

EITF ABSTRACTS

Issue No. 93-9

Title: Application of FASB Statement No. 109 in Foreign Financial Statements Restated for General Price-Level Changes

Date Discussed: September 23, 1993

References: FASB Statement No. 89, *Financial Reporting and Changing Prices*
FASB Statement No. 109, *Accounting for Income Taxes*
APB Statement No. 3, *Financial Statements Restated for General Price-Level Changes*
AICPA Statement of Position 93-3, *Rescission of Accounting Principles Board Statements*

ISSUE

Enterprises located in countries with highly inflationary economies may prepare financial statements restated for general price-level changes in accordance with generally accepted accounting principles in the United States. The tax bases of assets and liabilities of those enterprises are often restated for the effects of inflation.

For those enterprises, the issues are:

1. How temporary differences should be computed under Statement 109
2. How deferred income tax expense or benefit for the year should be determined.

EITF DISCUSSION

The Task Force reached a consensus that when preparing financial statements restated for general price-level changes using end-of-current-year purchasing power units, temporary differences under Statement 109 are determined based on the difference between the indexed tax basis amount of the asset or liability and the related price-level restated amount reported in the financial statements.

The Task Force also reached a consensus that the deferred tax expense or benefit should be calculated as the difference between (1) deferred tax assets and liabilities reported at the end of the current year, determined in accordance with the above paragraph, and (2) deferred tax assets and liabilities reported at the end of the prior year, remeasured to units of current general purchasing power at the end of the current year. The remeasurement of deferred tax assets and liabilities at the end of the prior year is reported together with the remeasurement of all other assets and liabilities as a restatement of beginning equity.

A related issue was raised on intraperiod tax allocation for price-level-adjusted foreign financial statements that include assets valued at replacement cost. The Task Force agreed to consider this question at a future meeting as a separate Issue.

The example in Exhibit 93-9A is presented to illustrate the application of this consensus.

STATUS

No further EITF discussion is planned.

Exhibit 93-9A**EXAMPLE OF THE APPLICATION
OF THE EITF CONSENSUS ON ISSUE 93-9**

A company has one asset, a nonmonetary asset that is not depreciated for financial reporting or tax purposes. The local currency is FC. Units of current purchasing power are referred to as CFC. The enacted tax rate is 40 percent. The asset had a price-level-adjusted financial reporting amount of CFC350 and an indexed basis for tax purposes of CFC100 at December 31, 19X2, both measured using CFC at December 31, 19X2. The company has a taxable temporary difference of CFC250 (CFC350 - CFC100) and a related deferred tax liability of CFC100 (CFC250 x 40 percent) using CFC at December 31, 19X2.

General price levels increase by 50 percent in 19X3, and indexing allowed for 19X3 for tax purposes is 25 percent. At December 31, 19X3, the asset has a price-level-adjusted financial reporting amount of CFC525 (CFC350 x 150 percent) and an indexed basis for tax purposes of CFC125 (CFC100 x 125 percent), using CFC at December 31, 19X3. The company has a taxable temporary difference of CFC400 (CFC525 - CFC125) and a related deferred tax liability of CFC160 (CFC400 x 40 percent) at December 31, 19X3, using CFC at December 31, 19X3. The deferred tax liability at December 31, 19X2 is restated to units of current general purchasing power as of December 31, 19X3. The restated December 31, 19X2 deferred tax liability is CFC150 (CFC100 x 150 percent). For 19X3, the difference between CFC160 and CFC150 is reported as deferred tax expense in income from continuing operations. The difference between the deferred tax liability of CFC100 at December 31, 19X2 and the restated December 31, 19X2 deferred tax liability of CFC150 is reported in 19X3 as a restatement of beginning equity.

The following is a tabular presentation of this example:

	<u>19X2</u>		<u>19X3</u>
Financial reporting basis	CFC350	x 1.50	CFC525
Tax basis	<u>CFC100</u>	x 1.25	<u>CFC125</u>
Temporary difference	CFC250		CFC400
Tax rate	<u>x .40</u>		<u>x .40</u>
Deferred tax liability, end of year	CFC100		CFC160
Deferred tax liability (restated), beginning of year	CFC100	x 1.50	<u>CFC150</u>
Deferred tax expense			<u>CFC 10</u>