IASB EMERGING ECONOMIES GROUP 6th MEETING

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ACCOUNTING FOR THE EFFECTS OF CHANGES IN PRICE LEVELS

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- **Argentina: Federación Argentina de Consejos Profesionales (FACPCE); México: Consejo Mexicano de Normas de Información Financiera, A. C (CINIF)**

RESEARCH PAPER CONTENT

1. **Introduction**
2. **Alternative solutions**
3. **Reasons for the use of an index rate for the accumulated inflation for the last three years lower than the one contemplated by IAS 29 (100%)**
4. **Proposed restatement mechanism**
5. **Annex 1: Examples of application of the restatement method**
    - I. **Restatement of financial statements:**
        - a) **Statement of Financial Position: Measurement at opening and closing date of the accounting period**
        - b) **Statement of Profit or Loss and Other Comprehensive Income**
        - c) **Statements of Changes in Equity**
    - II. **Change in economic environment**

1. INTRODUCTION

Why are we asking the IASB to undertake a research project on price-level adjusted financial reporting?

Those of us who have been living in economic environments with currencies reflecting medium and high levels of changes in their purchasing power are convinced than the financial information produced without considering the effects of inflation is misleading and does not satisfy the quality of the financial information required by the Conceptual Framework.

When no inflation adjustments are made to the financial information, comparisons and aggregations of amounts produce distorted and inadequate information.

In our view, the main effects of inflation on financial statements not adjusted for inflation are the following:

- Understatement of assets measured at historical cost and of the impairments recognized when their cost is higher than their recoverable value
- Understatement of owners' contributions or the capital contributions to the entity
- Distortion of the presentation of income and expenses due to the inadequate comparison of items stated in currency of different purchasing power
- Unrecognized gains or losses due to the exposure of monetary items to inflation
- Significant distortion in the measurement of income/loss originated in financial assets and liabilities that are stated in nominal terms despite being stated in real terms.
- It is impossible to determine the amount corresponding to capital maintenance; consequently, without knowing the growth in equity in real terms, there is no sound basis for the distribution of earnings or dividends to shareholders.

In addition, failure to consider the effects of inflation on financial statements has a significant impact on the comparison of the financial statements of the same entity over time, as well as on the comparison between financial statements of different entities using different functional currencies, or even having the same functional currency, but having different financial structures (i.e. different relationships between net nonmonetary items and equity.)

2. ALTERNATIVE SOLUTIONS

What are the possible alternative solutions that entities can use in practice to resolve or reduce significantly the distortions of financial information?

a) ***Current value measurement***

Some have been searching for the effects of inflation on the economic value of assets and liabilities and therefore have proposed to use current value measurement (sometimes referred to as *current cost accounting*), as a way to resolve or reduce the difficulties created by significant changes in price levels measured in the functional currency of certain economic environments.

The aforementioned solution may reduce the measurement differences in assets and liabilities but does not address the remaining distortions mentioned previously.

It is crystal clear for us than inflation creates a "unit of measurement" problem and not a valuation measurement problem.

Inflation is the generalized and sustained increase in the price of goods and services. The inflation rate is usually calculated in terms of the general price level index of a specific country and reflects the deterioration of the purchasing power of the currency used in that country.

The entity's functional currency value is reflected by its purchasing power. If the latter deteriorates, the currency value also deteriorates. The inflation rate may then be considered as an indicator of the variation in the currency value.

Accounting requires the use of a measurement unit. This measurement unit is the common denominator whereby items of a different nature may be stated.

It is a basic accounting principle that all measurements must be made by using the same measurement unit. To be useful this unit must have a relatively constant value over time.

It is necessary to understand that fair valuing assets and liabilities (or to use current cost measurements) is not a proper solution for the unit of measurement distortion. Even if the net assets are measured at fair value and therefore equity will be measured equally, the components of equity (owners' contributions, carrying values of OCI and accumulated profit or loss) will be substantially distorted and will not properly present the causes for the changes in equity.

It is necessary to remember that the aforementioned solution does not include the presentation of the profit or loss produced by the impact of inflation on monetary position, thereby particularly distorting the information about the real cost of borrowing and the result of maintaining receivables denominated in the functional currency.

In our view, both issues (price level changes and changes in fair value) are complementary and use of the proper accounting solution can produce the financial information needed by users of financial information to understand and evaluate the entity's performance in unstable environments.

Measurements previously corrected for the effect of price-level changes permit knowing the real change in the fair value of assets and liabilities and knowing which amounts of equity are needed to maintain its previous purchasing power.

