

IAS 29 - Hyperinflation Accounting in Argentina

The IFRS rules (IAS-29) requires to report the results of operations in hyperinflationary economies by restating the year-to-date results for the change in the general **purchasing power** of the local currency (ARS), using official indices before converting the local amounts at the closing rate of the period.

Furthermore, IAS-29 requires the Company to restate the non-monetary assets and liabilities stated at historical cost on the balance sheet of operations in hyperinflation economies using inflation indices and to report the resulting hyperinflation through the income statement on a dedicated account for hyperinflation monetary adjustments in the finance line and report deferred taxes on such adjustments, when applicable.

NOTE: Accounting standards recommend using the **Consumer Price Index (IPC)** as published by INDEC (Instituto Nacional de Estadística y Censos), to measure inflation. In 2023 general **consumer prices increased by 211%**.

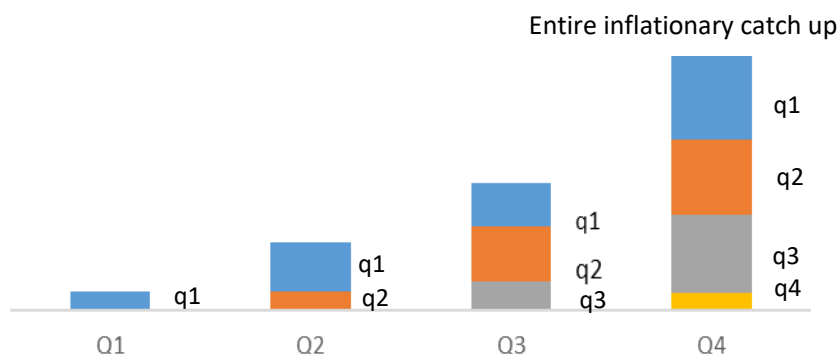
The objective is to show how much “**purchasing power**” the hyperinflationary subsidiary lost on monetary items and gained on non-monetary items. Please note that “**purchasing power**” on non-monetary items in hyperinflation is not gained, rather preserved it.

EXAMPLE: To illustrate this concept, the Company buys an asset at the beginning of the year for 1,000 ARS. As the inflation rate reached 211% during 2023, the same asset would be worth 3,110 ARS by the end of the year. The IAS-29 accounting rules suggest that it is more relevant to state that asset in the amount of 3,110 ARS rather than its original cost of 1,000 ARS because it better reflects the value of the assets in terms of “**purchasing power**”.

Results reported under accounting IFRS rules for hyperinflationary subsidiaries are hard to read and analyze because current prices and the Argentine Peso (ARS) are changing very rapidly. This is true when looking at financials in ARS currency.

Noteworthy, the analysis is even more complex and more difficult to read and analyze when those results are translated into another currency. This will be addressed later in the IAS 21 section.

The figure below illustrates the “catch-up” effect of Inflationary gains in the Company’s Q4 results



Graph 2. Accumulated hyperinflation by quarter and full year in 2023.

In each Quarter, all items need to be restated into the same measuring unit current at the date of the reporting period. It implies that the Company must restate the comparative figures for the previous periods in terms of the measuring unit at the end of the reporting period.

For example, year-to-date results as of June 30th, must also include a restatement of Q1 (adding inflationary gains or losses) to the Q2 results, so that everything is expressed in the same measuring unit (as of June 30th in this example). The restating requires applying the change in CPI-based index (inflation) from the dates on which income/expenses were initially recorded (as well as information of earlier periods).

Respectively, year-to-date results as of September 30th, must also include a restatement of Q1 and Q2 (adding inflationary gains or losses) to the Q3 results, so that everything is expressed in the same measuring unit (as of September 30th in this example). The restating requires applying the change in CPI-based index (inflation) from the dates on which income/expenses were initially recorded (as well as information of earlier periods).

Finally, year-to-date results as of December 31st, must also include a restatement of Q1, Q2 and Q3 (adding inflationary gains or losses) to the Q4 results, so that everything is expressed in the same measuring unit (as of December 31st in this example). The restating requires applying the change in CPI-based index (inflation) from the dates on which income/expenses were initially recorded (as well as information of earlier periods).

