Follow the SAP Roadmap to IFRS Compliance

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A brief overview of IFRS and its implications
IFRS conversion project example – SAP AG
IFRS proposed timeline and implementation considerations (US view)
SAP ERP focused IFRS adoption roadmap
  – Scenario 1 – Use Parallel Ledger
    – Option 1
    – Option 2
  – Scenario 2 – Use Account Based Configuration
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What is IFRS?

Key Points — IFRS Adoption

- **International Financial Accounting Standards**
  - Global wide standard for financial accounting and reporting
  - Currently in use in most of the world
    - Europe, Japan, Australia, China, etc.
    - Other countries are in the process of changing from local GAAP to International Financial Reporting Standards (IFRS)

- **How it affects you — Key deadlines**
  - US SEC has “proposed” a deadline of 2014
  - Some companies have the option reporting in the IFRS format as early as the end of 2009
  - Dual Reporting begins in 2012
  - Requires re-statement of opening 2012 Balance Sheet to IFRS standards
  - IFRS cutover from Local GAAP to IFRS is 2014
    - Local GAAP reporting requirements will not go away
    - Some industries will still require Local GAAP reporting
      - Utilities, Oil and Gas — FERC reports remain US GAAP

- **Other key points to consider**
  - The IFRS “answer” will be specific to your company, industry, and country
    - “One size fits all” does not apply for IFRS
  - Prior planning including your consulting/audit partner and SAP is essential for success
Are There Any Benefits to IFRS?

SAP and our Partners see these benefits

- **Improved quality of reporting** –
  - A globally accepted set of principles-based standards may offer opportunities to consistently apply accounting standards

- **Improved transparency and investor confidence** –
  - As use of IFRS becomes more widespread, the new standards will increase comparability for investment analysis and performance measurement

- **Reduced accounting complexity** –
  - US GAAP accounting rules are viewed as complex and difficult to apply
  - IFRS is based on “principles” not rules which will provide the opportunity for more clear representation of financial results

- **Potential process and cost efficiencies** –
  - The same financial reporting standards across the world will provide opportunities to simplify and centralize financial reporting processes and functions

- **Cost of capital** –
  - A single global financial reporting standard will enhance the efficiency of capital allocation and should reduce the cost of capital

- **Process and technology optimization** –
  - Converting to IFRS may provide an opportunity to improve and streamline key components of the current SAP landscapes
Key IFRS Challenges

IFRS implementation is not only a reporting project. There are significant impacts on:

- Company organization — Both corporate and subsidiary levels
- Valuation of individual business transactions
- Transactional systems — May need software and hardware upgrades

Approaching key deadlines

- Early project planning and analysis leads to successful project

Parallel reporting

- Need to run parallel reporting to enable prior year comparisons between the Local Accounting Standard and IFRS during the transition periods
- Need the ability to easily compare, reconcile, and explain the differences / changes between the Local Accounting Standards and IFRS

Broad implications

- Implementation requires cross-functional team — Financial accounting, management accounting, tax, IT, Consulting Partners, and SAP Services
- New closing process required to include additional new IFRS-specific information without increasing closing cycles

Transaction changes

- Top-side adjustments at a consolidation level may not always be sufficient to meet all IFRS requirements
  — Some changes may be appropriate at the SAP ERP / transactional level
- Need to capture additional data / information to meet extensive disclosure requirements
“While market assessments and sizing are still very immature, the US adoption of IFRS could be larger than the Sarbox investment was.

“Nonetheless, ‘the IFRS train has left the station’ and will be arriving in the United States at some point. Movement to IFRS has the support of the SEC, FASB, FAF, many US companies, and many accounting firms.”

“We are looking at doubling our legal compliance staff”

“We looking to acquire a small accounting firm to build up our IFRS team”

10% of accounting line items are impacted when moving to IFRS from US GAAP

Currently we are scoping a 400,000 hour project for IFRS consulting and an upgrade to ERP 6.0

Accenture, PWC, Ernst &Young, Deloitte and Goldman Sachs among others
# Potential Impact of IFRS on an SAP Landscape

## From Ernst and Young

### SAP modules

<table>
<thead>
<tr>
<th>FI - Financial</th>
<th>General Ledger</th>
<th>Book Close</th>
<th>Accounts Receivable</th>
<th>Accounts Payable</th>
<th>Tax</th>
<th>Consolidations</th>
<th>SPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>CO - Controlling</td>
<td>Cost Element</td>
<td>Cost Center</td>
<td>Profit Centers</td>
<td>Internal Orders</td>
<td>ABC Costing</td>
<td>Product Costing</td>
<td></td>
</tr>
<tr>
<td>MM – Material Management</td>
<td>Requisitions</td>
<td>Purchase Orders</td>
<td>Good Receipts</td>
<td>Inventory Management</td>
<td>Bill Of Materials</td>
<td>Master raw materials</td>
<td></td>
</tr>
<tr>
<td>AC – Asset Accounting</td>
<td>Purchasing</td>
<td>Depreciation</td>
<td>Sales</td>
<td>Tracking</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PS – Project Systems</td>
<td>Make to Order</td>
<td>Plant Shut Down</td>
<td>Third Party Billing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HR – Human Resources</td>
<td>Employment History</td>
<td>Payroll</td>
<td>Training</td>
<td>Career Management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PP – Production Planning</td>
<td>Capacity Planning</td>
<td>Master production scheduling</td>
<td>Material requirements planning</td>
<td>Shop Floor</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PM – Plant Maintenance</td>
<td>Labor</td>
<td>Material</td>
<td>Down time and outages</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>QM - Quality Management</td>
<td>Planning</td>
<td>Executions</td>
<td>Inspections</td>
<td>Certificates</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SD – Sale and Distribution</td>
<td>RFQ</td>
<td>Sales Orders</td>
<td>Pricing</td>
<td>Picking</td>
<td>Packing</td>
<td>Shipping</td>
<td></td>
</tr>
</tbody>
</table>

