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New financial reporting standards

Accounting & Audit Alert

Dear Readers,

Nearly a year ago, we informed you about new international standards that are to come into force soon: IFRS 9 – a standard dedicated to financial instruments, IFRS 15 – a standard dedicated to the recognition of revenue from contracts with customers and IFRS 16 – a standard dedicated to leasing. In this alert, we would like to focus on the last one. Although its entry into force is scheduled for 1 January 2019, it appears that it may soon cause the most trouble to those involved in financial reporting and to the company's management.

The need for new regulations on recognising and evaluating lease contracts was driven, on the one hand, by the widespread use of this form of financing and, on the other hand, by wide interpretation options and a low tendency of companies to recognize liabilities in this scope. Often, an unclear distinction between the two types of leases confused investors in comparing financial statements.

The IFRS Council decided to adopt a single model, which brings all lease contracts (except for short-term contracts or low-value assets) into the balance sheet in a manner similar to the previously applied principles of recognising financial leasing.

Under the new approach, the lessee acquires the right to use the asset which is the subject of the contract and agrees to pay fixed fees for this right. This concept is called the "right-of-use model." In its balance sheet, the lessee shall enter the right to use the asset into reported assets, whereas lease payments shall be considered as a liability. Therefore, the profit or loss for the period shall include the costs of depreciation of the right and interest expense.

Importantly, as a result, many entities, including not only those preparing their financial statements according to IFRS but also those preparing reporting packages for the purposes of the consolidation of a Capital Group that they belong to, will need to make an analysis of **all the contracts** concluded with their suppliers of assets or services (**contracts frequently in the form of a lease, rental, operating lease, financial lease agreement, etc.**). Many entities (for instance, those using a hired area, leased vehicles, machinery, etc.) will face a real challenge to prepare for the need to apply the new standard soon.

As RSM we offer you support in this respect, starting from the analysis of contracts concluded by an entity, the valuation of the initial value of the right to use, the preparation of suitable tools and the calculation of the amounts and individual postings, to the ongoing support when it is necessary to upgrade the valuation of the right and liability during the term of the contract.



Should you wish to discuss the above mentioned amendments in detail, feel free to contact us:

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