Example that illustrates the mechanics of IAS 29

The following example illustrates the mechanics of IAS 29 for the recording of revenues. In this example, the Company sells 100 units of “widgets” at the end of each quarter. Assuming a unit price of 1 ARS for each widget.

In a world without hyperinflation

	Q1	Q2	Q3	Q4
Net Revenues	100	100	100	100
Date reported	31-mar	30-jun	30-sep	31-dic

However, in a world with hyperinflation, unit prices would increase constantly in line with inflation.

For this example, we are using the real inflation rates observed in Q2, Q3 and Q4 of 2023 in Argentina. As such, the price of 1 widget would be 1 ARS in Q1, 1.24 ARS in Q2, 1.67 ARS in Q3 and 2.56 ARS in Q4.

	Q2	Q3	Q4
Inflation% in each quarter	23.87%	34.66%	53.31%

	Q1	Q2	Q3	Q4
Net Revenues from units sold during the current Q	100	124	167	256

Accumulative results must be “expressed” using currencies with the same purchasing power. It would be inaccurate to add 100 from Q1 and 124 from Q2 because the currencies of each figure are expressed with different purchasing power units.

Thus, Q1 results must be re-stated using the inflation observed in Q2 ($100 \times (1 + 0.2387) = 124$). As such, the accumulative results of Q1 and Q2 are 248 (124 from Q1 + 124 from Q2) as expressed in purchasing power of June 30th of the year (and not $224 = 100 + 124$, as it happens in non-hyperinflationary economies).

Inflation% in each quarter	Q2	Q3	Q4
	23.87%	34.66%	53.31%

Net Revenues from the Current Q	Q1	Q2	Q3	Q4
	100	124	167	256

IAS-29
hyperinflationary
world
(IFRS accounting
rules)

IAS Inflation adjustment of revenues from previous Q (to reflect same purchasing power)

	Q1	Q2	Q3	Q4	FY
Inflation Adjustment Q1		23.87 ^(a)	42.93 ^(b)	88.92 ^(c)	156
Inflation Adjustment Q2			42.93 ^(d)	88.92 ^(e)	132
Inflation Adjustment Q3				88.92 ^(f)	89
Total Ajustes	-	23.87	85.85	266.77	376
IAS 29 Reporting	100	148	253	522	1,023
Reported on	31-mar	30-jun	30-sep	31-dic	

^(a) $23.87 = 100 * [(1 + 23.87\%) - 1]$

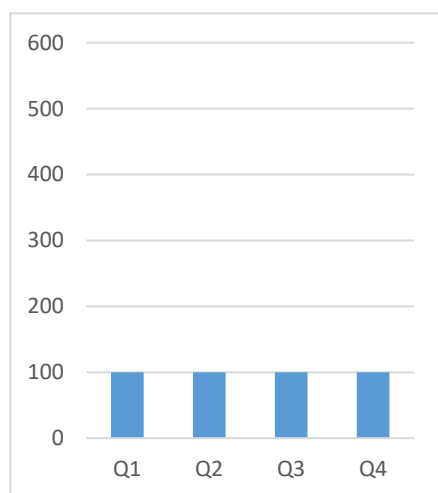
^(d) $42.93 = 100 * [(1 + 23.87\%) * (1 + 34.66\%) - 1]$

^(b) $42.93 = 100 * [(1 + 23.87\%) * (1 + 34.66\%) - 1]$

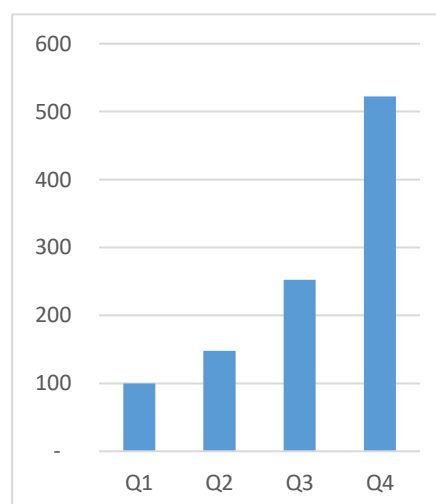
^(e) $88.92 = 100 * [(1 + 23.87\%) * (1 + 34.66\%) * (1 + 53.31\%) - 1]$

^(c) $88.92 = 100 * [(1 + 23.87\%) * (1 + 34.66\%) * (1 + 53.31\%) - 1]$

^(f) $88.92 = 100 * [(1 + 23.87\%) * (1 + 34.66\%) * (1 + 53.31\%) - 1]$



Graph 3. Hypothetical sales during each Q **without hyperinflation**.



