

## Chapter 7



### Practical example of IAS 29

This section of the guide provides a detailed practical example of the application of IAS 29. The term 'restated' is used to describe financial statements after the application of IAS 29. The term 'historic' is used to describe financial statements before restatement to current purchasing power. This example is prepared for illustrative purposes only, income statement, statement of changes in shareholders' equity and statement of cash flows are presented for one year.

Under IAS 1 comparative figures of these statements are required to be disclosed by the reporting enterprise.

This example does not cover all possible circumstances, nor does it take account of any specific legal framework. Depending on the circumstances, further specific information may be required in order to ensure fair presentation under International Accounting Standards.

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## A.1 Historical Balance Sheets

(all amounts expressed in HCU)	Additional historical information	31 December		31 December	
		2003	2003	2002	2002
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	B.I	54,163		43,337	
Investment in associated undertaking	B.II.1	35,630		16,320	
Other long-term investments	B.II.2	11,000		10,000	
			100,793		69,657
<b>Current assets</b>					
Inventories	B.III	19,410		15,170	
Trade accounts receivable	B.VII.6	28,170		19,400	
Other receivables	B.VII.1	1,500		1,000	
Trading investments	B.II.3	15,000		5,000	
Cash		9,742		5,750	
			73,822		46,320
<b>Total assets</b>			<b>174,615</b>		<b>115,977</b>
<b>Equity and Liabilities</b>					
<b>Capital and reserves</b>					
Share capital	B.IV.1	22,000		17,000	
Revaluation reserve		47,157		38,130	
Translation reserve		13,010		–	
Retained earnings		22,328		20,697	
			104,495		75,827
<b>Non-current liabilities</b>					
Deferred income – government grant	B.V.1	2,800		3,200	
Borrowings	B.V.2	29,000		15,000	
			31,800		18,200
<b>Current liabilities</b>					
Bank overdrafts		8,060		5,200	
Trade payables		24,760		10,750	
Other payables	B.VII.2	5,500		6,000	
			38,320		21,950
<b>Total equity and liabilities</b>			<b>174,615</b>		<b>115,977</b>

HCU – Historical Currency Units CCU – Current Currency Units

(all amounts expressed in HCU)	Additional historical information	Year ended 31 December 2003
Sales	B.VI	104,250
Cost of sales		(69,750)
<b>Gross Profit</b>		<u>34,500</u>
General and administrative expenses:		
Wages and salaries	B.VI	(7,000)
Depreciation expense		(3,447)
Rent expense	B.VI	(3,000)
Bad debt expense		(2,450)
Other administrative expenses	B.VI	(8,000)
Amortisation of government grant	B.V.1	400
Profit on sale of property, plant and equipment	B.I	386
		<u>(23,111)</u>
<b>Operating profit</b>		11,389
Share of result of associate	B.II.1	6,300
Finance costs:		
Gain on trading investments	B.II.3	4,000
Interest income		762
Interest expense		(2,000)
Net foreign exchange transaction losses	B.VI	(12,620)
		<u>(9,858)</u>
Profit before tax		7,831
Tax	B.VI	(1,200)
Net income		<u>6,631</u>

HCU – Historical Currency Units    CCU – Current Currency Units

## A.III Historical Statement of Cash Flows

(all amounts expressed in HCU)	Additional historical information	Year ended 31 December 2003
<b>Cash flows from operating activities:</b>		
<b>Direct method (see Indirect reconciliation below)</b>		
Cash receipts from customers	B.VII.3	94,410
Cash paid for production materials and other supplies	B.VII.4	(18,484)
Cash paid to employees and for utilities and overheads	B.VII.4	(53,386)
Rent paid	B.VII.5	(3,200)
Income tax paid	B.VII.2	(1,000)
		<hr/>
<b>Net cash from operating activities</b>		<b>18,340</b>
<b>Cash flows from investing activities:</b>		
Purchase of trading investments, net	B.II.3	(6,000)
Purchase of non-current investments	B.II.2	(1,000)
Purchase of property, plant and equipment	B.I	(10,000)
Interest received		162
Proceeds from sale of property, plant and equipment	B.I	1,500
		<hr/>
<b>Net cash used in investing activities</b>		<b>(15,338)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from paid-in share capital	B.IV.1	5,000
Proceeds from bank overdrafts, net		2,860
Interest paid		(1,870)
Dividends paid	B.IV.2	(5,000)
		<hr/>
<b>Net cash from financing activities</b>		<b>990</b>
		<hr/>
<b>Net increase in cash</b>		<b>3,992</b>
		<hr/>
<b>Cash at the beginning of the period</b>		<b>5,750</b>
		<hr/>
<b>Cash at the end of the period</b>		<b>9,742</b>
		<hr/>

HCU – Historical Currency Units CCU – Current Currency Units

(all amounts expressed in HCU)	Additional historical information	<u>Year ended</u> 31 December 2000
<b>Indirect method</b>		
<b>Cash flows from operating activities:</b>		
Net income		6,631
Adjustments for:		
Tax		1,200
Depreciation charge		7,087
Bad debt expense		2,450
Amortisation of government grant	<b>B.V.1</b>	(400)
Profit on sale of fixed assets		(386)
Share of result of associate		(6,300)
Increase in market value of trading investments		(4,000)
Interest income		(762)
Interest expense		2,000
Foreign exchange loss on financing and investing activities		14,000
		<hr/>
Operating profit before changes in working capital		21,520
Changes in working capital:		
Increase in trade accounts receivable	<b>B.VII.6</b>	(11,220)
Increase in inventory		(4,240)
Decrease in other receivables	<b>B.VII.1</b>	100
Increase in trade payables		14,010
Decrease in other payables	<b>B.VII.2</b>	(830)
		<hr/>
		(2,180)
		<hr/>
Cash generated from operations		19,340
Income tax paid		(1,000)
		<hr/>
<b>Net cash from operating activities (same as for Direct method)</b>		<b>18,340</b>
		<hr/>

HCU – Historical Currency Units    CCU – Current Currency Units

## A.IV Historical Statement of Charges in Equity

(all amounts expressed in HCU)	Additional historical information	Share Capital	Revaluation Reserve	Translation Reserve	Retained Earnings	Total
Balance at 1 January 2003	<b>B.IV.1</b>	17,000	38,130	–	20,697	75,827
Share capital paid in	<b>B.IV.1</b>	5,000	–	–	–	5,000
Net profit for the year		–	–	–	6,631	6,631
Revaluation of property, plant and equipment	<b>B.I</b>	–	9,027	–	–	9,027
Currency translation differences	<b>B.II.1</b>	–	–	13,010	–	13,010
Dividends declared in 2003	<b>B.IV.2</b>				(5,000)	(5,000)
Balance at 31 December 2003		<u>22,000</u>	<u>47,157</u>	<u>13,010</u>	<u>22,328</u>	<u>104,495</u>

HCU – Historical Currency Units CCU – Current Currency Units

Property, plant and equipment is comprised of:				
(all amounts expressed in HCU)		2002	2003	
Gross book value (GBV)		58,600	79,200	
Accumulated depreciation		(15,263)	(25,037)	
Net book value (NBV)		43,337	54,163	
<b>Gross Book Value:</b>				
(all amounts expressed in HCU)	GBV (as revalued)	Date of acquisition	Historical expenditures	Details of acquisition/ disposal
Workshop building	12,800	23 Jan' 2000	1,600	The workshop was received as a contribution to share capital and was originally recorded at fair value
Production line	30,000	12 Jan' 2001	9,000	The production line was constructed within a year. The table below contains data on expenditures incurred.
Leasehold improvements	8,000	Jan' 2000	1,200	The office building is rented under an operating lease agreement for 6 years. It was completely renovated at inception of the lease.
Office equipment	7,800	Jan' 2000	1,500	
Total at 31 December 2002	58,600		13,300	
Acquired during 2003	10,000	Jun' 2003	10,000	New office equipment was acquired
Disposed during 2003	(2,600)	27 Dec' 2003	(500)	1/3 of office equipment was disposed of for cash consideration in the amount of HCU 1,500
2003 statutory revaluation	13,200			The index prescribed by the statute was 1.2 for all fixed assets recorded as at 31 December 2003
Total at 31 December 2003	79,200		22,800	
<b>Accumulated Depreciation:</b>				
	Estimated useful life years	2002 HCU	2003 HCU	
Workshop building	20	1,920	2,560	
Production line	10	6,000	9,000	
Leasehold improvements	6	4,000	5,333	
Office equipment	7	3,343	4,457	
Acquired in 2003	5	x	1,000	
Disposed of in 2003		x	(1,486)	
2003 statutory revaluation		x	4,173	
Total accumulated depreciation		15,263	25,037	
Note: Current year depreciation charge of HCU 7,087 is comprised of HCU 3,640, included into conversion costs for production, and HCU 3,447, included in administrative and general expenses.				
<b>Production line: equipment and installation works</b>				
Costs of production line which was put into operations on 12 January 2001 were incurred as following:				
	Cost incurred	HCU		
Equipment bought	27 Feb' 2000	3,700		
Installation cost I phase	within April 2000	1,300		
Environmental block	29 Jul' 2000	1,670		
Installation cost II phase	within October 2000	1,300		
Final testing	first week of Dec' 2000	1,030		
Total expenditures incurred		9,000		

HCU – Historical Currency Units    CCU – Current Currency Units

## B.II Investments

**B.II.1: Investment in associated undertaking**

A 25% share in company A, a company registered in Cyprus, was acquired 30 December 2002

	HCU
Fair value of net assets acquired	16,000
Cash paid	16,000
Share of net assets at 31 December 2002	16,320
Share of result for 2003	6,300
Exchange difference	13,010
Share of net assets at 31 December 2003	35,630

Note: The financial statements of the associate, Company A, are in full compliance with IAS.

**B.II.2: Other long-term investments**

Other long-term investments represents a 6% interest in Company B. Company B is a domestic company and is not listed and are carried at cost.

	Date of acquisition	% acquired	HCU
Initial purchase	31 Mar <sup>1</sup> 2001	5%	10,000
Balance at 31 December 2002			10,000
Additional purchase in 2003	27 Mar <sup>1</sup> 2003	1%	1,000
Balance at 31 December 2003			11,000

The fair value of investment at 31 December 2003 was assets as HCU 41,000 (2002: HCU 23,500)

**B.II.3: Trading Investments**

Trading investments represents equity investments in “blue chips”, which are carried at market value. Excess cash is invested into the blue chips market in order to realise short term trading gains.

Movements of trading investments are summarised as follows:

	Additions (at cost)	Disposals (at proceeds)	Balance (at market value)
(all amounts expressed in HCU)			
Balance at 31 Dec <sup>1</sup> 2002			5,000
Quarter I	9,900	(6,950)	
Quarter II	8,750	(5,700)	
Quarter III	5,300	(5,160)	
Quarter VI	6,000	(6,140)	
			6,000
Gain on trading investments (P&L)			4,000
Balance at 31 December 2003			15,000

HCU – Historical Currency Units CCU – Current Currency Units

## B.III Inventories and Production Expenditures Incurred

**B.III.1: Inventory movements for the year**

(all amounts expressed in HCU)	2002	Receipts	Utilised/sold	2003
Raw materials	3,520	34,870	33,070	5,320
Sundry supplies	340	2,376	1,986	730
Work in progress	1,850	71,800	70,340	3,310
Finished stock	9,460	70,340	<b>69,750</b>	10,050
	15,170	179,386	175,146	19,410

Note: The stock is valued using average cost approach. Net realisable value as at 31 December 2003 is about HCU 30,000 (2002: HCU 24,000).

