**Inflationary Economies**

**(Questionnaire)**

The effects of inflation in financial statements have for several years now been a cause for concern in those regions of the world where inflation is moderate or high. The concern arises from the distortion resulting from the lack of recognition of inflation.

The above concern has been discussed at international accounting meetings, including the IASB, ASAF, IFASS and GLASS.

The question to answer is whether the scope of IAS 29, *Financial Reporting in Hyperinflationary Economies*, should be widened to require the recognition of the effects of high inflation in the financial statements of entities and not wait until reaching hyperinflation, as IAS 29 currently requires. The IASB’s research pipeline includes a possible future project to assess whether such a scope extension would be feasible. That project would not consider amending any other requirements of IAS 29.

The standard-setting bodies in Argentina and Mexico have initiated an investigation to determine the current status of inflation accounting in different regions of the world and, in particular, to determine the needs of the users of financial information of entities that operate in inflationary economic environments. The responses received will provide evidence to the IASB on whether the scope of IAS 29 should be widened.

We would greatly appreciate your responses to this questionnaire.

We expect that completing this questionnaire will take approximately 60 minutes.

**Country/Jurisdiction: ……………………………..**

**Name of organisation completing the questionnaire …………….………..**

**Contact details:**

**Person ………………………………**

**Email address …………………..**

1. In your country, has the average annual rate of inflation been greater than 3% over the past 10 years?

If that is the case, in what range does your average annual rate of inflation fall over such period?

1. + 3% up to 5%
2. + 5% up to 8%
3. + 8% up to 15%
4. + 15% up to 26%
5. + 26%

Please provide the highest and lowest rates of inflation in the 10[5] year period

1. Inflation produces a loss of purchasing power of the local currency, causing distortion of financial information that is presented in a currency whose purchasing power has varied over time. As a result, it is necessary to make adjustments to ensure that financial statement amounts are expressed in constant purchasing power.

In general, do you think users of financial information in your country are aware of the impact that inflation has on financial information, especially in economic environments with moderate or high inflation?

Yes \_\_

No \_\_

Comments\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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1. The impact that inflation has on financial information presented in a currency of an economic environment with moderate or high inflation is not the same for all entities because such impact depends on both the level of inflation and the financing structure of the entity. Are users in your country generally aware of this situation?

Yes \_\_

No \_\_

Comments\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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1. Since inflation is a cost, financial information presented in the currency of an economic environment with moderate or high inflation can show nominal gains in excess of real gains; i.e., gains that include the effects of inflation. For example:

Assume an entity held the following at 1/1/20X6:

Cash CU1,000 and

Equity CU1,000

During the period the rate of inflation was 10% (loss of purchasing power). Additionally, the profit of the period was CU40 (revenue less expenses).

As of 31/12/20X6 it held:

Cash CU1,040

Equity CU1,000

Profit CU40

To maintain its equity in monetary terms (no loss of purchasing power), at the end of the period the entity must have equity of CU1,000 + 10% inflation, i.e. CU1,100.

However, since equity is only CU1,040, it has lost CU60 (CU1,040 vs. CU1,100). In other words, in nominal terms the financial information of the entity shows a profit of CU40, and the inflation adjusted financial information shows a loss of CU60.

In the first case, the entity could pay dividends of CU40, resulting the decapitalization of the entity; in the second case (adjusted for inflation) it can be seen that there is no basis for the payment of a dividend.

In your country, do you think users of financial information are aware of the above described weakness in financial information that does not reflect the impact of inflation?

Yes

No

Comments\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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1. If you responded positively to any of the previous three questions, do users of financial information utilize some other techniques to analyze financial results presented within a moderate or high inflation economic environment?

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1. If you responded positively to the previous question, please explain in general terms what techniques and/or procedures are utilized to analyze financial statements.

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1. If your responses to questions 2 through 4 were negative, please indicate to which of the following you attribute the lack of awareness of the distortions of financial information:
2. Lack of knowledge on the topic.
3. Lack of experience with the restatement of financial information to reflect the effects of inflation.
4. The use of analytical models that do not capture the distortions of financial statements caused by inflation.
5. Other causes (please describe)\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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1. In the Appendix 1, summarized financial information is shown for three randomly-selected public entities that issue their financial information in a country whose rate of inflation for the current year was 28.26% and the cumulative rate of inflation for the three years at the end of the period was 66.53%.

The “nominal” information represents the information included in the published financial statements pursuant to IFRS. The information has not been restated, as the indicators set out in IAS 29 for hyperinflation are not considered to be met.

The “restated” information represents the information that has been restated for the effects of inflation by applying the restatement methodology established in IAS 29 for a hyperinflationary economic environment.

In your opinion, how would you rate the published financial information for each of the entities (without applying IAS 29):

1. Telecommunications:
   * Acceptable
   * Insignificantly distorted
   * Significantly distorted
   * Unacceptable
2. Gas carrier:
   * Acceptable
   * Insignificantly distorted
   * Significantly distorted
   * Unacceptable
3. Gas distributor:
   * Acceptable
   * Insignificantly distorted
   * Significantly distorted
   * Unacceptable
4. Please provide any additional comments you think may be useful.

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**Appendix 1 - Financial indicators**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Indicators** | **Telecommunications** | | **Gas Carrier** | | **Gas Distributor** | |
| **Restated thousands of CU** | **Nominal thousands of CU** | **Restated thousands of CU** | **Nominal thousands of CU** | **Restated thousands of CU** | **Nominal thousands of CU** |
|  |  |  |  |  |  |  |
| ***Return on Assets*** | (4.94%) | 23.23% | (2.56%) | 14.64% | (6.85%) | (10.14%) |
| Operating Income | (1,025) | 3,858 | (371,126) | 903,709 | (486,131) | (284,437) |
| Total Assets | 20,768 | 16,605 | 14,498,910 | 6,174,420 | 7,095,898 | 2,805,167 |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| ***Return on Equity*** | (3.16%) | 37.15% | (5.17%) | 5.62% | (21.60%) | **N/A** |
| Comprehensive Income | (405) | 3,209 | (376,464) | 104,988 | (557,407) | (631,179) |
| Total Equity | 12,802 | 8,639 | 7,278,461 | 1,867,537 | 2,580,296 | (207,062) |
|  |  |  |  |  |  |  |

***Comments:***

The principal effects of the recognition of inflation in the statement of financial position are:

* + - Increase in nonmonetary assets as a result of their restatement using a general price index from the date of acquisition to the end of the reporting period.
    - Increase in paid-in capital as a result of its restatement using a general price index from the date of contribution to the end of the reporting period.

The principal effects of the recognition of inflation in the statement of comprehensive income are a reduction of profits or an increase in losses due to:

* + - Increase in the cost of sales of inventory.
    - Increase in the amount of depreciation and amortization of fixed and other assets.
    - Recognition of the gain or loss on net monetary position.