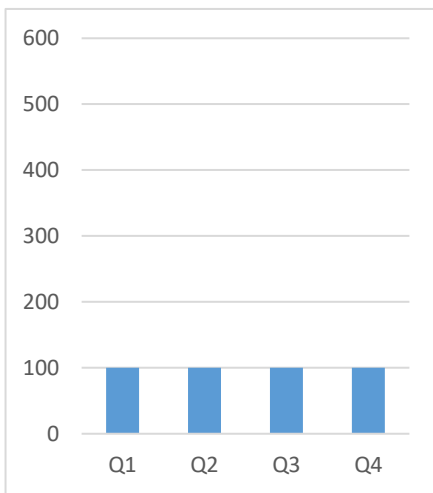
Graph 4. Hypothetical sales reported at the end of each Q **with IAS 29**

As you may see in graph 4, it is counter intuitive to read and analyze figures reported under IAS 29, even when all of those figures are expressed in local currency and have not been translated into Mexican Peso.

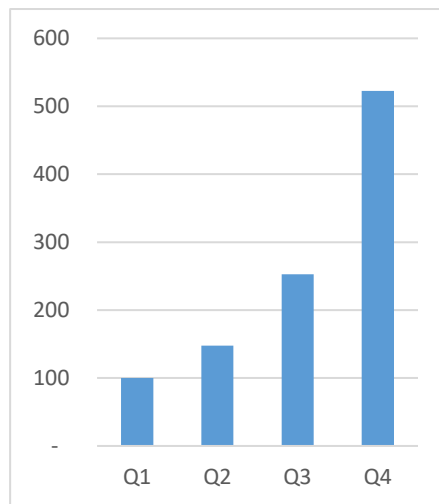
Genomma proposes to use as a supplementary information, the following “Proforma” figures where all the numbers are expressed using the same purchasing power unit, that is ARS of December 31st.

PROFORMA
hyperinflationary world
(All figures have same Purchasing power, as of Dec. 31)

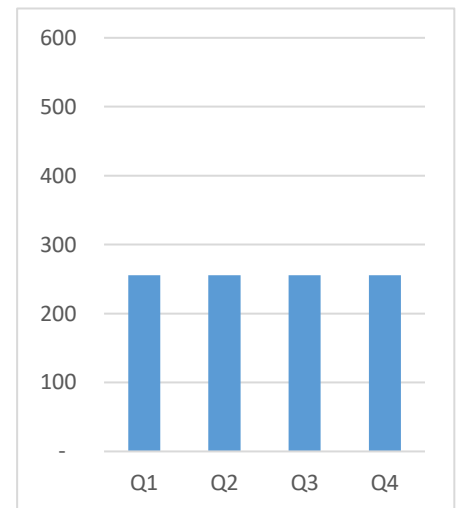
	Q1	Q2	Q3	Q4	FY
Net Revenues from the Current Q	100	124	167	256	646
Inflationary adjustments in each Q	156	132	89	-	
Net Revenues	256	256	256	256	1,023



Graph 3. Hypothetical sales during each Q **without hyperinflation.**



Graph 4. Hypothetical sales reported at the end of each Q **with IAS 29**



Graph 5. Hypothetical sales reported at the end of each Q **using Proforma with the same purchasing power of Dec 31st**

IAS 21 – The Effects of Changes in Foreign Exchange Rates

IAS 21 outlines how to account for foreign currency transactions and operations in financial statements. The results and financial position of an entity are translated using different procedures, whether those entities operate in the:

- a) Currency of a **stable economy**; or
- b) Currency of a **hyperinflationary** economy (special rules apply)

Translating results from a currency of a stable economy (Genomma subsidiaries exc. Argentina)

- Assets and liabilities are translated **at the closing rate at the date of that balance sheet.**;
- Income and expenses for each Income Statement are translated **at exchange rates at the dates of the transactions¹**;
- All resulting exchange differences are recognized in other comprehensive income.

