



Need to know

Reporting on periods ending on or after 30 June 2022—Inflation in Turkey

Contents

Introduction

Retranslation of Turkish foreign operations

Disclosure in financial statements reporting on periods ending on or after 30 June 2022

Further information

This *Need to know* addresses issues that arise in connection with the inflationary situation in Turkey and provides guidance on how to apply IAS 29 *Financial Reporting in Hyperinflationary Economies* in that context.

Introduction

IAS 29 requires that the financial statements of entities whose functional currency is that of a hyperinflationary economy be adjusted retrospectively for the effects of changes in a suitable general price index, with IAS 21 *The Effects of Changes in Foreign Exchange Rates* then incorporating such adjustments into the retranslation of a foreign operation into its parent's presentation currency.

These requirements apply equally to annual financial statements and interim statements prepared under IAS 34 *Interim Financial Statements*. IAS 29 includes several characteristics of hyperinflation, including a cumulative inflation rate over three years that approaches or exceeds 100 per cent.

- Levels of inflation in Turkey have been high for some time, with significant monthly increases from December 2021 to date resulting in inflation indices exceeding 100 per cent on a three year cumulative basis. It is also understood that the qualitative indicators of hyperinflation are, to varying degrees, present in Turkey

	31 Dec 2020	30 June 2021	31 Dec 2021	31 Mar 2022
Three-year cumulative CPI*	54.2%	53.2%	74.4%	109.4%

*source: [Turkish Statistical Institute](#)

- The International Monetary Fund, in its [April 2022 World Economic Outlook database](#), forecast three year cumulative inflation in Turkey to reach 138% by the end of 2022
- In light of the stated preferences in IAS 29 that all entities apply inflation accounting from the same time and using the same general price index, we consider that the use of inflation accounting is required in respect of Turkish Lira functional operations for periods ending on or after 30 June 2022 using the published consumer price index
- For earlier reporting periods, entities with material operations in Turkey should provide clear disclosure on the likelihood of inflation accounting applying in future periods

For more information please see the following websites:

www.ukaccountingplus.co.uk

www.deloitte.co.uk

Retranslation of Turkish foreign operations

When a Turkish Lira functional entity is a foreign operation (subsidiary, joint venture, associate or branch) of a group that presents its financial statements in a different currency, inflation accounting will be applied retrospectively to the Turkish entity's financial statements before they are retranslated for inclusion in the group's financial statements.

It should then be noted that IAS 21 requires a different method for the retranslation of foreign operations when that operation has a functional currency of a hyperinflationary economy, with all amounts (including income and expenses) translated at the exchange rate between the Turkish Lira and presentation currency at the reporting date.

A number of issues around the presentation of the effects of translation of hyperinflationary foreign operations and of comparative information when an economy becomes hyperinflationary were considered by the IFRS Interpretations Committee in the context of Argentinian inflation, with conclusions published in the [March 2020 IFRIC Update](#).

More detail on these and other aspects of hyperinflation and foreign exchange accounting are available to subscribers to GAAP in the UK on [Deloitte Accounting Research Tool \(DART\)](#).

Disclosure in financial statements reporting on periods ending on or after 30 June 2022

The requirements of IAS 1 *Presentation of Financial Statements* on significant accounting judgements and IAS 34 on significant events and transactions mean that the use of inflation accounting and its effect should be disclosed in the annual or interim financial statements of entities with material operations in Turkey. These disclosures should usually include the identity and level of the price index used for the application of IAS 29.

Entities reporting under FRS 102

The requirements of Section 31 *Hyper-inflation* of FRS 102 on identification of hyperinflationary economies are consistent with those under IFRS Standards and, as such, the requirements of Section 31 (and related requirements of Section 30 *Foreign Currency Translation*) should also be applied by entities with material operations in Turkey reporting under FRS 102 on periods ending on or after 30 June 2022.

As under IFRS Accounting Standards, clear disclosure of the effects of hyperinflation on the financial statements (usually including the identity and level of the price index used in respect of Turkish operations) should be provided.

Further information

If you have any questions about the financial reporting effects of inflation in Turkey, please speak to your usual Deloitte contact.

The Deloitte Accounting Research Tool (DART) is a comprehensive online library of accounting and financial disclosures literature. [GAAP in the UK on DART](#) allows access to the full UK accounting and IFRS Standards, linking to and from:

- Deloitte's authoritative, up-to-date, GAAP in the UK manuals which provide guidance for reporting under UK accounting and IFRS Accounting Standards
- Model financial statements for both listed and unlisted entities.

In addition, our [Beyond the numbers](#) volume of GAAP in the UK provides guidance on disclosure requirements and recommendations which businesses must consider in light of the broader environmental, social and governance matters which can significantly drive the value of an entity.

To apply for a subscription to GAAP in the UK on DART, click [here](#) to start the application process and select the appropriate GAAP in the UK package.

For more information about GAAP in the UK on DART, including pricing of the subscription packages, click [here](#).



This publication has been written in general terms and we recommend that you obtain professional advice before acting or refraining from action on any of the contents of this publication. Deloitte LLP accepts no liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please [click here](#) learn more about our global network of member firms.

© 2022. Deloitte LLP. All rights reserved.

Designed and produced by CoRe Creative Services RITM1001286