### Process Areas

- **Possible Impact**
- **Need to investigate to determine magnitude**

### Manufacturing industry example

**Source:** Ernst and Young

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More research is required but our hypothesis is that certain industries will be impacted more than others due to IFRS.

<table>
<thead>
<tr>
<th>OG</th>
<th>Industry</th>
<th>Level of Impact</th>
<th>Key Drivers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Products</td>
<td>CGS</td>
<td>H</td>
<td>Inventory, PP&amp;E, Raw Material Hedges</td>
</tr>
<tr>
<td></td>
<td>Airline</td>
<td>M</td>
<td>Extensive use of leases, fuel hedges, PP&amp;E</td>
</tr>
<tr>
<td></td>
<td>Industrial Equipment</td>
<td>M</td>
<td>Revenue recognition – project accounting, LIFO reserves, PP&amp;E</td>
</tr>
<tr>
<td></td>
<td>Retail</td>
<td>H</td>
<td>Leases, Asset Impairment (Store closures), PP&amp;E, Inventory, Revenue Recognition, Taxes</td>
</tr>
<tr>
<td></td>
<td>Travel</td>
<td>M</td>
<td>PP&amp;E, Advertising, Leases</td>
</tr>
<tr>
<td></td>
<td>HLS</td>
<td>H</td>
<td>Business Combinations, Intangibles (R&amp;D), Asset Impairment, Inventories, PP&amp;E, Contingencies and Provisions (Product Liability)</td>
</tr>
<tr>
<td></td>
<td>Automotive</td>
<td>H</td>
<td>Intangibles (R&amp;D), Inventories, Asset Impairment, Restructuring, Contingencies and Provisions (Loss Contracts and Restructuring)</td>
</tr>
<tr>
<td>Financial Services</td>
<td>Banking</td>
<td>H</td>
<td>Financial Instruments, derivatives, Asset-backed Securities</td>
</tr>
<tr>
<td></td>
<td>Capital Markets</td>
<td>M</td>
<td>Financial instruments, Derivatives, Advertising, Customer Loyalty Programs</td>
</tr>
<tr>
<td></td>
<td>Insurance</td>
<td>H</td>
<td>Insurance Contracts, Financial Instruments, Revenue Recognition, Financial Disclosure Reporting</td>
</tr>
</tbody>
</table>
### IFRS Impacts to Our Clients – Industry Insights From Accenture (cont.)

<table>
<thead>
<tr>
<th>OG</th>
<th>Industry</th>
<th>Level of Impact</th>
<th>Key Drivers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Forest Products</td>
<td>L</td>
<td>LIFO, PP&amp;E, Real Estate, Leases</td>
</tr>
<tr>
<td></td>
<td>Freight-Logistics</td>
<td>L</td>
<td>PP&amp;E, Leases</td>
</tr>
<tr>
<td></td>
<td>Metals</td>
<td>L</td>
<td>PP&amp;E, LIFO</td>
</tr>
<tr>
<td></td>
<td>Mining</td>
<td>M</td>
<td>PP&amp;E, LIFO, Leases, Revenue Recognition – project accounting, real estate</td>
</tr>
<tr>
<td></td>
<td>Utilities</td>
<td>H</td>
<td>PP&amp;E, Intangibles, Asset Impairments, Derivatives (hedges), Leases, Provisions, Taxes, Borrowing Costs</td>
</tr>
<tr>
<td></td>
<td>Chemicals</td>
<td>M</td>
<td>PP&amp;E, R&amp;D, Environmental Provisions, Impairment Testing, Joint ventures LIFO reserves</td>
</tr>
<tr>
<td></td>
<td>Energy</td>
<td>H</td>
<td>PP&amp;E, Depletion Accounting, Joint Ventures, Business Combinations, Intangibles (R&amp;D), Reserves, Revenue, Taxation, Environmental Liabilities, Derivatives</td>
</tr>
<tr>
<td></td>
<td>Building Materials</td>
<td>L</td>
<td>LIFO, PP&amp;E, hedges</td>
</tr>
<tr>
<td>CHT</td>
<td>Media and Entertainment</td>
<td>L</td>
<td>Intangible Assets – impairment testing, Revenue Recognition – multiple element arrangements, PP&amp;E</td>
</tr>
<tr>
<td></td>
<td>Communications</td>
<td>M</td>
<td>PP&amp;E, Leases, Impairment Testing, Revenue Recognition, R&amp;D, Advertising, Customer Loyalty Programs</td>
</tr>
<tr>
<td></td>
<td>Aerospace and Defense</td>
<td>M</td>
<td>PP&amp;E, Impairment Testing, LIFO, R&amp;D, Derivatives, Revenue Recognition – project accounting</td>
</tr>
<tr>
<td></td>
<td>Electronics and High Tech</td>
<td>H</td>
<td>R&amp;D, Revenue Recognition – multiple element arrangements, Asset Impairment</td>
</tr>
</tbody>
</table>
A brief overview of IFRS and its implications

