

# Getting Ready for IFRS

An Epicor White Paper

**EPICOR®**

# Executive Summary

Successful businesses around the globe have shown time and again that what at first glance may appear as an onerous and costly change in regulation can be an opportunity for efficiency and market growth. The same is true of the move to International Financial Reporting Standards (IFRS).

In many countries, the existing Generally Accepted Accounting Principles (GAAP) are based on a rigidly defined set of permitted accounting practices, often with a legally defined chart of accounts and at first glance this may appear very different to the IFRS principles. However, after closer inspection, most organizations realize that IFRS is sufficiently flexible to permit the continuation of existing practices, if that is what is desired. Innovative and successful organizations around the world have seized the opportunity that IFRS flexibility offers to rationalize and improve accounting procedures, and align the fiscal policies with reporting structures and internal processes. Such activities add real value to many businesses but can increase the complexity of an “IFRS adoption project”.

Whenever accounting principles or reporting structures change the most burdensome requirements are often related to creating comparative account records and reports, this is a requirement of IFRS 1. Perhaps the easiest way to achieve this is to maintain records according to both the old GAAP and IFRS in parallel using the financial management capabilities of a well designed enterprise resource planning (ERP) solution that supports the preparation of books of account according to multiple standards in parallel.

During the transition to IFRS, new analysis and investigation requirements may be identified and a number of standard reports may need to be modified to support IFRS principles. Your ERP solution should include financial management tools that let your staff and accountants quickly access information and modify standard reports without excessive cost.

IFRS does not specify how to present information. In many cases the “how to present” is defined as part of the legal framework in each country. Recognizing the increasing trend to present information in an electronic format the IASB developed a framework for electronic reporting called eXtensible Business Reporting Language (XBRL). Your ERP solution should be able to provide information in XBRL compliant formats for any statutory reporting requirements.

Skilled people are probably the most critical aspect of any IFRS adoption project. Epicor Global Services resources are all trained to the highest standards and are internally certified for the products on which they work. They follow the Epicor Signature Implementation Methodology to ensure that customers gain the benefit of high quality solutions that will deliver low total cost of ownership (TCO) with a rapid return on investment (ROI).

Finally, it may seem obvious, but to support the initial adoption of IFRS and ongoing business activities, any software solution should be fully localized including local knowledge and support that speaks the language of the users. Epicor ERP solutions are deployed in over 150 countries around the world and have a proven history in assisting users with support for their local accounting needs.

# Table of Contents

<b>IFRS: What is the Business Issue and How do I Prepare?</b>	<b>1</b>
Can my software support IFRS?	1
An opportunity, not a cost	2
<b>Key Software and Vendor Capabilities that Benefit IFRS Convergence</b>	<b>2</b>
<b>Local Standards to IFRS – Overview</b>	<b>4</b>
IFRS – USA	4
IFRS – Canada	5
IFRS – Europe	5
IFRS – Russia	6
IFRS – Asia Pacific	6
<b>List of IFRS and IAS</b>	<b>7</b>
<b>About Epicor</b>	<b>9</b>

# IFRS: What is the Business Issue and How do I Prepare?

“The great thing about standards is that there are so many to choose from” is a well known quote that exemplifies the problems of comparing financial information across jurisdictional borders. As mentioned earlier, the way one organization calculates such basic financial concepts as profit, costs, depreciation and revenue can vary. While trade has flourished on the basis that different locations and users value the same concept differently (enabling traders to buy an item cheap and sell it for a profit,) the lack of understanding behind the way companies report on their business has been the underpinning factor in a great many problems, starting with the “South Sea Bubble,” the East India Trading Company and continuing to the present day.

For a long time, international agencies, governments and other world bodies have sought to develop a harmonized set of generally accepted accounting principles (GAAP) that are acceptable across multiple jurisdictions. This desire led to the formation of the International Accounting Standards Committee (IASC) Foundation and their standard setting body: the International Accounting Standards Board (IASB) that has developed and maintains a generally accepted set of accounting standards known as IFRS. In addition, the IASB adopted without change the International Accounting Standards (IAS) of its predecessor organization, the International Accounting Standard Committee (IASC). Over 100 countries now either accept or mandate that companies must provide annual reports according to IFRS; this includes Europe and is soon to include the United States and Canada.

