Financial Statement Analysis

Introduction to Financial Reporting

1. Financial Accounting Standard Board (FASB) conceptual framework is applicable to general purpose financial statements.
2. Financial statements are prepared based on going concern and accrual basis of accounting assumptions.
3. There are four revenue recognition criteria – definition, measurability, relevance and reliability.
4. Measurement is the process of determining the amount of elements to be recognized and carried to the income statement and balance sheet. Four basic measurements are historical cost, current cost, realizable value and present value.
5. Investments are reported in the balance sheet at their current cost.
6. Short-term receivables are reported in the balance sheet at their net realizable value.
7. Long-term receivables are reported in the balance sheet at their present value.
8. As per the para 23 of the Accounting Standard AS-13, if long-term investments are reclassified as current investments, then the transfers are made at the lower of cost and carrying amount at the date of transfer.
9. Matching concept is the base for preparation of income statement. Balance sheet is prepared on the basis of dual aspect concept, i.e., liabilities and assets both need to be balanced.
10. Information about the management's assumptions and policies adopted in the preparation of financial statements is most likely to be found in notes to the accounting statements.
11. Information relating to the events occurring after the balance sheet date, related parties transactions and stock option plans is most likely to be found in management discussion and analysis. It includes detailed explanation of deferred tax assets, depreciation and amortization, provision for investment, stock option plan, reconciliation of India and US GAAP financial statement, related party transaction, and events occurring after the balance sheet date etc.
12. International Accounting Standards (IAS) was issued by International Accounting Standards Committee (IASC).
13. Information about raw materials consumed, depreciation charge, provision for tax etc is statutorily required to be shown as a part of the schedules to profit and loss account to convey more information on items appearing in that account.
14. Total 28 Accounting Standards issued by ICAI which are in vogue in India.
15. The newly developed standards of IASB are referred to as IFRS (International Financial Reporting Standard).
16. Expenses related to the financial performance of an entity.
17. According to the FASB conceptual framework, an entity's revenue may result from a decrease in a liability from primary operations.
18. Essential characteristic of an asset is that it provides future economic benefits. As per SFAC 6, it is the probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events.
19. Equity means the residual interest in the net assets that remains after deducting its liabilities.
20. Increase in equity from incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity except those that result from expenses or distribution to owners is known as Gains.
21. Proposed dividend is not shown in the statement of shareholders equity.
22. The qualities that should be presented in the financial statements information include: Consistency, Relevance, Reliability and Comparability.

23. The historical cost of assets and liabilities is generally retained in accounting records because this information has the qualitative characteristics of neutrality, verifiability and representational faithfulness.
24. Section 201 of the Sarbanes-Oxley Act, 2002 clearly discusses the role of auditors and clearly stated their independence from their clients. The auditors should not perform certain functions to the firm, like investment management, human resource services, services relating to bookkeeping and financial statements and actuarial services along with the audit work.
25. The factors which cause the diversity in accounting practices of different countries are the following – (a) Political and economic factors, (b) Cultural differences, (c) Difference in taxation and (d) Difference in legal systems.

Ratio and Financial Analysis

26. Statements that express each account on the balance sheet as a percentage of total assets and each account on the income statement as a percentage of net sales are known as common size statements.
27. A common size income statement expresses all expenses and incomes as % of net sales.
28. Total of sources of funds is given the base of 100 while preparing a common size balance sheet.
29. In index number trend analysis, every figure for the first year is considered as 100 percent while the corresponding figures for the subsequent years are mentioned as a percentage of the first year figure.
30. Year-to-year change analysis and Trend analysis are time-series analysis techniques.
31. Under year-to-year change analysis, previous year is taken as a base year.
32. Under year-to-year change analysis, the increase/decrease % is shown as 100 when:
    a. There is no amount in the base period, while the current year shows a positive figure.
    b. When there is no amount in the current year, while the base year shows as positive figure.
33. A high inventory turnover ratio could also be an indicator of over trading.
34. Profitability Ratio measures the efficiency of the firm's activities and its ability to generate profits.
35. Structural ratios measure the long term solvency of a firm.
36. Liquidity ratios measure the short term solvency of a firm.
37. Turnover ratios give the speed of conversion of current assets into cash.
38. From earning ratio we can get information on earnings of the firm and their affect on price of common stock.
39. Debtors turnover ratio = (Net credit sales)/ (Average debtors)
40. Collection period ration = 365/ (debtors turnover ratio)
41. Average collection period = (Accounts Receivable / Net credit sales) x 360a
42. Net working capital = current assets – current liabilities
43. Capital gearing ratio = (Fixed interest bearing securities)/ (Equity Shareholders Fund)
44. Diluted EPS = (Net income available to common shareholders) / (Weighted average common shares outstanding)
45. Change in weighted no of shares = (Average market price - Exercise price) X (Number of shares under option) / (Average market price)
46. Cash flow ratios are used to test for solvency and liquidity. They are used to test how much cash was generated over a period of time and compare that to the near term obligations.
47. The minimum set of information items needed to prepare the statement of cash flows for the current year is previous year-end balance sheet, the current year-end balance sheet and the current year income statement.
48. Free Cash Flows
    a. To compute free cash flows for creditors, cash flows before interest are calculated and not after interest.
    b. They are the discretionary cash flows that remain once the firm has replaced its productive capacity
    c. Its computation is helpful to the investors in ascertaining the cash flow that can be distributed to them as dividends,