**IFRS conversion project example – SAP AG**

IFRS proposed timeline and implementation considerations (US view)

SAP ERP focused IFRS adoption roadmap

- Scenario 1 – Use Parallel Ledger
  - Option 1
  - Option 2
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Examples of Frequently Asked Questions

Wrap-up
SAP AG Was Faced With Numerous Financial Reporting Requirements

EU
- Requirements for year-end and half-year reporting, audit, risk management, and corporate governance

German Law
- Requirements for year-end, half-year, and quarterly reporting, audit, risk management, and corporate governance (mostly based on EU requirements)
- SAP AG statutory German GAAP reporting = basis for dividends and tax
- Specific disclosure requirements not covered by IFRS or US GAAP
- Standards and Interpretations by GASB (German Accounting Standards Board)

Frankfurt Stock Exchange
- Quarterly reporting requirements defining certain minimum disclosures

National Legislation of Subsidiaries
- Statutory local GAAP reporting for most subsidiaries
- Further reporting requirements for some subsidiaries

SEC
- Requirements for year-end reporting and related controls, audit, and corporate governance

New York Stock Exchange
- Report over deviations from NYSE Corporate Governance Rules
Structure of IFRS Implementation Project
SAP AG

Tasks to be accomplished

1. **Understand IFRS base knowledge available at SAP AG**
   - Decision on use of external resources (Consulting Partner KPMG)
   - Identification of differences between US-GAAP and IAS/IFRS
     - Preparation of IAS/IFRS Accounting Policy
   - Training of relevant employees

2. **Technical**
   - Preparation of IAS/IFRS chart of accounts
     - Set up of accounts/structures
   - Determination of additional accounting objects to be posted as required for IFRS compliance

3. **Organizational**
   - Rollout to subsidiaries

Subproject 1: Know-how development
Subproject 2: Technical preparation
Subproject 3: Organizational Support
For Example SAP’s own IFRS Project Looked Like This ...

<table>
<thead>
<tr>
<th>Corporate Financial Reporting</th>
<th>Local SAP Entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provides guidance and training</td>
<td>Identify reconciling items (i.e., differences IFRS/US GAAP)</td>
</tr>
<tr>
<td>Provides posting infrastructure</td>
<td>Perform all reconciliation postings except those performed by CFR</td>
</tr>
<tr>
<td>Performs certain reconciliation postings for all company codes</td>
<td>Bring open issues to the attention of regional IFRS Specialist</td>
</tr>
<tr>
<td>- Share-based payments and related hedge entries</td>
<td>Complete expanded reporting package and provide certification on accuracy and completeness of reconciling entries and disclosures</td>
</tr>
<tr>
<td>Collects data for disclosures (via expanded reporting package)</td>
<td>Support KPMG's audit</td>
</tr>
<tr>
<td>Supports identification of IFRS/US GAAP differences</td>
<td></td>
</tr>
<tr>
<td>Decides accounting for major open items</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Regional IFRS Specialists</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collect all ambiguous issues from individual entities in the respective region</td>
</tr>
<tr>
<td>Provide guidance to solve ambiguous issues</td>
</tr>
<tr>
<td>Discuss complex issues with CFR (single point of contact in CFR for each IFRS Specialist)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Processes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Organization Personnel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adoption of IFRS</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Consulting Partner (KPMG)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit</td>
</tr>
<tr>
<td>- IFRS opening balance sheet</td>
</tr>
<tr>
<td>- IFRS reconciliation 2006</td>
</tr>
<tr>
<td>- IFRS reconciliation 2007 and beyond</td>
</tr>
<tr>
<td>- IFRS consolidated financial statements 2007 and beyond</td>
</tr>
</tbody>
</table>
Timeframe of the Project
SAP AG

2003
HY1
HY2

2004
HY1
HY2

2005
HY1
HY2

2006
HY1
HY2

2007
HY1
HY2

2008
HY1
HY2

Implementation Approach

Decision on external support

Determine add. accounting objects

Identification of initial relevant differences US GAAP/IFRS

Prepare IFRS chart of accounts

IFRS Accounting Guideline

Rollout of IFRS to subsidiaries (incl. training)


2006 IFRS Data for SAP Group

2007 IFRS Data for SAP Group

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IFRS: Implementation Timeline – Overview Recommendations (US Timeline)

Consulting/Audit Partner, Customer + SAP Field Services

Begin IFRS Project Planning and Local Impact to Determine SAP Landscape Solution Required