## Can my software support IFRS?

When selecting new ERP software it is essential to know if the software can be implemented to support IFRS alongside existing GAAP requirements. Financial auditors are in the best position to advise on the specific impact of each and every transaction, and no software can ever guarantee to support all possible variants of IFRS as each standard provides a multitude of options, some of which are mutually exclusive and some are outside of the scope of ERP software. However, companies facing the move to IFRS can take assurance from knowing they are not the first. Companies reporting within the European Union have needed to support IFRS since 2005. Probably the best evidence of whether a specific ERP solution can support IFRS and your business needs is to seek confirmation that businesses operating in your industry have successfully completed a full accounting year and been audited in a country that already mandates IFRS. Epicor ERP solutions have already passed this milestone some years ago and are used as the foundation of compliant accounting records by almost 20,000 installations creating accounts in IFRS mandated locations around the globe.

## An opportunity, not a cost

Successful businesses around the globe have shown time and again that what at first glance may appear as an onerous and costly regulatory change can be an opportunity for efficiency and market growth. The same is true of the move to IFRS. Most organizations today have accounting structures and practices that have not changed significantly for many years and do not support the current or planned business processes. A well designed chart of accounts, with dimensions that match internal analysis needs, reporting structures and organizational hierarchies delivers many benefits including:

- Reduction in the time (and internal cost) to produce management accounts
- Cost and revenue calculations aligned with business processes
- Simplified analysis of effect (accounts) and cause (underlying transactions)

For more detail of how Epicor can support your business both during the transition to IFRS and to enable your business to thrive, please speak to your local Epicor representative.

# Key Software and Vendor Capabilities that Benefit IFRS Convergence

In many countries, the existing GAAP is based on a rigidly defined set of permitted accounting practices which can appear very different to the IFRS principles. However, after closer inspection, most organizations will realize that the detailed changes are minimal. The most onerous requirements are often driven by IFRS 1 - to be able to support the preparation of accounts in year 1 according to IFRS, including reconciliation to preparation under the previous GAAP. The easiest way to achieve this is to maintain records according to both the old GAAP and IFRS in parallel at least during the first year of IFRS reporting. Many software packages cannot support this, however Epicor offers a number of tools to either create such records by maintaining multiple accounting books directly from a single transaction or through continuous consolidation.

Anyone who has been audited will be aware that as part of the audit process certain transactions will be identified as needing to be reclassified, reanalyzed, entered into the ledgers for the first time or eliminated from the ledgers. Epicor ERP solutions simplify this process by providing closing accounting periods (known in some parts of the world as period thirteen transactions). The ability to control these accounting transactions easily while running your day-to-day business is an important factor in your ability to avoid excessive costs during the move to IFRS, and you should ensure that whatever software you select supports this capability.

Gaining access to transactional data, analyzing trends and drilling down from summary balances to detailed activity should be part of any manager's role. Many, but not all, ERP solutions provide reports and tools to assist with this activity. However, during the transition to IFRS, new analysis and investigation requirements will be identified and a number of standard reports may need to be modified to follow IFRS principles. When reviewing the capabilities of your ERP system, you should ensure that it offers strong enterprise performance management (EPM) through easy-to-use business intelligence (BI) tools your staff and accountants will need, to quickly access information without excessive cost.

As noted above, IFRS is a set of guiding principles rather than a prescriptive list of rules. As a result, there are many requirements to present information, but no specification on how to present it. In many cases the "how to present" will be defined locally as part of the legal framework in each country. The XBRL framework is built on global best standards and provides a structure to report business information in a way that is understandable to both computers and people. XBRL includes technology to translate the tags (labels used to identify data) into different languages and today supports over 30 languages with more planned. When selecting software to support the transition to and compliance with IFRS you should ensure that it can also support presenting information according to XBRL standards. Epicor ERP solutions provide this through the reporting and integration tools available today.