Without such re-measurements, dividends calculated on nominal figures, in excess of the real amount of profit, can reduce equity below owners' contributions without the knowledge of the managers and owners.

b) ***Disclosure of the restated information***

In our region, accounting standards have occasionally required the use of disclosure for the presentation of the information needed by users, without including such information in the basic financial statements. Countries having medium and high levels of inflation briefly used this proposal, but the experience was unsatisfactory. Most users found it confusing to have two different measurements of profit, total assets, equity, etc. and very difficult to understand the differences between them.

The aforementioned solution (to only disclose the restated information) was discontinued and prohibited by the standard setters because of the misleading and confusing information provided to users. Accordingly, restated information was only required in the basic financial statements, including the separate presentation of the result produced by the inflation effects on the net monetary position.

c) *Constant currency accounting*

The second alternative solution to the problem is the use of *constant currency accounting*. The goal here is to measure all the figures of the financial statements in currency with the same purchasing power, with that being the one corresponding to the closing date of the last period presented.

Because of cost-benefit reasons, the method can be used only when the distortions for not using the method are relevant for financial information analysis. Distortions, especially in the statement of profit or loss and other comprehensive income, are crystal clear when the inflation rate for the period is high, thereby justifying the cost of the restatement.

Countries with medium and high inflation, but not hyperinflation, have been using this method of restatement with very satisfactory results.

When constant currency accounting is used over a period of time, the previous view of preparers regarding this being a complicated method is reduced significantly, and with the proper support of the I.T. systems the restatement can be done automatically with a very high level of precision regarding the inflation impact on profit and loss, especially with the effect on monetary items, providing the proper information to measure finance costs and revenue.

Our group and the accounting profession of the countries we represent are convinced that the only method with reasonable results is constant currency accounting, and therefore our proposal is to extend the method proposed by IAS 29 to countries with functional currencies showing price level changes exceeding certain limits, considerably lower than the 100% accumulated in three years included in IAS 29.

3. Reasons for the use of an index rate for the accumulated inflation for the last three years lower than the one contemplated by IAS 29 (100%)

According to the arguments presented above, it is indisputable that the existence of inflation distorts the financial information prepared without considering its effects.

When the effects of inflation are insignificant, the cost and effort required to restate all the figures in order to consider such effects exceeds the usefulness of the restated information.

Practical experience indicates that users of financial information in low inflation environments are satisfied with the quality of the information presented without computing this effect, and are accustomed to receiving nominal information, including to regularly compare it with the information of other entities working in similar economic environments, in relationship with the level of the inflation rate and the dispersion of the rates in relation to the average.

Empirical demonstrations show that the distortion of the most relevant financial information parameters is significantly higher in environments where the inflation rates are permanently higher than in stable economies.

It is therefore necessary to establish a reference point through which the distortion of the unadjusted financial information is so significant that it justifies the costs and efforts necessary for preparers to produce the corresponding changes to the nominal financial information.

As all numerical parameters are arbitrary and cannot be mathematically demonstrated as being the best, our opinion on the issue is based in our actual experience from having lived and worked in our region during very prolonged periods in which we had environments of

high, medium and low inflation rates, and having prepared and analyzed financial information produced in those contexts, both with and without restatement of the financial information for the effects of inflation.

Based on our experience, we suggest replacing the hyperinflation numerical parameter contained in IAS 29 of 100% with a reference number of 26% (high inflation), also accumulated for the three previous periods to the closing date of the financial statements, meaning about 8% annual.

Also, based on our previous experience, we can say that an annual inflation rate of approximately 8% is not sustainable during a prolonged time. The empirical evidence shows that environments evolve into a reduction of the rate to certain limits, which can be sustained during prolonged periods (less to 3% annual) or to a substantial increase in the inflation rate.

In order to demonstrate the distortion with numerical real life examples, we prepared a table, which we show below, where we have developed for a 10-year period, some common traditional financial analysis parameters for some entities having worked in low inflation environments and for others having worked in an environment above the proposed reference point.

One very significant aspect for the determination of results in inflationary environments is the financial structure, for which we have selected entities having a very similar finance structure of their non-monetary assets.

