



**IGRAP 5**

**ACCOUNTING STANDARDS BOARD**

**INTERPRETATION OF THE STANDARDS OF  
GENERALLY RECOGNISED ACCOUNTING  
PRACTICE**

**APPLYING THE RESTATEMENT APPROACH  
UNDER THE STANDARD OF GRAP ON  
FINANCIAL REPORTING IN  
HYPERINFLATIONARY ECONOMIES**

**(IGRAP 5)**

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### **Acknowledgement**

This Interpretation of the Standards of Generally Recognised Accounting Practice (IGRAP) is drawn primarily from the equivalent Interpretation of the International Financial Reporting Standard on *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* (IFRIC 7) issued by the International Financial Reporting Interpretations Committee (IFRIC) of the International Accounting Standards Board (IASB). The IASB has issued a comprehensive body of IFRICs. Extracts of the IFRIC on *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* are reproduced in these Interpretations of the Standards of GRAP with the permission of the IASB.

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## **APPLYING THE RESTATEMENT APPROACH UNDER THE STANDARD OF GRAP ON FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES**

### **Introduction**

### **Interpretations of the Standards of Generally Recognised Accounting Practice**

The Accounting Standards Board (Board) is required in terms of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), to determine generally recognised accounting practice referred to as Standards of Generally Recognised Accounting Practice (GRAP).

The Board must determine GRAP for:

- (a) departments (national and provincial);
- (b) public entities;
- (c) constitutional institutions;
- (d) municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality; and
- (e) Parliament and the provincial legislatures.

The above are collectively referred to as “entities”.

The Board has approved the application of Statements of Generally Accepted Accounting Practice (GAAP), codified by the Accounting Practices Board (APB) and issued by the South African Institute of Chartered Accountants (SAICA) to be GRAP for:

- (a) government business enterprises (GBEs)(as defined in the PFMA);
- (b) trading entities (as defined in the PFMA);
- (c) any other entity, other than a municipality, whose ordinary shares, potential ordinary shares or debt are publicly traded on the capital markets; and
- (d) entities under the ownership control of any of these entities.

The Board believes that Statements of GAAP are relevant and applicable to financial statements prepared by all such entities including those under their ownership control.

Financial statements should be described as complying with Standards of GRAP only if they comply with all the requirements of each applicable Standard of GRAP and any related Interpretations of the Standards of GRAP.

Any limitation of the applicability of specific Standards or Interpretations of the Standards of GRAP is made clear in those Standards or Interpretations of the Standards of GRAP.



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The Interpretation of the Standard of GRAP on *Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies* is set out in paragraphs .01 to .08. All paragraphs in this Interpretation of the Standards of GRAP have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This Interpretation of the Standards of GRAP should be read in the context of its objective, its basis for conclusions if applicable, the *Preface to Standards of GRAP*, the *Preface to the Interpretations of the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*.

Standards of GRAP and Interpretations of 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 of GRAP, published in the Government Gazette.

Reference may be made to a Standard of GRAP that has not been issued at the time of issue of this Interpretation of the Standards of GRAP. This is done to avoid having to change the Standards already issued when a later Standard is subsequently issued. Paragraph .12 of the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.



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## **Interpretation of the Standards of GRAP on *Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies***

### **References**

- GRAP 10 *Financial Reporting in Hyperinflationary Economies* (as revised in 2010)

### **Background**

.01 This Interpretation of the Standards of GRAP provides guidance on how to apply the requirements of the Standard of GRAP on *Financial Reporting in Hyperinflationary Economies* (as revised in 2010) in a reporting period in which an entity identifies<sup>1</sup> the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and the entity therefore restates its financial statements in accordance with the Standard of GRAP on *Financial Reporting in Hyperinflationary Economies* (as revised in 2010).

### **Issues**

- .02 The questions addressed in this Interpretation of the Standards of GRAP are:
- (a) how should the requirement '... stated in terms of the measuring unit current at the reporting date' in paragraph .10 of the Standard of GRAP on *Financial Reporting in Hyperinflationary Economies* (as revised in 2010) be interpreted when an entity applies the Standard of GRAP?
  - (b) where applicable, how should an entity account for opening deferred tax items in its restated financial statements?

### **Consensus**

.03 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 shall apply the requirements of the Standard of GRAP on *Financial Reporting in Hyperinflationary Economies* (as revised in 2010) as if the economy had always been hyperinflationary. Therefore, in relation to non-monetary items measured at historical cost, the entity's opening statement of financial position at the beginning of the earliest period presented in the financial

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<sup>1</sup> The identification of hyperinflation is based on the entity's judgement in paragraph .03 of the Standard of GRAP on *Financial Reporting in Hyperinflationary Economies* (as revised in 2010).

statements shall be restated to reflect the effect of inflation from the date the assets were acquired and the liabilities were incurred or assumed until the reporting date. For non-monetary items carried in the opening statement of financial position at amounts current at dates other than those of acquisition or incurrence, that restatement shall reflect instead the effect of inflation from the dates those carrying amounts were determined until the reporting date.

- .04 At the reporting date, deferred tax items are recognised and measured in accordance with the International Accounting Standard on *Income Taxes*, where applicable. However, where applicable, the deferred tax figures in the opening statement of financial position for the reporting period shall be determined as follows:
- (a) the entity remeasures the deferred tax items in accordance with the International Accounting Standard on *Income Taxes*, 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 reporting period by applying the measuring unit at that date.
  - (b) the deferred tax items remeasured in accordance with (a) are restated for the change in the measuring unit from the date of the opening statement of financial position of the reporting period to the end of that reporting date.

The entity applies the approach in (a) and (b) in restating the deferred tax items in the opening statement of financial position of any comparative periods presented in the restated financial statements for the reporting period in which the entity applies the Standard of GRAP on *Financial Reporting in Hyperinflationary Economies* (as revised in 2010).

- .05 After an entity has restated its financial statements, all corresponding figures in the financial statements for a subsequent reporting period, including deferred tax items, where applicable, are restated by applying the change in the measuring unit for that subsequent reporting period only to the restated financial statements for the previous reporting period.

### Transitional provisions

- .06 *All changes resulting from the application of this Interpretation of the Standards of GRAP shall be accounted for in accordance with the requirements of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010).***

### Effective date

### Initial adoption of the Standards of GRAP



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- .07** *This Interpretation of the Standards of GRAP becomes effective with reference to the effective date of the applicable Standards of GRAP as 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**

- .08** *An entity shall apply this Interpretation of the Standards of GRAP for annual financial statements covering periods beginning on or after 1 April 2011.*



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### **Comparison with the Interpretation of IFRS on *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* (IFRIC 7) (November 2005)**

This Interpretation of the Standards of GRAP on *Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies* (IGRAP 5) is drawn primarily from the Interpretation of IFRS on *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* (IFRIC 7). The main differences between this Interpretation and IFRIC 7 are as follows:

- This Interpretation uses different terminology, in certain instances, from IFRIC 7. The most significant examples are the use of the term “reporting date”. The equivalent term in IFRIC 7 is “end of the reporting period”.
- The appendix to IFRIC 7 has not been included in this Interpretation as deferred tax items are not commonly found in the South African public sector.