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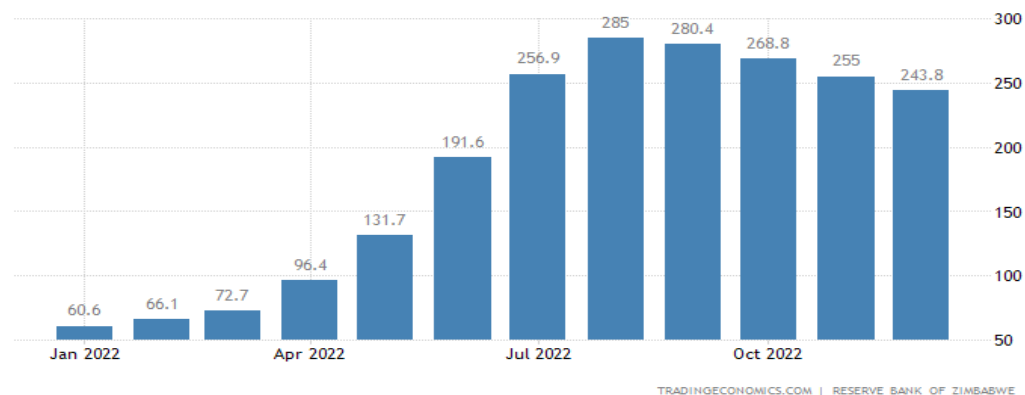
2022 Financial reports, what to expect.

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As we start the year 2023, most people have a positive outlook to what it brings. However, we cannot look forward whilst completely ignoring our past. Having knowledge of the past allows one to understand where they are coming from, where we are in the present and how we can create a better future. This is essentially important in business as past performance influences decisions made on shaping future performance. One tool which business personnel use are the Annual Financial Statements which detail how the entity performed financially, how much it was worth at reporting date, the value it created for its shareholders as well as how it managed its cash resources. Most entities in Zimbabwe have a 31 December or 31 March financial year end, thus are busy preparing these reports now. But what exactly should we be expecting from these reports?

It goes without saying that the Zimbabwean economy has been quite volatile in 2022. Below are some of the major observations in 2022 that affected business:

- **Hyperinflation:** The Zimbabwean economy continued to operate under hyperinflation of the ZWL currency. The chart below shows the general level of year on year inflation for Zimbabwe in 2022.



With such an increase in inflation from a double digit of 60.6% in January 2022 to 243% by December 2022, which was an increase of approximately 300%. There is no doubt that this had significant impact in the business operations. This largely means for most entities whose functional currency is the ZWL, they shall continue to apply IAS 29 Hyperinflation accounting. Although we have been applying hyperinflation accounting since 2019, it still comes with its fair number of challenges. This process on its own is very complex to accountants and tedious. The challenge presented by reporting using IAS 29 in Zimbabwe is on whether the general price index (GPI) being used to hyperinflate fairly represents the obtaining economic phenomenon. The GPI being used is the Consumer Price Index (CPI), which measures the percentage change in the price of a basket of goods and services consumed by households. The change in prices in ZWL\$ is largely influenced by the ZWL\$ over-the-counter exchange rate. The CPI may in instances not be representative of the transactions that business are carrying out, i.e. a household basket is not representative of the basket of a business. The second challenge is the users of the financial statements hardly understand Hyperinflation accounting resulting in most discarding them. This causes the value of reporting not to be realized in full. It will be interesting to really interpret well how much value our businesses really lost in 2022 as a result of the 300% increase in annual inflation.

- **Increase in the use of Foreign currency:** In 2022, there was a general increase in the usage of foreign currency in the economy. These were mostly in the United States Dollars. This was

especially noted in the last quarter of 2022 when government suspended payment to contractors which caused a liquidity crunch on the ZWL currency. The increase in trade in foreign currency triggers two main areas, being taxes and correct functional currency identification. The provisions of section 4A of the Finance Act and section 38 (4) of the VAT Act, requires that tax be paid in the currency of transaction, which meant the more foreign currency transactions, the more an entity becomes exposed to foreign currency tax. This has exposed business to potential violations of the tax law through:

- i. Selling goods and services in foreign currency but not declaring foreign currency transactions for tax purposes as is required by the law.
- ii. Transacting in foreign currency and converting payments for such transactions to Zimbabwean dollars for tax purposes.
- iii. Transacting in foreign currency and declaring a very small portion of their foreign currency sales when paying their taxes.
- iv. Selling directly in foreign currency without receipting foreign currency received and not including such sales when paying tax.
- v. Receipting foreign currency transactions manually when in fact, the business has a computerized system to receipt in the currency of trade. The proceeds from such manual receipts are not declared for tax purposes.
- vi. Receipting foreign currency sales from back offices with stand-alone tills and proceeding not to receipt all income, thereby under declaring for tax purposes. Having sale points designated for forex transactions and sales from such machines not declared to ZIMRA.

These violations were noted in Zimra's public notice number 24 of 2022. Where such violations exist, this causes risk of penalties and mostly results in tax figures being materially misstated thereby distorting financial statements.

Functional currency also becomes doubtful in circumstances where an entity has significant number of transactions happening in the foreign currency. This has the potential effect of entities hyperinflation accounting where in fact one should not be applying it, thereby distorting the financials even further.

The above are just a few examples of complexities expected in the 2022 financial reports. The aspects of introduction of Gold coins, Valuation currency for Properties, exchange rate to apply in reporting foreign currency transactions, new standards and amendments to standards further complicates reporting for 2022. Sustainability reporting has also been at the core of discussions given the mandate by Zimbabwe Stock Exchange and Victoria Falls Stock Exchange towards listed entities, and the issuance of standards on it by the International Sustainability Standards Board (ISSB).

Training and Advisory Services (TAS) shall be conducting a virtual conference on 19 January 2022, where it has invited industry financial reporting experts and regulators to unpack these 2022 reporting issues to assist preparers on how they may produce quality financial reports for the 2022 financial reporting period. For more details on the conference, contact clientrelations@tas.co.zw or call on