d. Creditors are also interested in cash flows as it represents the amount available with the firm for repayments to creditors
e. The larger the firm's free cash flows, the healthier it is because it has more cash available for growth, debt payment and dividends.

49. Operating cash flow ratio = (cash flow from operations) / (current liabilities)
50. Costs of Goods Sold = Opening Stock + Purchases + Direct Expenses – closing stock
51. Administration, selling and distribution expenses and financial expenses being indirect expenses are not included in the computation of gross profit ratio.
52. Operating profit = Net profit + Non-operating expenses – Non-operating Income
53. Net profit ratio is an overall measure of a firm's profitability.
54. Return on Equity (ROE) = (PAT – preference dividends)/ Average shareholders equity
    = ROA x Leverage
    = Total Earnings / Outstanding Equity
55. The use of debt in a project increases ROE if the firm earns higher return than the rate of interest on debt.
56. Leverage = Total Assets / Equity
57. Earning per share (EPS) = PAT/ No of outstanding shares = ROE x Book value
58. Du-Pont Analysis or ROE Analysis
59. Return on Equity = (Net Profit Margin) X (Asset turnover ratio) X (Asset – Equity Ratio)
60. Equity multiplier = (Average assets/Average equity) = 1 / (1 – debt to assets ratio)
61. Dividend payout ratio = dividend paid / Net profit after tax
62. The original Altman Z-score model of ratio analysis is applicable only to publicly traded manufacturing industries.
63. Operating income = Margin of safety × Contribution margin ratio
64. Break even point = Fixed Cost /(Sale price per unit −Variable cost per unit)
65. Income Tax is not included in variable cost while calculating break even point.
66. Margin of safety is the difference between actual sales and breakeven sales.

Quality of Earnings and Earnings Management

67. An expectation of higher sustainable cash flows will result in a higher share price, lower borrowing costs and higher incentive compensation.
68. Free cash flow = Operating cash flow – Net capital expenditure
69. Net capital expenditure = total capital expenditure – After tax proceeds from asset sales
70. If expenditure is capitalized, it is reported as an asset in the balance sheet.
71. Statement of stakeholders' equity is the statement useful for identifying reasons for changes in shareholder's claims on assets of the company.
72. The statement showing the change in equity of a business enterprise during a period from transactions and other events and circumstances from the non owner sources is known as Statement of Comprehensive Income.
73. Value of share as per intrinsic value method = Net assets/No. of shares
74. Value of share as per yield method = (Rate of dividend/Normal dividend)x face value of share
75. Value of share as per fair value method = (As per intrinsic value method + as per yield method) / 2
76. Objectives of a cash flow statement are:
    a. To assess the cash generated from operating activities.
    b. To assess the availability of cash for dividend payments.
    c. Cash from financing activities is helpful in assessing the liquidity position and the firm's ability to meet cash obligations.
    d. Preparation of cash forecasts and cash budgets.