Translating results from a currency of a hyperinflationary economy (Argentina)

Special rules apply for translating the results of an entity whose functional currency is the currency of a hyperinflationary economy (Argentinian Peso ARS) into a different presentation currency (Mexican Peso MXN) to consolidate them into the parent Company.

The financial statements of the foreign entity should be restated as required by IAS 29 Financial Reporting in Hyperinflationary Economies (include REI or Inflationary Gains/Losses), before translation into the reporting currency. **The restated financial statements are then translated at closing rates of each reporting period (i.e. March 31, June 30th, September 30th or December 31st, 2023 respectively).**

Non-Cash Accounting Adjustments in the Audited Financials resulting from a major devaluation of the Hyperinflationary Subsidiary

External auditors require that when consolidating results of the Argentinian subsidiary, the IAS-21 procedure for translating hyperinflationary entities must be used for the full-year results, using the closing exchange rate as of December 31st, 2023 (0.021 Mexican Peso “MXN” per 1.00 Argentinian Peso “ARS”).

¹ For practical reasons, a rate that approximately the exchange rates at the dates of the transactions, for example an average rate for the period, is often used to translate income and expenses.

Major Devaluation of the Argentinian Peso (ARS) in 2023

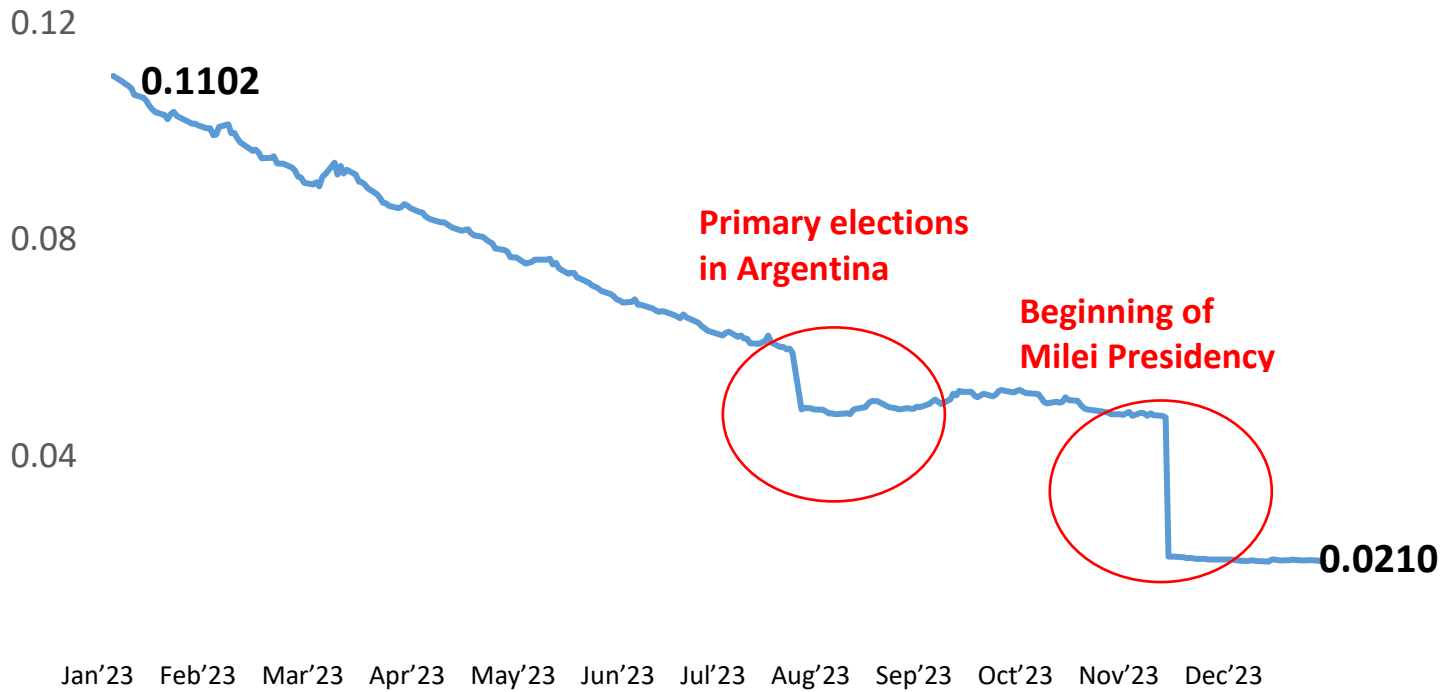
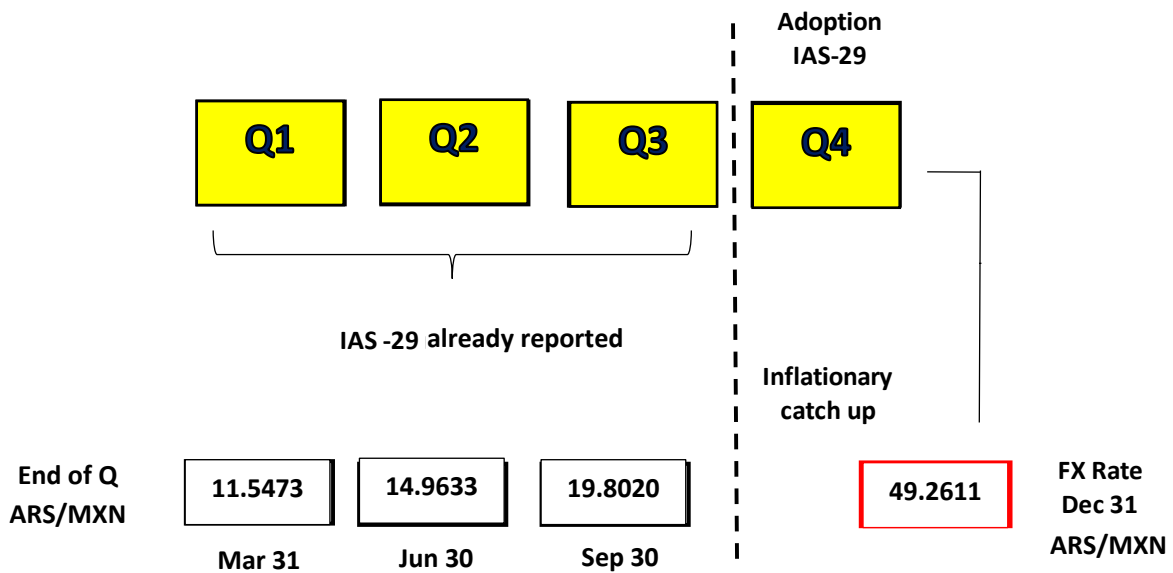


ILLUSTRATION of Interim Results (Hyperinflationary accounting and IAS 21 in 2023)



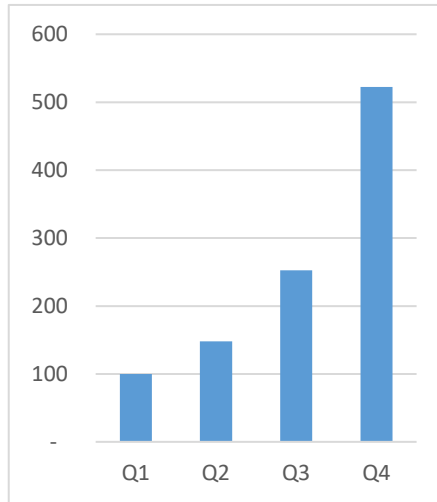
Example of the mechanics of IAS 21 after IAS 29

Let us continue with our example, and translate the hyperinflationary results from ARS into Mexican Pesos.