It may seem obvious, but to support an entity during the initial adoption of IFRS, any software solution should also be fully localized so that it is functionally capable of supporting the heritage GAAP and IFRS. Epicor ERP solutions are deployed in over 150 countries around the world and have a proven heritage in assisting users to support their local accounting needs.

Software is important, but at the end of the day it is a tool. Probably the most critical aspect of adopting IFRS is the people running the project and driving key activities. Epicor global services staff are all trained to the highest standards and are internally certified for the products they work with. To ensure that customers' projects complete according to stated plans and in line with agreed timescales the Epicor Signature Methodology is used, this tool means that customers gain the benefit of high quality solutions with the assurance of milestone and checkpoint driven quality steps.

# Local Standards to IFRS – Overview

The transition from a country's legacy GAAP to IFRS can appear to be significant at first, however the development of IFRS is based on principles and concepts that are widely adopted around the globe and are very wide in scope of what is permitted. Many organizations will find that only minimal changes are needed to their internal processes and account presentation due to their accounting policies being permitted both under their old GAAP and IFRS. For organizations that operate in jurisdictions whose GAAP is significantly different from IFRS (for example where accrual based accounting is not mandated), it is often possible to continue to operate daily activities without change and use the built-in capabilities of Epicor ERP software to maintain two accounting books in parallel, one according to the legacy GAAP and the other according to IFRS. This approach is generally considered good practice as it provides visibility into the differences, the opportunity to compare the impact of transactions under both approaches and also lets auditors and authorities reconcile the final results in case there are any questions.

## IFRS – USA

Since 1973, the United States Financial Accounting Standards Board (FASB), under the guidance of the Financial Accounting Federation (FAF), has been the primary source of accounting principles for USA based organizations. FASB is a non-governmental body that has been designated by the U.S. Security and Exchange Commission (SEC) as the body responsible for setting accounting standards for public companies and is recognized as the primary source of U.S. GAAP. On July 1, 2009, the FASB has completed the process known as *codification* to rationalize all accounting standards and this comes into effect from 1<sup>st</sup> July 2009 becoming the single standards body recognized by the SEC.

Overlapping the *codification* process, is the process of the adoption of IFRS within the U.S. This is part of a wide ranging process, which started in 2002 and is still ongoing at the time this document was written, that calls for the voluntary adoption of IFRS for U.S. reporting for financial years ending December 15, 2009, and possibly mandatory adoption for financial reporting as early as January 1, 2014. Due to the need to present two years prior accounts in comparative format this could require the largest US companies to start maintaining accounting records according to IFRS as early as 2012. In April 2009 there were calls at the G20 summit for this process to be accelerated however at the date of writing these calls have not been enacted upon by the relevant bodies.

Underpinning the adoption of IFRS within the U.S. is the recognition (by the FAF) that both sets of standards are of high quality and that “while it is perceived that IFRS provides financial statement preparers more discretion in application than U.S. GAAP, such additional discretion may not result in major differences in the application of IFRS by U.S. companies because the U.S. institutional framework plays a major role in shaping how companies would apply the discretion.”<sup>1</sup> In other words, the real world impact of the adoption of IFRS by U.S. based organizations is unlikely to significantly change how accounts are prepared. The FAF has also noted that “large, multinational U.S. firms may realize cost savings from organization-wide use of IFRS,”<sup>2</sup> whilst also observing that “adopting IFRS is likely to impose substantial transition costs on U.S. issuers, and smaller firms.”<sup>2</sup> Small to midsized organizations (SMEs) will benefit from selecting an ERP solution that can support their business today, assist with the transition to IFRS and leverage the change into an opportunity to gain benefit, differentiate and position themselves to take advantage of whatever opportunities emerge. Epicor ERP solutions offer these advantages combined with a low total cost of ownership (TCO) and a fast return on investment (ROI).

## IFRS – Canada

In January 2006, the Canadian Accounting Standards Board (AcSB) announced its decision to replace Canadian GAAP with International Financial Reporting Standards (IFRS) for all Canadian Publicly Accountable Enterprises (PAEs) that report accounts for periods starting January 1, 2011. The adoption process will be complicated by new IFRS that are expected to be issued before 2011. Further complexity will arise due to planned changes to Canadian GAAP to minimize the differences in advance of the adoption.