77. The instalment method of accounting is a cash basis accounting and therefore is usually not a generally accepted method. However, if the ultimate amount collectible is indeterminable, then the instalment method is considered to be the appropriate method to apply.
78. As per US GAAP, the gain or loss from disposal of a segment is reported as a component of net income and distinguished from the operating gain or loss realized by the segment prior to the measurement date.
79. Methods of Earnings Management
    a. Channel stuffing or trade loading: sales are recorded even before they are earned by shipping inventory to customers before the customer really needs it.
    b. Cookie jar accounting: making provisions when profits are higher than expected and releasing them when times are difficult.
    c. Vendor financing: extending finance to the customers to enable them to buy the goods.
    d. Capitalizing revenue costs: Allocating more expenses to a project which are then capitalized to reduce current operating expenses.
    e. By not recognizing rebates or discounts, and hence showing sales at gross values.
80. Aggressive earnings management can be done in five ways:
    a. Cookie jar reserves
    b. Big bath accounting
    c. Creative acquisition accounting
    d. Revenue recognition; and
    e. Materiality
81. As per US GAAP and IAS 8, prior period adjustments of single period statements should be reported net of income taxes as changes in the opening balance of retained earnings statement.

Analysis of Income Taxes

82. Temporary differences: In general, differences between tax and financial reporting bases of assets and liabilities that will result in taxable or deductible amounts in future periods. Temporary differences include 'timing differences' as defined by prior GAAP as well as certain other differences, such as those arising from business combinations.
83. Timing differences are the differences between taxable income and accounting income for a period that originate in one period and are capable of reversal in one or more subsequent periods.
84. Permanent differences are those differences which are items that either enter into accounting income but never into taxable income or enter into taxable income but never into accounting income.
85. Inter-period tax allocation is same as deferred income tax accounting.
86. When a firm has deferred tax asset and decides that it will not earn enough future income to fully realize the associated tax benefits, it should revalue the deferred tax asset so that it reflects realizable value.
87. A deferred tax liability is computed using current tax laws, unless enacted future tax laws are different.
88. Any income or loss with holding of trading securities, the deferred tax effect must be shown in the income statement. Since the gain is a non cash transaction it will not effect the Cash flow statement.
89. SFAS No. 109 requires computation of deferred tax assets and liabilities based only on temporary differences.
90. Insurance premiums are deductible in the year of payment.
91. According to SFAS-109, the income tax expense is recognized as a sum of income taxes currently payable or refundable and the deferred tax expense or benefit which is the change during the year in an enterprise's deferred tax liabilities and assets. This is also k/a asset and liability approach.
92. Pre-tax income and income tax expense cannot be linked because of temporary and permanent differences.

93. Under liability method of accounting, if tax rate falls, balance sheet deferred tax liability and deferred tax asset both are reduced. Taxable income is unaffected.
94. If a permanent difference between taxable income and pre-tax income is identifiable, the effective tax rate for calculating tax expense should be adjusted.
95. A valuation allowance is used to offset deferred tax assets if it is unlikely that those assets will be realized.

Analysis of Financial Liabilities

96. Dividends payable, returnable deposits are current liability where both amount and payee are known.
97. Tax payable, bonus payments, compensated absences are current liability where payee are known but amount may be estimated.
98. According to US GAAP, a gain or loss on early extinguishments of debt should be reported as an extra ordinary item, if material in amount.
99. Bonds issued at discount have an effective rate higher than the coupon rate. The firm records interest expense (effective interest) in excess of the cash interest paid to bondholders. This difference is discount amortization, shown in a higher debit to interest expense.
100. Under the interest method the interest expense = Book value of the bonds × Yield rate × Time period
101. When a company issues or sells its bonds at premium because the stated rate was higher than the market rate at the time of issuance, the premium will be amortized either by the straight line method or the effective interest method over the bond life. The amortized portion of the premium each period will not affect the cash we have to pay bondholders because that is always the stated rate times the face value of the bonds but it will decrease what is reported as interest expense on the income statement under accrual timing.

