

# Rising inflation and interest rates

## Talking points for episode 137

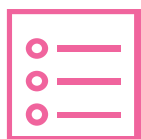


Many countries are dealing with similar challenges relating to rising inflation and interest rates. Take the UK as an example. [PwC's UK September economic outlook](#) talks about how highly uncertain the UK's inflation outlook is right now, and it estimates that inflation could peak at 17% next year – the highest rate in the UK since 1980. [PwC's In depth](#) 'Navigating IFRS Accounting Standards in periods of rising inflation and interest rates' summarises the key accounting considerations.



There will be impacts across the financial statements, particularly on measurement estimates and on disclosures. Key themes to consider include:

- whether information that might have been immaterial in the past has now become material;
- the impact on significant judgements and estimation uncertainty, particularly for cash flow-related estimates;
- whether there are assessments that need to be updated more frequently;
- historic trend information, as data inputs are now less relevant and need to be adjusted more frequently to reflect future economic scenarios; and
- disclosures about the impact that rising inflation and interest rates are having, and are expected to have, on the business.



Examples of the types of area that might be impacted include:

- expectations of future increases in prices, and the extent to which a company can pass those increases on to customers;
- changes in customer behaviour, such as switching to lower-priced goods or reducing consumption; and
- the likelihood of coming into financial difficulty, both for the company itself and for its customers and suppliers.



Entities might consider providing additional disclosures beyond those specifically required by IFRS, in order to provide useful information to the primary users of the financial statements in accordance with IAS 1. Examples of possible disclosures that an entity might consider providing include the following:

1. Disclosure of the expected replacement costs of key operational assets where their replacement cost is significantly higher than their previous purchase cost. This will give a user of the financial statements an insight into the anticipated impact on future cash flows and profits/losses as a result of higher purchase costs and depreciation/amortisation respectively. This might also be of particular relevance to users if the replacement cost exceeds the amount previously budgeted by management and affects the entity's ability to pursue other planned investments.
2. Disclosure to provide users with an insight into the future cash flow position of the borrowing entity, such as:
  - a. debt covenant triggers;
  - b. how close the issuer is to breaching debt covenant triggers; and
  - c. the board's view of debt levels and how any potential breach of debt covenant triggers can be addressed.



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