



## iGAAP in Focus

### Financial reporting

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

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This *iGAAP in Focus* 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.iasplus.com](http://www.iasplus.com)  
[www.deloitte.com](http://www.deloitte.com)

### 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 iGAAP 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.

### Further information

If you have any questions about the financial reporting effects of inflation in Turkey, please speak to your usual Deloitte contact or get in touch with a contact identified in this *iGAAP in Focus*.

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

- Deloitte's authoritative, up-to-date, iGAAP manuals which provide guidance for reporting under IFRS Standards
- Model financial statements for entities reporting under IFRS Standards

In addition, our [Beyond the numbers](#) volume of iGAAP 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.

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