Analysis of Leases and Off-Balance sheet Assets and Liabilities

102. Irrespective of the nature of a lease, a lessee is not obliged to disclose the value of the leased asset in the balance sheet. The rentals are charge off to the P/L a/c according to the terms of payment in the lease agreement. The lease, therefore, enjoys the benefit of off balance sheet financing which is often labelled as a dubious advantage of leasing.
103. Finance leases are referred to as capital leases under US GAAP.
104. A capital lease where the manufacturer or the dealer (lessor) recognizes profit or loss in addition to interest income is known as sales-type lease.
105. Leasehold improvements are to be capitalized and amortized over the period of remaining lease term or the expected economic life of the improvement, whichever shorter.
106. For a lessee recording a capital lease, both a long-term asset and long term liability will be recognized, as well as a short-term liability being recognized for next year's lease payment.
107. Capital lease interest expense is equal to interest rate multiplied by the beginning leasehold liability.
108. In a sale-leaseback transaction, the gain on the sale is to be capitalized and amortized over the life of the property in the proportion to the depreciation of the leased asset provided the lease is of capital nature and the lessee retained substantially all the rights over the asset. This deferred gain is to be shown as an asset valuation allowance.
109. By recording the capital lease transaction as an operating lease, the lessee does not record the long-term debt associated with the lease. This makes the numerator smaller, resulting in a lower debt-to-equity ratio.
110. Lessee's incremental borrowing rate is the rate the lessee would likely have paid if it had purchased the asset with external financing.
111. The lessor should show the leased property on the balance sheet under the head "Investment in leased property"
112. Operating lease expense is almost same as pro forma capital lease expense.

113. The current ratio, debt-to-equity ratio, and return on assets ratios deteriorate over the lease term when a firm structures its leases as capital lease rather than operating lease.
114. Minimum lease payments are the payments over the lease term that the lessee is required to make, excluding contingent rent, costs of services, taxes to be reimbursed by the lessor, together with, in case of the lessee, any amount guaranteed by the lessee or by a party related to the lessee.
115. Unearned finance income is the difference between the aggregate of the minimum lease payments under a finance lease from the standpoint of the lessor and any unguaranteed residual value accruing to the lessor. This is also called lessor's gross investment in the lease.
 Unearned Finance lease = Gross Investment in Lease – PV of Gross Investment in Lease
116. Gross Investment in the lease = Agreed lease rental + Guaranteed residual value + Un-guaranteed residual value
117. The lessor should recognize assets given under finance lease as receivables at an amount equal to net investment in the lease.
118. The lessor recognizes the asset given under finance lease as receivable at an amount equal to net investment in lease.
119. Substance over form concept motivates the way leases are accounted.
120. Lessee uses the lower of lessee's incremental borrowing rate or the implicit rate used by the lessor as discount rate.
121. Sale of receivables, finance subsidiaries, throughput arrangements, Finance joint ventures are off-balance sheet financing methods.
122. As per US GAAP, product financing is accounting as a borrowing. Here repurchase price = sale price + carrying cost + financing cost
123. US GAAP requires that when the long-term commitment is used to obtain financing, the purchaser must disclose the nature of the commitment and the minimum required payments in the footnotes of the financial statements.

Analysis of Pensions and Other Employee Benefits

124. As per SFAS 87, a pension liability is incurred when the employee's services are rendered.
125. The offsetting of assets and liabilities is allowed under pension accounting.
126. The measurement date for pension plan assets and obligations is the date the actuary submits the information.
127. Accrued pension cost = Service cost + Amortization of prior service cost
128. Projected Benefit Obligations (PBO): is the actuarial estimation of future pension benefits payable to employees on retirement based on expected future salary (estimated compensation levels) and service of the employee. It measures the value of obligation on the premise of going concern concept and that the employee will continue to work until their retirement.
129. Accumulated Benefit Obligation (ABO): is the actuarial present value of the future pension benefits payable to employees at retirement based on their current salary and service to date. This is equivalent to an employee's current obligation if the plan is discontinued immediately.
130. Vested Benefit Obligation (VBO): is the amount of the accumulated benefit obligation to which employees are entitled to base on the company's vesting schedule. Vesting is the employee' right to pension benefit regardless of whether the employee remains with the company or not.
131. The post retirement benefit costs include the following components: (a) Service costs, (b) Interest costs, (d) Amortization of transition obligation and (e) Amortization of net gains and losses. Effect of any curtailments or settlements is the component of the net retirement benefits.
132. The measurement date for pension plan assets and obligations is the date of the financial statements or a date not more than three months prior to that date.
133. Actuarial gains and losses refer to changes in PBO arising as a result of changes in actuarial assumptions or estimations. These gains and losses arise because of various actuarial assumptions like discount rate, life expectancy, mortality rate, employee turnover, growth in salaries etc.