2012 Relationships	Non monetary Fixed Assets	Equity	Equity/Fixed Assets	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	Average distortion	Maximum distortion
Alstom (France)	**10.256**	**4.434**	**43%**												
Results Restated/Published Difference				9,21%	10,20%	2,47%	-2,97%	11,04%	8,38%	27,31%	-11,59%	-5,96%	-4,20%	4,39%	27,31%
Equity Restated/Published Difference				22,44%	20,04%	16,75%	20,93%	28,26%	20,88%	21,96%	20,35%	8,58%	9,91%	19,01%	28,26%
Period Inflation				1,98%	2,08%	1,54%	0,88%	2,82%	1,49%	1,67%	1,75%	2,14%	2,14%	1,85%	
Three years accumulated inflation				4,57%	5,32%	5,27%	6,09%	4,99%	5,66%	6,16%					
Total Period accumulated inflation				20,09%	17,76%	15,36%	13,61%	12,62%	9,54%	7,93%	6,16%	4,33%	2,14%		
Carrefour (France)	**20.918**	**8.361**	**40%**												
Results Restated/Published Difference				3,78%	37,32%	15,42%	-41,09%	20,52%	5,54%	7,52%	11,09%	15,59%	18,79%	9,45%	-41,09%
Equity Restated/Published Difference				40,48%	41,01%	25,89%	22,53%	23,70%	16,37%	15,40%	13,51%	11,33%	6,27%	21,65%	41,01%
Period Inflation				1,98%	2,08%	1,54%	0,88%	2,82%	1,49%	1,67%	1,75%	2,14%	2,14%	1,85%	
Three years accumulated inflation				4,57%	5,32%	5,27%	6,09%	4,99%	5,66%	6,16%					
Total Period accumulated inflation				20,09%	17,76%	15,36%	13,61%	12,62%	9,54%	7,93%	6,16%	4,33%	2,14%		
Telefonica (Spain)	**85.060**	**27.661**	**33%**												
Results Restated/Published Difference				5,59%	14,78%	3,87%	-13,88%	14,47%	9,94%	23,45%	12,89%	10,63%	13,08%	9,48%	23,45%
Equity Restated/Published Difference				40,73%	37,08%	25,82%	29,55%	42,51%	27,30%	23,59%	17,90%	14,66%	4,54%	26,37%	42,51%
Period Inflation				2,44%	3,05%	2,04%	-0,24%	4,13%	2,84%	3,56%	3,38%	3,05%	3,10%	2,74%	
Three years accumulated inflation				4,91%	6,00%	6,84%	10,91%	10,11%	10,33%	9,84%					
Total Period accumulated inflation				30,92%	27,80%	24,02%	21,53%	21,82%	16,99%	13,76%	9,84%	6,25%	3,10%		
EDET (Argentina)	**116.507**	**55.952**	**48%**												
Results Restated/Published Difference				1,50%	-9,03%	24,36%	54,28%	101,59%	129,39%	115,54%	203,65%	-67,84%	532,03%	108,55%	532,03%
Equity Restated/Published Difference				92,19%	86,14%	102,89%	97,34%	83,16%	53,88%	38,57%	26,57%	11,51%	12,38%	60,46%	102,89%
Period Inflation				13,13%	12,67%	14,56%	10,27%	8,98%	14,56%	7,17%	10,64%	8,35%	1,50%	10,18%	
Three years accumulated inflation				42,33%	37,66%	37,66%	33,80%	35,84%	28,48%	21,68%					
Total Period accumulated inflation				162,13%	131,72%	105,65%	79,52%	62,80%	49,39%	30,40%	21,68%	9,98%	1,50%		

- We are enclosing the file containing all the research made about the financial information published by very important companies in non- inflationary environments. It is observable that, even in the mentioned environment, the distortion for not restatement is very important.

Based in a research work and paper we made during the year 2008 we obtained information and we analyzed the input corresponding to 148 countries in relationship with the inflation rate they had during the years 2005 to 2007

Based on the mentioned information, we show below which are the countries having to apply the restatement mechanism if they had adopted the 26% parameter proposed before, describing the accumulated rate and the corresponding to each of the three previous years.

