Contents at a Glance

1 Introduction to IFRS ............................................................... 19
2 IFRS and Local GAAPs ............................................................. 31
3 SAP ERP Financials Functionality for IFRS .............................. 77
4 SAP Upgrade and General Ledger Migrations ......................... 135
5 IFRS Transition Project ......................................................... 177
6 Case Study ............................................................................ 187
# Contents

Acknowledgments ........................................................................................................ 11  
Preface ......................................................................................................................... 13  

## 1 Introduction to IFRS ................................................................. 19

1.1 Introduction ............................................................................... 19  
1.2 IFRS Framework ......................................................................... 19  
1.3 Accounting Standards ................................................................. 21  
1.4 Adoption of IFRS by Country ...................................................... 22  
1.5 Current Status for Countries not Using IFRS ................................. 23  
1.5.1 Current Status for the United States ......................................... 24  
1.6 Summary .................................................................................... 29  

## 2 IFRS and Local GAAPs ............................................................ 31

2.1 Introduction ............................................................................... 31  
2.2 Summary of IFRS ......................................................................... 31  
2.2.1 IFRS 1: First-Time Adoption of IFRS ..................................... 33  
2.2.2 IFRS 2: Share-Based Payment ............................................. 34  
2.2.3 IFRS 3: Business Combinations ........................................... 35  
2.2.4 IFRS 4: Insurance Contracts ............................................... 36  
2.2.5 IFRS 5: Noncurrent Assets Held for Sale and Discontinued Operations ............................................. 36  
2.2.6 IFRS 6: Exploration for and Evaluation of Mineral Resources ............................................... 37  
2.2.7 IFRS 7: Financial Instruments: Disclosures .......................... 38  
2.2.8 IFRS 8: Operating Segments .............................................. 38  
2.2.9 IAS 1: Presentation of Financial Statements ....................... 40  
2.2.10 IAS 2: Inventories ............................................................ 41  
2.2.11 IAS 7: Cash Flow Statements ............................................. 42  
2.2.12 IAS 8: Accounting Policies, Changes in Accounting Estimates, and Errors ............................................. 43  
2.2.13 IAS 10: Events after the Balance Sheet Date ....................... 44  
2.2.14 IAS 11: Construction Contracts ......................................... 45  
2.2.15 IAS 12: Income Taxes ....................................................... 46
2.2.16 IAS 16: Property, Plant, and Equipment ......................... 47
2.2.17 IAS 17: Leases ............................................................. 48
2.2.18 IAS 18: Revenue ........................................................... 50
2.2.19 IAS 19: Employee Benefits .......................................... 51
2.2.20 IAS 20: Accounting for Government Grants and
  Disclosure of Government Assistance ................................. 52
2.2.21 IAS 21: The Effects of Changes in Foreign
  Exchange Rates .............................................................. 52
2.2.22 IAS 23: Borrowing Costs ............................................. 54
2.2.23 IAS 24: Related Party Disclosures ............................... 54
2.2.24 IAS 26: Accounting and Reporting by Retirement
  Benefit Plans ................................................................. 55
2.2.25 IAS 27: Consolidated and Separate
  Financial Statements ....................................................... 56
2.2.26 IAS 28: Investments in Associates ............................... 57
2.2.27 IAS 29: Financial Reporting in Hyperinflationary
  Economies ..................................................................... 58
2.2.28 IAS 31: Interests in Joint Ventures ............................... 58
2.2.29 IAS 32: Financial Instruments: Presentation ................. 59
2.2.30 IAS 33: Earnings per Share ......................................... 60
2.2.31 IAS 34: Interim Financial Reporting ........................... 61
2.2.32 IAS 36: Impairment of Assets ..................................... 62
2.2.33 IAS 37: Provisions, Contingent Liabilities, and
  Contingent Assets .......................................................... 63
2.2.34 IAS 38: Intangible Assets ............................................. 64
2.2.35 IAS 39: Financial Instruments: Recognition and
  Measurement ................................................................. 66
2.2.36 IAS 40: Investment Property ....................................... 68
2.2.37 IAS 41: Agriculture .......................................................... 69
2.3 Differences between IFRS and Local GAAPs ....................... 69
  2.3.1 Chile .................................................................. 70
  2.3.2 Brazil .................................................................. 71
  2.3.3 Canada ................................................................. 72
  2.3.4 United States .......................................................... 73
2.4 Summary ........................................................................ 75

