



ADOPTING IFRS:

A challenge for some...
Well worth it for everyone



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EXECUTIVE SUMMARY

International Financial Reporting Standards [IFRS]-the accounting standards that went into effect in the European Union in 2005 and that are being adopted worldwide-impose major changes on every company that must comply. If your company is public and based in any of the more than 100 countries that have adopted or are adopting IFRS, you're in one of three phases. You've completed a major transformation of your accounting operations, you're working on it, or you soon will be. If you're based in one of the other major economies, the odds are that compliance with IFRS is just a matter of time.

By now, executives at public companies in the European Union know that IFRS does change how assets are valued and business performance is reported. The IFRS accounting changes help investors more accurately compare the health of one company against another. Outside of the European Union, the IFRS-inspired transformation of accounting processes is uneven. Beginning in 2010, public companies have been either required or permitted to use IFRS in several additional countries including Brazil, Canada, Japan, and South Korea. If your company has its headquarters in the US, the transition from US Generally Accepted Accounting Principles (GAAP) to IFRS is still a work in progress.

Regardless of where you fall on the adoption timeline, one thing is clear: IFRS requires major changes in the way most companies measure and report business performance. If you're just getting started in the transition process, you're probably asking yourself, "Will transitioning to IFRS do anything for my business beyond satisfying a regulatory requirement?"

At TRG International, we believe adopting IFRS can benefit your business in many ways that go beyond the obvious benefit of complying with a regulatory requirement. Hundreds of companies like yours have used Infor software to transition to IFRS and sustain their compliance over time. To help these companies and yours successfully transition as efficiently as possible, we have analysed each Infor product in light of what IFRS requires. This technical paper provides an overview of the IFRS requirement, how implementing IFRS can lead to improved business performance, and how Infor solutions implemented by TRG International can help your company meet the letter and the spirit of IFRS.

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IFRS: PAST, PRESENT, AND FUTURE

The International Accounting Standards Committee (IASC) began work on the International Financial Reporting Standards in the early 1970s. The standards evolved slowly until 2002, when the European Union Parliament designated IFRS as the accounting standard for publicly traded companies in European Union countries beginning on January 1, 2005. The European Union made this move in response to the consolidation of capital markets in Europe and the growing need for an easy and accurate way to compare companies from country to country.

IFRS establishes a framework of new accounting policies that are supported by statutes in the countries where the framework applies. There also are interpretations of the law that have been established by the International Financial Reporting Interpretations Committee (IFRIC). IFRS policies and interpretations create higher standards for transparency in business operations by requiring more detailed presentation of balance sheets and cash. Your company can be de-listed from public stock exchanges. It can suffer reduced market value. On a personal level, you can find your personal compensation reduced.

Over time, IFRS will eliminate the inconsistencies in financial reporting that exist because GAAP standards vary from country to country. In the past decade, there has been steady progress toward adoption of this common set of accounting standards worldwide. Since 2001, more than 100 countries have required or permitted the use of IFRS, and the remaining major economies have established timelines for convergence with, or adoption of, the standards. Although the US Securities and Exchange Commission is still studying the issue, full adoption of IFRS in the US is expected to occur between 2015 and 2016.

In countries that have adopted IFRS, compliance is mandated for all publicly traded companies. With the expectation that IFRS over time will become the standard approach to business measurement, executives of many nonpublic companies also are exploring IFRS adoption.

As you transition to IFRS, you will have to implement process changes in four major categories:

Reporting and disclosure. Show individual balance sheet items as long-term or short-term assets or liabilities. Present cash generated by financial activities, operations, and investments separately on cash-flow statements. Segment financial metrics by product, service and geography.

Assets and inventories. Present inventories using first-in, first-out (FIFO) or average weight cost because last-in, first-out (LIFO) is not permitted under IFRS. Value property, plant, and equipment based on historical costs plus subsequent expenses. Depreciate assets systematically, reflecting how your company consumes the asset and its residual value. Recognise impairment cost any time the carrying cost of an asset is greater than the recoverable value. Measure intangible assets at initial cost and express as nonmonetary assets with anticipated economic benefit.

Foreign currency management. Present foreign currency rates using the prevailing rate at the time of a transaction instead of the prevailing rate at the close of the period. Capture different rates of exchange between the local and parent company at month-end for balance sheet and income statements.

Revenue recognition. Recognise revenue at fair value by measuring cash received for goods and services and, in more complex transactions, at each stage of a project.

For your company, many of the changes will appear onerous. While you will probably face many challenges as you adopt IFRS, the process changes you implement could produce tangible, long-term benefits for your business.