Begin IFRS Project

Prepare Opening Balance Sheet under IFRS rules

Dual Reporting Period Ends

IFRS Go-Live Date

2009

2010

2011

2012

2013

2014

SAP Field Services + Customer – SAP ERP Layer

Upgrade Project to SAP ERP 6.0 Completed

SAP General Ledger Migration Completed 1st Qtr 2010

SAP General Ledger Validation Period completed by Year End

Begin configuration Landscape for IFRS

a. Transaction Layer

b. Reporting Layer

Dual Reporting Period

Go-Live IFRS

Possible System Landscape Optimization (SLO) Projects to clear Local GAAP Issues

SAP Field Services + Customer – Reporting/Analytical Layer

Review Existing consolidations and XBRL capabilities

Adapt the current or deploy a new consolidation application for group reporting

Go-Live with new or updated consolidation capabilities

Perform consolidation reporting in both the local accounting standard and the IFRS systems

Go-Live with IFRS as primary group reporting standard
SAP Solution Portfolio for IFRS

- SAP Business Suite solutions are already IFRS capable
- SAP BusinessObjects solutions can also play a key role in helping organizations transition to IFRS
- With the combination of SAP ERP and SAP BusinessObjects solutions —
  - SAP offers the most complete solution to support IFRS

SAP Business Suite
- SAP Business Suite 7
  - SAP ERP 6.0 —
    - SAP ERP Financials
    - SAP General Ledger
      - Parallel Ledgers
      - Asset Accounting
      - Etc.

SAP BusinessObjects
- SAP BusinessObjects EPM and GRC Solutions
- SAP BusinessObjects
  - SAP BusinessObjects Planning and Consolidation + IFRS Starter Kit
  - SAP BusinessObjects Financial Information Management
  - SAP BusinessObjects XBRL Publishing by UBmatrix
## Options for SAP General Ledger Configuration for IFRS Adoption

Approaches available for multi-GAAP valuation within SAP ERP Financials

<table>
<thead>
<tr>
<th>Approach</th>
<th>Classic</th>
<th>SAP General Ledger</th>
</tr>
</thead>
<tbody>
<tr>
<td>Account Based</td>
<td>▪ Easiest to implement</td>
<td>![Checkmark]</td>
</tr>
<tr>
<td></td>
<td>▪ Can lead to unmanageable COA in SAP General Ledger</td>
<td>![Checkmark]</td>
</tr>
<tr>
<td>Parallel Company Codes</td>
<td>▪ No additional functionality planned by SAP</td>
<td>![Checkmark]</td>
</tr>
<tr>
<td></td>
<td>▪ Not a Recommend Solution for most companies</td>
<td></td>
</tr>
<tr>
<td>Parallel Ledger</td>
<td>▪ Most transparent approach</td>
<td>![Checkmark]</td>
</tr>
<tr>
<td></td>
<td>▪ Independent set of books</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Future IFRS requirements more easily accommodated</td>
<td></td>
</tr>
<tr>
<td>Special Ledger</td>
<td>▪ No additional functionality planned by SAP</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Not a recommend solution for most companies</td>
<td></td>
</tr>
</tbody>
</table>

Current recommended configuration approaches for SAP General Ledger
Neither approach is the recommended solution for today’s environments

- These approach options were recommended prior to the availability of the SAP General Ledger and the capabilities added by SAP BusinessObjects
- In some cases these options may still be workable in special cases, but only after a thorough review of the other recommended options with your consulting/audit partner and SAP
Parallel Ledger Approach
Applies to SAP General Ledger Only

How it Works
Provides IFRS and Local Accounting Standard reporting from multi-ledgers
- Can be configured to meet both reporting requirements from the first go-live date
- Utilizes the best features of the SAP General Ledger
  - Document Splitting
  - Segment Reporting
  - Etc.
- Recommended option of complex installations
  - Large differences between IFRS reporting standards and the current legal reporting standard
- Feeds properly formatted IFRS data directly into the Reporting and Analytics layer
  - Simplifies reporting and requires little manual adjustment after consolidations
- Implementation from the beginning of fiscal year
  - Matches IFRS time line

Parallel Ledger Configuration is recommended where
- Segment reporting is required
- Increasing the number of SAP General Ledger accounts is not desirable
- Complete set of separate legal reporting books is preferred
- Different fiscal year is needed for different legal sets of books

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Account Based Approach
Can Be Used Across All General Ledger Versions

How it works
- Uses single ledger for all posting
  - Could be the Leading Ledger for SAP General Ledger
- Accounts are “grouped” according to legal reporting requirements
  - Example
    - 300000 to 400000 Operational Chart
    - 500000 to 550000 IFRS
    - 600000 to 650000 Local GAAP
- Each group of accounts must be in balance
  - Requires extra care to ensure correct account determination
  - And the establishment of a coding handbook.
- IFRS Financial Statements report using common accounts and “pure” IFRS accounts together
  - Red Oval in diagram

Account Solution is recommended where
- Relatively few valuation differences exist between IFRS and local GAAP
- No issue with an increased number of General Ledger accounts
- Standard reporting is used
- Different fiscal years are not required

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IFRS: Implementation Timeline – Focused on SAP ERP Layer

Consulting/Audit Partner, Customer + SAP Field Services

Begin IFRS Project Planning and Local Impact to Determine SAP Landscape Solution Required