134. If the PBO amount is increasing, it results in loss to the company.
135. Unrecognized actuarial gains increase the under funding where as unrecognized prior service cost decrease under funding from company's point of view.
136. Actual return on plan assets refers to the difference between the fair value of plan assets at the end of the period and the fair value of plan assets at the beginning of the period adjusted for contributions and payments during the period.
137. The process of assigning pension benefits or costs to periods of employee service is known as attribution.
138. As per SFAS-87, Under the corridor approach to determine gain or loss amortization, only the unrecognized net gain or loss in excess of 10% of the greater of the PBO or the market related asset value is amortized.
139. As per SFAS-123, share based payments to employees are measured based on Fair value method.
140. The funded status of pension plan is the difference between the PBO and the fair value of plan assets.
141. An increase in rate of compensation increases pension expense but no effect on ABO.
142. The amount to be reported as the minimum liability related to pension plan is the amount of the unfunded ABO (ABO minus the fair value of plan assets)
143. A decrease in the expected return on plan assets will have no effect on the service costs and funded status.
144. Service cost is the change in the PBO attributed to employee efforts during the year.
145. Transition Obligation
    a. May be recognized immediately.
    b. Represents the difference between the accumulated post retirement benefit obligation and the fair value of plan assets at the beginning of the year the plan is adopted.
    c. Is amortized on straight line basis over a maximum period of 20 years.

Analysis of Inter-corporate Investments

146. An investment classified as held-to-maturity is to be reflected at its amortized cost using the effect interest method.
147. An investment classified as trading security is to be reflected at its fair value.
148. An investment classified as available-for-sale security is to be reflected at cost adjusted fair value or mark-to-market method.
149. LCM (Lower of cost or market) method also recognizes the unrealized gain as income.
150. 20% voting right is significant influence over investee actions.
151. While preparing the consolidated financial statements, all intercompany transactions are to be eliminated. However, where equity method of accounting for investments is followed, only profit component is to be eliminated.
152. Equity method is used when investor has significant influence over investee.
153. Proportionate consolidation method is used for investment in joint ventures. Equity method is used for associates and consolidation method is used for investment in subsidiaries.
154. Total return on company's portfolio (Mark-to-Market return) = Dividends + Interest + Realized Losses and Gains + Unrealized Losses and Gains
155. The balance of minority interest is shown on liabilities side of the investor company's BS.
156. If the investments is minority and active and are held for trading purpose, the mark-to-market method is used. If this investment is inactive, then equity method is used.
157. In equity method of accounting for an investment in another company income is combined to the extent of ownership.
158. Carrying amount for current investments is lower of cost and fair value.
159. Dividends in arrears are not a receivable to the cumulative preferred stockholder until the issuing corporation's board of directors formally declares the dividend.

160. If equity method is used to account for common stock investments, stock dividend received should be recorded as a memorandum entry reducing the unit cost of all stock owned.

Business Combinations and Consolidation

161. In pooling of interest method total post-combination retained earnings can be equal or less than the combined retained earnings but cannot be more than the sum of constituent retained earnings.
162. Parent Company Concept: the method of preparing the consolidated financial statements of a parent and majority owned subsidiary that involves the restatement of the net assets of the subsidiary to fair value at the date of acquisition for only the majority interest.
163. Equity method is adopted in accounting for investments of the investor, when the investor has significant influence over the investee.
164. Cost method is the method where in the acquisition of any asset is reported in the books at its historical cost. And it is not the appropriate method to account for the investments where the investor has significant influence.
165. Amortized cost method is a method where in the cost of the asset is amortized over its useful life.
166. Super profit method is one of the methods of valuation of goodwill.
167. Market method is a method of accounting for non-influential investments.
168. Under the purchase accounting, if the actual cost exceeds the fair value of the identifiable net assets acquired, this excess is recorded as Goodwill.
169. Where there are contingent consideration issues, the negative goodwill will be carried as a deferred credit on the balance sheet
170. Under SFAS 97, if a parent company owns more than half of another company then these two companies should be consolidated for financial statement purposes except when the control is temporary or the control does not reside with the majority owner.
171. If the terms of the acquisition include contingent consideration then purchase accounting method is to be used.
172. Leverages Buy Outs transaction is to be recorded by using monetary test as it requires at least 80% of the net consideration paid to acquire old entity interests be monetary.
173. Reverse acquisition arise when an one entity, nominally the acquirer, issues so many shares to the former owners of the target entity that they become the majority owners of the successor entity.
174. A public held but dormant company in a typical reverse acquisition is called Shell Company.
175. As per FASB exposure draft ‘distinguished control’ is featured by non-shared decision-making ability and ability to increase benefits.
176. The pooling of interest method uses historical book values to record combinations rather than recognizing fair values of net assets at the transaction date.
177. Direct combination cost is accounted by increase in investment and stock issuance costs are accounted by decrease in paid-in capital in a purchase transaction.
178. According to SFAS 141, for purposes of testing goodwill for impairment, the appropriate level of testing is at the reporting unit level.
179. With respect to business combinations, SFAS 141 and 142 provide that the purchase method must be used for all combinations.
180. Application of AS-14 is principally directed towards amalgamation of companies.
181. Purchase consideration under the Lump-sum basis is the amount of purchase consideration paid in the form of shares, cash etc. to the amalgamating company.
182. As per AS-14, the amortization period of the goodwill arising on amalgamation should not exceed five years unless a somewhat longer period can be justified.
183. If purchase consideration is involved, under AS-14, the reserves to be incorporated by the transferee company under the pooling on interest method = Existing Reserves – (Purchase consideration – Share capital of transferor company)