## IFRS – Europe

The European Union (EU) was one of the first large economic blocks to mandate the adoption of IFRS, with the announcement of mandatory support in 2002 for accounts ending on or after January 1, 2005, however the process of adoption is not automatic. Recognizing that there may be elements of IFRS that the EU member states do not agree with, the EU created the Accounting Regulatory Committee (ARC) that is comprised of representatives of member state governments and is advised by a group of accounting experts known as the European Financial Reporting Advisory Group (EFRAG). All new and amended IFRS must be formally endorsed by ARC before they become effective on organizations reporting financial results in EU member states. This can result in revisions to IFRS having different effective dates. EFRAG is part of the advisory committee assisting IASB and FASB to resolve potential issues that may delay or defer the adoption of IFRS within the U.S.

---

<sup>1</sup> Roadmap for the potential use of financial statements prepared in accordance with international financial reporting standards by U.S. Issuers – SEC 2008

<sup>2</sup> Comment on SEC IFRS roadmap proposal - FAF-FASB 2009

## IFRS – Russia

The Russian Ministry of Finance has been working with the IASB since 1998 to implement a program of harmonizing the Russian National Accounting Standards and Russian Accounting Principles (RAP) with IFRS. Commercial Banks have been required to report according to both IFRS and National Accounting Standards since 2004 and the stated intention is to require all organizations to report according to IFRS from 2011.

## IFRS – Asia Pacific

Many Asian and Pacific Rim countries are adopting or investigating IFRS as a replacement for national accounting standards and GAAP.

In Singapore, GAAP is regulated by the Accounting Standards Council (ASC). It is the publically stated intention of the ASC to adopt IFRS, however, each standard and change is reviewed to take into account local economic and business circumstances and context, as well as the entity to which the IFRS would apply to prior to adoption. IFRS must be formally prescribed and published by the ASC to be effective in Singapore. The Singaporean ASC is represented on the IASB Standards Advisory Council.

In Hong Kong, the Ministry of Finance (MOF) regulates GAAP through the issuance of Accounting Standards for Business Enterprises (ASBE). Since 2006, ASBEs, where appropriate, include full reference to the requirements under International Financial Reporting Standards (“IFRS”) and are aligned in most areas. However, recognizing specific economic differences due to the Chinese and Hong Kong environments, there are still some variations between ASBE and IFRS.

Along with the EU, Australia was one of the earliest adaptors of IFRS back in 2005. The Australian Accounting Standards Board (AASB) is responsible for the issuance of Australian equivalents to IFRS (A-IFRS). Generally A-IFRS are identical to the standard IFRS, however, they may eliminate certain options that would otherwise be permitted, and may require additional disclosure.

# List of IFRS and IAS

The IASB owns the copyright to all IFRS and the predecessor IAS and makes these available for download and private use through its website

[www.iasb.org](http://www.iasb.org)

IFRS (as of June 2009)	IAS still in force (as of June 2009)
IFRS 1 First-time Adoption of International Financial Reporting Standards	IAS 1: Presentation of Financial Statements
IFRS 2 Share-based Payment	IAS 2: Inventories
IFRS 3 Business Combinations	IAS 7: Cash Flow Statements
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
IFRS 6 Exploration for and Evaluation of Mineral Assets	IAS 10: Events After the Balance Sheet Date
IFRS 7 Financial Instruments: Disclosures	IAS 11: Construction Contracts
IFRS 8 Operating Segments	IAS 12: Income Taxes
	IAS 16: Property, Plant and Equipment
	IAS 17: Leases
	IAS 18: Revenue
	IAS 19: Employee Benefits
	IAS 20: Accounting for Government Grants and Disclosure of Government Assistance
	IAS 21: The 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 Financial Statements
	IAS 28: Investments in Associates

	IAS 29: Financial Reporting in Hyperinflationary Economies
	IAS 31: Interests in Joint Ventures ([56] Full text[57])
	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 Contingent Assets
	IAS 38: Intangible Assets
	IAS 39: Financial Instruments: Recognition and Measurement
	IAS 40: Investment Property
	IAS 41: Agriculture