Nª	Country	Ac. 2005/2007	2007	2006	2005
1	Zimbabwe:	526386,8%	12563,0%	1033,5%	266,8%
2	Turkmenistan:	1327,1%	11,3%	11,5%	1050,0%
3	Iraq:	113,3%	4,7%	53,2%	33,0%
4	Guinea:	100,5%	23,4%	30,0%	25,0%
5	Burma:	94,7%	35,0%	20,0%	20,2%
6	São Tomé and Príncipe:	67,3%	18,0%	23,1%	15,2%
7	Venezuela:	56,6%	18,7%	13,7%	16,0%
8	Angola:	56,4%	12,2%	13,3%	23,0%
9	Eritrea:	54,7%	17,0%	15,0%	15,0%
10	Iran:	48,7%	17,0%	12,0%	13,5%
11	Yemen:	48,6%	10,0%	20,8%	11,8%
12	Ethiopia:	48,5%	17,2%	13,5%	11,6%
13	Sri Lanka:	46,9%	15,8%	13,7%	11,6%
14	United Arab Emirates:	43,0%	14,0%	13,5%	10,5%
15	Ukraine:	42,9%	12,8%	11,6%	13,5%
16	Zambia:	42,6%	10,6%	9,0%	18,3%
17	Haiti:	42,0%	8,5%	13,1%	15,7%
18	Malawi:	41,8%	7,9%	13,9%	15,4%
19	Moldova:	41,6%	12,3%	12,7%	11,9%
20	Ghana:	41,3%	10,7%	10,9%	15,1%
21	Madagascar:	40,5%	10,3%	10,8%	15,0%
22	Costa Rica:	38,8%	9,4%	11,5%	13,8%
23	Kenya:	38,5%	9,7%	14,5%	10,3%
24	Azerbaijan:	38,5%	16,7%	8,3%	9,6%
25	Qatar:	38,3%	13,7%	11,8%	8,8%
26	Jamaica:	37,1%	9,5%	8,6%	15,3%
27	Tajikistan:	35,5%	13,1%	11,9%	7,1%
28	Russia:	34,8%	9,0%	9,7%	12,7%
29	Indonesia:	32,8%	6,3%	13,1%	10,5%
30	Nicaragua:	32,8%	11,1%	9,1%	9,6%
31	Argentina:	31,2%	8,8%	10,0%	9,6%
32	Mozambique:	30,4%	8,2%	13,2%	6,5%
33	Turkey:	30,0%	8,7%	10,5%	8,2%
34	Botswana:	29,7%	7,1%	11,5%	8,6%
35	Syria:	29,6%	12,2%	10,0%	5,0%
36	Kazakhstan:	29,5%	10,8%	8,6%	7,6%
37	Nigeria:	29,4%	5,4%	8,2%	13,5%
38	Burundi:	29,1%	8,3%	2,8%	16,0%
39	Georgia:	29,1%	9,3%	9,2%	8,2%
40	Guyana:	28,7%	12,3%	7,2%	6,9%
41	Rwanda:	28,2%	9,1%	8,8%	8,0%
42	Belarus:	27,9%	8,4%	7,0%	10,3%
43	Pakistan:	26,7%	7,6%	7,9%	9,1%
44	Paraguay:	26,5%	8,1%	9,6%	6,8%
45	Sudan:	26,2%	8,0%	7,2%	9,0%
46	Vietnam:	26,1%	8,3%	7,5%	8,3%

As can be observed in the illustration above, the countries with more or less stable economies haven't appeared in the selection, even they have been included in the population analyzed in the sample and therefore they haven't to apply the restatement mechanism for recognition of the inflation effects.

4. Proposed Restatement Mechanism:

The following is a description of the general aspects of the restatement process we are proposing. The intention is to bring a general idea about it and not to develop all the contents needed by a standard. In annex 1 we included a few cases with the intention to use them as examples.

An issue previous to the application of the restatement mechanism is the identification of the economic environment in which the entity operates and key to define the functional currency of the entity.

a) Economic Environment

The economic setting in which an entity operates, which, at a given point in time, may be:

i. Inflationary **-** when inflation levels cause the local currency to depreciate significantly with regard to its purchasing power where, at present, it can no longer be considered a point of reference for settling financial transactions having occurred in the past; moreover, the impact of such inflation affects economic indicators in the short -term, including exchange rates, interest rates, wages and prices. For purposes of this rule, an environment is considered inflationary when cumulative inflation of the three preceding years equals or exceeds 26% (annual average of 8%), and, in addition, according to economic forecasts from official agencies, a trend is expected in the same direction

ii. Non-inflationary **-** when inflation is negligible and, above all, is considered to be controlled in the country; the foregoing means that such inflation has no impact on the country's main economic indicators. For purposes of this rule, an environment is considered non -inflationary when cumulative inflation of the three preceding years is less than 26%, and, in addition, according to economic forecasts from official agencies, a trend is expected

b) Restatement of financial statements:

When the functional currency of an entity is the one of an inflationary economic environment according with the parameters in point a) i. before, the entity have to restate its financial statements commencing at initial date of the accounting period in which the existence of an inflationary economic environment was identified, according with the following procedures:

i. ***Integral restatement:*** it is necessary to restate the amounts of all the figures to be included in the financial statements as a previous procedure. The intention is to homogenize all the measurements using a currency unit with the same purchasing power during all the periods included in the financial statements.

ii. ***Measurement of assets, liabilities and equity:*** once restated all the amounts, the measurement of assets and equity components to be measured at historical cost, have to be determined using the same concepts as usual but using the restated amounts of the transactions used as a measurement basis. Those assets and liabilities to be measured at fair value or other measurements based in current prices or future cash flows doesn't change their measurements but the results related to them will be different, because they will be determined by comparison of the restated original amounts with the new measurement. For financial assets and liabilities to be measured at amortized cost the procedure has to be the same, i.e. their amounts won't change but

income and expense related to them will change, normally substantially because most of the nominal interest rates or other forms of adjustment belongs to inflation coverage.

iii. ***Presentation of inflation effects on financial statements information:*** It is very relevant to understand properly the financial information produced in inflationary environments, the presentation of the effects of inflation. Many considered as very important to know the impact of inflation on financial instruments results. The disclosure of the nominal change in the values of financial assets and liabilities separated from the effect of inflation on the mentioned items produce relevant information. Also the presentation of the results for maintenance of financial items (monetary items) without compensation of interest or other form of adjustment in inflationary environments is very important for the understanding of the financial information in high inflation environments.

