**Inflationary Economies**

**(Questionnaire)**

Fort the past several years, in some parts of the world, especiallywhere inflation is moderate orhigh, concern has arisenregardingthe distortion resulting from the lack of recognition of the effects of inflation in financial statements.

The above hascome to the attention of international bodies such as the IASB, IFASS and GLASS, which has resulted in the inclusionof this topic in their discussion agendas.

The question to answer is whetheran amendment ofIAS 29, *Financial Reporting in Hyperinflationary Economies*, is necessary to requirethe recognitionof the effects of inflation in the financial statementsof entities and not wait until reaching hyperinflation, as is currently required.

The standard-setting bodies in Argentina and Mexico have initiated an investigation to determine thecurrent status of inflation accountingindifferent regions of the world and, in particular, to determinethe needs ofthe usersof financial informationof entities that operatein inflationary economic environments.Based on the responses received, a decision will be made whether or not to proposeamendments of IAS 29 to the IASB.

We would greatly appreciateyour responsesto this questionnaire.

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%
6. 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, are users of financial information in your country 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, are users of financial information 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 affirmatively to any of the previous three questions, do users of financial information utilize some other technique to analyze financial results presented within a moderate or high inflation economic environment?

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1. If you responded affirmatively 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 aforementioned 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, since hyperinflation does not exist and IAS 29 is considered inapplicable.

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. Space for additional comments.

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**Appendix 1 - Financialindicators**

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| --- | --- | --- | --- | --- | --- | --- |
| **Indicators** | **Telecommunications** | | **Gas Carrier** | | **Gas Distributor** | |
| **Restatedthousands of CU** | **Nominal thousands of CU** | **Restatedthousands of CU** | **Nominal thousands of CU** | **Restatedthousands of CU** | **Nominal thousands of CU** |
|  |  |  |  |  |  |  |
| ***ReturnonAssets*** | (4.94%) | 23.23% | (2.56%) | 14.64% | (6.85%) | (10.14%) |
| OperatingIncome | (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 |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| ***ReturnonEquity*** | (3.16%) | 37.15% | (5.17%) | 5.62% | (21.60%) | **N/A** |
| ComprehensiveIncome | (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.