**B.III.2: Analysis of production costs incurred within the period**

	2003		2002	
	HCU	%	HCU	%
Direct:				
Raw materials	33,070	46.1%	23,340	41.1%
Labour*	20,362	28.3%	17,690	31.2%
Depreciation	3,640	5.1%	3,640	6.4%
Utilities and other*	5,321	7.4%	3,829	6.8%
Overhead materials	1,986	2.8%	1,711	3.0%
Other overheads*	7,421	10.3%	6,510	11.5%
	71,800	100%	56,720	100%

Note: Raw materials stock is direct materials of production. Sundry supplies are related to production overheads. WIP average stage of completion is 50% with all direct materials being input at the beginning of production cycle.

\*Quarterly labour, utilities and overhead expenses are as follows:

	HCU
I. quarter	8,172
II. quarter	7,902
III. quarter	9,232
IV. quarter	7,798
Total for the year	33,104

**B.III.3: Holding period of inventory**

(all in months)	Holding period	Within work in progress	Within finished goods
Raw materials	1.6	2.0	3.7
Sundry supplies	3.2	3.6	5.3
Work in progress (WIP)	0.4	x	2.1
Finished stock	1.7	x	x

Note: The actual age of the inventories, including WIP, should be determined based on the date of purchase or costs incurred. For this example we have used an average age of WIP and finished goods turnover for simplicity. Average age of inventory may not be appropriate for use in the IAS 29 calculation in some circumstances.

HCU – Historical Currency Units CCU – Current Currency Units

## B.IV: Equity

**B.IV.1: Share capital**

An analysis of share capital contributions are as follows:

	Date of contribution	HCU	Comments
Initial contributions	23 Jan' 2000	6,400	Half of the shares were paid in cash and half in consideration of workshop (see <b>B.I</b> ) at par value
Initial contributions	30 Jun' 2000	3,600	Paid in cash at par value
Paid in first installment of second issue	5 Dec' 2002	7,000	Second issue registered at 3 May' 2002 was in the amount of HCU 12,000
Balance at 31 December 2002		17,000	
Paid in remainder of second issue	24 Sep' 2003	5,000	The shares were paid in cash at par value
<b>Balance at 31 December 2003</b>		<b>22,000</b>	

**B.IV.2: Dividends**

Dividends in the amount of HCU 5,000 were declared in June 2003 and paid in cash at the end of November 2003.

## BV: Long-Term Liabilities

**B.V.1: Deferred income – government grant**

On 30 June 2000 the Company received a grant of HCU 4,000 for capital expenditures and accounted for this as deferred income. The grant was conditional based on installment of an environmental block in the production line (see **B.I**). The grant is amortised to the income statement over the depreciation period of the related assets starting January 2001 on a straight-line basis.

Government grant is not taxed. Depreciation of grant related asset (as well as for all Company's property, plant and equipment) is deductible for tax purposes in amounts calculated on the base of statutory revalued fixed assets on a straight line basis from the month in which it was put into operation until the month of disposal.

**B.V.2: Borrowings**

Borrowed funds represent a USD loan. The loan is to be repaid in 2006.

There were no movements during the year in USD terms, unrealised foreign exchange loss was as follows:

	USD	Exchange rate	HCU
Balance at 31 December 2002	5,000	3.00	15,000
Balance at 31 December 2003	5,000	5.80	<u>29,000</u>
Foreign exchange loss charged through the income statement			<u>14,000</u>

HCU – Historical Currency Units CCU – Current Currency Units

Monthly revenue and expenses							
(all amounts expressed in HCU)	Revenue	General and admin expenses			Foreign exchange		Current tax*
		Rent	Wages	Other	gain	loss	
January	5,750	233			(124)	1,094	
February	6,245	233			(49)	194	
March	7,940	234			(104)	1,412	
I quarter	19,935	700	1,477	1,558	(277)	2,700	254
April	7,475	233			(207)	1,842	
May	9,250	233			(164)	1,584	
June	9,370	234			(121)	1,495	
II quarter	26,095	700	1,506	1,921	(492)	4,921	572
July	11,150	233			(109)	1,319	
August	10,115	233			(113)	1,036	
September	9,455	234			(26)	1,557	
III quarter	30,720	700	1,901	2,263	(248)	3,912	21
October	9,970	300			(85)	479	
November	8,850	300			(101)	871	
December	8,680	300			(177)	1,117	
IV quarter	27,500	900	2,116	2,258	(363)	2,467	353
	104,250	3,000	7,000	8,000	(1,380)	14,000	1,200

The foreign exchange loss results from borrowed funds. The foreign exchange gain results from a number of small receivables.

\*The Company calculates and accrues income tax only at the end of each quarter based on quarterly tax returns. A monetary gain related to the tax liability will result from the time there is a legal liability to the government.

HCU – Historical Currency Units    CCU – Current Currency Units

## B.VII Monetary Items and Cash Flows

**B.VII.1: Other receivables**

As at 31 December 2003 other receivables included HCU 600 (2002: HCU nil) of dividends from trading investments declared but not paid and HCU 900 (2002: HCU 700) of quarterly rent paid in advance in accordance with the lease agreement.

The rest of other receivables are sundry prepayments of an operating nature.

**B.VII.2: Other payables**

As at 31 December 2003, other payables included HCU 190 (2002: HCU 60) of December interest on borrowings payable within five days after each month end.

Also, as at 31 December 2003, other payables included HCU 353 (2002: HCU 153) of income tax payable within a month after each quarter end. The Company pays its tax liabilities one month after each quarter end without delay. Income tax is 30%.

The rest of other payables are sundry payables of operating nature.

**B.VII.3: Revenue – cash receipts**

(all amounts expressed in HCU)

I. quarter	II. quarter		III. quarter		IV. quarter
January 7,340	April 7,420	July 6,720	October 7,730		
February 8,740	May 8,030	August 7,720	November 8,220		
March 8,160	June 7,330	September 8,240	December 8,760		
Quarter 24,240	22,780	22,680	24,710		
Total for the year					94,410

**B.VII.4: Operating cash disbursements**

	Raw materials (HCU)	Wages, utilities, overheads (HCU)
I. quarter	4,477	10,810
II. quarter	3,923	12,373
III. quarter	4,651	14,692
IV. quarter	5,433	15,511
	18,484	53,386

**B.VII.5: Rent prepayments**

Rent is payable quarterly in advance. The following payments were made:

Date of cash outflow	HCU
27–Mar	700
29–Jun	700
17–Sep	900
25–Dec	900
	3,200

**B.VII.6: Trade accounts receivable**

(all amounts expressed in HCU)	2002	2003
Trade accounts receivable, gross	22,650	33,870
Bad debt provision	(3,250)	(5,700)
Trade accounts receivable, net	19,400	28,170

Note: The company reassesses its bad debt provision once a year at the year-end.

HCU – Historical Currency Units CCU – Current Currency Units

## B.VIII Net Monetary Position per Quarter

(all expressed in HCU)	31-Dec 2002	31-Mar 2003	30-Jun 2003	30-Sep 2003	31-Dec 2003
<b>Assets</b>					
Trade accounts receivable	22,650	18,945	22,760	31,400	33,870
Provision for bad debts	(3,250)	(3,250)	(3,250)	(3,250)	(5,700)
Other receivables	1,000	1,125	1,250	1,500	1,500
Cash	5,750	5,745	7,746	8,741	9,742
<b>Total assets</b>	<b>26,150</b>	<b>22,565</b>	<b>28,506</b>	<b>38,391</b>	<b>39,412</b>
<b>Liabilities</b>					
Borrowings	(15,000)	(17,700)	(22,621)	(26,533)	(29,000)
Bank overdrafts	(5,200)	(5,922)	(6,630)	(3,340)	(8,060)
Trade payables	(10,750)	(15,037)	(19,878)	(23,991)	(24,760)
Dividends payable	–	–	(5,000)	(5,000)	–
Other payables	(6,000)	(5,101)	(5,419)	(4,868)	(5,500)
<b>Total liabilities</b>	<b>(36,950)</b>	<b>(43,760)</b>	<b>(59,548)</b>	<b>(63,732)</b>	<b>(67,320)</b>
<b>Net monetary position</b>	<b>(10,800)</b>	<b>(21,195)</b>	<b>(31,042)</b>	<b>(25,341)</b>	<b>(27,908)</b>

HCU – Historical Currency Units    CCU – Current Currency Units

## C.I Monthly Inflation Indices

Monthly inflation indices represent monthly general growth in prices, i.e. the ratio of a month's end prices to the prior month's end prices. Generally, such indices are publicly available.

	Inflation for a month / Monthly inflation index			
	2000	2001	2002	2003
January	9.0% / 1.090	5.6% / 1.056	6.5% / 1.065	3.6% / 1.036
February	5.8% / 1.058	6.2% / 1.062	4.5% / 1.045	3.4% / 1.034
March	7.0% / 1.070	6.0% / 1.060	4.0% / 1.040	4.0% / 1.040
April	8.1% / 1.081	5.5% / 1.055	4.2% / 1.042	5.3% / 1.053
May	4.1% / 1.041	5.2% / 1.052	3.2% / 1.032	3.2% / 1.032
June	2.7% / 1.027	3.4% / 1.034	1.6% / 1.016	1.8% / 1.018
July	2.4% / 1.024	5.3% / 1.053	2.5% / 1.025	4.0% / 1.040
August	3.8% / 1.038	5.3% / 1.053	2.4% / 1.024	3.3% / 1.033
September	5.1% / 1.051	6.3% / 1.063	5.3% / 1.053	5.9% / 1.059
October	5.5% / 1.055	6.6% / 1.066	4.2% / 1.042	3.7% / 1.037
November	5.1% / 1.051	5.6% / 1.056	3.4% / 1.034	3.9% / 1.039
December	3.9% / 1.039	5.4% / 1.054	2.5% / 1.025	3.9% / 1.039
Accumulated for the year	83.5% / 1.835	90.8% / 1.908	54.3% / 1.543	56.9% / 1.569

## C.II Conversion Factors to 31 December 2002 Purchasing Power

From the end of	2000	2001	2002
January	4.965	2.789	1.448
February	4.691	2.626	1.385
March	4.383	2.477	1.332
April	4.055	2.347	1.280
May	3.894	2.231	1.240
June	3.791	2.157	1.221
July	3.703	2.049	1.191
August	3.568	1.946	1.163
September	3.395	1.831	1.104
October	3.219	1.717	1.060
November	3.062	1.626	1.025
December	2.946	1.543	1.000

Conversion factor for the end of December 2002 is 1.000; for the end of any other month – calculated as multiplication of monthly inflation indices for all months following that date up to Dec 2002.

