SAPinsider This report appeared in the Jan ▪ Feb ▪ Mar 2010 issue of *SAPinsider* (**http://sapinsider.wispubs.com**) and appears here with permission from the publisher, Wellesley Information Services (WIS).

An IFRS Fable: The Company That Waited Too Long

Richard Campione
Executive Vice President
Suite Solution Management
SAP AG

Sanjay Poonen
Executive Vice President
and General Manager
Worldwide
SAP BusinessObjects Sales
SAP

Chapter 1: January 2010

At Wait-and-See, Inc., Joe and Maria worked together as CFO and CIO. They each knew something about International Financial Reporting Standards (IFRS), but they didn't want to take any action until the US Securities and Exchange Commission (SEC) decided on a firm transition date. Joe jokingly called IFRS "Increasingly Fuzzy Regulatory Standards." Maria called it "I Forgot Reporting Standards."

"There's no reason for us to transition to IFRS right away," they told the CEO. "The SEC hasn't even set a deadline yet!"

Meanwhile, the executives over at Perceptive, Inc., were already planning their IFRS transition. They recognized the project as an opportunity to make their company more globally competitive by streamlining their closing cycles and improving their overall business processes, while gaining better access to foreign capital markets and lowering costs.

Many US companies find themselves acting like Wait-and-See, Inc. They interpret the switch from US Generally Accepted Accounting Principles (GAAP) to IFRS as a matter of compliance rather than an opportunity to become more globally competitive by improving key internal processes. Even with over 100 countries already using IFRS, US companies seem to be waiting for the government to declare a definitive final date for their mandate of IFRS reporting before they even approach the transition.

Transitioning to IFRS offers many benefits beyond compliance. Companies completing the transition have reported greater efficiencies in their financial processes, greater profitability under IFRS reporting rules, easier access to foreign capital markets, and improved empirical analysis capabilities resulting from consolidating multiple global divisions on one reporting standard.

Of course, compliance is still important. While the SEC has not set a firm deadline for the IFRS transition, it is clear that the rest of the world has already moved in that direction. The best-run businesses of the future will report under IFRS, so it is crucial for SAP customers to transition soon — and on their own timetable.

Chapter 2: January 2011

"I heard that Perceptive, Inc., is already starting to configure its landscape for IFRS," said Maria to Joe. "Why are they doing that so soon?"

"I don't know," said Joe. "Let's wait and see what happens!"

Even before completing the transition to IFRS, Perceptive was already enjoying the benefits of the transition. Perceptive began with a project to improve its financial consolidation processes. During that project, the company discovered that its consolidation activities were bogged down with inefficient manual processes. By re-engineering these processes with the help of top-tier financial consolidation and reporting products, Perceptive was able

Continues on page S-2

Inside This Special Report

Chapter 2, continued

to reduce its quarterly close process by 15 days and also improve the close process at the local level. Perceptive then devoted all their saved time to value-added activities like improving business performance and planning their IFRS transition.

Meanwhile, at Wait-and-See, Inc., Joe and Maria were still procrastinating. They worried that they would have to upgrade to the latest version of their ERP system, or that the transition would upend their entire financial system, or that the process would be long and labor-intensive.

"We have so many concerns!" they cried.

It's typical for companies to harbor concerns about the IFRS transition. But if you plan correctly and take advantage of the tools, products, and advice at your disposal, the transition can be a smooth one. When you transition in a proactive, planned manner, it will be less expensive, and you'll have a much better system landscape – now and in the future. In turn, you'll be able to further optimize your business processes, save costs, and increase finance's strategic role within the business.

SAP helps its customers by leveraging its experience with the IFRS transition in Europe and building that knowledge into its consolidation and reporting applications through starter kits. For example, both SAP BusinessObjects Planning and Consolidation and SAP BusinessObjects Financial Consolidation include preconfigured content and best practices for the transition, as well as support for other key compliance processes like eXtensible Business Reporting Language (XBRL) and internal controls.

These and other solutions can be combined with SAP service offerings to allow your company to implement an IFRS transition in stages – without upending your financial systems in a massive multi-year project.

