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# Financial reporting implications of February 2 Monetary Policy Statement.



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The Reserve Bank of Zimbabwe (“RBZ”) released a Monetary Policy statement on the 2<sup>nd</sup> of February 2023 aimed at reviewing the current monetary policy measures and outlining the new measures effective for the next 6 months. Notable information published was that foreign currency receipts reached an all-time high of US\$11.6 billion and the bank policy rate was revised downwards to 150%. Amidst the multiple policy measures presented by the governor, this article focuses on the key issues that affect financial reporting for both practitioners and users of financial statements considering these monetary policy measures. The core focus will be on hyperinflationary accounting and the use of exchange rates in financial reporting.

The Monetary Policy Statement brings up several questions regarding the impact on

financial reporting, particularly IAS (International Accounting Standards) 29 *Financial Reporting in Hyperinflationary Economies*. IAS 29 already had a myriad of issues regarding the general price index usage where practitioners have questioned whether the general consumer price index (CPI) reflects the basket that the various entities may be subject to. For example, the basket of goods in the CPI used for restating is likely to be different from a company which operates in the industrial sector meaning that the accuracy of restatement will be questionable. Now, the adoption of a blended inflation rate as the country's reference inflation raises concerns about what constitutes the blend and its relevance in IAS 29 reporting.

Before we delve into the impact of the monetary policy statement on specific aspects of IAS 29, it is imperative that we have a brief understanding of how hyperinflationary accounting works. With hyperinflationary economies, you find that the prices of goods and services change rapidly over time, either daily or weekly. This constant change in prices makes it difficult to make a comparison between different periods of an entity's financial statements and the differences

in the revenues also hamper one's ability to make decisions based on these numbers.

The standard aims to make past transactions/acquisitions comparable to today's transactions by adjusting them to current terms. This is done by taking the CPI on the date of the past transaction and dividing it by the CPI at the reporting date, the resultant number is what is called an adjustment factor, and this is multiplied by the value of the past transaction to come up with its current value, adjusted for inflation. For example, Entity A bought a computer for ZWL10,000 on 1 January 2020. When reporting on 31 December 2020, the inflation-adjusted cost of this computer would be ZWL43,882.08 (December CPI 2,474.51 ÷ January CPI 563.9 = 4.3882 × ZWL10,000). In general, this is how IAS 29 accounting is done, but the example has been simplified to assist in the explanation and does not account for the treatment of all transactions in the financial statements.

Though companies do have a mix of income and expenses, they have one functional currency and would restate their financials in the functional currency, which is the one subject to hyperinflation.

Based on the released CPI figures the annual blended CPI was 276.10 and the pure ZWL was 13,672.91 for the year ended December 2022. To illustrate the impact of using either of the two CPI, let's assume the revenue earned for February 2022 for Entity B was ZWL100,000. For February, the CPI was 4,483.06 and 142.28 for the ZWL and blended CPI respectively. Using the same formula as in the previous example to calculate the adjusted revenue that would be presented in the financial statements it would be ZWL304,990 and ZWL194,054 for the pure ZWL CPI and blended CPI respectively. This would mean the restatement with the usage of the blended rate would result in a lower revenue for Entity B.

The ongoing debate on the usage of the Consumer Price Index (CPI) as a measure of inflation in IAS 29 still stands, and the blended inflation rate may add to this uncertainty. It remains to be seen if the pure Zimbabwean dollar-denominated inflation rate will still be available. Another issue that arises from the blended inflation rate is the question of a company's functional currency. If the blended inflation rate has most US dollar elements, then why would a company still

have the Zimbabwean dollar as its functional currency and how does one apply this blended inflation rate to ZWL transactions when there is an element of USD inflation in the CPI numbers?

Another question that would also come to mind is in the determination of whether the Zimbabwean economy has ceased to be a hyperinflationary economy, would the blended rate be used to determine this as it is naturally going to be lower than the ZWL inflation figures?

With strong foreign currency receipts, the need for functional currency assessment has increased. According to a survey by the Confederation of Zimbabwe Industries, USD sales are estimated to be 66%. Additionally, the Zimbabwe National Statistics Agency estimates that overall, 76% of the expenditure in the economy is in US dollars and the banking system has over 64% of its balances in foreign currency. This high dependence on the US dollar in Zimbabwe's economy is an indicator of a possible change in the functional currency for a number of entities because one of the major determinants of functional currency is the currency that a company's sales and expenses are mostly denominated in.

Entities operating in Zimbabwe must take a proactive approach to ensure compliance with financial reporting standards and maintain the accuracy of their financial statements. It is crucial to assess the impact of these changes and advancements on a company's functional currency. Don't wait, take the necessary steps to secure the transparency and accuracy of your financial statements by contacting [marketing@tas.co.zw](mailto:marketing@tas.co.zw) for any financial reporting assistance.