ANNEX 1

Examples of application of the restatement method

I. Restatement of Financial Statements:

I. Statement of Financial Position: Measurement at initial and closing date of the accounting period

In order to apply the restatement mechanism at initial date of the accounting period, the entity shall classify its assets, liabilities and equity according with the following:

Monetary Assets & Liabilities: are those items whose measurement are expressed in nominal monetary units, not associated with future prices of certain goods or services; their nominal value is not changed by the effects of inflation, causing a change in their purchasing power. Monetary items include money, rights to receive money and obligations to pay money.

Non-Monetary Assets & Liabilities: items whose nominal value varies in accordance to the behavior of inflation, which is why, as a result of such inflation, their value is not impaired. These items may be assets, liabilities or equity.

Additionally, the later, in order to apply the restatement mechanism, shall be classified according with the measurement criteria to be applied at closing date, according with the following:

a) ***Non-monetary Assets and Liabilities measured based in its fair value:*** Examples of this group are: shares and options; Investment Property and Biological Assets measured at fair value.
b) ***Non-monetary Assets and Liabilities measured at cost:*** Examples of this group are: Inventories, Property, Plant and Equipment, Intangible Assets, Goodwill and Provisions reflecting the obligation to deliver goods or services.
c) ***Deferred Tax Assets and Liabilities:*** Are the ones emerging for temporary differences between the carrying values and the tax base of the others Assets y Liabilities
d) ***Equity Items:*** Are all the items corresponding to Equity, as: Share Capital, Retained earnings, Reserves, Translation of foreign operations and Non-controlling interest.

Once identified and properly separated the items according with defined before, the procedure continues with the measurement corresponding ***at commencing date,*** using the restating process according with the following:

1) ***Monetary Assets and Liabilities:*** Corresponding amounts at commencement of the annual year aren't modified
2) ***Non-monetary Assets and Liabilities measured based in its fair value:*** Corresponding amounts at commencement of the annual year aren't modified
3) Non-monetary Assets and Liabilities measured al cost: Measurements have to be restated from the date of initial measurements until the closing date of the previous period, according with the procedure described in the following example:

Property, Plant & Equipment	
Acquisition date	10/03/10
Historical cost	200,00
Price Index March 10	221,10
Price Index December 12	368,30
Measurement at restated cost	**333,15**
200*(368,3/221,1) = 333,15	
Accumulated depreciation %	28,33%
Accumulated depreciation ammount	**(94,39)**
333,15*28,33% = 94,39	
200*28,33%*(368,3/221,1) = 94,39	**238,76**

Inventories	
Acquisition date	15/08/12
Historical cost	100,00
Price Index August 12	341,10
Price Index December 12	368,30
Measurement at restated cost	**107,97**
100*(368,3/341,1) = 107,97	

Intangible Assets	
Acquisition date	09/08/12
Historical cost	300,00
Price Index August 12	341,10
Price Index December 12	368,30
Measurement at restated cost	**323,92**
300*(368,3/341,1) = 323,92	
Accumulated depreciation %	4,17%
Accumulated depreciation ammount	**(13,50)**
323,92*4,17% = 13,50	**310,43**

4) ***Deferred Tax Assets y Liabilities:*** The corresponding measurement have to be done recalculating the amounts of the differences between the restated carrying values of assets and liabilities and its tax base, that could be modified or not during the period according with the applicable tax law. The following is an application example:

DTL on Property, Plant & Equipment	
Tax Base: Original Value	200,00
Accumulated depreciation %	28,33%
Accumulated depreciation $	(56,67)
Tax Base	143,33
Carrying value	238,76
Temporary Difference	95,43
Income Tax rate	35,0%
DTL iability	**(33,40)**

5) ***Equity Items:*** Measurement of it (except retained earnings) must be restated from the date of initial measurement until the closing date of the previous period, according with the procedure described in the following example:

Issued Capital	
Issuance date	10/01/05
Issuance ammount	1.000,00
Price Index January 05	105,40
Price Index December 12	368,30
Restated measurement	**3.494,31**
1000*(368,3/105,4) = 3.494,31	

The amount of Retained Earnings is determined by difference in the accounting equation corresponding to the closing date of the previous period in which the inflationary economic environment where the entity operates, and determines its functional currency is qualified as inflationary.