3 SAP ERP Financials Functionality for IFRS .............................. 77
  3.1 Introduction .................................................................. 77
## Contents

4.4.1 SAP Questionnaire for Migration Scenarios 6-8 .............. 157  
4.4.2 Scenario 6: Subsequent implementation of document splitting ......................................................... 160  
4.4.3 Scenario 7: Subsequent Implementation of an Additional Ledger .......................................................... 165  
4.4.4 Scenario 8: Switch from Parallel Account to Parallel Ledger ............................................................... 169  
4.5 Summary .................................................................................................................................................. 174

### 5 IFRS Transition Project ............................................................. 177

5.1 Introduction ........................................................................................................................................... 177  
5.2 Time Line .............................................................................................................................................. 177  
5.3 Project Phases ....................................................................................................................................... 179  
5.3.1 Phase 1: Review ............................................................................................................................ 179  
5.3.2 Phase 2: Define ............................................................................................................................. 182  
5.3.3 Phase 3: Design/Build/Test ......................................................................................................... 182  
5.3.4 Phase 4: Go-Live .......................................................................................................................... 184  
5.4 What Should You Be Doing Now? ........................................................................................................ 184  
5.5 Success Factors .................................................................................................................................... 185  
5.6 Summary ................................................................................................................................................ 185

### 6 Case Study ................................................................................ 187

6.1 Introduction ........................................................................................................................................... 187  
6.2 CMPC ................................................................................................................................................... 188  
6.3 IFRS Project Phases .................................................................................................................................. 188  
6.3.1 Phases 1 and 2: Review and Define ................................................................................................. 189  
6.3.2 Phase 3: Design/Build/Test ......................................................................................................... 197  
6.3.3 Phase 4: Go-Live .......................................................................................................................... 202  
6.4 Key Findings ........................................................................................................................................... 203  
6.5 Summary ................................................................................................................................................ 203

The Author .................................................................................................................................................. 205  
Index .................................................................................................................................................................. 207
International Financial Reporting Standards (IFRS) have been adopted by many countries around the world. At present, over 100 countries either require or allow IFRS, and these include all European countries.

1 Introduction to IFRS

1.1 Introduction

This chapter will discuss the IFRS framework for how standards are published, provide an overview of the current adoption of IFRS worldwide, and examine the current situation for U.S. companies. It is still not clear when the U.S. will move away from U.S. Generally Accepted Accounting Principles (U.S. GAAP), but it seems only a matter of time. By 2011 the U.S. will be the only country not using IFRS.

First, however, we will discuss how IFRS are published.

1.2 IFRS Framework

IFRS are now published by the International Accounting Standards Board (IASB). In 2001 the IASB replaced the International Accounting Standards Committee (IASC) as the organization responsible for setting IFRS. Figure 1.1 shows the structure of the IASB and its relationship to other groups such as the IASC. A monitoring board was set up effective on February 1, 2009, and the main purpose of this board is to appoint and manage the trustees in the IASC.
Figure 1.1 Structure of the International Accounting Standards Board

Note
The IASB is based in London, and there are 16 board members from 9 countries. The current members of the IAB are as follows:

- Sir David Tweedie (chairman)
- Thomas Jones (vice chairman)
- Mary Barth
- Stephen Cooper
- Philippe Danjou
- Jan Engström
- Robert Garnett
- Gilbert Gélard
- Prabhakar Kalavacherla
- James J. Leisenring
- Warren McGregor
- John T. Smith
- Tatsumi Yamada
- Zhang Wei-Guo
The aim is that the members of the IASB represent a diverse group both geographically and in their professional backgrounds. To ensure a good balance geographically, there are four members from North America, four members from Europe, four members from Asia, one from South America, one from Africa, and two others.

1.3 Accounting Standards

Standards set by the IASC are referred to as International Accounting Standards (IAS), and new standards set by the IAB are referred to as IFRS.