For example: end of September 2002 factor is  
 $104.2/100 \times 103.4/100 \times 102.5/100$  (see monthly inflation indices above) = 1.104

HCU – Historical Currency Units CCU – Current Currency Units

## C.III Conversion Factors to 31 December 2003 Purchasing Power

From the end of	2000	2001	2002	2003
January	7.790	4.376	2.273	1.515
February	7.360	4.120	2.173	1.466
March	6.877	3.886	2.089	1.410
April	6.363	3.682	2.009	1.339
May	6.110	3.500	1.945	1.297
June	5.948	3.385	1.916	1.274
July	5.810	3.215	1.868	1.225
August	5.599	3.053	1.824	1.186
September	5.327	2.873	1.732	1.120
October	5.050	2.693	1.663	1.079
November	4.805	2.551	1.608	1.039
December	4.623	2.421	1.569	1.000

Conversion factor for the end of December 2003 is 1.000; for the end of any other month – calculated as multiplication of monthly inflation indices for all months following that date up to December 2003.

For example: end of September 2003 factor is  
 $103.7/100 \times 103.9/100 \times 103.9/100$  (see monthly inflation indices above) = 1.120

## C.IV Mid-month and Average Conversion Factors for 2003

- To restate a specific transaction the nearest conversion factor is used. To restate a significant volume of transactions of similar type (e.g.: sales), the average conversion factor for the period is generally used.
- As inflation is constant within each month, the mid-month conversion factors have been used as a monthly average. Mid-month conversion factor is the geometrical average as illustrated in the following example: For October, the conversion factor is 1.099 =  $[\text{square root}(103.7/100)] \times [103.9/100] \times [103.9/100]$
- Quarterly averages and average for the year were calculated as arithmetic average of the mid-month indices.

	Monthly indices (C.I+100%)	Conversion factors		
		Mid-month (and monthly average)	Quarterly average	Average for the year
January	103.6%	1.542		
February	103.4%	1.491		
March	104.0%	1.438	1.490	
April	105.3%	1.374		
May	103.2%	1.318		
June	101.8%	1.285	1.326	
July	104.0%	1.249		
August	103.3%	1.205		
September	105.9%	1.153	1.202	
October	103.7%	1.099		
November	103.9%	1.059		
December	103.9%	1.019	1.059	1.269

HCU – Historical Currency Units    CCU – Current Currency Units

## C.V: Other Average Conversion Factors Used

Based on the same principles as described at C.IV, the following conversion factors required for restatement were calculated:

	Conversion factor up to 31 December 2002 purchasing power	Conversion factor up to 31 December 2003 purchasing power
Average for April 2000	4.216	6.615
Average for October 2000	3.306	5.187
Middle of July 2002	1.206	1.892
Middle of September 2002	1.088	1.707
Middle of November 2002	1.042	1.635
Middle of December 2002	1.012	1.588

HCU – Historical Currency Units CCU – Current Currency Units

1. The historical financial statements comply with IAS (including IAS 39) except for the following:
  - 1.1. Fixed assets are revalued using pre-defined statutory indices. These indices are accepted for tax purposes.
  - 1.2. Investment in a non-listed company targeted for acquisition is accounted for at cost.
  - 1.3. Hyperinflationary restatement was not applied.
  - 1.4. Deferred tax was not calculated and accrued.
  
2. The following measurement units are used in the illustrative example:
 

HCU – historical currency units – the nominal currency of the hyperinflationary economy;  
 CCU – current currency units – the units of year end purchasing power (2002 or 2003 depending on the underlying item).

If the relevant year-end purchasing power is not evident, the following abbreviations are used:

2002 CCU – current currency units in 31 December 2002 purchasing power;  
 2003 CCU – current currency units in 31 December 2003 purchasing power.
  
3. Depending on the level of fluctuation of the underlying transactions, rate of inflation, and materiality of the respective amounts, the relevant line items in the statements of income and of cash flows may be restated on a monthly, quarterly, or average basis, or on the basis of actual expenditure/cash flows. Although there is an element of judgement inherent in the determination of the basis of restatement for these items, the assumptions used and judgements made should be consistent between the items and statements. In order to illustrate the effects of the application of a range of indices, various conditions have been assumed and these have resulted in varying bases for the restatement.
  
4. All investing and financing activities cash flows including property, plant and equipment purchases and installation works are close to the date of the underlying acquisition or disposal transaction unless otherwise indicated.
  
5. The company is not subject to VAT or any other taxes besides income tax.
  
6. Income tax is calculated based on the historical income statement except for certain non-tax deductible expenses. There are no temporary differences between the historical carrying values and their tax bases except for the associated undertaking. Income from associates is not taxed if income is not repatriated through dividends or sale of business. Profit repatriation tax is 30% on cash received from abroad.

HCU – Historical Currency Units    CCU – Current Currency Units

## E.I Support Schedule – Monetary vs Non-monetary Balance Sheet Components

Assets	Monetary (Accumulate monetary gains/losses, to be used for monetary proof)	Non-Monetary (To be restated and included into adjustment schedule)
<b>Non-current assets</b>		
Property, plant and equipment		√
Investment in associated undertaking		√
Other long-term investments		√
<b>Current assets</b>		
Inventories		√
Trade accounts receivable	√	
Provision for bad debts	√	
Other receivables	√	
Trading investments (all investments in equity)		√
Cash	√	
<b>Liabilities and Equity</b>		
<b>Capital and reserves</b>		
Share capital		√
Revaluation reserve		n/a
Translation reserve		√
Retained earnings		√
<b>Non-current liabilities</b>		
Deferred income – government grant		√
Borrowings	√	
Deferred tax liabilities		√
<b>Current liabilities</b>		
Bank overdrafts	√	
Trade payables	√	
Other payables	√	

HCU – Historical Currency Units CCU – Current Currency Units

## E.II Restatement of Property, Plant and Equipment and Depreciation

**E.II.1: Restatement of cost to 31 December 2002 purchasing power**

	Acquired/incurred	HCU (B.I)	Conversion factor (C.II)	2002 CCU	2002CCU–HCU
Equipment bought	27 Feb' 2000	3,700	4.691	17,357	
Installation cost I phase	within April 2000	1,300	4.216	5,481	
Environmental block	29 Jul' 2000	1,670	3.703	6,184	
Installation cost II phase	within October 2000	1,300	3.306	4,298	
Final testing	first week of Dec' 2000	1,030	3.062	3,154	
Total production line		9,000		36,474	
Workshop building	23 Jan' 2000	1,600	4.965	7,944	
Leasehold improvements	Jan' 2000	1,200	4.965	5,958	
Office equipment	Jan' 2000	1,500	4.965	7,448	
		13,300		57,824	44,524 <b>a</b>

**E.II.2: Restatement of cost to 31 December 2003 purchasing power**

	Acquired/incurred	HCU (B.I)	Conversion factor (C.III)	CCU	CCU–HCU
Equipment bought	27 Feb' 2000	3,700	7.360	27,232	
Installation cost I phase	within April 2000	1,300	6.615	8,600	
Environmental block	29 Jul' 2000	1,670	5.810	9,703	
Installation cost II phase	within October 2000	1,300	5.187	6,743	
Final testing	first week of Dec' 2000	1,030	4.804	4,948	
Total production line		9,000		57,226	
Workshop building	23 Jan' 2000	1,600	7.790	12,464	
Leasehold improvements	Jan' 2000	1,200	7.790	9,348	
Office equipment	Jan' 2000	1,500	7.790	11,685	
Total cost at 31 December 2002		13,300		90,723	77,423
Addition	Jun' 2003	10,000	1.274	12,740	2,740
Disposal	Jan' 2000	(500)	7.790	(3,895)	(3,395) <b>c</b>
Total cost at 31 December 2003		22,800		99,568	76,768 <b>b</b>

Note: The statutory revaluation surplus has been reversed against revaluation reserve in order to get actual historical costs (see E.IX.3)

HCU – Historical Currency Units    CCU – Current Currency Units

E.II Restatement of Property, Plant and Equipment and Depreciation – *continued***E.II.3: Calculation of accumulated depreciation at 31 December 2002**

The restated cost calculated above is the basis for determining the restated depreciation. The historical depreciation was reversed (see **ADJ 2** on **E.XII**) and has been replaced by CCU amounts calculated below:

	Useful economic life	In use as at 31 Dec' 2002	Accumulated depreciation at 31 December 2002		2003 CCU– 2002 CCU
			2002 CCU Y*E.III.1 / UEL	2003 CCU Y*E.III.2 / UEL	
Production line	10	2	7,295	11,445	
Workshop building	20	3	1,192	1,870	
Leasehold improvements	6	3	2,979	4,674	
Office equipment	7	3	3,192	5,008	
			14,658	22,997	8,339 d

**E.III.4: Calculation of depreciation charge for 2003**

	Useful economic life	Used in the year	Depreciation charge, 2003 CCU	
Production line	10	1	5,723	Production expenses 6,346 e
Workshop building	20	1	623	
Leasehold improvements	6	1	1,558	General & Admin 4,501 H.II,f H.III
Office equipment	7	1	1,669	
Office equipment – addition	5	1/2	1,274	
			10,847	

HCU – Historical Currency Units CCU – Current Currency Units

E.II Restatement of PPE and Depreciation – *continued***E.II.5: Calculation of disposal at 31 December 2003 purchasing power**

	HCU (B.I)	Date	Conversion factor (C.III)	CCU
Proceeds	1500	27 Dec' 2003	1.000	1500

  

	HCU (B.I)	CCU	CCU-HCU
Gross book value	2,600	3,895	1,295
Accumulated depreciation (1/3 of total depreciation on office equipment)	(1,486)	(2,226)	(740)
Proceeds	(1,500)	(1,500)	0
(Gain) / loss on disposal	(386)	169	555

**E.II.6: Accumulated depreciation reconciliation (31 December 2003 purchasing power)**

	Source	CCU	
Accumulated depreciation at 31 December 2002	E.II.3	22,997	
Depreciation charge for 2003	E.II.4	10,847	
Disposed	E.II.5	(2,226)	<b>h</b>
Accumulated depreciation at 31 December 2003		31,618	<b>g</b>

HCU – Historical Currency Units    CCU – Current Currency Units

E.II Restatement of PPE and Depreciation – *continued***E.II.7: Inflation adjustment journal entries**

## i) Reversal of statutory depreciation (recorded in E.XII as ADJ 2)

Property, plant and equipment	Dr	20,864	Historical accumulated depreciation at 31 December 2003
Gain on disposal of property plant and equipment	Dr	1,486	Historical accumulated depreciation for disposed assets
Retained earnings – opening balance	Cr	(8,093)	Historical accumulated depreciation at 31 December 2002
Revaluation reserve	Cr	(7,170)	Prior year revaluation of accumulated depreciation
General and administrative expenses, depreciation	Cr	(3,447)	2003 historical depreciation charged to general expenses
Temporary holding account (Current period expenses)*	Cr	(3,640)	2003 historical depreciation included into costs of conversion
		<u>22,350</u>	<u>(22,350)</u>

## ii) Restatement of property, plant and equipment cost (recorded in E.XII as ADJ 3)

Property, plant and equipment	Dr	76,768	<b>b</b>
Gain on disposal of property, plant and equipment	Dr	3,395	<b>c</b>
Retained earnings – opening balance	Cr	(44,524)	<b>a</b>
		<u>80,163</u>	<u>(44,524)</u>
Net monetary gain	Cr	(35,639)	<b>b+c-a</b>
		<u>80,163</u>	<u>(80,163)</u>

## iii) Accumulated depreciation in 2003 purchasing power (recorded in E.XII as ADJ 4)

Retained earnings – opening balance	Dr	14,658	<b>d</b> (opening accumulated depreciation in 2002 CCU)
General and administrative expenses, depreciation	Dr	4,501	<b>e</b>
Temporary holding account (Current period expenses)*	Dr	6,346	<b>f</b>
Property, plant and equipment	Cr	(31,618)	<b>g</b>
Gain on disposal of property, plant and equipment	Cr	(2,226)	<b>h</b>
		<u>25,505</u>	<u>(33,844)</u>
Net monetary gain	Dr	8,339	<b>d</b> (2003 inflation surplus on opening accumulated depreciation)
		<u>33,844</u>	<u>(33,844)</u>

\*The depreciation forms part of period costs allocated among WIP, finished goods and cost of goods sold. However, for simplicity, no allocation of the current period depreciation is done at this stage. A temporary holding account was used to accumulate the depreciation on the historical cost of the assets, which is being eliminated. The amounts included in this holding account are appropriately allocated to inventories or cost of goods sold during the restatement of inventory. See section E.IV.