Retained Earnings = Restated Assets – Restated Liabilities – Restated Equity Items (Except RE)

Once completed the measurement corresponding to the ***commencement of the accounting period*** the measurement ***at closing date*** have to be done according with the following restatement procedure:

1) ***Monetary Assets and Liabilities:*** Corresponding amounts at closing date aren't modified
2) ***Non-monetary Assets and Liabilities measured based in its fair value:*** Corresponding amounts at closing date aren't modified
3) ***Non-monetary Assets and Liabilities measured al cost:*** Measurements have to be restated from the closing date of the previous period (or from initial measurement if

later) until the closing date, according with the procedure described in the following example:

DTL on Property, Plant & Equipment	
Tax Base: Original Value	200,00
Accumulated depreciation %	38,33%
Accumulated depreciation $	(76,67)
Tax Base	123,33
Carrying value	236,24
Temporary Difference	112,90
Income Tax rate	35,0%
DTL liability	**(39,52)**
Inventories	
Acquisition date	21/11/13
Historical cost	150,00
Price Index November 13	418,10
Price Index December 13	423,50
Measurement at restated cost	**151,94**
(150*423,5/418,1) = 151,94	

4) Deferred Tax Assets y Liabilities: The corresponding measurement have to be done recalculating the amounts of the differences between the restated carrying values of assets and liabilities and its tax base, that could be modified or not during the period according with the applicable tax law. The following is an application example:

DTL on Property, Plant & Equipment	
Tax Base: Original Value	200,00
Accumulated depreciation %	38,33%
Accumulated depreciation $	(76,67)
Tax Base	123,33
Carrying value	236,24
Temporary Difference	112,90
Income Tax rate	35,0%
DTL liability	**(39,52)**

5) Equity Items: Measurement of it (except retained earnings) must be restated from the closing date of the previous period (or date of initial measurement if later) until the period closing date, according with the procedure described in the following example:

Issued Capital	
Tax Base: Original Value	10/01/05
Accumulated depreciation %	3.494,31
Accumulated depreciation $	368,30
Tax Base	423,50
Restated measurement	**4.018,03**
3.494,31*(423,5/368,3) = 4.018,03	
Issuance date	20/04/13
Issuance ammount	600,00
Price Index April 13	395,80
Price Index December 13	423,50
Restated measurement	**641,99**
600,00*(423,5/395,8) = 641,99	
Restated Capital Total	**4.660,02**

The restated amount of Retained Earnings can be determined either for difference in the accounting equation at closing date or for the aggregation to the amount at initial date less distributions to owners as dividends and the total Comprehensive income for the year attributed to the controlling interest.

II. Statement of profit or loss and other comprehensive income

In order to apply the restatement mechanism at year-end, the entity must classify its profits or loss of the period and all other comprehensive income according with the following:

Transaction results: Corresponds to transactions generating profit or loss for the period for an amount equal to the amount of the transaction, at transaction date. Examples of this are revenue, accrual of personnel costs, and accrual of leasing as lessor or lessees.

Assets measured at cost consumption: Are those results to recognize in the moment when, assets incorporated to the entity in a previous date, are consumed in the production, administrative o sales process. Examples of this kind of results are the consumption of Inventories, Property, Plant and Equipment depreciation and Intangible Assets depreciation.

Results calculated by difference between different items: Is about all the results determined by the difference between two or more different items recognized net in the Statement of Profit or Loss and Other Comprehensive Income and those calculated comparing two nominal amounts referred to different dates. Some examples of the first kind of results are the Results for sale of Property, Plant and Equipment or other Non-financial Non-current Assets. Examples of the later are the results for accrual of effective rate interest on Financial Assets and Liabilities, differences between fair value of Assets and Liabilities and for accrual of differences on provisions.

Monetary Position Result: Correspond to results produced for the reduction in the purchasing power of Monetary Assets and Liabilities not compensated by accrual of interest or other way of financial compensation. Monetary Assets originate inflation exposure losses (i.e. Cash and Cash equivalents maintaining a fixed value in functional currency monetary units). On the other hand, same characteristics Liabilities generate gains because its settlement in the future demands outflows of less economic resources than the ones necessary en a previous moment.