There are 30 IAS and 8 IFRS currently issued, and these are listed with a brief description in Chapter 2.

The assumptions for IFRS are that financial statements are prepared on a:

- **Going concern basis**
  The company can continue trading in the foreseeable future.

- **Accrual basis**
  Transactions are recognized as they occur, not when they are actually paid.

Financial statements prepared by IFRS must contain the following:

- A statement of financial position (balance sheet)
- An income statement
- A cash flow statement
- A statement of changes of equity
- Detailed notes on accounting policies

Chapter 2 will also highlight the differences between IFRS and other GAAPs for countries that have yet to transition to IFRS, for example, U.S. GAAP for the U.S. The next section will provide an overview of the countries that now require IFRS and those that have not transitioned.
1.4 Adoption of IFRS by Country

Many countries around the world have already adopted IFRS as the basis for their financial statements. At time of writing, over 110 countries had adopted IFRS, and by 2011 virtually all countries will have transitioned to IFRS except for the U.S. The European Union (EU) mandated IFRS in 2005 for publicly held companies, but most EU countries still do not permit IFRS for private companies.

As an overview, some of the larger countries that already require IFRS include the following:

- Australia and New Zealand
- Belgium, Czech Republic, Denmark, Finland, Germany, Ireland, Norway, Sweden, Switzerland, Netherlands, United Kingdom, France, and Italy
- Bulgaria, Greece, Poland, Portugal, Turkey, Romania
- Pakistan and South Africa
- Chile, Peru, Uruguay, Venezuela

Note

Listed companies in Chile were required to report by IFRS starting on January 1, 2009. CAPE Global Consulting has been the implementation partner for several of the largest IFRS projects in Chile and has its Latin America office based in Santiago, Chile. The case study in Chapter 6 is based on one of our largest IFRS projects in Chile.

Some of the larger countries that at the time of writing have not transitioned to IFRS are:

- Argentina
- Brazil
- Canada
- China
- Columbia
- India
- Japan
- Mexico
Current Status for Countries not Using IFRS

- Paraguay (IFRS permitted but not required)
- Saudi Arabia
- Singapore
- United States

The next section will discuss the current status for the countries listed above that are not using IFRS yet.

1.5 Current Status for Countries not Using IFRS

This section will examine the countries that have yet to permit IFRS and will provide information about when they are likely to do so. Most, if not all, countries are planning to require IFRS by 2011 except for the U.S., and the current status in the U.S. will be discussed in the most detail below.

- **Argentina**
  The recommendation is that listed/public companies will be required to report by IFRS starting on January 1, 2011. However, at the time of writing this has not been officially approved by the Argentinean government.

- **Brazil**
  All listed/public companies and financial institutions will be required to report consolidated financial statements by IFRS starting on January 1, 2010. This has been approved by the Brazilian Securities and Exchange Commission. However, the financial statements of individual companies must still be reported by Brazilian GAAP.

- **Canada**
  The current status in Canada is that all listed/public companies must report by IFRS starting on January 1, 2011. Foreign companies trading on the Canadian stock exchange are permitted to report by IFRS. Nonlisted companies will continue to report in Canadian GAAP from January 1, 2011, but the plan is for Canadian GAAP to converge with IFRS.

- **China**
  There is no official deadline to transition to IFRS, but Chinese Accounting Standards (CAS) have mostly converged with IFRS already. The remaining differences will be eliminated in the future.
Introduction to IFRS

- **Colombia**
  There are no plans for IFRS at time of writing.

- **India**
  The Institute of Chartered Accountants of India (ICAI) recently announced that IFRS will be required in 2011.

- **Japan**
  The current status is that IFRS is permitted for listed companies starting in 2009, and the plan is to converge all differences between Japanese GAAP and IFRS by 2011.

- **Mexico**
  The Mexican Banking and Securities Commission has stated that IFRS will be required for all listed/public companies starting on January 1, 2012.

- **Paraguay**
  IFRS is permitted but not required.

- **Saudi Arabia**
  At present, IFRS is only permitted for financial institutions that are regulated by the central bank. There are no plans to transition other companies to IFRS.

