

IFRS and Sage Accpac | White Paper

Meeting the Challenge:

Planning for IFRS Conversion



The IFRS Challenge

There's no longer any doubt: International Financial Reporting Standards (IFRS) are coming down the pipeline. The business and accounting press are full of news about IFRS, and businesses are realizing they need to pay attention.

Over 100 countries now require or permit IFRS reporting, including Hong Kong, Malaysia, Australia, India, Pakistan, Turkey, Singapore, Russia, South Africa, and also the European Union and the Cooperation Council for the Arab States of the Gulf.

In the U.S., the Securities Exchange Commission (SEC) has proposed a tentative roadmap to IFRS that features a set of progressive milestones. As proposed, the roadmap would let about 110 companies use IFRS for their end-of-year SEC filings for fiscal years ending after December 15, 2009.

For the years 2012 and 2013, companies will need to run U.S. Generally Accepted Accounting Principles (GAAP) and IFRS reporting in parallel in preparation for 2014 when large accelerated filers must compile their financial statement under IFRS rules and report a comparative statement for the previous two years (2012 and 2013) using both IFRS and U.S. GAAP.

In Canada the timeline is even sooner. The Canadian Accounting Standards Board (AcSB) has confirmed that IFRS will replace Canadian GAAP effective January 1, 2011, for "publicly accountable profit-oriented enterprises." This means that these companies will need to restate statements under IFRS in their fiscal year 2010 in order to be able to file comparatives in 2011.

The shift to IFRS represents one of the most challenging developments the accounting world has ever faced.

Companies preparing for the switch to IFRS will need to focus on technical accounting issues, the differences between IFRS and GAAP, and the specifics of adopting different definitions, conventions, approaches, and accounting policies.

IFRS will fundamentally change how businesses report their results. Now is the time to start planning...

As an owner or manager of a small or medium-sized company, you're probably uncertain about if, when, and how you should adopt the new requirements. This white paper is designed to be a helpful guide for those planning for the IFRS changeover.

Many companies have no choice and will have to start reporting financial results according to IFRS dates. For others, even though IFRS is not a requirement, there are very good reasons to comply. Whether compliance is by necessity or choice, there are a number of issues you must consider, especially regarding the systems you use to manage and report your financial information. This paper outlines these issues.

"Clearly, the use of IFRS has become a global movement."

John W. White, director
of the corporate finance
division of the SEC

IFRS revealed

IFRS is a single set of global accounting standards that require transparent and comparable information in general purpose financial statements.

The standards have been being developed by the International Accounting Standards Boards (IASB), based in London, England. The IASB cooperates with national accounting standard-setters to achieve convergence in accounting standards around the world.

In a nutshell: IFRS is one single set of global financial reporting standards developed to guarantee comparable financial statement preparation and disclosure.

A sample of key differences between IFRS and GAAP:

Topic	IFRS	GAAP
Inventories	LIFO valuation is prohibited	LIFO valuation is allowed
Buildings, property and equipment, and intangible Assets	Regular revaluations of assets are required when the revaluation option is chosen	Historical cost is used; revaluations are NOT permitted
Asset impairments	Impairment is assessed using discounted cash flows; reversal of impairment losses is sometimes allowed	Impairment is assessed using undiscounted cash flows; reversal of impairment losses is NOT allowed
Restructuring allowances	Restructuring allowances recognition is allowed if a formal plan has been adopted and implementation initiated	Losses are not recognized unless a liability has been incurred, and no changes to the plan will occur
Convertible debt	Amounts are split between debt and equity	Usually recognized as a liability
Classification of deferred taxes	Noncurrent	Current or noncurrent based on underlying asset or liability
Revenue recognition	Occurs when the risks and rewards of control have been transferred	Similar to IFRS in principle, but there are numerous specific rules for specific types of transactions and industries
Purchased in-process research	May be capitalized and amortized	Valued and immediately expensed
Definition of a discontinued operation	Generally restricted to operating units	Less restrictive than IFRS
Comparative prior financial statements	At least one prior year comparison required	No requirement for private companies; SEC requires comparative statements
Accounting policies of parent and subsidiaries	Must be conformed	No conformity is required

Source: http://www.fulcruminquiry.com/SEC_Allows_Foreign_Reporting.htm

“72 percent think Canadian users of financial statements will prefer IFRS.”

Resources Global Professionals' third annual IFRS survey

The drive to international accounting standards

The move towards international accounting standards is being driven by globalization and the breaking down of national barriers. As the world's capital markets have become more integrated, demand has increased for a uniform standard for financial statement presentation and disclosure.