2009

Begin IFRS Project

2011

Prepare Opening Balance Sheet under IFRS rules

2012

IFRS Go-Live Date

2013

Dual Reporting Period Ends

2014

SAP Field Services + Customer – SAP ERP Layer

Upgrade Project to SAP ERP 6.0 Completed

SAP General Ledger Migration Completed 1st Qtr 2010

Begin configuration Landscape for IFRS a. Transaction Layer b. Reporting Layer

Dual Reporting Period

Go-Live IFRS Possible System Landscape Optimization (SLO) Projects to clear Local GAAP Issues

SAP Field Services + Customer – Reporting/Analytical Layer

Review Existing consolidations and XBRL capabilities Adapt the current or deploy a new consolidation application for group reporting Go-Live with new or updated consolidation capabilities Perform consolidation reporting in both the local accounting standard and the IFRS systems Go-Live with IFRS as primary group reporting standard
Parallel Ledger Approach
Scenario 1 – Net New Customers

Net New Customers are defined as:
- SAP ERP go-live date prior to January 2012
- SAP General Ledger planned or active
- Parallel Ledgers favored option for General Ledger configuration

Basic Considerations leading to Parallel Ledger Approach
- IFRS knowledge base level
  - Consulting/Audit Partner engagement
  - SAP Field Services
- Go-live date
  - In future
  - Already live on SAP ERP release
- Current landscape complexity
  - Consolidation of multi-instances?
  - Upgrades and General Ledger migration
- Major differences exist between current Local Accounting Standard* and IFRS reporting requirements

*Local Accounting Standard is the legal reporting standard.
• In the following examples it will be referred to as US GAAP.
Option 1 Parallel Ledgers – Leading Ledger and Asset Area 01 both set to your Local Accounting Standard (US GAAP)

Considerations for this approach

- SAP General Ledger is already live with:
  - Leading Ledger (LL) set to your Local Accounting Standard (US GAAP)
  - Asset Area 01 tied to the Leading Ledger and configured for the Local Accounting Standard (US GAAP)
- SAP ERP go-live date in the near future
  - Current plans call for LL and Asset Area Valuation Area 01 to be set to the Local Accounting Standard (US GAAP)
- Detailed knowledge of IFRS impact is **NOT** available at present
  - Go-live date in near future or already passed
    - No time to fully understand the impact of IFRS reporting requirements when compared to the current reporting standards
- Additional Note
  - With this approach you may want to consider the set up of additional table groups for the non-leading ledgers
Parallel Ledger Approach for Net New SAP ERP Customers – Scenario 1

Configuration Design: Scenario1/Option 1

Current Configuration: Local Accounting Standards (US GAAP)

Asset Valuation Area 01 → Leading Ledger → Non-Leading Ledger(s)

Set to US GAAP

Planned configuration for IFRS Reporting Standard After 2014

Asset Valuation Area 01 → Leading Ledger → Non-Leading Ledger(s)

Set to IFRS Standards

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Parallel Ledger Approach for Net New SAP ERP Customers – Scenario 1

Configuration Design: Scenario1/Option 1

Dual Reporting Period: 2012 – 2014

Used for US GAAP Reporting

- Asset Valuation Area (01)
  - Set to US GAAP

  - Leading Ledger (0L)
    - Set to US GAAP
    - Used for US GAAP Reporting

Used for IFRS Reporting

- New Asset Valuation Area (Z1)
  - Set to IFRS Standards

  - New Non-Leading Ledger (NL)
    - Set to IFRS Standards
    - Used for IFRS Reporting

- Non-Leading Ledger(s)
  - Set to IFRS Standards
  - Used for Local Reporting Requirements
Parallel Ledger Approach for Net New SAP ERP Customers – Scenario 1

Configuration Design: Scenario 1/Option 1

After 2014 IFRS Corporate Book of Record

Used for IFRS Reporting

- Asset Valuation Area (01)
  - Set to IFRS
  - Leading Ledger (0L)
    - Set to IFRS
  - Other Non-Leading Ledger(s)
    - Used for Local Reporting Requirements As Required

Used for Local Accounting Standard Reporting (US GAAP)

- Asset Valuation Area (Z2)
  - Set to Local Accounting Standards
  - Non-Leading Ledger (NL)
    - Set to Local Accounting Standards
  - Other Non-Leading Ledger(s)
    - Used for Local Reporting Requirements As Required
Option 1 – Use Parallel Ledgers with Leading Ledger 0L & Asset Area 01 set to US GAAP

How do you get there?