**E.II.8: Restated property, plant and equipment:**

(all amounts expressed in 2003 CCU)	Source	2002	2003
Gross book value (GBV)	<b>E.II.2</b>	90,723	99,568
Accumulated depreciation	<b>E.II.6</b>	(22,997)	(31,618)
Net book value (NBV)		67,726	67,950

HCU – Historical Currency Units CCU – Current Currency Units

## E.III Restatement of Investment in Associated Undertaking

As the foreign associated undertaking is accounted for at exchange rates current at the balance sheet date, no restatement of this balance sheet component is required at 31 December 2003. However, the restatement is necessary to calculate the appropriate translation reserve charge and monetary effect for the period. Share of result of associate was restated by the average conversion factor for 2003.

	HCU (B.II)	Conversion factor (C.III)	CCU	CCU-HCU	
Share of net assets at 31 December 2002	16,320	1.569	25,606	9,286	c
Share of result of associate	6,300	1.269	7,995	1,695	b
Exchange difference	13,010	Balancing	2,029	(10,981)	a
Share of net assets at 31 December 2003	35,630	1.000	35,630	0	

IAS 29 adjustment entry (recorded in E.XII as ADJ 6):

Translation reserve	Dr	10,981	a
Share of result of associate	Cr	(1,695)	b
Net monetary gain	Cr	(9,286)	c=a+b
		<u>10,981</u>	<u>(10,981)</u>

## E.IV Restatement of Long-Term Investments Accounted For at Cost

The investment in the Company B should be restated from the date of acquisition. Such investments fall in available-for-sale investments group and as such should be fair valued in accordance with IAS 39.

	Conversion factor date	At cost (B.II), HCU	Conversion factor (C.II, C.III)	Cost CCU	CCU-HCU	Fair value (B.II)	Fair value – CCU	
Initial acquisition	31 Mar' 2001	10,000						
Balance at 31 December 2002								
in 2002 purchasing power			2.477	24,770	14,770	23,500	(1,270)	b
2003 inflation of 56.9% (from conversion factor 1.569)				14,094		13,372		c
Balance at 31 December 2002								
in 2003 purchasing power			3.886	38,864	28,864	36,872	(1,992)	
Additions	27 Mar' 2003	1,000	1.410	1,410	410	1,410		d
Cost at 31 December 2003		11,000		40,274	29,274			a
						Fair value adjustment (equity) (calculated)	2,718	
						Carrying value at 31 December 2003 (B.II)	41,000	726 e

IAS 29 and IAS 39 adjustment entry (recorded in E.XII as ADJ 7):

Other long-term investments	Dr	30,000	a+e
Fair value reserve	Cr	(726)	e
Retained earnings – opening balance	Cr	(14,770)	b (CCU – HCU)
Net monetary gain	Cr	(14,504)	c (for cost)+d
		<u>30,000</u>	<u>(30,000)</u>

HCU – Historical Currency Units CCU – Current Currency Units

## E.V Restatement of Trading Investments

As trading investments are carried at market value (i.e. a unit current at the balance sheet date), no restatement of this balance sheet component is required at 31 December 2003.

However, the restatement is necessary to calculate the appropriate income statement effect of the change in market value of the trading investments and monetary effect for the period.

The calculations are as follows:

	Conversion factor date	HCU (B.II)	Conversion factor (C.III)	CCU	CCU-HCU
Balance at 31 December 2002					
(market value)	31-Dec-2002	5,000	1.569	7,845	2,845
Additions, at cost	I.q. average	9,900	1.490	14,751	
Additions, at cost	II.q. average	8,750	1.326	11,602	
Additions, at cost	III.q. average	5,300	1.202	6,371	
Additions, at cost	IV.q. average	6,000	1.059	6,354	
Disposal, at proceeds	I.q. average	(6,950)	1.490	(10,356)	
Disposal, at proceeds	II.q. average	(5,700)	1.326	(7,558)	
Disposal, at proceeds	III.q. average	(5,160)	1.202	(6,202)	
Disposal, at proceeds	IV.q. average	(6,140)	1.059	(6,502)	
Net additions for 2003		6,000	1.410	8,460	2,460
		11,000		16,305	5,305
Balance at 31 December 2003					
(market value)	31 Dec 2003	15,000	1.000	15,000	–
P&L, gain/ (loss) on trading investments		4,000		(1,305)	(5,305)

IAS 29 adjustment entry (recorded in E.XII as **ADJ 8**):

Gain on trading investments	Dr	5,305	
Net monetary gain		Cr	(5,305)

HCU – Historical Currency Units CCU – Current Currency Units

**E.VI.1: Process of the Restatement of Inventories**

The order of restating inventory should follow the production process. The order is necessary to consider the cumulative effect of holding materials and expenditures throughout the production process.

The restatement may be broken into four stages:

**1) Restatement of opening inventories.**

The restatement is based on the period of holding the stock or costs incurred (for work in progress (WIP) and goods produced).

**1a)** Firstly, the opening balances should be restated to the prior year-end purchasing power. That is, all raw materials and component costs of finished goods and WIP should be restated from the date of acquisition or expenditure to the opening balance sheet date. The difference (inflation effect) relates to the prior year(s) and, thus, is included in the opening retained earnings.

**1b)** Secondly, the opening inventories presented in prior year purchasing power should be restated to current year end purchasing power. The resulting difference would be credited to monetary gain for the current period.

**2) Restatement of period additions.**

In practice, the restatement of stock additions may require the historical information to be restated on a monthly or quarterly basis, depending on the rate of inflation during the year and timing of expenditures. However, yearly average inflation (i.e. conversion factor of 1.269) has been used in this illustrative example. WIP additions throughout the year should be inflated from the date of acquisition or expenditure, thus a monetary gain is realised by holding those costs in WIP.

**3) Restatement of closing inventories.**

Restatement of closing stock should be performed in the same manner as the restatement of opening inventories.

**4) Calculation of the inventory used in the production process**

Stock disposals in terms of current year end purchasing power could be calculated as follows (all amounts should be expressed in 2003 CCU):

Opening inventory balance

Additions on account for 2003

Less:

Closing inventory balance

---

Raw materials shipped for conversion or WIP completed or cost of goods sold (depending on type of inventory) in 2003 CCU.

HCU – Historical Currency Units    CCU – Current Currency Units

E.VI Restatement of Inventories and Cost of Goods Sold – *continued*

Following the described algorithm the following restatement of inventories was performed:

<b>E.VI.2: Restatement of Raw Materials</b>					
	HCU (B.III.1)	Conversion factor*	2002 CCU	2003 CCU	CCU–HCU
Opening balance (1.6 months holding period)	3,520	1.042	3,668		148 a
2003 inflation of 56.9% (from conversion factor 1.569)		1.569		2,087	
Opening balance in 2003 CCU		1.635		5,755	2,235
Receipts	34,870	1.269		44,250	9,380
Less:					
Closing balance (1.6 months holding period)	(5,320)	1.059		(5,634)	(314) b
Raw materials usage	33,070			44,371	11,301

\*Conversion factor for the inventory balances is calculated based on inventory holding period (see B.III.3). That is, for a 1.6 month holding period the conversion factor used is from middle of November of the respective year (see section C).

<b>E.VI.3: Restatement of Sundry Supplies</b>					
	HCU (B.III.1)	Conversion factor* (section C)	2002 CCU	2003 CCU	CCU–HCU
Opening balance (3.2 months holding period)	340	1.104	375		35 d
2003 inflation of 56.9% (from conversion factor 1.569)		1.569		213	
Opening balance in 2003 CCU			1.732	588	248
Receipts		2,376	1.269	3,015	639
Less:					
Closing balance (3.2 months holding period)	(730)	1.120		(818)	(88) e
Usage of sundry supplies		1,986		2,785	799

HCU – Historical Currency Units CCU – Current Currency Units

E.VI Restatement of Inventories and Cost of Goods Sold – *continued*

<b>E.VI.4: Restatement of Work in Progress</b>						
	Holding period	Conversion factor date	HCU	Conversion factor (section C)	2002 CCU	CCU–HCU
<b>Opening WIP*</b>						
Labour, utilities and services	0.4	Mid Dec 2002	649	1.012	657	8
Raw materials	2.0(0.4+1.6)	End Oct 2002	1,078	1.060	1,143	65
Depreciation**			84	left as not material	84	–
Overhead materials	3.6(0.4+3.2)	Mid Sep 2002	39	1.088	42	3
<b>Opening WIP (B.III.1) – total</b>			<b>1,850</b>		<b>1,926</b>	<b>76</b> <sup>h</sup>
<b>Receipts (B.III.2):</b>						
Labour, utilities and services:						
I quarter	x	Average for Q1	8,172	1.490	12,176	4,004
II quarter	x	Average for Q2	7,902	1.326	10,478	2,576
III quarter	x	Average for Q3	9,232	1.202	11,097	1,865
IV quarter	x	Average for Q4	7,798	1.059	8,258	460
Raw materials	x	x	33,070	see E.VI.2	44,371	11,301
Depreciation	x	x	3,640	see E.II.4	6,346	2,706 <sup>f</sup>
Overhead materials	x	x	1,986	see E.VI.3	2,785	799
<b>Total expenditures incurred</b>			<b>71,800</b>		<b>95,511</b>	<b>23,711</b>
<b>Less: Closing balance*</b>						
Labour, utilities and services (46% $\times$ 50%=23.0%)	0.4	Mid Dec 2003	1,042	1.019	1,062	20
Raw materials (46.1%)	2.0(0.4+1.6)	End Oct 2003	2,089	1.079	2,254	165
Depreciation (5.1% $\times$ 50%=2.5%)**			116	left as not material	116	–
Overhead materials (2.8% $\times$ 50%=1.4%)	3.6(0.4+3.2)	Mid Sep 2003	63	1.153	73	10
<b>Closing balance (B.III.1) – total (73.0%)</b>			<b>3,310</b>		<b>3,505</b>	<b>195</b> <sup>g</sup>
<b>Goods produced</b>			<b>70,340</b>		<b>95,028</b>	<b>24,688</b> <sup>j</sup>
*The split between components of WIP were approximated based on the structure of expenditures incurred (see B.III.2) and the average stage of WIP completion (50% – see D). The approximation of the opening WIP has been shown below for illustrative purposes:						
Component	Expenditures (B.III.2) (a)	Percent of completion (b)	Weight in WIP		Total WIP (B.III.1) components (d)	WIP components (c) $\times$ (d)
			(a) $\times$ (b)	(c)=((a) $\times$ (b))/70.6%		
Labour, utilities and services	49.5%	50%	24.8%	35.1%	649	
Raw materials	41.1%	100%	41.1%	58.3%	1,078	
Depreciation	6.4%	50%	3.2%	4.5%	84	
Overhead materials	3.0%	50%	1.5%	2.1%	39	
	100.0%	70.6%	100.0%	1,850	1,850	
**Depreciation included into WIP stock was not adjusted for inflation as the amount is not significant. However, in different circumstances it could be necessary to apply the approached used for finished goods (see E.VI.5).						