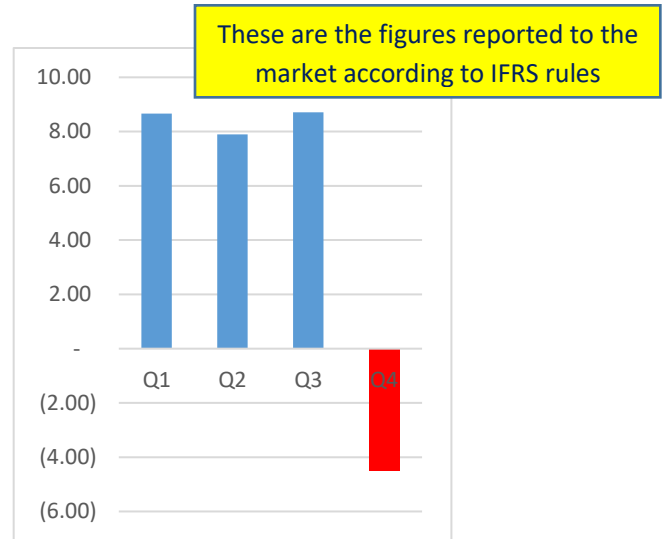
IAS 29 hyperinflationary accounting in local currency.

	Q1	Q2	Q3	Q4	
IAS-29 hyperinflationary ARS (IFRS accounting rules)	Net Revenues from the Current Q				
	100	124	167	256	
	IAS 29 Reporting				FY
	100	148	253	522	1,023
Reported in MXN Q1	Accumulated Sales in Q1				
	100				
	divided by 11.5473				
	8.66				
Reported in MXN Q2	Accumulated Sales in Q2				
	100+148=	248			
	divided by 14.9633				
	16.56				
	- 8.66				
	7.90				
Reported in MXN Q3	Accumulated Sales in Q3				
	100+148+253=	500			
	divided by 19.8020				
	25.27				
	8.66+7.90= - 16.56				
	8.71				
Reported in MXN Q4	Accumulated Sales in Q4				
	100+148+253+522=	1,023			
	divided by 49.2611				
	20.76				
	8.66+7.90+8.71= - 25.27				
	- 4.50				
	Q1	Q2	Q3	Q4	FY
	8.66	7.90	8.71	- 4.50	20.76

IAS-29
hyperinflationary world
(IFRS accounting rules)

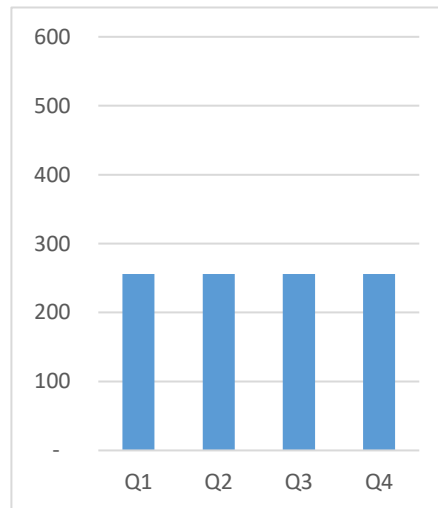


Graph 4. Hypothetical sales reported at the end of each Q with **IAS 29**

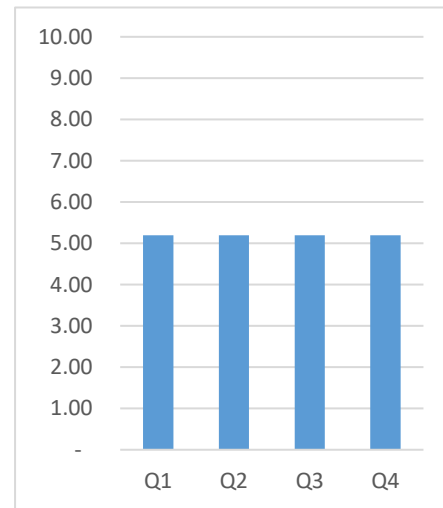


Graph 6. Hypothetical sales reported at the end of each Q in **Mexican Pesos (MXN)**

PROFORMA
(All figures have same Purchasing power, as of Dec. 31)



Graph 5. Hypothetical sales reported at the end of each Q using **Proforma in ARS** with the same purchasing power of Dec 31st



Graph 7. Hypothetical sales reported at the end of each Q using **Proforma in MXN** with the same purchasing power of Dec 31st