- **Singapore**
  Accounting standards in Singapore are very similar to IFRS. At present, only listed/public companies that are required to report on a foreign exchange in IFRS may report in IFRS.

### 1.5.1 Current Status for the United States

The current status of IFRS in the U.S. is that the requirement for IFRS has not been finalized. However, on November 14, 2008, the Securities Exchange Commission (SEC) proposed a roadmap for the transition to IFRS for U.S. companies. This roadmap is shown in Figure 1.3, below, and although it is not final, it proposes that U.S. companies will be required to file financial statements by IFRS for fiscal years ending after December 14, 2014.

**Background**

The SEC has played a major role in the move to a common set of accounting standards to be used by all countries around the world. As early as 1988, the SEC began to discuss the development of international accounting standards. In
1997 the SEC commented on the problems for multinational companies having to produce financial statements by different accounting standards to meet local requirements.

Later, in 2002, the SEC supported the Norwalk Agreement between the IASB and the Financial Accounting Standards Board (FASB). Part of this agreement was the long-term aim to establish global accounting standards and to converge U.S. GAAP with IFRS.

In 2006, the SEC chairman endorsed a previously published roadmap that had called for the introduction of high-quality, globally accepted accounting standards.

In November 2007, the SEC permitted foreign companies trading on the U.S. stock exchange to file financial statements prepared under IFRS without having to provide reconciliation to U.S. GAAP. Also, in December 2007, the SEC issued a concept release asking for feedback on allowing IFRS for U.S. public companies.

Figure 1.2 provides an overview of the time period up to and including the current proposed roadmap in 2008.

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>SEC begins to discuss the development of international accounting standards.</td>
</tr>
<tr>
<td>1997</td>
<td>SEC comments on problems for multinational companies having to produce financial statements by different accounting standards to meet local requirements.</td>
</tr>
<tr>
<td>2002</td>
<td>SEC announces support of the Norwalk agreement between IASB and FASB.</td>
</tr>
<tr>
<td>2006</td>
<td>SEC chairman endorses a previous roadmap for high quality, globally accepted accounting standards.</td>
</tr>
<tr>
<td>2008</td>
<td>November 14, 2008, SEC proposes a roadmap for the transition to IFRS for US companies.</td>
</tr>
</tbody>
</table>

**Figure 1.2** SEC Timeline 1988-2008
Proposed SEC Roadmap

As mentioned previously, the proposed roadmap is not final, and the SEC will review the feedback that it has received and whether milestones have been met in 2011. Depending on the feedback that the SEC receives, it may phase in the requirement for IFRS in 2014 depending on market capitalization. For example, the largest companies will be required to report IFRS in 2014, with others following in subsequent years.

The seven milestones that the SEC will review the progress of in 2011 are as follows:

- The improvement of current specific accounting standards
- The current funding of the FASB
- The ability to use XBRL for IFRS
- The current education and training of U.S. accountants
- Evaluating the success of U.S. early adopters of IFRS
- Timing of future rule making by the SEC
- Determining when to make IFRS required for U.S. companies, such as in 2014 or a possible phased approach

In the roadmap, the SEC proposed that early adopters meeting certain criteria be allowed to elect to file financial statements by IFRS for fiscal years ending on or after December 15, 2009.

Figure 1.3 shows the proposed roadmap as it is today, with the final decision to be made in 2011.

Benefits for IFRS in the U.S.

The main obvious benefit to having companies in all countries reporting by IFRS is that financial statements can easily be compared between companies in different countries. This will help investors, who can then more easily evaluate companies using the same criteria, and it will also help companies consolidate their financial results from their subsidiaries in other countries.
As shown in the previous section, IFRS has or will be adopted in most countries in the world by 2011, and the U.S. will be the only one remaining that has not adopted it.

**Figure 1.3** SEC Proposed Roadmap 2008-2014.

**Potential Issues for IFRS in the U.S.**

One of the main issues for IFRS in the U.S. is that there are still significant differences between U.S. GAAP and IFRS. There are also supporters of U.S. GAAP who argue that U.S. GAAP actually provides more detail than IFRS. Chapter 2 will explain the significant differences between U.S. GAAP and IFRS. These include some major areas such as:

- Revenue recognition
- Inventory
- Financial assets
Introduction to IFRS

- Taxes
- Leases
- Pensions
- Consolidations

The IASB and FASB continue to work on converging the differences between IFRS and U.S. GAAP.