The transition to IFRS can also be completed without upgrading your SAP technology. You may consider upgrading as part of a larger business process transformation project, but SAP software is already capable of supporting IFRS compliance. For example, the classic SAP General Ledger allows you to achieve dual reporting by appropriately setting up your chart of accounts. And for customers wanting true parallel ledger capabilities, the SAP General Ledger within SAP Business Suite allows you to produce parallel reports under both US GAAP and IFRS during the transition.

Chapter 3: January 2013

One day, Joe and Maria read that their rivals at Perceptive, Inc., had greatly improved their business by completing the IFRS transition. Perceptive had standardized its internal reporting processes, automated hundreds of consolidation entries, reduced consolidation errors, and lowered its cost of compliance. Perceptive was also raising money in overseas markets — something Wait-and-See, Inc., was unable to do because it did not conform to IFRS.

Finally, the CEO of Wait-and-See insisted that Joe and Maria get to work on the transition to IFRS. "OK, boss!" they said.

But Wait-and-See had waited too long. With a deadline for transition looming, the Wait-and-See team was forced to rush into its IFRS project with too few resources and too little planning. They spent long nights in the office and made many mistakes along the way. Every month, they ran into last-minute emergencies that delayed their close processes.

"I wish we had started earlier," Joe and Maria said. "We'd be in much better shape!"

There is no one-size-fits-all approach to the IFRS transition – everyone's journey will be unique. For companies in the US, that journey will likely be one of convergence, in which they commit to a parallel reporting scheme that meets the requirements of US GAAP and IFRS simultaneously until IFRS becomes the legal requirement.

To reach your IFRS goals, you will need an experienced partner to guide you through an end-to-end transition. As the leading provider of business software globally, SAP has already helped more than 5,000 customers worldwide with IFRS. We are uniquely positioned to offer the right technology, people, and process solutions for your transition.

In the meantime, you've got to get started on your own. Your first steps should be to carefully assess your situation, do some advanced planning, and assemble cross-functional teams from accounting, IT, and your auditing partner. You will need to understand the impact that IFRS reporting will likely have on your organization, your financial reporting procedures, and your staff. With the right planning and the right people, you will be able to choose a path that fits your needs – and the process will be straightforward. It may seem like a fairytale ending, but it's all within reach. For more information, visit **www.sdn.sap.com/irj/bpx/ifrs.** ■

Tackling the IFRS Transition in the US

Which Parallel Accounting Option Is Right for Your Company?

Thomas Yoder
National Practice Lead
IFRS and New GL Migration
SAP America, Inc.

There has been much speculation in the US around the Security and Exchange Commission's (SEC's) "roadmap" for adopting International Financial Reporting Standards (IFRS). Companies wonder what the final timeline for adoption will be and what the transition will require.

There is, however, consensus that the SEC will likely require companies to report in both Generally Accepted Accounting Principles (GAAP) and IFRS formats during the first official IFRS transition year and for two years prior. Accordingly, our customers want to know how SAP supports parallel reporting. Of the four options available, SAP recommends and supports two leading practices (see **Figure 1**).

Approach #1: Account-Based Reporting

Historically, SAP customers that needed to report according to dual accounting principles have used the account-based approach, which involves recording transactions that have no accounting principle differences (they can be reported precisely the same way according to both GAAP and IFRS) to a common set of general ledger accounts. Then, financials employees create separate account ranges to record transactions with differences between the accounting principles. In the case of the IFRS transition, there would be three accounts: a common one, one for pure IFRS transactions, and one for pure GAAP transactions.

Another way to implement this approach is to set up common accounts that represent the common accounting principles and the leading accounting principle. Users can then add account ranges to represent the parallel accounting differences of the non-leading principle. This tried-and-true approach is advantageous because it can be implemented with any version of SAP, and it leverages standard transactions and reporting principles.

Approach #2: Parallel-Ledger Reporting

With SAP ERP, there is a new option for parallel accounting within the SAP General Ledger. SAP strongly recommends this parallel ledger approach because it is relatively easy to configure, provides a full and separate set of books, and can be used seamlessly with all standard SAP ERP transactions and reports, as well as existing business intelligence content. With parallel ledgers, certain activities, such as depreciation, are posted automatically to the correct ledger based on your original configuration, while other differences are recorded in ledger-specific journals.