1. On initial configuration ensure LL and Asset 01 are set to Local Accounting Standard (US GAAP)
2. Prior to dual reporting period (2012)
   - Engage with your Consulting/Audit Partner
     - Determine IFRS impact
   - Engage with SAP Services
     - Determine any landscape or application issues
3. Set up new Asset Area (Z1)
   - Set to IFRS standards
4. Set up a new Non-Leading Ledger (NL)
   - Use General Ledger migration scenario 7
   - Also set to reporting IFRS standards
5. Dual Period Reporting (2012-2014)
   - Use Leading Ledger (0L) and Asset Area 01 for US GAAP
   - Use new non-leading ledger (NL) and Asset Area (Z1) for IFRS
   - Change Leading Ledger to IFRS
     - Use extra open periods in LL to book “Delta” values and convert open balances to IFRS values
   - Change Asset Area 01 to IFRS
     - SLO Project required to covert Asset Area 01 from US GAAP to IFRS
Option 2 Parallel Ledgers – Leading Ledger and Asset Area 01 both used for IFRS Reporting and a Non-Leading Ledger

Considerations for this Approach

- SAP General Ledger is **NOT** live at present:
  - Leading Ledger (LL) can be set to IFRS reporting standards
  - Asset Area 01 can be configured to IFRS
- ERP go-live date is some time prior to the dual reporting period (2012-2014)
- Current Plans call for LL and Asset Area Valuation Area 01 to be set to IFRS
  - Additional non-leading ledgers and Asset Valuation Areas will be utilized for other reporting requirements
- General IFRS knowledge **is** available prior to go live date
  - Consulting/Audit Partner and SAP can be engaged for IFRS project prior to go-live date
  - Local IFRS team of experts is available to engage

- Additional Note
  - With this approach you may want to consider the set up of additional table groups for the non-leading ledgers
  - No SLO project would be mandatory with Option 2
Configuration Design: Scenario 1/Option 2

Planned Configuration at go-live date: IFRS and Local Accounting Standard (US GAAP)

Configuration for IFRS Reporting Standard After 2014
Parallel Ledger Approach
for Net New SAP ERP Customers – Scenario 1/Option 2 (cont.)

Configuration Design: Scenario 1/Option 2

Dual Reporting Period (2012 – 2014)

Used for IFRS Reporting

- Asset Valuation Area (01)
  - Set to IFRS
  - Leading Ledger (0L)
    - Set to IFRS
  - Non-Leading Ledger(s)
    - Used for Local Reporting Requirements

Used for Local Accounting Standard (US GAAP)

- Asset Valuation Area (Z1)
  - Set to US GAAP
  - Non-Leading Ledger (NL)
    - Set to US GAAP
  - Non-Leading Ledger(s)
    - Used for Local Reporting Requirements
Configuration Design: Scenario 1/Option 2
After 2014 Corporate Book of Record

Used for IFRS Reporting

- Asset Valuation Area (01)
  - Set to IFRS
  - Leading Ledger (0L)
    - Set to IFRS
    - Other Non-Leading Ledger(s)
      - Used for Local Reporting Requirements As Required

Used for Local Accounting Standard Reporting (US GAAP)

- Asset Valuation Area (Z1)
  - Set to US GAAP
  - Non-Leading Ledger (NL)
    - Set to US GAAP
    - Other Non-Leading Ledger(s)
      - Used for Local Reporting Requirements As Required
Option 2 Parallel Ledgers—Use Parallel Ledgers with Leading Ledger/Asset Area 01 set to IFRS at go-live date

How do you get there?

1. On initial configuration insure LL and Asset 01 are set to IFRS prior to go live:
   - Engage with your Consulting/Audit Partner
     - Determine IFRS impact
   - Engage with SAP Services
     - Determine any landscape or application issues

2. Prior to dual reporting period (2012)
   - Prior to go-live date set up non-leading ledger for US GAAP reporting (NL)
   - Also prior to go-live set up another Asset Valuation Area for US GAAP reporting tied to non-leading ledger (Z1)
   - If completed after go-live date
     - Use Scenario 7 for new non-leading ledger
     - Set up Asset Area tied to non-leading ledger (Z1)

   - Use Leading Ledger (0L) and Asset Area 01 for IFRS reporting
   - Use new non-leading ledger (NL) and Asset Area (Z1) for US GAAP reporting

4. End of Dual Reporting Period (2014)
   - Continue as is
   - Close down non-leading ledger and Asset Valuation area used for US GAAP
     - Optional
Account Based Approach
Scenario 2

How it works
- Uses single ledger for all posting
  - Could be the Leading Ledger for SAP General Ledger
- Accounts are “grouped” according to legal reporting requirements
  - Example
    - 300000 to 400000 Operational Chart
    - 500000 to 550000 IFRS
    - 600000 to 650000 Local GAAP
- Each group of accounts must be in balance
  - Requires extra care to ensure correct account determination
  - And the establishment of a coding handbook.
- IFRS Financial Statements report using common accounts and “pure” IFRS accounts together
  - Red Oval in diagram

Account Solution is recommended where
- Relatively few valuation differences exist between IFRS and local GAAP
- No issue with an increased number of General Ledger accounts
- Standard reporting is used
- Different fiscal years are not required

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The Account Based Approach for IFRS reporting:
- Can be used by ALL General Ledger versions
  - SAP General Ledger (NewGL)
  - Classic General Ledger (SAP R/3 version)
- Should be used only when a relatively small group of accounting differences will occur between the current Accounting Standard and the IFRS standards
  - Key Point – IFRS standards vary by industry, country, and local requirements
  - Prior to the adoption of the Account Based approach a thorough investigation should be completed to ensure this is the correct approach
- Does not require the set up of additional ledgers
  - Both Local GAAP and IFRS data will be contained in single ledger
  - Does require the “grouping” of specific accounts
- Will not utilize one of the best features found within the SAP General Ledger
  - Parallel Ledger Accounting
  - If in the future Parallel Ledger accounting will be required – a GL migration project will be required
- Will add more General Ledger Accounts to the Chart of Accounts
  - Reporting performance issue may result if too many GL numbers are added
- Account Based configuration will require Asset Valuation Area mapping to individual account groups
Account Based and the Operational Chart of Accounts