Another issue for IFRS in the U.S. is that the roadmap requires a comparative period starting in 2012, so companies will have to report by two GAAPs for up to three years. This will add to the cost and complexity of the transition to IFRS.

Having a phased approach will help reduce costs because companies that transition later can learn from companies that transitioned earlier. However, having a phased approach also delays the time when all companies are using IFRS and so delays the time when all financial statements can be compared equally.

The previous chairman of the SEC, Christopher Cox, held office between August 3, 2005 and January 20, 2009, and he was a strong supporter of IFRS. During his time in office, the SEC allowed foreign companies listed in the U.S. to report IFRS and produced the roadmap discussed above proposing that IFRS be required for listed U.S. companies in 2014.

Mr. Cox was succeeded by Mary Schapiro, and it appears that IFRS is less of a priority for her than it was under the previous chairman. During her confirmation hearing she commented on the proposed roadmap, saying, “I will take a big deep breath and look at this entire area again carefully and will not necessarily feel bound by the existing roadmap that's out for comment.” However, she has said that she supports global standards, so most observers still feel that IFRS is likely but perhaps with a different timeline.
Note

Many believe that the SEC is evaluating whether the proposed roadmap will put too much pressure on U.S. listed companies at a time of economic crisis. The costs of transitioning to IFRS are substantial, and we believe that although IFRS is inevitable in the U.S., the final roadmap will allow more time for U.S. companies to transition to IFRS. Many of our U.S. customers believe that the SEC will issue a new roadmap in 2011, with a two-year delay and making 2016 the required date for IFRS (2014 for comparative financial statements).

Owing to the economic crisis, the SEC has many issues other than IFRS to consider such as the potential of increased regulation of the financial markets in light of the recent financial scandals.

1.6 Summary

As discussed in this chapter, between now and the final adoption of IFRS, the IASB and FASB will continue to work on the convergence of U.S. GAAP and IFRS. Some observers argue that this will be the way that U.S. companies transition to IFRS rather than having a specific date to adopt IFRS. Many more converging standards are expected before 2011, and one was recently published on consolidations.

This chapter has provided an introduction to IFRS, discussing the IFRS framework and the current adoption of IFRS around the world. Over 12,000 companies in over 100 countries have now adopted IFRS, and soon the U.S. will be the only country that has not. The chapter ended with an explanation of the current status of IFRS in the U.S. and the proposed roadmap that the SEC issued in 2008.

The main purpose of this book, however, is to explain how to transition to IFRS using SAP ERP Financials, and this does not change whether the U.S. adopts IFRS on a specific date or it happens as a convergence of U.S. GAAP and IFRS. Owing to the recent comments by the SEC on IFRS, many U.S. companies are making IFRS less of a priority because they do not know how to proceed and have limited resources owing to the economic crisis.

However, IFRS is coming whether by convergence or by adoption, and we believe that U.S. companies should at least start planning and implementing the changes
in SAP systems that IFRS will require. Many of the changes in SAP systems such as upgrading to SAP ERP and migrating to SAP General Ledger require projects that will take 12-24 months to complete. The companies that prepare their SAP systems now for IFRS will benefit in the future. The changes required in SAP systems will be covered in detail in Chapter 3.

The next chapter will focus on the current accounting standards and the current differences between IFRS and local GAAPs, focusing on U.S. GAAP.
Index

A

Accounting policies
  Definition, 40
  IAS 8, 43
Accounting Principles
  Assign to Ledger Group, 89
  Define, 89
Accrual Basis, 21
Agriculture, 69
Assets
  Impairment, 62
  Intangible Assets, 64
  Property, Plant and Equipment, 47
Asset Accounting in SAP
  Changes for Migration Scenario 7, 168
  Changes for Migration Scenario 8, 172
  IFRS Functionality, 132

