov 2018]
Paragraph 39.3	Added	PBE IPSAS 40 [July 2019]

<sup>1</sup> 2020 *Amendments to PBE FRS 48*, issued in August 2020, deferred the effective date of PBE FRS 48 from 1 January 2021 to 1 January 2022.