Of course, this solution does require that the customer be on SAP ERP and have the new SAP General Ledger activated. Also, if you are already using the new SAP General Ledger and do not have a parallel ledger active for the IFRS implementation, you will need to add an additional ledger.

No Matter the Approach, Don't Go It Alone

For companies determining which approach is best for them, SAP Consulting provides workshops on IFRS planning and SAP ERP and SAP General Ledger migrations. To learn more about these workshops, contact your SAP representative. For more about SAP's support for IFRS, visit **sdn.sap.com/irj/bpx/ifrs** and **http://service.sap.com/GLMIG.** ■

FIGURE 1 ▼ Different approaches to parallel accounting

Available options for parallel accounting		Supported by the classic SAP General Ledger	Supported by the new SAP General Ledger
Account-based reporting	▪ Easiest to implement ▪ Can lead to unmanageable CoA in SAP General Ledger	✓	✓
Parallel-ledger reporting	▪ Most transparent approach ▪ Independent set of books ▪ More easily accommodates future IFRS requirements		✓
Reporting based on parallel company codes	▪ Cumbersome and 100% manual ▪ Not a recommended solution for most companies		
Special ledger reporting	▪ No additional supporting functionality planned by SAP ▪ Requires different UI and custom security, reports, etc.		

Peter Minck
Vice President
Redwood Software

Optimize Your Financial Closing Process for IFRS

Discover Which Tools Can Smooth Your Transition to IFRS

Improving the timeliness, accuracy, and compliance of financial closing cycles continues to be a major objective of corporate finance departments worldwide. And this goal becomes even more important as companies prepare to comply with International Financial Reporting Standards (IFRS).[1]

Many countries — including Canada, Mexico, Brazil, India, and the US — recently announced definitive or estimated IFRS transition dates and roadmaps. For example, the US is expected to transition to IFRS in the 2014-2016 timeframe, though some companies will be allowed to adopt early. Companies are finding, however, that IFRS presents certain challenges they must address to ensure their closing processes remain smooth and efficient throughout the transition.

We strongly recommend that companies start today to prepare for the IFRS transition to maximize the potential benefits of IFRS at the lowest possible cost.

Challenges of the IFRS Transition

For US companies in particular, the immediate challenge comes with the dual reporting requirement. Assuming a 2014 IFRS transition date, starting in 2012, the US Securities and Exchange Commission (SEC) will require companies to perform dual reporting in local Generally Accepted Accounting Principles (GAAP) and IFRS formats to help companies reconcile the differences between them.

However, these requirements will also force companies to revise their current closing processes, the structure of their chart of accounts, and the use of their current financial software. Based on feedback from SAP customers preparing for IFRS, as well as SAP's own experience transitioning to IFRS, we strongly recommend that companies start today to prepare for these changes to maximize the potential benefits of IFRS at the lowest possible cost.

Support Your Transition with the Right Tools

Currently, over 5,000 SAP customers in Europe are already reporting under IFRS with the help of SAP's tools. SAP has a full range of products and services that support the transition to IFRS, including the **SAP Financial Closing cockpit** and the **SAP Central Process Scheduling application by Redwood**, which can help companies prepare for the dual reporting requirement and immediately improve the productivity of their local closing cycle.

Together, these solutions orchestrate, monitor, and optimize local closing processes while aggregating and archiving all information relevant to the local close. In addition, they enable companies to use templates to establish a repeatable set of closing tasks. These templates allow both automated and manual tasks to be monitored in real time and executed on an optimized schedule; they also encompass processes supported by SAP and non-SAP software.

In addition to automating, streamlining, and documenting the local GAAP closing processes, closing templates can do the same for IFRS processes. This allows companies to address the dual reporting requirement in a controlled and fully documented way. Users can easily compare the dual closes, isolate differences, identify continuous improvements, and track changes. The result is reduced time and effort required for all closing tasks, fewer errors, and improved compliance to both local GAAP and IFRS.

