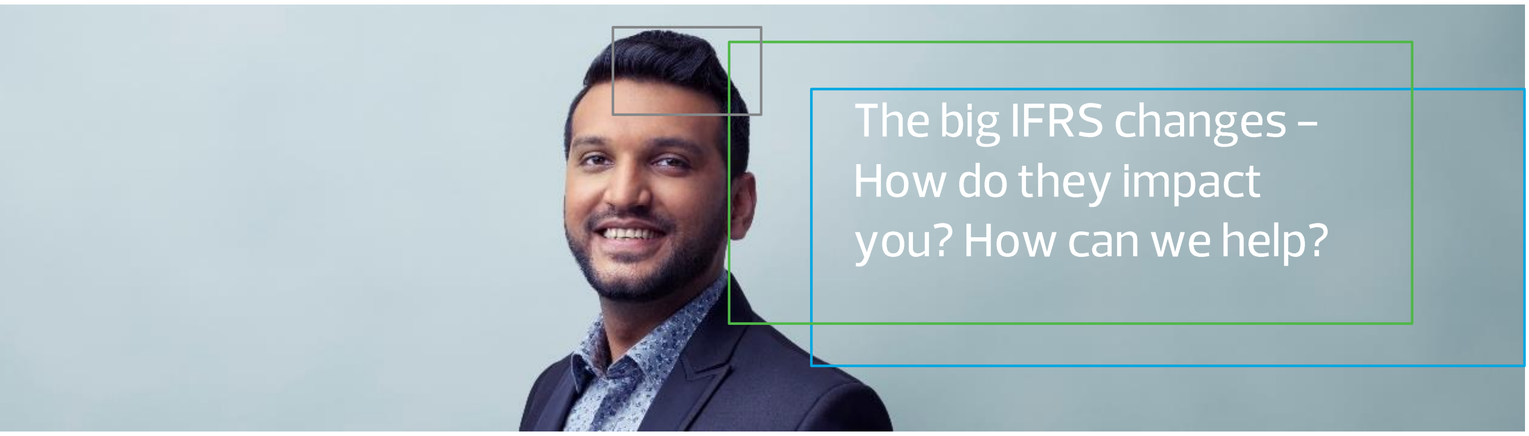

The big IFRS changes – How do they impact you? How can we help?

IFRS CHANGES

IASB has in the past few years released 4 new standards. These standards do not just bring about minor amendments as is the case with other new or revised standards, but each of these incorporate fundamental changes that will impact financial reporting for organisations that report under full IFRS. The application of new standards is a challenge for the entire organization and may require appropriate changes in processes, including IT systems.

In the year ended 31 December 2018, companies faced considerable challenges arising from the introduction of two new standards on revenue recognition (IFRS 15) and financial instruments (IFRS 9).

In 2019, we are expecting the implementation of a new standard IFRS 16 relating to lease contracts. And in 2021, IFRS 17 on insurance contracts becomes effective after more than two decades of research.

The RSM team can help by assisting you in understanding the effect of the published standards and in preparing for the coming changes to the standards that are effective as of today.

So how do the first 3 standards impact entities generally?

IFRS 9: Financial Instruments

- Whilst IFRS 9 was written primarily with financial institutions in mind, it will have an impact on all entities that have financial assets (e.g. trade receivables) on their balance sheet.
- Financial assets may need to be measured differently with greater volatility on the P & L as more financial assets are likely to be measured at fair value with changes through P&L.
- Impairment losses on financial assets will be recognised earlier due to the introduction of a new impairment loss model, which is based on expected rather than incurred losses.
- The new hedging requirements are easier to interpret and are more closely aligned with the risk management objectives and strategies of the business. Specifically, there is more flexibility to apply hedge accounting to groups of items, including net positions, so you can adopt hedge accounting more easily on an 'entity wide' basis. This could make hedge accounting a more accessible and worthwhile approach for some businesses.
- There will be no impact on the recognition and measurement of financial liabilities unless a liability has been designated as at fair value through profit or loss, in which case changes in the fair value of the liability attributable to changes in credit risk of the borrower are presented in other comprehensive income. Also financial guarantees and commitments to lend at below market interest rates have been brought into the scope of IFRS 9 and may need to be recognised as liabilities.

IFRS 15: Revenue from contracts with customers

- Revenue recognition may be accelerated or deferred for transactions with multiple components or variable consideration and licences.
- Key financial ratios may be impacted affecting expectations and contractual covenants.
- Tax changes caused by adjustments to the timing and amounts of revenue, expenses and capitalised costs may require revised tax planning.

IFRS 16: Leases

- For lessees, operating leases become an on-balance sheet liability that attracts interest, together with a new 'right of use' asset on the other side of the balance sheet. The impact is not limited to the balance sheet as illustrated below. IFRS 16 does not change substantially the accounting for finance leases in IAS17.

Balance sheet	Profit and loss	Cashflows
Asset: Right of use of underlying asset	Depreciation and impairment of right of use asset	No effects
Liability: Obligation to make lease payments	Interest expense on lease liability	Principal repayment included in financing activities and interest repayments based on policy choice as operating or financing activities

- IFRS 16 will affect almost all commonly used metrics such as gearing, current ratio, EBITDA, EBIT etc.
- Balance sheets will grow and gearing ratios will increase. There will also be a change to the expense classification (rent expenses replaced with depreciation and interest expense).
- Entities leasing 'big-ticket' assets like aircraft will be greatly affected. The impact on those with many small leases, might be less as there is an exemption for low value assets (assets with a value of $5,000 or less when new).

RSM can help:

- **Advise on the process necessary for you to ensure compliance with the Standards;**
- **Train you and your team on the requirements of the Standards;**
- **Review the necessary adjustments and models as determined by yourselves; or**
- **Assist you in developing an impairment model that complies with IFRS 9, based on data you have available.**

Get in touch with your usual RSM contact and let us discuss what we can do for you.

info@ke.rsm-ea.com
www.rsm.global/kenya

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