HCU – Historical Currency Units    CCU – Current Currency Units

E.VI Restatement of Inventories and Cost of Goods Sold – *continued*

<b>E.VI.5: Restatement of Finished Goods and Cost of Goods Sold</b>						
	Holding period	Conversion factor date	HCU	Conversion factor (section C)	2002 CCU	CCU– HCU
<b>Opening finished goods stock*</b>						
Labour, utilities and services (49.5%)	2.1(1.7+0.4)	End Oct 2002	4,683	1.060	4,964	281
Raw materials (41.1%)	3.7 (1.7+0.4+1.6)	Mid Sep 2002	3,888	1.088	4,230	342
Depreciation (6.4%)**			605	1.111	672	67
Overhead materials (3.0%)	5.3 (1.7+0.4+3.2)	Mid July 2002	284	1.206	343	59
Opening finished goods (B.III.1) – total (100%)			9,460		10,209	749 k
	Holding period	Conversion factor date	HCU	Conversion factor (section C)	2003 CCU	CCU– HCU
Opening balance in 2002 CCU					10,209	
2003 inflation of 56.9% (from conversion factor 1.569)					5,809	
Opening balance in 2003 CCU					<b>16,018</b>	<b>6,558</b>
Produced:	x	x				
Total period production			70,340	see E.VI.4	95,028	24,688
<b>Less: Closing balance*</b>						
Labour, utilities and services (46,0%)	2.1(1.7+0.4)	End Oct 2003	4,623	1.079	4,988	365
Raw materials (46.1%)	3.7 (1.7+0.4+1.6)	Mid Sept 2003	4,633	1.153	5,342	709
Depreciation (5.1%)**			513	1.743	894	381
Overhead materials (2.8%)	5.3 (1.7+0.4+3.2)	Mid July 2003	281	1.249	351	70
Closing balance of finished goods (B.III.1) – total (100%)			10,050		<b>11,575</b>	<b>1,525 l</b>
<b>Cost of Goods Sold</b>			69,750		<b>99,471</b>	<b>29,721 m</b>

\*The structure of expenditures incurred (presented in B.III.2) was used to approximate the weights of components of finished goods balance. Some accounting systems do not provide sufficient breakdown of WIP and finished goods, therefore, need to be approximated (see E.VI.4 for WIP approximation).

\*\*Depreciation included into finished goods balance was approximated based on the percentage increase in the CCU depreciation charge and the HCU depreciation charge. The percentage increase over the HCU depreciation charge was calculated as follows:

	2002	2003
(a) Restated depreciation charge	4,045	6,346
(b) Historical depreciation charge	3,640	3,640
Conversion factor (a)/(b)	1.111	1.743

**E.VI.6: Restated Inventories – Summary (E.VI.2 – E.VI.5)**

	31 December		Utilised/ sold	31 December	
(all amounts expressed in CCU)	2002	Receipts		2003	
Raw materials	5,755	44,250	44,371	5,634	
Sundry supplies	588	3,015	2,785	818	
Work in progress	3,022	95,511	95,028	3,505	
Finished stock	16,018	95,028	99,471	11,575	<b>H.II</b>
	25,383			21,532	<b>H.I</b>

HCU – Historical Currency Units CCU – Current Currency Units

**E.VI.7 Inventory Restatement Overall Adjustment**

The adjustment is recorded in **E.XII** as **ADJ 5**.

Inventories	Dr	2,122	<b>b+e+g+l</b>
Cost of goods sold	Dr	29,721	<b>m</b>
Temporary holding account (Current period expenses)*	Cr	(2,706)	<b>f</b>
Retained earnings – opening balance	Cr	(1,008)	<b>a+d+h+k</b>
		<u>31,843</u>	<u>(3,714)</u>
Net monetary gain	Cr	(28,129)	
		<u>31,843</u>	<u>(31,843)</u>

\*A temporary holding account was used to hold the historical depreciation of the current period when it was eliminated at a previous stage in this example (see section **E.II**). This holding account also ensures that the restated depreciation is allocated properly between inventories and cost of goods sold.

HCU – Historical Currency Units    CCU – Current Currency Units

## E.VII: Restatement of deferred income – government grant

	HCU HCU (B.V.1)	Conversion factor (C.II,C.III)	CCU	CCU – HCU
Balance at 31 December 2002	3,200			
– at 31 December 2002 purchasing power*		3.791	12,131	8,931 a
– at 31 December 2003 purchasing power*		5.948	19,034	15,834 b
Current period amortisation (in 2003 CCU)	(400)	5.948	(2,379)	(1,979) c
Balance at 31 December 2003	2,800		16,655	13,855 d=b+c

IAS 29 adjustment entry (recorded in E.XII as ADJ 9):

Retained earnings – opening balance	Dr	8,931	a
Net monetary gain	Dr	6,903	b–a
Amortisation of government grant	Cr	(1,979)	c
Deferred income – grant	Cr	(13,855)	d
		<u>15,834</u>	<u>(15,834)</u>

\*Conversion factor from end of June 2000

HCU – Historical Currency Units CCU – Current Currency Units

Calculated by multiplying the historical monthly/quarterly HCU (see B.VI) by the average conversion factors for that month/quarter (see C.IV) except for current tax which used the conversion factors from the month end (based on conditions summarised in section B.VI).

For example, January revenue:  $5,750 \times 1.542 = 8,867$ ; IV quarter tax:  $374 \times 1.000 = 374$ .

	Average conversion factor	Restated income statement items (all amounts expressed in CCU)						
		Revenue	General and admin expenses			Foreign exchange		Current tax
			Wages	Rent	Other	gain	loss	
January	1.542	(8,867)		359		(191)	1,687	
February	1.491	(9,311)		347		(73)	289	
March	1.438	(11,418)		336		(150)	2,030	
I quarter	1.490	(29,596)	2,201	1,042	2,321	(414)	4,006	378
April	1.374	(10,271)		320		(284)	2,531	
May	1.318	(12,192)		307		(216)	2,088	
June	1.285	(12,040)		301		(155)	1,921	
II quarter	1.326	(34,503)	1,997	928	2,547	(655)	6,540	758
July	1.249	(13,926)		291		(136)	1,647	
August	1.205	(12,189)		281		(136)	1,248	
September	1.153	(10,902)		270		(30)	1,795	
III quarter	1.202	(37,017)	2,285	842	2,720	(302)	4,690	25
October	1.099	(10,957)		330		(93)	526	
November	1.059	(9,372)		318		(107)	922	
December	1.019	(8,845)		306		(180)	1,138	
IV quarter	1.059	(29,174)	2,241	954	2,391	(380)	2,586	374
		(130,290)	8,724	3,766	9,979	(1,751)	17,822	1,535
CCU–HCU		(26,040)	1,724	766	1,979	(371)	3,822	335

Adjusting entries (recorded in E.XII as ADJ 14):

		Monetary effect	Expenses	Income
Net monetary gain	Dr	26,040		
Revenue				(26,040)
Wages and salaries	Dr		1,724	
Net monetary gain		(1,724)		
Rent expense	Dr		766	
Net monetary gain		(766)		
Other administrative expenses	Dr		1,979	
Net monetary gain		(1,979)		
Net exchange transaction losses	Dr		3,451	
Net monetary gain		(3,451)		
Net monetary gain	Dr	205		
Interest income				(205)
Interest expense	Dr		538	
Net monetary gain		(538)		
Tax	Dr			335
Net monetary gain		(335)		
Represents the total result from inflating all income statement items		17,452		(17,452)

Note: Income interest and expense were restated using the yearly average because interest expense is a stable periodic expense and income interest is not-material.

## E.IX Restatement of Equity Components and Movements

**E.IX.1: Restatement of paid-in share capital**

1) Restatement of the opening balance to 31 December 2002 purchasing power

Date of contribution / conversion factor used	HCU	Conversion factor (from C.II)	CCU	CCU–HCU
23 Jan' 2000/End Jan'2000	6,400	4.965	31,776	
30 Jun' 2000/End Jun'2000	3,600	3.791	13,648	
5 Dec' 2002/End Nov'2002	7,000	1.025	7,175	
Balance at 31 December 2002	17,000		52,599	35,599 a

2) Restatement of the opening balance to 31 December 2003 purchasing power

Date of contribution / conversion factor used	HCU	Conversion factor (from C.III)	CCU	CCU–HCU
23 Jan' 2000/End Jan'2000	6,400	7.790	49,856	
30 Jun' 2000/End Jun'2000	3,600	5.948	21,413	
5 Dec' 2002/End Nov'2002	7,000	1.608	11,256	
Balance at 31 December 2002	17,000		82,525	65,525
24 Sep' 2003/End Sep'2003	5,000	1.120	5,600	600
Balance at 31 December 2003	22,000		88,125	66,125 b

3) IAS 29 adjustment entry (recorded in E.XII as ADJ 10)

Retained earnings – opening balance	Dr	35,599	a
Net monetary gain	Dr	30,526	b–a
Share capital	Cr	(66,125)	b
		<u>66,125</u>	<u>(66,125)</u>

**E.IX.2: Restatement of Dividends (Declared and Paid)**

Date of contribution / conversion factor used	HCU	Conversion factor (from C.III)	CCU	CCU–HCU
Accrued (i.e. retained earnings movement):				
June'2003	5,000	1.274	6,370	1,370 a
Paid (i.e. cash flow):				
November'2003	5,000	1.039	5,195	195 H.III
Monetary gain on delay in dividends payment			1,175	1,175

IAS 29 adjustment entry (recorded in E.XII as ADJ 11):

Dividends accrued	Dr	1,370	a
Net monetary gain	Cr	(1,370)	a

HCU – Historical Currency Units CCU – Current Currency Units

**E.IX.3: Reversal of statutory revaluation of property, plant and equipment**1) Reversal of 2003 year end statutory revaluation (recorded in E.XII as **ADJ 1a**)