The Benefits Don't End with the IFRS Transition

The SAP Financial Closing cockpit and SAP Central Process Scheduling are useful tools during the IFRS transition. But even when the dual reporting period is over, companies can use the solutions to ensure an automated and efficient financial close in a fully IFRS-compliant environment.

For more information about the SAP Financial Closing cockpit, visit **www.redwood.com/solutions/business/sap-fast-close** or read "Streamlining the Financial Close with the SAP Financial Closing Cockpit," available at **www.sap.com/usa/solutions/business-suite/erp/financials/brochures/index.epx?PageSize=10&ActualPage=4**.

To learn more about SAP Central Process Scheduling by Redwood, visit **http://ecohub.sdn.sap.com/irj/ecohub/solutions/centralprocessscheduling**. ■

[1] See "IFRS and XBRL — Understanding Their Impacts on Group Financial Reporting: Challenges, Choices, and Transformative Technologies" by Philip Mugglestone in the October-December 2009 issue of *SAPinsider* (sapinsider.wispubs.com).

Michael Kelly
Americas IFRS Enablement
Ernst & Young, LLP

The IFRS Transition Doesn't Just Affect Your Financials Department

Why IT Needs to Get Involved with IFRS

Too many IT departments assume that the upcoming transition to International Financial Reporting Standards (IFRS) is only a concern for the firm's accounting and audit staff.

This is a risky assumption. Certainly, IFRS will be a major focus for the accounting department. But IT also faces significant risks if it does not understand the full scope and implications of a potential IFRS conversion. Any in-progress initiatives that do not consider future IFRS needs may end up incurring additional time and resources. Also, IT may be caught without appropriate resources during crunch time, delaying other critical projects to meet IFRS deadlines.

A conversion to IFRS affords important opportunities – for automating processes, improving clarity of financial reporting, or redesigning the monthly close cycle, for example – if the IT department actively engages in the project from the start.

2 Systematic Approaches to IFRS

Based on current information from the US Securities and Exchange Commission (SEC), companies will likely need to run certain aspects of their accounting infrastructure in parallel – in both US Generally Accepted Accounting Principles (GAAP) and IFRS formats – for three years and beyond. To achieve this, we commonly see companies considering two approaches:

- **Account-based:** This approach relies on a single ledger and an enhanced chart of accounts for US GAAP and IFRS reporting. It can be used with any SAP software release.
- **Multi-ledger:** This approach, also known as parallel accounting, requires the use of SAP General Ledger in SAP ERP 6.0. It does not require an expanded chart of accounts; instead, it utilizes multiple ledgers for each transaction and all required financial reports.

For IT, the **account-based approach** will cause the least disruption and cost less in the initial years of the transition. Many SAP customers are familiar with this approach and have used it for many years. However, the advantages of an account-based approach wane over time as an organization will likely require future IT projects as it eliminates US GAAP reporting. These projects could include general ledger migration projects or system landscape optimization (SLO) efforts to consolidate the expanded chart of accounts.

While the **multi-ledger approach** is likely to require a greater upfront investment, in the long run it will likely reduce overall costs and project durations, as additional IT projects like migration scenarios and SLO projects can be avoided. (Note: This is true if you use IFRS as the primary ledger. If not, you will likely still need an SLO project in the future.)

No matter which approach you choose, IT and accounting must work together from the start to incorporate IFRS requirements into existing upgrades or system implementation plans, thereby making IFRS an incremental cost.

> If you properly plan and carefully consider the initial general ledger design and dual reporting requirements of IFRS, you can reduce future IT costs.

Important IFRS-Related Questions for IT

In the transition to IFRS, IT must consider several questions:

- Knowing that IFRS may require different valuations, depreciation methods, useful lives, salvage values, or other items that require multiple asset areas to be configured, what will be the impact on asset reporting?
- How will we achieve the requirements for dual reporting? Should we use an automated or manual approach?
- Do we fully understand the IFRS adoption requirements? Have we allocated the necessary resources and budget?

Facing these and other considerations, companies should begin – as soon as possible – to assess the potential impact of an IFRS conversion, identify opportunities to leverage planned or in-process projects, and determine long-term skills and resources they will need. ■

About Ernst & Young's IFRS Group

Ernst & Young brings the latest industry-specific insights from our global network to provide our clients with full IFRS-related services that address both financial and IT issues. To learn more, visit **www.ey.com/US/IFRS**.