# About Epicor

Epicor Software (NASDAQ: EPIC) is a global leader delivering business software solutions to the manufacturing, distribution, retail, hospitality and services industries. With 20,000 customers in over 150 countries, Epicor provides integrated enterprise resource planning (ERP), customer relationship management (CRM), supply chain management (SCM) and enterprise retail software solutions that enable companies to drive increased efficiency and improve profitability. Founded in 1984, Epicor celebrates 25 years of technology innovation delivering business solutions that provide the scalability and flexibility businesses need to build competitive advantage. Epicor provides a comprehensive range of services with a single point of accountability that promotes rapid return on investment and low total cost of ownership, whether operating business on a local, regional or global scale. The Company's worldwide headquarters are located in Irvine, California with offices and affiliates around the world. For more information, visit [www.epicor.com](http://www.epicor.com).

## Disclaimer

The Information on the International Financial Reporting Standards (IFRS) regulations contained in this paper is based upon comments and documents produced by the International Accounting Standards Board (see [www.iasb.org](http://www.iasb.org)). However, these citations and interpretations are both subjective and subject to change as the regulations are updated. Information here should not be relied upon in place of sound analysis by a well-qualified and certified accountant, as well as a thorough review by your auditing firm. Nothing contained within this document is intended to or shall constitute legal or accounting advice. Epicor has used reasonable efforts in collecting, preparing and providing quality information and material, but does not warrant or guarantee the accuracy, completeness, adequacy or currency of the information contained in this presentation. All information provided is of a general nature and is not intended to address the circumstances of any particular individual or entity. Any persons or entities whom utilize and rely upon such information do so at their own risk. While the general descriptions of the law and accounting regulations compiled, summarized, and presented are believed to be accurate and up-to-date at the time made, participants and listeners are reminded that the presenters herein are not lawyers or accountants and that such laws, regulations and standards constantly change. Accordingly, we cannot and do not make any representation, expressed or implied, that the information contained here is accurate and expressly disclaim that it can be used without independent legal or other professional advice. Such information presented herein could be interpreted differently by any particular governmental agency or court. No one should act upon such information without appropriate professional advice after a thorough examination of the facts of the particular situation.

Epicor Software Corporation makes no guarantee, representations or warranties with regard to the enclosed information and specifically disclaims the implied warranties of fitness for a particular purpose and merchantability. All information contained herein is subject to change without notice. The usage of any Epicor Software shall be pursuant to an Epicor end user license agreement and the performance of any consulting services by Epicor personnel shall be pursuant to Epicor's standard services terms and conditions.

Epicor is a registered trademark of Epicor Software Corporation. All other trademarks acknowledged. Copyright © 2009 Epicor Software Corporation.

For more information, contact Epicor Software Corporation: [info@epicor.com](mailto:info@epicor.com) or [www.epicor.com](http://www.epicor.com)

## EPICOR®

### Worldwide Headquarters

18200 Von Karman Avenue,  
Ste. 1000  
Irvine, California 92612 USA  
Toll Free: +1.800.999.1809  
Phone: +1.949.585.4000  
[www.epicor.com](http://www.epicor.com)

### Latin America and Caribbean

Bld. Antonio L. Rodriguez #1882  
Int.104  
Plaza Central, Col. Santa Maria,  
Monterrey, Nuevo Leon, CP 64650  
Mexico  
Phone: +52.81.1551.7100  
Fax: +52.81.1551.7117

### Europe, Middle East and Africa

No. 1 The Arena  
Downshire Way  
Bracknell, Berkshire RG12 1PU  
United Kingdom  
Phone: +44.0.1344.468.468  
Fax: +44.0.1344.468.010

### Asia

238A Thomson Road #23-06  
Novena Square Tower A  
Singapore 307684  
Singapore  
Phone: +65.6333.8121  
Fax: +65.6333.8131

### Australia and New Zealand

Level 34, Greenwood Plaza  
101 Miller Street  
North Sydney NSW 2060  
Australia  
Phone: +61.2.9927.6200  
Fax: +61.2.9956.8976