THE BENEFITS OF IFRS

IFRS beneficiaries can be segmented into two primary groups

Investors and investment institutions. Investors get greater financial and operational transparency so they can more accurately compare the health and performance of your company with others and, as a result, make better fact-based investment decisions. If you can convey a promising outlook for your business, the pool of potential investors and lenders in your company will expand.

Compliant companies. After you implement IFRS, you and your team will be able to measure your operations and company finances more precisely, setting the stage for improved business performance. You also will gain better insights into the operations of your competitors, customers, and partners as they make the transition. More specific benefits.

- Improve financial reporting and tax planning. Under IFRS, you will produce a standardised and consistent set of accounting and financial reports for complying with local statutory and consolidated requirements. This will help improve the analysis of your financial reporting and your tax planning processes.
- Improve day-to-day operations. You'll get faster access to more in-depth financial performance information to use in analysing and making better decisions about day-to-day operations.
- Better manage resources. By standardising processes and accounting, you'll be able to standardise and streamline accounting systems across the enterprise to reduce the cost of auditing and statutory reporting.
- Improve financial controls. By standardising the approach and control over statutory reporting, you will reduce the risk of penalties and compliance problems corporate wide and in individual countries.
- Lower the cost of capital. Increased insight into financial results and adherence to the high-quality set of financial standards as specified by IFRS can benefit both companies and their investors with reduced cost of capital.

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THE IMPLICATIONS FOR FINANCIAL STATEMENTS

In addition to operational benefits, your company may experience a major change in its financial status—for the better or for the worse. Upon adopting International Accounting Standards (IAS) in 2001, German auto manufacturer Volkswagen raised its net equity from €10 Billion to €20 Billion. One Belgian company wasn't so fortunate. Moving from the prevailing in-country GAAP to IFRS produced an 18% decline in income on the company's income statement.

CONSOLIDATED FINANCIAL STATEMENTS TO 2002: INFOR GLOBAL CUSTOMER

	€000	€000
Amortization of Goodwill		187
Development Cost		
Capitalization and Amortization	2,350	
Depreciation of Software & Tangible Assets		1, 91
Inventory Valuation		1,002
Trade Debtors - Written off		192
Exchange Gain/Loss	388	
Investment Grants		172
Provisions		1,650
Financial Costs		21
Deferred Taxes		2,011
	2,738	6,726
Income according to Belgium GAAP	21,636	
Income according to IFRS	17,667	
% Comparative: 18%	3,969	

A publically traded Belgium-based company had the misfortune to experience an 18% reduction in income on its income statement as a result of adopting IFRS.