Advocates for a single, international system of standards say that one set of high-quality accounting standards will improve transparency and support international investor relations. Companies acquiring other companies, and those being acquired, will be comparing apples to apples and speaking the same financial language.

The fact is that many small enterprises are already doing business in the global marketplace. And that's only going to increase: According to the U.S. Small Business Administration, exports by U.S. small businesses quadrupled to \$400 billion between 1992 and 2007. The organization also predicts that half of U.S. small businesses will be involved in international trade within the next 10 years.

Why should small and midsized companies care about IFRS?

Typically, IFRS is required for publicly accountable organizations—companies listed on public stock exchanges. But it's not solely for publicly listed companies. The definition is broader. Companies with “accountability to those present and potential resource providers and others external to the entity who make economic decisions, but who are not in a position to demand reports tailored to meet their particular information needs” will also be required to comply.

According to Deloitte U.S., GAAP will eventually disappear, leaving IFRS as the only standard. So, it's not really a question of whether to adopt, but rather when.

But if this is not enough to drive you to conversion, consider this:

If your company is...

- publicly traded or planning to go public
- providing services to listed or other IFRS-compliant companies
- contemplating a merger or acquisition with a listed or other IFRS-compliant company
- operating globally or plan to

... you need to think seriously about making the switch.

Experts believe the new standards will become the de facto best practice by which all companies are measured.

How can companies benefit from IFRS?

While the changeover will prove time-consuming and require careful planning, IFRS will benefit companies. The U.S. standard-setter, the Financial Accounting Standards Board (FASB), believes that convergence to international standards will help ease global business transactions. The organization believes that IFRS could provide new opportunities for small companies that would have otherwise limited their business to within the U.S.

Other potential benefits include: improvements in process efficiency, risk visibility, and financial systems performance; simplified reporting; greater transparency and comparability for investors; and improved access to capital. And companies adopting IFRS will enable comparability with their industry competitors.

Converting to IFRS

Converting to IFRS will present a number of challenges for your company. Your company's chief financial officer or controller is advised to work closely with your external accountants to determine if, when, and how you should change your financial reporting to conform to IFRS rules.

Each case is different, and most IFRS rules include some exceptions, which may or may not apply to your specific circumstances. An accounting professional is best able to help you comply.

It is critical for all companies, large or small, to start training employees in IFRS. Companies that plan for the possible IFRS convergence or conversion will have a competitive advantage over those that wait.

Companies that plan to convert to IFRS must start preparing and training now. Time is of the essence, particularly in Canada. But even in the U.S., certain companies will be eligible to use IFRSs in their financial statements filed with the SEC for fiscal years ending on or after December 15, 2009. That's right around the corner.

Preparing your accounting system for IFRS

In addition to training, a key component of preparing for IFRS is ensuring that your accounting, financial management, or ERP (enterprise resource planning) system is capable and ready for the change.

If your organization uses Sage Accpac ERP, you are in luck. Sage Accpac has features and functionality that will support your transition to IFRS.

- Sage Accpac currently allows users to choose from a wide range of configuration options to ensure their transactions are processed and their accounts are kept in compliance with whatever local rules they happen to operate under.
- All of the countries in the European Union are already compliant. In the Asia Pacific region, a large number of countries (including Australia, Hong Kong, and New Zealand) have national standards that are virtually identical to IFRS. Sage Accpac has over 13,000 clients in IFRS jurisdictions.

The impact of IFRS on your accounting system

Issue: Valuing foreign currency monetary items

Monetary items are revalued using the closing rate at the reporting date. Most exchange rate differences are recognized in profit and loss on the reporting date.

Sage Accpac resolution: Sage Accpac allows users to revalue monetary assets to comply with IFRS rules.

Issue: Valuing foreign currency nonmonetary items

Values of foreign currency nonmonetary assets carried at fair value must be translated into the reporting currency at the date that the fair value was determined, rather than the balance sheet date.

Sage Accpac resolution: Sage Accpac allows users to revalue nonmonetary assets to comply with IFRS rules.

Issue: Costing inventory

IFRS specifically prohibits using the Last in-First out method of cost determination.

Sage Accpac resolution: Sage Accpac has seven IFRS-compliant inventory costing methods to choose from.

Issue: Accounting for project costing

IFRS does not allow the Completed Contract method of project costing.