B

Borrowing Costs, 54
Brazil,
  Accounting Differences, 71
  Time Line, 177
Business Combinations, 35

C

Canada
  Accounting Differences, 73
  Roadmap, 72
  Time Line, 177
Cash flow statement
  Definition, 40
  IAS 7, 42

Chile
  Accounting Differences, 70
  CMPC, 188
  Consolidated Financial Statements, 56
  Consolidations in SAP, 124
  Construction Contracts, 45
  Contingent Liabilities and Assets, 63

D

Document Splitting, 104
  Activate, 108
  Classify Document Types, 105
  Classify G/L Accounts, 105
  Define Characteristics, 107
  Define Method, 108
  Define Rule, 108
  Impact on General Ledger, 110
  Subsequent implementation, 160
  Zero-Balance Clearing, 106

E

Earnings per Share, 60
Employee Benefits, 51
Events after the Balance Sheet Date, 44
Exploration for and Evaluation of
  Mineral Resources, 37

F

Field Status Group, 103
Financial Instruments
  Disclosures, 38
Index

Presentation, 59
Recognition and Measurement, 66
First Time Adoption of IFRS, 33
Foreign currency transactions
  IAS 21 Effects of Changes in Foreign Exchange Rates, 52
Foreign Currency Valuation and Translation in SAP, 113
  Assign Valuation Areas and Accounting Principles, 117
  Changes for Migration Scenario 7, 168,
  Changes for Migration Scenario 8, 173
  Define Account Determination for Currency Translation, 119
  Define Valuation Methods, 115
  Define Valuation Areas, 116
  Prepare Automatic Postings, 117
  Transactions, 121

Financial Review, 180
Initial Project Roadmap, 181
Opening balance in SAP General Ledger, 184
Policies and Procedures, 183
Project Phases, 179
Project Plan, 181, 182
Systems Review, 180, 182
Testing, 183
Training, 183
IFRS starter kit, 126
Income Taxes, 46
Insurance Contracts, 36
Interim Financial Reporting, 61
International Accounting Standards Board, 19
International Accounting Standards Committee, 19
Inventories, 41
Investment Property, 68
Investments in Associates, 57

Goodwill, 35
Going concern basis, 21
Government Grants

Hyperinflationary Economies, 58

Joint Ventures, 58

IFRS
  Accounting Standards, 21
  Adoption by Country, 22
  Framework, 19
IFRS Project, 176
  Accounting Impact Assessment, 182
  Configuration, 183

Material ledger, 133
Migration
  Cockpit, 150
  Project Phases,
SAP Questionnaire, 145, 157
Scenario Validation, 146
Scenarios for Classic General Ledger, 148
Scenarios for SAP General Ledger, 156
Test Validation, 148

N
Noncurrent Assets Held for Sale and Discontinued Operations, 36

P
Parallel accounts
  Definition, 78
  Set up, 83
  Special ledger, 78
Additional company codes, 78
Parallel Ledgers
  Definition, 79
  Leading Ledger, 80, 86
  Non Leading Ledgers, 80, 86
  Set Up, 85
Subsequent Implementation, 165
Switch from Parallel Account, 169
Parallel Reporting Options, 90
  New Implementations of SAP, 90, 91, 94–96
  Existing Implementations of SAP, 92, 93, 97
Presentation of Financial Statements, 40
Provisions, 63

R
Related Party Disclosures, 54

S
Retirement Benefit Plans, 55
Revenue, 50
SAP BusinessObjects Planning and Consolidation, 125
SAP BusinessObjects XBRL Publishing application by UBmatrix, 128
SAP Migration Service, 144
SEC Roadmap for US, 14, 24, 27
Segments
  Define and Derive, 101
  IFRS, 8, 38
  Reporting, 101
  Scenario, 100
Share-Based Payments, 33
Statement of financial position, 40
Statement of comprehensive income for the period, 40
Statement of changes in equity, 40

U
Upgrade to SAP ERP 6.0, 135
  Benefits, 136
  Technical upgrade, 141
  Functional upgrade, 142
  Strategic business improvement upgrade, 142
United States
  Accounting Differences, 73
  Time Line for IFRS Activities, 178

X
XBRL, 128