Hanno Hofmann
Partner
ecenta Asia Pacific Pte Ltd

The IFRS Transition | SAPinsider

Case Study: How One Company Prepared and Implemented a Solution for Parallel Reporting

Adrian Cheong
Solution Manager
Asia Pacific
ecenta Asia Pacific Pte Ltd

A multinational fleet and vehicle management company needed an enterprise solution that would allow it to perform parallel reporting according to several accounting standards, including IFRS. The company's homegrown ERP and CRM systems simply weren't compliant.

Accordingly, the company chose the SAP Leasing application, part of the SAP for Banking solution portfolio, as its global enterprise system. This solution enables the company to capture leasing accounting behaviors and report these behaviors under multiple accounting standards (see sidebar).

To help replace its existing enterprise systems with SAP Leasing and to remain compliant with regulatory reporting requirements by taking an account-based approach to IFRS, the company chose ecenta as its primary consultant.

Building the Chart of Accounts

To enable parallel reporting, ecenta helped the company develop a chart of accounts (see **Figure 1**). The purpose of this chart is to summarize financial data, detailing all the major categories of the balance sheet. The company's chart needed to account for corporate group reports prepared in the IFRS format for the corporate entity in the Netherlands, as well as for local reporting prepared in the Australian GAAP format. Accordingly, the company's chart of accounts consists of three series of general ledger (GL) accounts:

- The 10s represent common accounts, which are relevant to GAAP and IFRS accounting requirements
- The 20s relate only to IFRS requirements
- The 30s relate to local reporting requirements with delta entries for local GAAP requirements

The Lease Accounting Engine functionality in SAP Leasing uses the 20 and 30 series accounts to show the treatment of depreciations and interest amounts that must be represented differently for IFRS and GAAP reporting requirements. This chart of accounts can also be used for additional subsidiaries by adding more accounts under the 30 series for any variances in local GAAP requirements.

Streamlining the Reporting Process

After ecenta helped define the client's chart of accounts and set up its SAP Leasing application, the company could start running parallel reports. These reports, depending on where they fall in the chart of accounts, employ multiple financial statement versions (FSVs) to report in the required format, including:

- **Corporate reporting.** This report, which is prepared for the parent company, provides a consolidated view of the company's Australian subsidiaries. The corporate report is supported by an FSV of both the 10 and 20 series accounts to serve both group monthly and group IFRS reporting requirements.
- **Local reporting.** Australian requirements demand IFRS-compliant and GAAP-compliant reporting. An FSV with 10, 20, and 30 series accounts supports these requirements.

To see how ecenta's consulting services can help your company with its IFRS transition, email **hanno.hofmann@ecenta.com** or **adrian.cheong@ecenta.com,** or visit **www.ecenta.com/en/products_services/lam_consulting.asp.** ■

A Quick Look at SAP Leasing Functionality

The SAP Leasing application works with other SAP tools for financial accounting, including the Lease Accounting Engine functionality in SAP ERP. The Lease Accounting Engine defines how the system processes the lease values, which are transferred from SAP CRM during a new lease or a change to an existing lease contract. These values automatically determine the type of lease involved and the required accounting principle. Then, depending on the result, the engine posts data in the asset accounting, accrual engine, and one-time posting applications, observing user-defined regulatory rules as it does so.

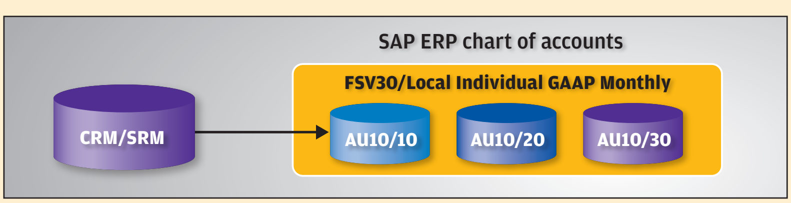

FIGURE 1 ▲ Chart of accounts with different general ledger series