Sage Accpac resolution: Sage Accpac provides a full range of IFRS-compliant project accounting methods to choose from.

Issue: Conversion period

During the transition, a chart of accounts needs to be able to accommodate ledgers for both GAAP and IFRS.

Sage Accpac resolution: Sage Accpac encourages companies to work closely with their external accountants to ensure appropriate comparative financial statements are prepared during the transition period. Sage Accpac balance and transaction information can be used to prepare IFRS-compliant comparative reports.

Issue: Fixed assets

IFRS will require more analysis of fixed assets and a different means of depreciation for finance leases and restatement for property.

Sage Accpac resolution: When the Sage Accpac fixed asset management solution is engaged, all IFRS fixed asset reporting changes (component accounting, in particular) are handled properly.

Issue: Data model changes

IFRS could require your company to contemplate data model changes in your valuation system and actuarial models.

Sage Accpac resolution: You will have to make decisions regarding valuation systems and actuarial models based on your company's specific circumstances. Sage Accpac will be able to handle whichever choices you make.

IFRS and Sage Accpac

Global nonprofit relies on Sage Accpac to prepare IFRS reporting

The Global Fund to Fight AIDS, Tuberculosis, and Malaria ("the Global Fund") was created in 2002 to increase resources dramatically to fight three of the world's most devastating diseases and to direct those resources to areas of greatest need.

The fund is currently financing or cofinancing over 300 programs in some 100 countries to the tune of about \$1 billion each year. The Global Fund maintains its accounts and reports in accordance with IFRS. At the end of 2003, the Global Fund selected and implemented Sage Accpac as its accounting system.

Management of operating expenses, representing some 12,000 transactions each year, is outsourced to a third party and imported directly into the Sage Accpac general ledger. The Global Fund also employs the Bank Services, Accounts Receivable (A/R), and Accounts Payable (A/P) modules. With the help of Sage, the A/R module was tailored to accommodate long-term contributions receivable and promissory notes in an array of currencies, and the A/P module has been adapted to handle multiyear, multidisease grants and related disbursements.

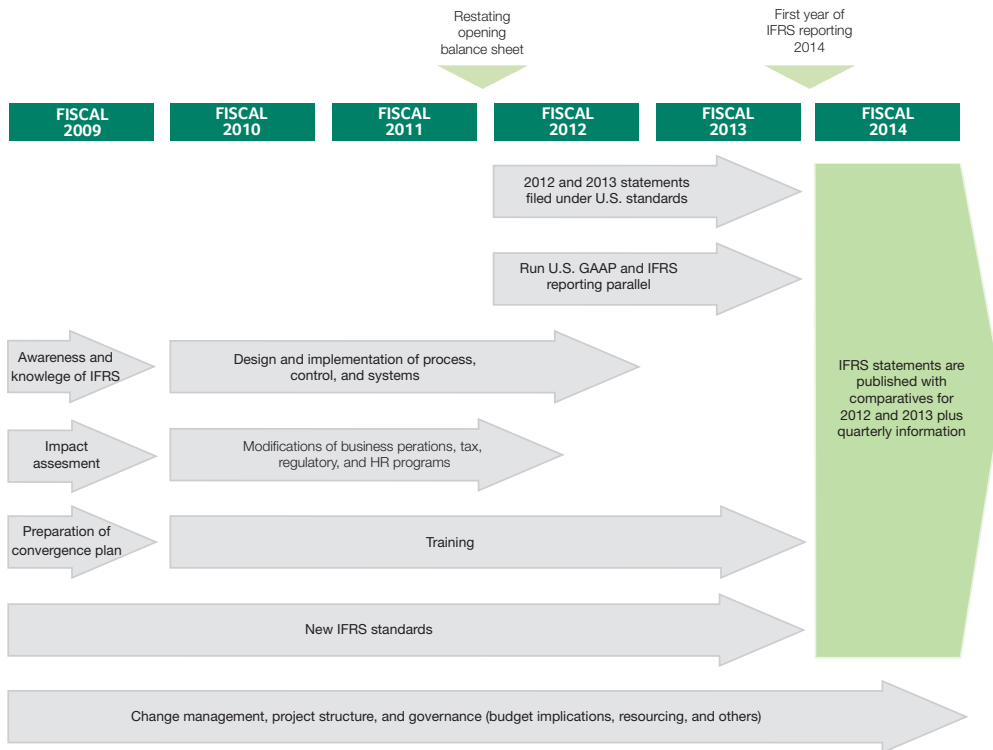
Sage Accpac has proven extremely useful in preparing the Global Fund's annual IFRS reporting.