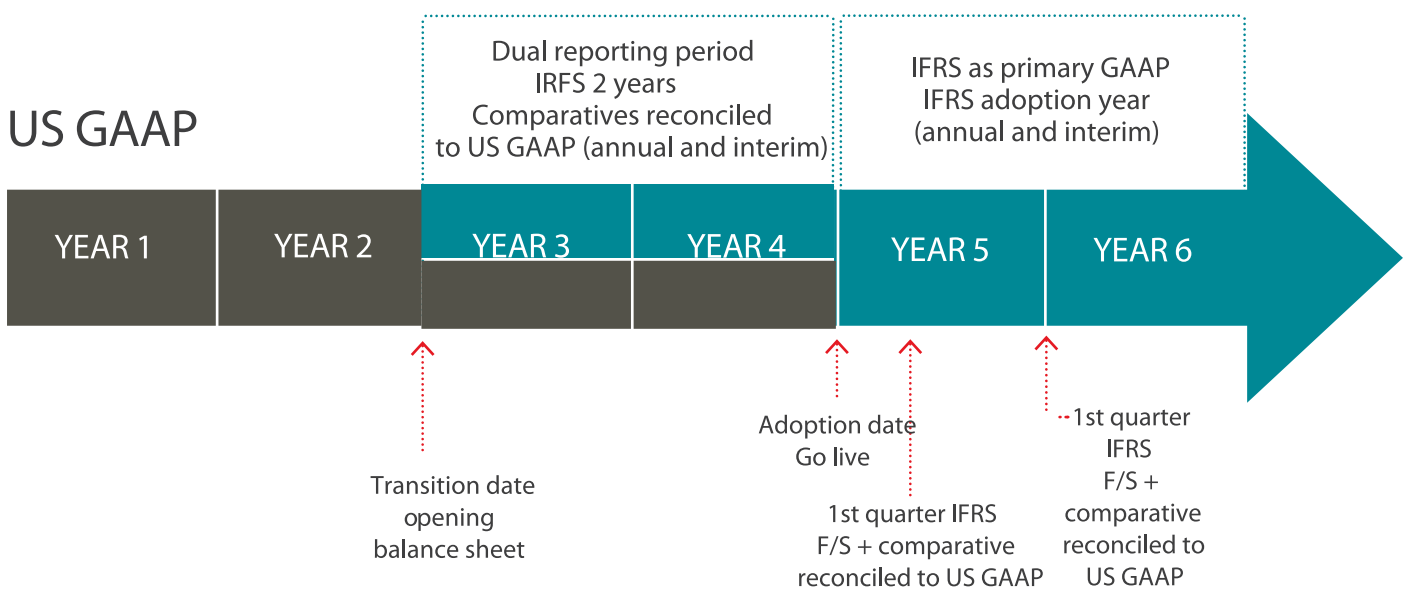
HOW TO APPROACH THE TRANSITION

In transitioning to IFRS, your company will make some simple and straightforward changes, such as adding a few extra accounts in your corporate financial systems so you can collect existing data in a different way. Other changes will be more difficult, requiring you to change several business processes or, in some instances, redesign all or part of your financial system.

Although you won't know exactly what changes you'll need to make until you get started, we believe a period of volatility is inevitable. Even changes that appear easy and straightforward when you make them can produce major impacts on your financial systems and processes. As companies like yours have overcome the initial volatility and completed their first fiscal years using IFRS, the initial disruption is likely to subside.

Of course, your goal will be to minimize this disruption. The best approach is to view your IFRS transition as you would any major business transformation. It helps if you understand not only the specific requirements, but also the related business activities that will be impacted. No business transformation is easy, but the process invariably is smoother when you first establish a disciplined approach, which considers people, budget, and the processes essential for success. Here are some steps you can take to make the process as smooth as possible:

1. Analyse IFRS requirements to thoroughly understand those that apply to your company and, to the extent possible, how.
2. Analyse your current business processes and systems to identify the gaps in your current operations.
3. Use this information to establish a realistic budget.
4. Establish a multidisciplinary team of employees to lead your transformation.
5. Establish a clear road map of the steps your company will take.
6. Communicate the road map to key executive decision-makers and, as appropriate, to broader groups of employees.
7. Communicate your progress to executives and employees and, when it makes sense, to key external audiences such as investors, outside directors, partners, vendors, and key industry influencers.



Like any business transformation, the move to IFRS will require your company to move through a number of phases, including a period of volatility that occurs immediately after making the switch from your former accounting system to IFRS.



How TRG International can help

To help your company and others effectively transition to IFRS, TRG International provides thorough information on how the law is reflected in our current solution portfolio. It's obvious no two companies will transition to IFRS in the same way, given the diversity of global customers and the specifics of IFRS. Fortunately, the vast majority of Infor's current capabilities already support IFRS. To build on this and to help companies like yours, we went a step further and created the following statements explaining how we support compliance readiness to help guide you in making the transition. We:

- Support our customers' compliance activities using existing solutions, where possible.
- Reconfigure existing reporting structures and/or use existing field values to satisfy IFRS requirements, where possible.
- Help customers comply by deploying new solutions, as needed.
- Extend the capabilities of existing solutions, as needed.

To help you understand how the current Infor portfolio aligns with IFRS requirements, we have grouped our software capabilities by major compliance categories.

Reporting and disclosure. You can use Infor solutions provided by TRG International to compile data from multiple sources accurately and quickly to produce financial reports that comply with IFRS. You can produce a consistent global view of financial information by leveraging complementary systems and, where possible, reducing or eliminating unnecessary internal accounting transactions.

STANDARD	DESCRIPTION
IAS 1	Presentation of Financial Statements
IAS 7	Cash Flow Statements
IAS 8	Net Profit/Loss for Period & Changes in Accounting Practice
IAS 10	Events after Reporting Period
IAS 14	Segment Reporting
IAS 24	Related Party Disclosures
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Accounting for Investments in Associates
IAS 31	Financial Reporting of Interests in Joint Ventures
IAS 33	Earnings Per Share
IAS 34	Interim Financial Reporting
IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 3	Business Combinations
IFRS 5	Assets Held for Sale and Discontinued Operations
IFRS 8	Segment Reporting

You can meet these key IFRS reporting and disclosure requirements with the help of Infor solutions implemented by TRG International.



Assets and inventories. You can automatically capture, calculate, and produce reports for assets and inventory, using either the FIFO or average weighted cost methods. You also can use Infor solutions to identify impairment situations and systematically apply depreciation measures to impute impairment. You also can distinguish between tangible and intangible assets.