- Local Accounting Standard (US GAAP) and IFRS reporting is accomplished by a combination of the “operational” accounts and the specific account groups within the operation chart of accounts.
- Lack of IFRS knowledge and skills prevent the configuration of IFRS standards:
  - Early or past go-live date
- Few differences exist between current standard (US GAAP) and IFRS:
  - Use of a single ledger for all reporting requirements is possible
- Additional Asset Valuation Areas will need to be configured for IFRS reporting:
  - Specific account groups will be established and linked to these Asset Valuation Areas
- During the dual reporting period:
  - Local account group + operational accounts will be used for Local Accounting Standard (US GAAP) Reporting
  - IFRS account group + operational accounts will be used for IFRS reporting
- At the end of the dual reporting period (2014):
  - An SLO project will be required to configure Asset Valuation Area 01 to IFRS
  - An additional SLO project may be required to clean up chart of accounts
Report configuration is key requirement

1. Local GAAP reports require Common Accounts + specific group for Local Accounts

2. IFRS reports require Common Accounts + IFRS specific accounts group
Account Based Approach
SAP ERP and SAP R/3 Customers – Scenario 2/Option 1
After Dual Reporting Period (2014)

Report configuration is key requirement

1. Local GAAP reports require Common Accounts + specific group for Local Accounts
2. IFRS reports require Common Accounts + IFRS specific accounts group

Single Ledger Contains 3 Account Groups
1. Common Accounts to both Local GAAP and IFRS
2. Accounts only used for IFRS
3. Accounts only used for Local GAAP

Required:
SLO project to Copy Asset Area Z1History to Asset Area 01

Asset Valuation Area 01 IFRS

Asset Valuation Area Z1 ???

Single Ledger

Common Accounts

Pure IFRS Accounts

Pure Local GAAP Accounts

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Option 1 Account Based – Single ledger with Asset Area 01 set to Local GAAP Reporting

How do you get there?

1. Prior to dual reporting period or go live date (2012)
   - Engage with your Consulting/Audit Partner
     - Determine IFRS impact and any differences between the current Accounting Standard and the IFRS requirements
   - Engage with SAP Services
     - Determine any landscape or application issues

2. If the account based approach is feasible then ensure that Asset Area 01 is set to the Local Accounting Standard
   - Also set up additional Asset Valuation areas as required for other standards such as IFRS

3. Set up proper account grouping for example:
   - 300000 – 400000 for common accounts
   - 500000 – 500500 for IFRS specific accounts
   - 600000 – 600500 for Local GAAP specific accounts

4. For dual reporting period format legal accounting reports to insure reporting data is selected from correct account groups (2012 – 2014)

5. End of the dual reporting period (2014)
   - SLO project required to switch Asset Area 01 to IFRS reporting standard
   - Reformat legal reports to read data from Asset Area 01
   - SLO Account clean up project (Suggested)

6. Additional Note
   - An additional GL migration project would be required if parallel ledger features are desired at a later date
Account Based and the Operational Chart of Accounts

- Local GAAP Accounting reporting is accomplished by a combination of the “operational” accounts and the specific account group configured for specific US GAAP reporting.
- IFRS knowledge and skills are available which will allow configuration of IFRS standards in Asset Area 01.
  - Early go prior to dual reporting period (2012 – 2014).
- Few differences between Local GAAP and IFRS allow for single ledger based reporting.
- Additional Asset Valuation Areas will be configured for Local GAAP (US GAAP) reporting.
  - Specific account groups will be established and linked to these Asset Valuation Areas.
- During dual reporting period:
  - IFRS account group + operational accounts will be used for IFRS reporting.
  - Local account group + operational accounts will be used for Local GAAP Reporting.
- At the end of the dual reporting period (2014):
  - SLO project may be required to clean up chart of accounts (Suggested).
Account Based Approach
SAP ERP and SAP R/3 Customers – Scenario 2/Option 2
Dual Reporting Period (2012 – 2014)

Single Ledger Contains 3 Account Groups
1. Common Accounts to both Local GAAP and IFRS
2. Accounts only used for IFRS
3. Accounts only used for Local GAAP

Report Configuration is key Requirement
1. Local GAAP reports require Common Accounts + specific account group for Local Accounts
2. IFRS reports require Common Accounts + IFRS specific account group
Account Based Approach
ERP & R/3 Customers – Scenario 2/Option 2
After Dual Reporting Period (2014)

Single Ledger Contains 3 Account Groups
1. Common Accounts to both Local GAAP and IFRS
2. Accounts only used for IFRS
3. Accounts only used for Local GAAP

Report Configuration is key Requirement
1. Local GAAP reports require Common Accounts + specific group for Local Accounts
2. IFRS reports require Common Accounts + IFRS specific accounts group

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Option 2 Account Based – Single ledger with Asset Area 01 set to IFRS Reporting Standard

How do you get there?