Issue: Reporting

IFRS will change requirements for consolidated entities, mapping structures, and financial statements.

Sage Accpac resolution: Sage Accpac provides customers with multiple tools to create their financial reports and deal with consolidation. Whether using the standard Financial Reporter included with General Ledger, Sage Accpac Insight, or Financial Link Pro, Sage Accpac customers will be able to meet their IFRS reporting needs.

U.S. IFRS Conversion Timeline

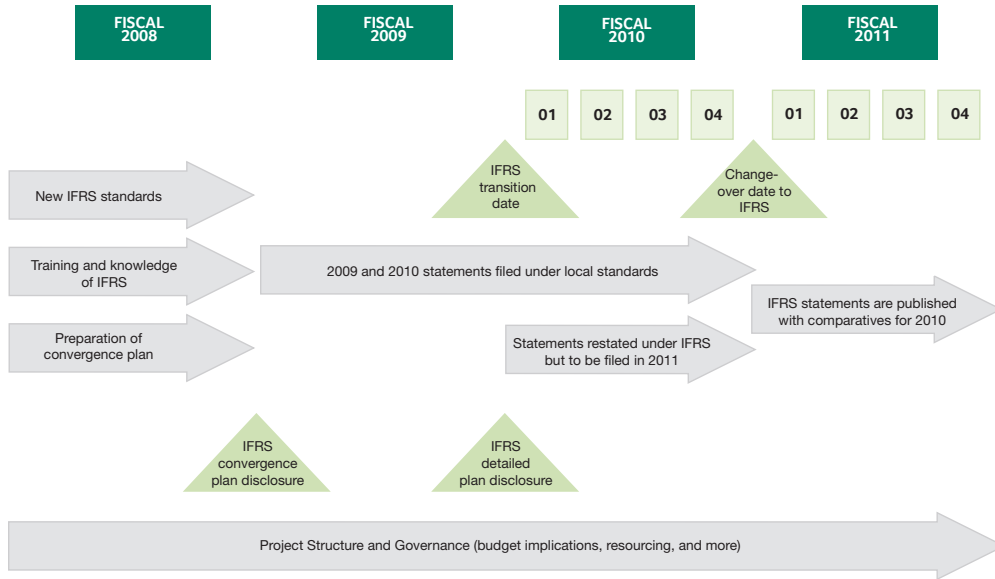


Source: IFRS for Audit Committees and Boards of Directors, Ernst & Young

U.S. Conversion

The year 2014 is when U.S. Publicly Accountable Enterprises must start reporting using IFRS rules, and the transition period is two years. This means that a company, if it has a year end of December 31, must restate its balance sheet dated January 1, 2012, from U.S. GAAP to IFRS but continue reporting under U.S. GAAP until fiscal 2014. For the year ending December 31, 2014, the company must compile its financial statement under IFRS rules and report a comparative statement for the previous two years (2012 and 2013) using both IFRS and U.S. GAAP.

Canadian IFRS Conversion Timeline



Source: 20 Questions for IFRS

Canadian Conversion

In Canada, if a company has a year ending December 31, its financial reports for the year ending December 31, 2011, need to include comparative statements also compiled under IFRS for the year ending December 31, 2010. Note that this will require the company to restate the Opening Balance Sheet dated January 1, 2010, from Canadian GAAP to IFRS, but also note that it will need to continue to report under Canadian GAAP for 2010. January 1, 2010, is known as the "Transition Date," which is the earliest date that the company is required to prepare IFRS-compliant information. Companies will be expected to keep investors and other stakeholders informed of the expected effects of changing to IFRS from 2008 on until their full transition to IFRS compliance.

This timetable means that Publicly Accountable Enterprises should already be in the process of determining the impact of converting to IFRS compliance.

IFRS and Sage Accpac

To learn more:

- *20 Questions Directors and Audit Committees Should Ask about IFRS Conversions*, Canadian Institute of Chartered Accountants, 2008
- *IASB Web site* (<http://www.iasb.org>)
- *IFRS for Audit Committees and Boards of Directors: important questions for your consideration*, Ernst & Young L.L.P., 2008
- *IFRS In Your Pocket*, Deloitte Touche Tohmatsu, 2008

Disclaimer

This white paper is not a technical guide. Talk to your accountant to find out about the specific requirements of IFRS and how best to manage the changeover from your current accounting practices.

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