184. If all assets and liabilities are acquired at book value, the purchase consideration would be (Sum of Fixed Assets and Current Assets) – (Liabilities taken over)
185. Transferor Company means the company which is amalgamated into another company.
186. Under AS-21 (consolidated financial statements), in cases where there are differences between the reporting dates of the subsidiary(s) and the holding company, the time lag should not exceed six months.
187. AS-23 is applicable for accounting for investments in associates for the purpose of Consolidated Financial Statements (CFS) in the books of the investor.
188. As per AS-23, investments in associates accounted for using the equity method should be classified as long-term investments and disclosed separately in the consolidated balance sheet.

Analysis of Multinational Operations

189. Cumulative foreign exchange translation loss/gain should be reported as a stakeholder's equity account.
190. Translational losses/gains and exchange losses/gains are reported as other comprehensive income.
191. Under temporal method, all monetary assets are translated at current rate and all non-monetary assets at historical rate. All revenues and expenses should be translated at rates in effect when these items are recognized during the period. Due to practical considerations, however, weighted-average rates can be used to translate revenues and expenses.
192. Under all current method, except inventory all assets and liabilities are translated at current rate method. All revenues and expenses should be translated at rates in effect when these items are recognized during the period. Due to practical considerations, however, weighted-average rates can be used to translate revenues and expenses. Dividends are translated at the rate that applied when they were paid.
193. The average of the historical rate and average rate calculated using the opening and closing balances of relevant accounts is termed as blended rate.
194. Exposure under current method = Assets – Liabilities (or stockholder's equity)
195. Temporal method
    a. Subsidiaries whose operations are well integrated with the parent will generally use the temporal method.
    b. Net income is more volatile under this method compared to all current method.
    c. Subsidiaries that operate in highly inflationary environment will generally use this method.
    d. Exposure = (Cash + Accounts Receivable) – (Accounts payable + current debt + Long-term debt)
196. Flow effect = Change in Exposure (in local currency) X (Ending rate - Average rate)
197. Re-measurement method is also k/a monetary / non-monetary method. This is used when foreign entity's books and records are not maintained in the functional currency. Re-measurement gains and losses are taken immediately to the income statement in the year in which they occur as they can be expected to have direct cash flow effects.
198. Holding gain or loss (in parent currency) = (Beginning exposure in LC) X (Ending rate – Beginning rate)
199. Re-measurement is the process of converting local currency translations into functional currency.
200. Translation is the process of converting functional currency translations into reporting currency.
201. As per AS-11, Assets and liabilities are both translated using the closing rate, whether they are monetary or non-monetary.
202. As per AS-11, fixed assets should be translated using the exchange rate at the date of transaction.
203. As per US GAAP, a hyperinflationary economy as one that experiences a cumulative 3 year inflation rate of more than 100%.
204. The real value of non-monetary assets and liabilities is not affected by hyperinflation.
205. As per IAS, the value of non-monetary assets and liabilities, of subsidiary located in hyperinflationary country, are translated at the current exchange rate.