1. Prior to dual reporting period or go live date (2012)
   - Engage with your Consulting/Audit Partner
     - Determine IFRS impact and any differences between the current Accounting Standard and the IFRS requirements
   - Engage with SAP Services
     - Determine any landscape or application issues

2. If the account based approach is feasible then insure that Asset Area 01 is set to IFRS Accounting
   - Set up any additional Asset Areas as required

3. Set up proper account grouping for example:
   - 300000 – 400000 for common accounts
   - 500000 – 500500 for IFRS specific accounts
   - 600000 – 600500 for Local GAAP specific accounts

4. For dual reporting period format legal accounting reports to insure reporting data is selected from correct account groups (2012 – 2014)

5. End of the dual reporting period (2014)
   - Reformat legal reports to read data from Asset Area 01
   - SLO Account clean up project (Suggested)

6. Additional Note
   - An additional GL migration project would be required if parallel ledger features are desired at a later date
A brief overview of IFRS and its implications
IFRS conversion project example – SAP AG
IFRS proposed timeline and implementation considerations (US view)
SAP ERP focused IFRS adoption roadmap
  – Scenario 1 – Use Parallel Ledger
    – Option 1
    – Option 2
  – Scenario 2 – Use Account Based Configuration
    – Option 1
    – Option 2

Examples of Frequently Asked Questions
Wrap-up
<table>
<thead>
<tr>
<th>Typical Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Does SAP consider the implementation of IFRS a significant project?</strong></td>
</tr>
<tr>
<td>- Yes, we do</td>
</tr>
<tr>
<td>- The complexity of your project will be driven by your industry, company, and even country</td>
</tr>
<tr>
<td>- Your current landscape status will also play a role in the complexity of your specific project</td>
</tr>
<tr>
<td>- System upgrades</td>
</tr>
<tr>
<td>- SAP General Ledger migration projects</td>
</tr>
<tr>
<td>- SLO projects</td>
</tr>
<tr>
<td>- Your IFRS project will require input and guidance from</td>
</tr>
<tr>
<td>- Your consulting partner</td>
</tr>
<tr>
<td>- SAP Services</td>
</tr>
<tr>
<td>- You own internal experts</td>
</tr>
<tr>
<td><strong>Is there a single best solution for IFRS?</strong></td>
</tr>
<tr>
<td>- No, sorry</td>
</tr>
<tr>
<td>- The best solution for your company will be the result of a thorough review of your current status and the overall impact on your company when adapting to IFRS</td>
</tr>
</tbody>
</table>
### Some Frequently Asked Questions

#### SAP’s View of IFRS (cont.)

<table>
<thead>
<tr>
<th>Typical Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>What type of support can I expect from SAP during this project?</strong></td>
</tr>
<tr>
<td>- SAP will provide application support for our products</td>
</tr>
<tr>
<td>- Basically we can help with basic configuration/consolidations and reporting help</td>
</tr>
<tr>
<td>- For correct interpretation of the IFRS rules and guidelines it is best you work with your consulting partner</td>
</tr>
<tr>
<td><strong>What is the first step I should take to begin this IFRS project?</strong></td>
</tr>
<tr>
<td>- SAP would suggest you contact both your consulting partner and SAP for guidance and preliminary planning</td>
</tr>
</tbody>
</table>
A brief overview of IFRS and its implications
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IFRS proposed timeline and implementation considerations (US view)
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    – Option 2
  – Scenario 2 – Use Account Based Configuration
    – Option 1
    – Option 2
Examples of Frequently Asked Questions
Wrap-up
You can find further information about SAP’s and our Partners approach to IFRS:

SAP’s Community Network site devoted to IFRS issues
- [https://www.sdn.sap.com/irj/bpx/ifrs](https://www.sdn.sap.com/irj/bpx/ifrs)

- **SAP Demo Pods – Show Floor**
  - SAP ERP Financials Demo Pods
    - Gary Fullmer
      - gary.fullmer@sap.com
  - SAP BusinessObjects Demo Pod
    - Philip Mugglestone
      - philip.mugglestone@sap.com

- **Partner Booths – Show Floor**

- **Other IFRS Presentations at Las Vegas**
  - Follow the SAP roadmap to IFRS compliance
    - Friday 11:30 to 1:00 (Repeat Session)
      - Gary Fullmer – SAP Labs
  - Why and how to prepare for IFRS
    - Thursday 8:30 to 9:45
      - John Steele – Deloitte
SAP ERP Financials — Gary Fullmer
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7 Key Points to Take Home

- You should consider IFRS as a major project.
- As with any project, early planning and the complete understanding of the requirements will lead to a successful outcome.
- Begin planning now! 2014 is not that far away.
- Your IFRS project will require engagement with you, Consulting Partners, SAP, and your own in-house experts.
- There is no “silver bullet” or single standard solution for IFRS adoption.
- Plan on making changes to your SAP ERP landscape at some time (now or in the future).
- Best plan of all is to get as much knowledge about IFRS and its impact on your local systems:
  - Save time and money with early investigation.
Thank you!

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