Once identified and separated income and expenses according with the procedure described above, the next step is to measure the items following the restatement process described below:

1) ***Transactions results:*** it is necessary to identify the periods when the transactions where produced during the year and to restate their amounts from the transaction date to year-end date, according with the procedure described in the following example:

	Nominal	Coefficient	Restated
Revenue			
Sales April 13	500,00	1,070	534,99
Sales July 13	800,00	1,055	844,05
Sales September 13	600,00	1,013	607,75
	1.900,00		**1.986,79**
Price Index April 13	395,80		
Price Index July 13	401,40		
Price Index November 13	418,10		
Price Index December 13	423,50		

2) ***Assets measured at cost consumption:*** For applying the restatement process to year-end purchasing power is necessary to identify the date where the assets have been acquired and incorporated to the entity assets and therefore the date when the measurement at costs have been made.
Following is the description of the restatement procedure of the cost of Inventories consumed during the process of generation of Revenue:

	Nominal	Coefficient	Restated
Inventories			
Initial carrying value	100,00	1,080	107,97
Purchases April 13	200,00	1,070	214,00
Purchases July 13	250,00	1,055	263,76
Purchases November 13	150,00	1,013	151,94
Closing date carrying value	(150,00)	1,013	(151,94)
Cost of Inventories Consumed	**550,00**		**585,74**

The restatement process for depreciation of Property, Plant and Equipment is described in the follow illustration:

	Previously Restated	Coefficient	Restated
Property, Plant & Equipment			
Restated historical cost	333,15	1,150	383,08
Price Index December 12	368,30		
Price Index December 13	423,50		
Period depreciation %	10,0%		(38,31)

3) Results calculated by difference between different items: It is very frequent than entities recognize results calculated as the difference between amounts corresponding to different dates. An example of the mentioned situation is the net income for the sale of Intangible Assets measured at acquisition cost less depreciation. The amounts compensated correspond to the gross amount of the sale (amount representing the purchasing power of the transaction date) and the derecognition amount of the asset sold (representing the purchasing power of the year-end of the previous period or the purchasing power of the acquisition date if the latter was more recent than the other). Following is described the restatement process of the result, contemplating the restatement of all the amounts used in the calculation to the purchasing power of year-end and finally, when all the amounts to be used in the calculation are restated to year-end date remake the calculation of the differences.

	Previously Restated	**Coefficient**	**Restated**
Intangible Assets			
Restated historical cost	323,92	1,150	372,47
Price Index December 12	368,30		
Price Index December 13	423,50		
Sale date July 13			
Sale ammount	500,00	1,055	527,53
Price Index July 13	401,40		
Period depreciation %	5,00%		(18,62)
Accumulated depreciation %	9,17%		(34,14)
Residual carrying value = derecognition	272,50		338,33
Intangible asset sale result	**227,50**		**189,20**
Nominal: 500-272,50 = 227,50			
Ajustado: 527,53-338,33 = 189,20			

As can be observed, there is no way of restating directly the net nominal amount ($ 227,50) using the inflation coefficient between the dates, because it is necessary to divide the calculation, to restate each one of the components and then recalculate the restated result as the aggregate amount of the restated figures of the components.

We mentioned that a second kind of results calculated by difference exist, related to the accrual of interest calculated using the effective rate on financial Assets and Liabilities, as the difference between the fair value of Assets and Liabilities and for the accrual of differences between provisions at previous year-end and year-end.
The following is an example of the calculation of financial costs related to a Corporate Bond measured at amortized cost.

	Nominal	Coefficient	Restated
Corporate Bond			
net issuance ammount	1.000,00	1,06998	1.069,98
Issuance date	05/04/13		
Price Index April 13	395,80		
Price Index December 13	423,50		
ER Interest accrued	115,00		**45,02**
Nominal amount at closing date	**1.115,00**		**1.115,00**
Restated Interest:			
1.115 - 1.069,98 = 45,02			
115-(1000*0,06998)=45,02			

As can be observed, the restated financial cost of the Liability can be either calculated as the difference between the restated amounts or the carrying values at commencement, at year-end and variations of the period or as the accrued nominal interest less the Monetary Position Result corresponding to the monetary Liability. The last one is calculated multiplying the nominal value of the liability with the inflation rate of the period.

The following is an example of the calculation of the result produced by changes in the fair value of a Financial Asset measured at fair value with changes in profit or loss of the period

	Nominal	Coefficient	Restated
Financial Asset			
Acquisition Fair value	500,00	1,055	527,53
Acquisition date	05/07/13		
Price Index July 13	401,40		
Price Index December 13	423,50		
Fair value at closing date	560,00		560,00
Period Profit or loss	**60,00**		**32,47**

In this case we can also see that a coefficient related to inflation doesn't exist allowing us to restate the nominal measurement to determine the restated amount. The alternative for the calculation is to restate all the components of the calculation en amounts of the same purchasing power at year-end and then to make the calculation of the differences.

The following example is for the calculation of the restated result produced for the changes in the measurement of a provision for dismantling of Property, Plant and Equipment at year-end in comparison with the previous measurement:

	Nominal	Coefficient	Restated
Provisión for dismantling PP&E			
Measurement at commencent date	720,00	1,150	827,91
Price Index December 12	368,30		
Price Index December 13	423,50		
Measurement at Closing date	810,00		810,00
PP&E adjustment	**90,00**		**(17,91)**

In this case also we can see that the nominal result for changes in the Provision to be charged modifying the cost of Property, Plant and Equipment, have to be replaced for the amount determined comparing both restated amounts, because doesn't exist a coefficient that allows to calculate the restated amount of the difference using price level indexes.