Revaluation reserve	Dr	9,027	
Fixed assets		<u>Cr</u>	<u>(9,027)</u>

2) Reversal of prior years statutory revaluation for PPE cost (recorded in E.XII as **ADJ 1b**)

Revaluation reserve	Dr	45,300	The opening balance of revaluation reserve
Property, plant and equipment		<u>Cr</u>	<u>(43,200)</u> For surplus on gross book value of property, plant and equipment at 31 December 2003
Gain on disposal of property, plant and equipment		<u>Cr</u>	<u>(2,100)</u> Surplus on gross book value of the disposal
			<u>45,300 (45,300)</u>

3) Reconciliation of revaluation reserve adjustments

Revaluation reserve at 31 December 2003		(47,157)
Less:	<b>ADJ 1a</b>	9,027
	<b>ADJ 1b</b>	<u>45,300</u>
Revaluation reserve debit related to revaluation of accumulated depreciation to be reversed within statutory depreciation reversal (See E.II)		<u>7,170</u>

HCU – Historical Currency Units    CCU – Current Currency Units

## E.X: Deferred Tax Calculations

	IAS carrying value A	Tax Base B	Temporary difference B–A	Deferred tax asset/ (liability) (B–A)*30%	
<b>At 31 December 2002</b>					
Property, plant and equipment	43,166	43,337	171	51	
Investment in associate	16,320	16,000	(320)	(96)	
Other long-term investments	23,500	10,000	(13,500)	(4,050)	
Inventories	16,178	15,170	(1,008)	(302)	
Trading investments	5,000	5,000	–	–	
<b>Opening deferred tax (net) in 31 December 2002 purchasing power</b>				(4,397)	<b>a</b>
2003 inflation of 56.9% (from conversion factor 1.569)				(2,502)	<b>c</b>
<b>Opening deferred tax (net) in 31 December 2003 purchasing power</b>				(6,899)	
<b>At 31 December 2003</b>					
Property, plant and equipment	67,950	54,163	(13,787)	(4,136)	
Investment in associate	35,630	16,000	(19,630)	(5,889)	
Other long-term investments	41,000	11,000	(30,000)	(9,000)	
Inventories	21,532	19,410	(2,122)	(637)	
Trading investments	15,000	15,000	–	–	
<b>Deferred tax (net) at 31 December 2003</b>				(19,662)	<b>b</b>
<b>Deferred tax charge for the current period</b>				(12,763)	<b>b–(a+c)</b>
<b>Within deferred tax amount the following is charged through fair value reserve:</b>					
	IAS carrying value A	IAS Cost B	Temporary difference B–A	Deferred tax asset/ (liability) (B–A)*30%	
<b>At 31 December 2002</b>					
Other long-term investments	23,500	24,770	1,270	381	<b>f</b>
<b>Opening deferred tax charge to fair value reserve in 31 December 2002 purchasing power</b>				381	<b>g</b>
2003 inflation of 56.9% (from conversion factor 1.569)				217	
<b>Opening deferred tax charge to fair value reserve in 31 December 2003 purchasing power</b>				598	
<b>At 31 December 2003</b>					
Other long-term investments	41,000	40,274	(726)	(218)	<b>d</b>
<b>Deferred tax charge to fair value reserve at 31 December 2003</b>				(218)	
<b>Deferred tax charge to fair value reserve for the current period</b>				(816)	<b>e</b>
<b>Within deferred tax amount the following is charged through translation reserve:</b>					
	Translation reserve value A	Tax Base B	Temporary difference B–A	Deferred tax asset/ (liability) (B–A)*30%	
<b>At 31 December 2002</b>					
Investment in associate	0	0	0	0	
<b>Opening deferred tax charge to translation reserve in 31 December 2002 purchasing power</b>				0	
2003 inflation of 56.9% (from conversion factor 1.569)				0	
<b>Opening deferred tax charge to translation reserve in 31 December 2003 purchasing power</b>				0	
<b>At 31 December 2003</b>					
Investment in associate	2,029	0	(2,029)	(609)	
<b>Deferred tax charge to translation reserve at 31 December 2003</b>				(609)	<b>h</b>
<b>Deferred tax charge to translation reserve for the current period</b>				(609)	<b>j</b>
<b>Deferred tax accrual entry (recorded in E.XII as ADJ 12):</b>					
Retained earning - opening balance	Dr		4,778		<b>a-f</b>
Translation reserve	Dr		609		<b>h</b>
Fair value reserve	Dr		218		<b>d</b>
Net monetary gain	Dr		2,719		<b>c+j</b>
Income tax expense	Dr		11,338		<b>b–(a+c)–e–j</b>
Deferred tax liability		Cr		(19,662)	<b>b</b>
			19,662	(19,662)	

HCU – Historical Currency Units CCU – Current Currency Units

## E.XI Current Year Inflation Adjustment to Opening Retained Earnings

Retained earnings opening balance will be accumulated in the adjustment schedule as follows:

Description	Currency units	Source
Opening historical retained earnings, HCU	20,697	A.I
Add: Sum of all prior year adjustments to opening retained earnings from adjustment schedule	4,429	E.XII (ADJ1–ADJ–14)
Opening retained earnings in 2002 CCU	25,126	E.XII (Subtotal)
2003 inflation of 56.9% (from conversion factor 1.569)	14,297	C.I a
Opening retained earnings in 2003 CCU	39,423	
Opening retained earnings adjusting entry (recorded in E.XII as ADJ 15):		
Net monetary gain	Dr 14,297	a
Retained earnings – opening balance	Cr	(14,297) a

HCU – Historical Currency Units    CCU – Current Currency Units

E.XII Summary Schedule of Inflation Adjustments Journal Entries

	Historical 31-Dec-2003	ADJ 1a Reversal of 2003 revaluation	ADJ 1b Reversal of p/y cost revaluation	ADJ 2 Reversal of statutory dep-n	ADJ 3 Fixed assets restatement	ADJ 4 Dep-n in 2003 PP	ADJ 5 Inventories and CoS restatement	ADJ 6 Associate restatement	ADJ 7 Long-term investment IAS29&IAS39	ADJ 8 Trading investments (P&L effect)	ADJ 9 Deferred income restatement	ADJ 10 Share capital restatement	ADJ 11 Dividends declared restatement	ADJ 12 Deferred income tax	ADJ 13 Bad Debt Charge	ADJ 14 Other P&L items restatement	Subtotal Opening retained earnings in 2002 CCU	ADJ 15 Retained earnings b/f 31-Dec-2003 restatement	Restated 31-Dec-2003	
<b>Balance Sheet (Inc. Retained Earnings Reconciliation)</b>																				<b>Balance Sheet (Inc. Retained Earnings Reconciliation)</b>
<b>Assets</b>																				<b>Assets</b>
<b>Non-current assets</b>																				<b>Non-current assets</b>
Property, plant and equipment	54,163	(9,027)	(43,200)	20,864	76,768	(31,618)	-	-	-	-	-	-	-	-	-	-	67,950	-	67,950	Property, plant and equipment
Investment in associate	35,630	-	-	-	-	-	-	0	-	-	-	-	-	-	-	-	35,630	-	35,630	Investment in associate
Other long-term investments	11,000	-	-	-	-	-	-	-	30,000	-	-	-	-	-	-	-	41,000	-	41,000	Available-for-sale investments
	100,793	(9,027)	(43,200)	20,864	76,768	(31,618)	0	0	30,000	0	0	0	0	0	0	0	144,580	0	144,580	
<b>Current assets</b>																				<b>Current assets</b>
Inventories	19,410	-	-	-	-	-	2,122	-	-	-	-	-	-	-	-	-	21,532	-	21,532	Inventories
Trade accounts receivable	28,170	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	28,170	-	28,170	Trade accounts receivable
Other receivables	1,500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,500	-	1,500	Other receivables
Trading investments	15,000	-	-	-	-	-	-	-	-	0	-	-	-	-	-	-	15,000	-	15,000	Trading investments
Cash	9,742	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,742	-	9,742	Cash
	73,822	0	0	0	0	0	2,122	0	0	0	0	0	0	0	0	0	75,944	0	75,944	
<b>Total assets</b>	174,615	(9,027)	(43,200)	20,864	76,768	(31,618)	2,122	0	30,000	0	0	0	0	0	0	0	220,524	0	220,524	<b>Total assets</b>
<b>Liabilities and Equity</b>																				<b>Liabilities and Equity</b>
<b>Capital and reserves</b>																				<b>Capital and reserves</b>
Share capital	(22,000)	-	-	-	-	-	-	-	-	-	(66,125)	-	-	-	-	-	(88,125)	-	(88,125)	Share capital
Revaluation reserve	(47,157)	9,027	45,300	(7,170)	-	-	-	-	-	-	-	-	-	-	-	-	0	-	-	
	-	-	-	-	-	-	-	-	(726)	-	-	-	-	218	-	-	(508)	-	(508)	Fair value reserve
Translation reserve	(13,010)	-	-	-	-	-	-	10,981	-	-	-	-	-	609	-	-	(1,420)	-	(1,420)	Translation reserve
Retained earnings – opening	(20,697)	-	-	(8,093)	(44,524)	14,658	(1,008)	-	(14,770)	-	8,931	35,599	-	4,778	-	-	(25,126)	(14,297)	(39,423)	Retained earnings – opening
Income statement, 2003	(6,631)	0	(2,100)	(5,601)	(32,244)	16,960	(1,114)	(10,981)	(14,504)	0	4,924	30,526	(1,370)	14,057	0	0	(8,078)	14,297	6,219	Income statement, 2003
Dividends declared, 2003	5,000	-	-	-	-	-	-	-	-	-	-	-	1,370	-	-	-	6,370	-	6,370	Dividends declared, 2003
Retained earnings – closing	(22,328)	0	(2,100)	(13,694)	(76,768)	31,618	(2,122)	(10,981)	(29,274)	0	13,855	66,125	0	18,835	0	0	(26,834)	0	(26,834)	Retained earnings – closing
	(104,495)	9,027	43,200	(20,864)	(76,768)	31,618	(2,122)	0	(30,000)	0	13,855	0	0	19,662	0	0	(116,887)	0	(116,887)	
<b>Non-current liabilities</b>																				<b>Non-current liabilities</b>
Deferred income – grant	(2,800)	-	-	-	-	-	-	-	-	-	(13,855)	-	-	-	-	-	(16,655)	-	(16,655)	Deferred income – grant
Borrowings	(29,000)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(29,000)	-	(29,000)	Borrowings
Deferred tax liabilities	n/a	-	-	-	-	-	-	-	-	-	-	-	-	(19,662)	-	-	(19,662)	-	(19,662)	Deferred tax liabilities
	(31,800)	0	0	0	0	0	0	0	0	0	(13,855)	0	0	(19,662)	0	0	(65,317)	0	(65,317)	
<b>Current liabilities</b>																				<b>Current liabilities</b>
Bank overdrafts	(8,060)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(8,060)	-	(8,060)	Bank overdrafts
Trade payables	(24,760)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(24,760)	-	(24,760)	Trade payables
Other payables	(5,500)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,500)	-	(5,500)	Other payables
	(38,320)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(38,320)	0	(38,320)	
<b>Total liabilities and equity</b>	(174,615)	9,027	43,200	(20,864)	(76,768)	31,618	(2,122)	0	(30,000)	0	0	0	0	0	0	0	(220,524)	0	(220,524)	<b>Total liabilities and equity</b>
<i>Check (Dr – Cr) to be nil</i>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	<i>Check (Dr – Cr) to be nil</i>
<b>Income Statement</b>	<b>2003</b>																			<b>2003</b>
Sales	(104,250)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(26,040)	(130,290)	-	(130,290)	Sales
Cost of sales	69,750	-	-	-	-	-	29,721	-	-	-	-	-	-	-	-	-	99,471	-	99,471	Cost of sales
(Temporary holding account)	-	-	-	(3,640)	-	6,346	(2,706)	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Gross Profit</b>	(34,500)	0	0	(3,640)	0	6,346	27,015	0	0	0	0	0	0	0	0	(26,040)	(30,819)	0	(30,819)	<b>Gross Profit</b>
<b>General and administrative:</b>																				<b>General and administrative:</b>
Wages	7,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,724	8,724	-	8,724	Wages	
Depreciation expense	3,447	-	-	(3,447)	-	4,501	-	-	-	-	-	-	-	-	-	4,501	-	4,501	Depreciation expense	
Rent expense	3,000	-	-	-	-	-	-	-	-	-	-	-	-	-	766	3,766	-	3,766	Rent expense	
Bad debt charge	2,450	-	-	-	-	-	-	-	-	-	-	-	-	0	-	2,450	-	2,450	Bad debt charge	
Other administrative expenses	8,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,979	9,979	-	9,979	Other administrative expenses	
Amortisation of grant	(400)	-	-	-	-	-	-	-	-	-	(1,979)	-	-	-	-	(2,379)	-	(2,379)	Amortisation of grant	
Profit on sale of PPE	(386)	-	(2,100)	1,486	3,395	(2,226)	-	-	-	-	-	-	-	-	-	169	-	169	Profit on sale of PPE	
<b>Operating profit</b>	(11,389)	0	(2,100)	(5,601)	3,395	8,621	27,015	0	0	(1,979)	0	0	0	0	0	(21,571)	(3,609)	0	(3,609)	<b>Operating profit</b>
Share of result of associate	(6,300)	-	-	-	-	-	-	(1,695)	-	-	-	-	-	-	-	-	(7,995)	-	(7,995)	Share of result of associate
<b>Financial income / expenses:</b>																				<b>Financial income / expenses:</b>
Gain on trading investments	(4,000)	-	-	-	-	-	-	-	-	5,305	-	-	-	-	-	-	1,305	-	1,305	Loss on trading investments
Interest income	(762)	-	-	-	-	-	-	-	-	-	-	-	-	-	(205)	(967)	-	(967)	Interest income	
Interest expense	2,000	-	-	-	-	-	-	-	-	-	-	-	-	-	538	2,538	-	2,538	Interest expense	
Foreign exchange loss	12,620	-	-	-	-	-	-	-	-	-	-	-	-	-	3,451	16,071	-	16,071	Foreign exchange loss	
<i>Net monetary (gain)</i>	0	-	-	-	(35,639)	8,339	(28,129)	(9,286)	(14,504)	(5,305)	6,903	30,526	(1,370)	2,719	0	17,452	(28,294)	14,297	(13,997)	<i>Net monetary (gain)</i>
<b>Profit before tax</b>	(7,831)	0	(2,100)	(5,601)	(32,244)	16,960	(1,114)	(10,981)	(14,504)	0	4,924	30,526	(1,370)	2,719	0	(335)	(20,951)	14,297	(6,654)	<b>Profit before tax</b>
Tax	1,200	-	-	-	-	-	-	-	-	-	-	-	-	11,338	-	335	12,873	-	12,873	Tax
<b>Net (income)/loss</b> (included to line 'income statement, 2003' as above)	(6,631)	0	(2,100)	(5,601)	(32,244)	16,960	(1,114)	(10,981)	(14,504)	0	4,924	30,526	(1,370)	14,057	0	(8,078)	14,297	6,219	<b>Net (income)/loss</b> (included to line 'Income statement, 2003' as above)	
Working papers reference	A.I, A.II, A.IV	E.IX.3.1	E.IX.3.2	E.II.7i	E.II.7ii	E.II.7iii	E.VI.7	E.III	E.IV	E.V	E.VII	E.IX.1	E.IX.2	E.X	G.III	E.VIII		E.IX H.I, H.II, H.IV		Working papers reference