STANDARD	DESCRIPTION
IAS 2	Inventories
IAS 12	Income Taxes
IAS 16	Property, Plant, and Equipment
IAS 36	Impairment of Assets
IAS 37	Provisions, Liabilities, Contingent Assets
IAS 38	Intangible Assets
IAS 40	Investment Property

You can meet these key IFRS asset and inventory reporting and disclosure requirements with the help of Infor solutions implemented by TRG International.

Foreign currency management. You can produce monthly reports that incorporate how daily currency rates impact transactions. Infor solutions support multiple currencies and can help you overcome challenges inherent in doing business in hyperinflationary economies. You can use infor forecasting and planning capabilities to help you take appropriate actions based on currency exposure.

STANDARD	DESCRIPTION
IAS 21	Effect in Changes in Foreign Exchange Rates
IAS 29	Financial Reporting in Hyperinflationary Economies

You can meet these key IFRS foreign currency management requirements with the help of Infor solutions implemented by TRG International.



Revenue Recognition. You can track prices during the sales process so revenue can be reported at fair value. You also can use Infor solutions to track and monitor construction projects and government grants in compliance with IFRS.

STANDARD	DESCRIPTION
IAS 11	Construction Contract
IAS 18	Revenue Recognition

You can use Infor solutions to comply with IFRS regulations for tracking prices during the sales process and monitoring expenditures for construction projects and government grants.

CONCLUSION

Information technology plays an important role in your transition to IFRS. TRG International is working closely with companies like yours to make sure our software contributes to a smooth transition to the new accounting standards. The company is committed to delivering capabilities that help customers address the most significant pain points of an IFRS compliance strategy. Many of the capabilities you need for IFRS already exist in Infor's solution portfolio. Where there are gaps, TRG International will evaluate the feasibility of new development to help with your IFRS compliance.

As part of its analysis of IFRS, TRG International will keep you updated with the development of statements of compliance for individual solutions. Each statement of compliance will provide a detailed analysis of IFRS requirements and an explanation of how specific solution capabilities can help customers meet individual IFRS requirements.

If your company faces the need to comply with IFRS and you are not already in discussions with your TRG International account management team, we urge you to begin IFRS-specific discussion as soon as possible. Adopting IFRS can be a challenge, but our experience helping companies like yours suggests that complying with the new accounting standards will produce long-term business value for your company.

SUMMARY OF IFRS

IFRS	Summary of Requirements
IAS 1	Presentation of financial statements
IAS 2	Inventories
IAS 7	Cash flow statements
IAS 8	Accounting policies, changes in estimates and errors
IAS 10	Events after the reporting period
IAS 11	Construction contracts
IAS 12	Income taxes
IAS 16	Property, plant, and equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee benefits
IAS 20	Government grants and disclosure of government assistance
IAS 21	Effects of changes in foreign exchange rates
IAS 23	Borrowing costs
IAS 24	Related party disclosures
IAS 26	Accounting and reporting by retirement benefit plans
IAS 27	Consolidated and separate financial statements
IAS 28	Investments in associates
IAS 29	Financial reporting in hyperinflationary economies
IAS 31	Interests in joint ventures
IAS 32	Financial instruments: Presentation
IAS 33	Earnings per share
IAS 34	Interim financial reporting
IAS 36	Impairment of assets
IAS 37	Provisions, contingent liabilities and assets
IAS 38	Intangible assets
IAS 39	Financial instruments: Recognition and measurement and hedge accounting
IAS 40	Investment property: Property held (owned or leased) for which capital appreciation or rental income is recognized
IAS 41	Agriculture
IFRS 1	First-time adoption of International Financial Reporting Standards
IFRS 2	Share-based payment
IFRS 3	Business combinations
IFRS 4	Insurance contracts
IFRS 5	Assets held for sale and discontinued operations
IFRS 6	Mineral resources
IFRS 7	Financial instruments, disclosures
IFRS 8	Operating segments
IFRS 9	Financial instruments



About TRG International

TRG International – a Gold Channel Partner of Infor - is an independent provider of IT business solutions and supports thousands of users in 70 countries. Clients range from small domestic companies to very large global multinationals in both the public and private sectors.

Our activities focus on enabling business and people to perform better.

- Business Applications solutions for Accounting, Strategy, Planning, Budgeting, Retail, Hospitality, ERP, Business Intelligence, Golf and Virtualisation.
- People solutions to select the right people and develop them to their full potential.

Why choose us for Financial Management?

We bring you a complete package – software plus services – to help you get the most out of technology:

- Market-leading financial management system that supports both IFRS and VAS compliance.
- 18 years' proven success of implementation services.

Check out our Financial Management solutions :

trginternational.com/financial-management

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