4. ***Monetary Position Result:*** We could see in the previous examples that the Monetary Assets and Liabilities produce a financial profit or loss or a change in fair value different to the nominal one, as a consequence of the impact in profit or loss of the loss in purchasing power of the functional currency. The restated financial result is the one emerging of correcting the nominal result for the effect of the inflation on the monetary item, generating an adjustment in the opposite way to the nominal financial result. Those Assets and Liabilities not generating nominal financial results, as Cash, banking checking accounts and Liabilities with short term suppliers generate a result as a consequence of the loss of purchasing power of the currency in which are the financial statements are measured between the acquisition date and the exit date or measurement if the item is at the year-end under the control of the entity. An example of the application of the case is included below

	Nominal	Coefficient	Restated
Cash			
Initial carrying value	150,00	1,150	172,48
Inflows April 13	600,00	1,070	641,99
Outflows July 13	(340,00)	1,055	(358,72)
Outflows November 13	(180,00)	1,013	(182,32)
Net Monetary Position (loss) Income	0,00		(43,43)
Closing date carrying value	**230,00**		**230,00**
Price Index April 13	395,80		
Price Index July 13	401,40		
Price Index November 13	418,10		
Price Index December 13	423,50		

Also in this case it is possible to calculate the Result for Monetary Position either as the difference between the amounts of carrying values at commencement data and year-end

dates plus the period movements restated at the purchasing power of year-end or as the result of multiplying the monetary amount for the inflation rate of the period, calculated as the correction coefficient minus one.

III. Statements of Changes in Equity

All the items of Equity are considered as non-monetary and therefore must be restated from the date of initial measurement until year-end date.
The mechanism to restate issued Capital is included before, where we developed the mechanism for the Statement of Financial Position.
The same procedure is applicable for the rest of items of Equity.
The following is an example of application of the proposed mechanism to a component of Other Comprehensive Income, in this case the item corresponding to Exchange rate differences for Foreign Operations.

Measurement of Components of Equity					
	FC	ER	FC	Coefficient	Restated
Exchange rate Foreign Operation			$		$
Acquisition Subsidiary April 13	1.500,00	2,000	3.000,00	1,070	3.209,95
Dividends July 13	(150,00)	2,300	(345,00)	1,055	(363,99)
Total P&L and OCI Dic 13	200,00	2,500	500,00	1,000	500,00
Exchange difference			720,00		529,04
Measurement at Year-end	1.550,00	2,500	3.875,00		3.875,00
Price Index April 13	395,80				
Price Index July 13	401,40				
Price Index November 13	418,10				
Price Index December 13	423,50				

The amounts to be included in Equity through OCI are calculated based on the other components of the calculation restated to include the inflation effects on the measurements.

II. Change in Economic Environment

The group opinion about the issue is that, at the beginning of each annual accounting period, the entity must evaluate if there was a change in the economic environment in which it operates; upon confirmation of a change, the entity must apply the procedures described below:

a. Change from an Inflationary to a Noninflationary economic environment

At the beginning of the annual period in which the change of environment is confirmed, the entity must cease the recognition, on its financial statements, the effects of inflation of the period (inflation accounting disconnection). However, it must maintain, in its financial statements, the restatement effects recognized until the immediate preceding period, provided they correspond to assets, liabilities or components of equity that remain in the entity.

In the period of the change, the comparative financial statements of prior periods are to be stated in monetary units of purchasing power of the most recent financial statements in which the restatement method was applied.

For items measured at cost, the last measurement made in an inflationary environment must be considered as “deemed cost” for the following periods in which the environment remains non-inflationary

Effects of inflation are derecognized at the same date and with the same procedure than the related Assets, Liabilities, or items of Equity derecognition to which the inflation effects belongs. As an example, the restatement effects on Property, Plant and Equipment will be derecognized as the asset is depreciated, impaired or sold.

b. Change from a Noninflationary to an Inflationary economic environment

The group investigated about how to recognize the inflation effects when the economic environment changes from non-inflationary to inflationary (inflation accounting re-connection).

About the issue, we concluded that in the mentioned situation the accumulated effects of inflation of the periods when the entity was operating in a non-inflationary environment should be recognized. The opinion is consistent with the actual procedure in IAS 29 and our proposal for the first application of the inflation accounting restatement procedure.

Additionally, the comparative periods presented in the financial statements should be restated until the year-end date of the last period presented, in order that the comparison can be done on logic bases