Should be always nil

HCU – Historical Currency Units CCU – Current Currency Units

## F.I. Monetary Proof based on average quarterly net monetary position

The difference between the theoretical monetary gain and the monetary gain which resulted from the restatement procedures is not significantly different (i.e. 2.7%). Thus, this is proof that the monetary gain is reasonable.

	31-Dec 2002	31-Mar 2003	30-Jun 2003	30-Sep 2003	31-Dec 2003
Conversion factors from each date to 31 December 2003	1.569	1.410	1.274	1.120	1.000
Inflation for the year (1.569 – 1.000)					0.569
<b>a</b> Inflation for the year split per quarter*		0.159	0.136	0.154	0.120
Net monetary position, HCU (B.VIII)	(10,800)	(21,195)	(31,042)	(25,341)	(27,908)
<b>b</b> Quarter average monetary position		(15,998)	(26,119)	(28,192)	(26,625)
Theoretical monetary gain for each quarter (a x b)		2,544	3,552	4,342	3,195
Theoretical monetary gain for the year (sum of monetary gain per quarter)					13,633
Monetary gain as a result of the restatement procedure					13,997
% of variation					2.7%

\*Inflation for quarter is calculated as the difference between the conversion factors at the end of the quarter and the beginning of the quarter.

HCU – Historical Currency Units    CCU – Current Currency Units

## G.I: Restatement of revenues collected

Month	HCU, (B.VII.3)	Conversion factor (C.IV)	CCU	
Jan	7,340	1.542	11,318	
Feb	8,740	1.491	13,031	
Mar	8,160	1.438	11,734	
Apr	7,420	1.374	10,195	
May	8,030	1.318	10,584	
Jun	7,330	1.285	9,419	
Jul	6,720	1.249	8,393	
Aug	7,720	1.205	9,303	
Sep	8,240	1.153	9,501	
Oct	7,730	1.099	8,495	
Nov	8,220	1.059	8,705	
Dec	8,760	1.019	8,926	
	94,410		119,604	H.III

## G.II: Restatement of operating outflows

	HCU, (B.VII.3)	Conversion factor (C.IV)	CCU	
<b>G.II.1: Raw materials</b>				
I. quarter	4,477	1.490	6,671	
II. quarter	3,923	1.326	5,202	
III. quarter	4,651	1.202	5,591	
IV. quarter	5,433	1.059	5,754	
	18,484		23,218	H.III
<b>G.II.2: Wages, utilities, overheads</b>				
I. quarter	10,810	1.490	16,107	
II. quarter	12,373	1.326	16,407	
III. quarter	14,692	1.202	17,660	
IV. quarter	15,511	1.059	16,426	
	53,386		66,600	H.III
<b>G.II.3: Restatement of rent payments</b>				
	HCU, Conversion			
Paid (B.VII.5)	(B.VII.3)	factor (C.IV)	CCU	
27 March	700	1.410	987	
29 June	700	1.274	892	
17 September	900	1.153	1,038	
25 December	900	1.000	900	
	3,200		3,817	H.III
<b>G.II.4: Restatement of income tax paid</b>				
Performed based on the quarterly tax accruals and dates due:				
	HCU, (B.VII.3)	Conversion factor (C.IV)	CCU	
Paid (B.VII.2)				
End of January	153	1.515	232	
End of March	254	1.339	340	
End of July	572	1.225	701	
End of October	21	1.079	23	
	1,000		1,296	H.III

HCU – Historical Currency Units CCU – Current Currency Units

## G.III: Trade accounts receivable and bad debt expense

As provision for bad debt is a monetary item, it results in monetary gain (which is offset by the monetary loss created by holding the related receivables). The inflation effect on the opening bad debt provision is a reconciling item in the indirect cash flow statement as this is a non cash item not shown as a change in working capital.

	HCU	CCU	
Opening bad debt provision	(3,250)	(5,099)	
Bad debt expense for the year	(2,450)	(2,450)	
Less: Closing bad debt provision	5,700	5,700	
Difference – inflation effect on related bad debt provision	–	(1,849)	H.III

Note: Bad debt expense for the year was considered to be in 31 December 2003 purchasing power as the Company only reassesses its bad debt provision once a year at the reporting date which is the year-end.

## G.IV: Inflation effect

## G.IV.1: Calculation of inflationary effect on cash

	HCU	Source C.IV	CCU	Inflation effect	
Opening cash	5,750		9,022	3,272	
Net movement in cash per quarter:					
Quarter I	(5)	1.490	(7)	(2)	
Quarter II	2,001	1.326	2,653	652	
Quarter III	995	1.202	1,196	201	
Quarter IV	1,001	1.059	1,060	59	
Total inflation effect on cash				4,182	H.III

## G.IV.2: Restatement of bank overdrafts

	HCU	Source C.IV	CCU	Inflation effect	
Opening bank overdrafts	5,200		8,159	2,959	
Less: Closing cash	(8,060)		(8,060)		
Net increase(decrease) in bank overdrafts	2,860		(99)		H.III
Including: I. quarter	722	1.490	1,076		
II. quarter	708	1.326	939		
III. quarter	(3,290)	1.202	(3,955)		
IV. quarter	4,720	1.059	4,998		
Net increase, restated at average inflation			3,058	198	
Monetary gain on bank overdrafts				3,157	H.III

## G.IV.3: Calculation of inflationary effect on borrowings

	HCU		CCU	
Opening borrowings	15,000		23,535	
Increase due to foreign exchange loss (B.VI)	14,000	E.VIII	17,822	
Less: Closing cash	(29,000)		(29,000)	
Reductions of borrowings (due to inflation)	0		12,357	H.III

HCU – Historical Currency Units    CCU – Current Currency Units

G.IV: Inflation effect – *continued***G.IV.4: Inflation effect on financing activities and total for non–operating activities and tax**

Inflation effect on financing activities is calculated as the difference between the restated opening and closing balances of bank overdrafts and borrowings.

Inflation effect on non–operating activities also includes the inflation effect on dividends, interest, inflation effect on investing activities and cash itself.

		Inflation effect	
Monetary gain on bank overdrafts	<b>G.IV.2</b>	3,157	
Reductions of borrowings (due to inflation)	<b>G.IV.3</b>	12,357	
Inflation effect on financing activities – gain		15,514	<b>H.III</b>
Inflation effect on dividends – gain	<b>E.IX.2</b>	1,175	
Inflation effect on interest payable – gain	<b>G.V</b>	112	
Inflation effect on interest receivable – loss	<b>G.V</b>	(161)	
Inflation effect on cash – loss	<b>G.IV.1</b>	(4,182)	
Inflation effect on non-operating activities		12,458	
Inflation effect on income tax – gain	<b>G.V</b>	126	
		12,584	<b>H.III</b>

Note: Inflation effect on investing activities is not material due to terms and conditions of this example.

