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Monetary Reforms Implications on 2019 Financial Reporting

Training & Advisory Services

An executive summary of the considerations of monetary reforms on 2019 financial reporting in Zimbabwe.

Implication of Monetary Reforms on 2019 Reporting

On 22 February 2019, the Ministry of Finance gazetted Statutory Instrument 33 of 2019 following the RBZ Monetary policy statement that had been announced on the 20th of February. The effect of this statutory instrument was to introduce a 'new' currency called the RTGS$ and provided instruction on how the conversion from US$ to RTGS$ was going to be done. This was followed by the promulgation of SI 142 and ExCon Directive, which in essence banned the use of Multicurrency system and made the ZWD the only currency to be used for settling local transactions. This cheklist will provide a summary of key considerations for 2019 Finanical Reporting

Date of Change in Functional Currency

- [ ] Based on SI33, the date of change in functional currency was 22 February 2018.
- [ ] IFRS assessment would likely lead to an earlier date for the change in functional currency
- [ ] Complying with SI33 would result in non-compliance with IFRS on the determination of date of change in functional currency

Presentation Vs Functional Currency

- [ ] Change in functional currency should be applied prospectively from the date of change
- [ ] Change in presentation currency should be applied retrospectively
- [ ] Entities presenting financials in RTGS/ZWD for the first time should restate comparatives which were reported in USD to RTGS/ZWD

Balance sheet at date of change

- [ ] As far back as 2016, premiums where being charged on the USD depending on manner of payment
- [ ] Asset balances reflected in previous financial statements will likely be carrying inflated USD values as a result of premiums paid
- [ ] Entities need to consider whether the balance sheet on the date of change is a real USD balance sheet to avoid over stating converted balances in RTGS/ZWD

Exchange Rate Considerations

- [ ] Multiple exchange rates add to the complexities of converting balance sheet
- [ ] The exchange rate that reflect the expected rate of settlement should be used
- [ ] Entities need to consider limitations of the 1:1 and the interbank rate as they may not reflect the principal market for forex transactions
- [ ] Entities should also consider that premiums charged on transactions depending on manner of payment reflect an implied rate of exchange

Converting the Balance sheet

- For local monetary asset and liabilities, the rate of 1:1 maybe appropriate in most circumstances while for foreign monetary assets and liabilities other rates e.g interbank my apply
- For non-monetary assets and liabilities measured at fair value, entities may need to consider fair valuing before converting to RTGS/ZWD
- For non-monetary assets at historical costs, need to consider the impact that premiums may have had on the USD costs.

Period before change

- Entities will need to consider the appropriate rate to convert the income statement from the beginning of the year to the date of change
- Entities will also need to consider the most appropriate rate to convert prior year comparatives

Gains and losses from change

- The standard does not explicitly provide guidance on treatment of gains and losses arising from the conversion process
- The closest guidance is on translation of foreign subsidiaries, which requires gains and losses to be taken to OCI
- Our recommendation is that gains and losses from monetary items be taken to P&L, while for non monetary items to OCI
- Any change in currency reserve created should be done on an asset by asset basis and should be released to retained income as the asset is used or disposed
- Entities should consider the deferred tax implication arising from the gains and losses.

Liabilities Submitted to RBZ for 1:1 settlement

- Entities to consider whether to value the liability at the current exchange rate and disclose that promise by RBZ
- Where RBZ has confirmed that it will settle but the settlement has not yet been done, there is need to assess whether a potential receivable from RBZ should be recognized
- Entities should consider the ability of RBZ to honor its obligations.
- If the liabilities are significant to the entity there is need to perform a going concern assessment.

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IFRS Research Projects and Assistance

- Change in Functional Currency Guidance
- Hyper Inflation Considerations for 2019 Financial Reporting
- Accounting for RBZ legacy Debts
- IFRS 1 For companies with Non-IFRS compliance companies in 2018
- Validity of the Inter-bank exchange rates for financial reporting

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