HCU – Historical Currency Units CCU – Current Currency Units

<b>G.V: Other accounts receivable and payable</b>					
(all amounts expressed in HCU)	Total	Interest income	Interest expense	Income tax	Other operating
<b>Other receivables</b>					
Closing balance	1,500	600			900
Opening balance	1,000	–			1,000
Increase/(decrease) in other receivables	500	600			(100)
<b>Other payables</b>					
Closing balance	(5,500)		(190)	(353)	(4,957)
Opening balance	(6,000)		(60)	(153)	(5,787)
(Increase)/decrease in other payables	500		(130)	(200)	830
<hr/>					
(all amounts expressed in HCU)	Total	Interest income	Interest expense	Income tax	Other operating
Other operating					
Other receivables					
Closing balance	1,500	600			900
Opening balance in 2003 CCU*	1,569	–			1,569
Increase/(decrease) in other receivables	(69)	600			(669) <b>H.III</b>
Other payables					
Closing balance	(5,500)		(190)	(353)	(4,957)
Opening balance in 2003 CCU*	(9,414)		(94)	(240)	(9,080)
(Increase)/decrease in other payables	3,914		(96)	(113)	4,123 <b>H.III</b>
Amount accrued		967	(2,538)	(1,535)	
Amount paid		(206)	2,330**	1,296	
Monetary loss/(gain)		161	(112)	(126)	<b>G.IV.4</b>

\*Opening balance was restated by using the 1 January 2003 conversion factor 1.569.

\*\*Interest expense paid within five days after each month end was restated using the average of month-end conversion factors for 2003.

HCU – Historical Currency Units CCU – Current Currency Units

## H.I Restated Balance Sheets

(Historical information is presented here for convenience of the example and should not be included into the restated financial statements)

	Restatement Procedures	Restated, 2003 CCU				Historical, HCU			
		31 December		31 December		31 December		31 December	
		2003	2003	2002	2002	2003	2003	2002	2002
<b>Assets</b>									
<b>Non-current assets</b>									
Property, plant and equipment	E.II.7	67,950		67,726		54,163		43,337	
Investment in associated undertaking	E.III	35,630		25,606		35,630		16,320	
Available-for-sale investments	E.IV	41,000		36,872		11,000		10,000	
			144,580		130,204		100,793		69,657
<b>Current assets</b>									
Inventories	E.VI.6	21,532		25,383		19,410		15,170	
Trade accounts receivable	mon	28,170		30,439		28,170		19,400	
Other receivables	mon	1,500		1,569		1,500		1,000	
Trading investments	E.V	15,000		7,845		15,000		5,000	
Cash	mon	9,742		9,022		9,742		5,750	
			75,944		74,258		73,822		46,320
<b>Total assets</b>			<b>220,524</b>		<b>204,462</b>		<b>174,615</b>		<b>115,977</b>
<b>Equity and Liabilities</b>									
<b>Capital and reserves</b>									
Share capital	E.IX.1	88,125		82,525		22,000		17,000	
Revaluation reserve		–		–		47,157		38,130	
Translation reserve	E.III	1,420		–		13,010		–	
Fair value reserve	E.IV	508		(1,394)		–		–	
Retained earnings	E.IX.4	26,834		39,423		22,328		20,697	
			116,887		120,554		104,495		75,827
<b>Non-current liabilities</b>									
Deferred income – government grant	E.VII	16,655		19,034		2,800		3,200	
Borrowings	mon	29,000		23,535		29,000		15,000	
Deferred tax liabilities	E.X	19,662		6,899		–		–	
			65,317		49,468		31,800		18,200
<b>Current liabilities</b>									
Bank overdrafts	mon	8,060		8,159		8,060		5,200	
Trade payables	mon	24,760		16,867		24,760		10,750	
Other payables	mon	5,500		9,414		5,500		6,000	
			38,320		34,440		38,320		21,950
<b>Total equity and liabilities</b>			<b>220,524</b>		<b>204,462</b>		<b>174,615</b>		<b>115,977</b>

Note: *mon* defines monetary balance sheet items which are already expressed in year end purchasing power and require no restatement.

Monetary items of prior year are adjusted by 1.569 to current year end purchasing power for comparative purposes as required by IAS 29.

HCU – Historical Currency Units CCU – Current Currency Units

## H.II Restated Income Statement for the Year ended 31 December 2003

*(Historical information is presented here for convenience of the example and should not be included into the restated financial statements)*

	Restatement Procedures	Restated, 2003 CCU	Historical, HCU
Sales		130,290	104,250
Cost of sales	E.VI.5	(99,471)	(69,750)
<b>Gross Profit</b>		<b>30,819</b>	<b>34,500</b>
General and administrative expenses:			
Wages and salaries	E.VIII	(8,724)	(7,000)
Depreciation expense	E.II.4	(4,501)	(3,447)
Rent expense	E.VIII	(3,766)	(3,000)
Bad debt expense	G.III	(2,450)	(2,450)
Other administrative expenses	E.VIII	(9,979)	(8,000)
Amortisation of government grant	E.VII	2,379	400
Profit on sale of property, plant and equipment	E.II.5	(169)	386
		(27,210)	(23,111)
<b>Operating profit</b>		<b>3,609</b>	<b>11,389</b>
Share of result of associate	E.III	7,995	6,300
Finance costs:			
(Loss)/Gain on trading investments	E.V	(1,305)	4,000
Interest income	E.VIII	967	762
Interest expense	E.VIII	(2,538)	(2,000)
Net foreign exchange transaction losses	E.VIII	(16,071)	(12,620)
Net monetary gain	E.XI	13,997	–
		(4,950)	(9,858)
<b>Profit before tax</b>		<b>6,654</b>	<b>7,831</b>
Tax	E.VIII+E.X	(12,873)	(1,200)
<b>Net (loss)/income</b>		<b>(6,219)</b>	<b>6,631</b>

HCU – Historical Currency Units CCU – Current Currency Units

## H.III Restated Statement of Cash Flows for the Year Ended 31 December 2003

*(Historical information is presented here for convenience of the example and should not be included into the restated financial statements)*

	Restatement Procedures	Restated, 2003 CCU	Historical, HCU
<b>Cash flows from operating activities:</b>			
<b>DIRECT METHOD (see Indirect reconciliation below)</b>			
Cash receipts from customers	G.I	119,604	94,410
Cash paid for production materials and other supplies	G.II.1	(23,218)	(18,484)
Cash paid to employees and for utilities and overheads	G.II.2	(66,600)	(53,386)
Rent paid	G.II.3	(3,817)	(3,200)
Income tax paid	G.II.4	(1,296)	(1,000)
<b>Net cash from operating activities</b>		<b>24,673</b>	<b>18,340</b>
<b>Cash flows from investing activities:</b>			
Purchase of trading investments, net	E.V	(8,460)	(6,000)
Purchase of available-for-sale investments	E.IV	(1,410)	(1,000)
Purchase of property, plant and equipment	E.II.2	(12,740)	(10,000)
Interest received	average	206	162
Proceeds from sale of property, plant and equipment	E.II.5	1,500	1,500
<b>Net cash used in investing activities</b>		<b>(20,904)</b>	<b>(15,338)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from paid in share capital	E.IX.1	5,600	5,000
Reduction of bank overdrafts, net	G.IV.2	(99)	2,860
Reduction of borrowings	G.IV.3	(12,357)	–
Effect of inflation on financing activities	G.IV.4	15,514	–
Interest paid	G.V	(2,330)	(1,870)
Dividends paid	E.IX.2	(5,195)	(5,000)
<b>Net cash from financing activities</b>		<b>1,133</b>	<b>990</b>
Inflation effect on cash	G.IV.1	(4,182)	–
<b>Net increase in cash</b>		<b>720</b>	<b>3,992</b>
<b>Cash at the beginning of the period</b>		<b>9,022</b>	<b>5,750</b>
<b>Cash at the end of the period</b>		<b>9,742</b>	<b>9,742</b>

HCU – Historical Currency Units    CCU – Current Currency Units

H.III Restated Statement of Cash Flows for the Year Ended 31 December 2003 – *continued*

(Historical information is presented here for convenience of the example and should not be included into the restated financial statements)

	Restatement Procedures	Restated, 2003 CCU	Historical, HCU
<b>Indirect method</b>			
<b>Cash flows from operating activities:</b>			
Net (loss)/income	H.II	(6,219)	6,631
Adjustments for:			
Tax	H.II	12,873	1,200
Depreciation charge	E.II.3	10,847	7,087
Bad debt expense	H.II	2,450	2,450
Change in bad debt provision due to inflation	G.III	(1,849)	–
Amortisation of government grant	H.II	(2,379)	(400)
Loss/(profit) on sale of fixed assets	H.II	169	(386)
Share of result of associate	H.II	(7,995)	(6,300)
Decrease/(increase) in market value of trading investments	H.II	1,305	(4,000)
Interest income	H.II	(967)	(762)
Interest expense	H.II	2,538	2,000
Foreign exchange loss on financing and investing activities	E.VIII	17,822	14,000
<i>Monetary effect on non-operating activities and income tax</i>	G.IV.4	(12,584)	–
Operating profit before changes in working capital:		16,011	21,520
Changes in working capital:			
Decrease/(increase) in trade accounts receivable, gross		1,668	(11,220)
Decrease/(increase) in inventory	H.I	3,851	(4,240)
Decrease in other receivables	G.V	669	100
Increase in trade payables	H.I	7,893	14,010
Decrease in other payables	G.V	(4,123)	(830)
		9,958	(2,180)
Cash generated from operations		25,969	19,340
Income tax paid		(1,296)	(1,000)
<b>Net cash from operating activities (same as for Direct method)</b>		24,673	18,340

HCU – Historical Currency Units CCU – Current Currency Units

## H.IV Restated Statement of Changes in Equity for the Year Ended 31 December 2003

(all amounts expressed in CCU)	Restatement Procedures	Share Capital	Translation Reserve	Fair Value Reserve	Retained Earnings	Total
Balance at 1 January 2003	<b>E.IX.1</b>	82,525	–	(1,394)	39,423	120,554
Net income for the year	<b>H.II</b>	–	–	–	(6,219)	(6,219)
Currency translation difference	<b>E.III</b>	–	2,029	–	–	2,029
Fair value gain on investments	<b>E.IV</b>	–	–	2,718	–	2,718
Deferred tax on fair value reserve	<b>E.X</b>	–	(609)	(816)	–	(1,425)
Total recognised gains and losses		–	1,420	1,902	(6,219)	(2,897)
Share capital paid in		5,600	–	–	–	5,600
Dividends declared in 2003	<b>E.IX.2</b>	–	–	–	(6,370)	(6,370)
Balance at 31 December 2003	<b>E.IX.1</b>	88,125	1,420	508	26,834	116,887

HCU – Historical Currency Units    CCU – Current Currency Units





