

## The Impact of IFRS on Systems & Processes

*Delbert Krause, Business Unit Executive, Cognos Software,  
IBM Information Management*

**This essay is part of a series, *Controllers' Corner: Two-Minute Essays on Financial Management and Control*, which asks industry thought leaders for their opinions on critical issues facing today's finance organizations.**

*The IFRS preparation checklist includes many items, including embedding the new rules into operations and transactional systems. Companies can utilize technology to support this transition with an automated and auditable system of record for financial consolidation and reporting.*

### **Q. What role can software and systems play in making the transition and providing ongoing support for IFRS?**

The direct impact of IFRS on financial systems and processes will be to cause organizations to roll up their sleeves and assess the state of all their financial systems, in particular those that support corporate reporting. As part of the financial data delivery network, supporting systems for financial consolidation should be reviewed. And with external financial statements being a critical deliverable for IFRS, evaluating the gaps in existing systems with an eye to improvement offers a unique opportunity, not only to deliver on IFRS requirements, but to improve automation and control in existing systems where a more sustainable solution is required.



Best-in-class systems to support IFRS and GAAP exist today and are already helping organizations in three key areas.

**1. Pre-close preparation and validation of financial information.** IFRS will require the entire organization to collect and prepare their financial data for consolidation. In this important step, collecting data and validating it

against both the rules and balances are critical to ensuring a smooth glide path to IFRS. Transparency in transactions and reconciling inputs into financial consolidation are particularly important at this juncture. In particular, important changes in inventory, depreciation and amortization schedules must be matched between distributed systems and corporate balances.

## Preparing for the Arrival of IFRS

IBM Cognos solutions can collect information for financial consolidation, ensuring data alignment across all constituents. Controls to ensure accuracy and track adjustments make this important first step work – synchronizing balances and input across the entire organization.

**2. Financial consolidation.** The systems supporting the aggregation of financial results will require improvement and modification in many places. The impact depends on current accounting policy. However, it is most likely to have a dramatic impact on the controls and data supporting areas of difference between local GAAP and IFRS. Some of the affected areas are minority ownership, inventory, depreciation and amortization and tangible/intangible assets. In assessing the current state of your financial consolidation systems, important decisions will need to be made concerning the reduction or elimination of spreadsheets, improving control of accounting policy, managing financial results and integration with performance systems.

IBM Cognos solutions are optimized individually for each customer deployment. The solution setup consists of configuration and customization – simply applying menu items, parameters and check boxes

per your company's needs. Attention is given to all corporate reporting and local GAAP requirements. However, special attention to IFRS and local GAAP rules is delivered in areas such as: **a)** legal ownership and rules for equity, consolidation or proportionate roll-up, **b)** inventory accounting, including loss/gain on net realizable value, **c)** depreciation charges including tracking LIFO reserve, and **d)** impairment charges and recovery, which are automated and tracked. IBM Cognos solutions are designed to support these and many other GAAP and IFRS accounting rules, in concert, in the same application.

**3. Post-close reporting.** Another critical area is the preparation and delivery of financial statements. Group level adjustments and other entries to prepare financial statements will require unique application under IFRS. Financial systems will not only require the delivery and management of IFRS results, but also the parallel reporting of local GAAP and the reporting and identification of differences between local GAAP and IFRS. In geographies of change such as the United States, detailed accounting and reporting on US GAAP vs. IFRS must be reflected in financial data and reports.

Managing multiple versions of corporate reporting is paramount

to the control of the financial consolidation reporting process and IBM Cognos solutions are uniquely designed to meet this challenge. Each version of the data – local GAAP such as US GAAP, the adjustments to support IFRS, or IFRS views of the same data – are managed from a single, centralized solution. Each version may be analyzed and reported on independently, while control and accounting policies are centralized.

What's important? Preparing financial consolidation systems for modification to support IFRS reporting, or improving automation and control for companies already reporting effectively but looking for the next level of system improvement.

How can IBM help? IBM Cognos solutions are focused on overcoming the challenges and providing insight into the close, consolidate and report process. IBM Cognos can assist companies preparing financial consolidation systems for modification to support IFRS reporting, and improve automation and control for companies already reporting effectively but looking for the next level of system improvement. Financial consolidation in particular should be reviewed to eliminate spreadsheets as critical system elements for data and accounting rules, and to centralize control and management of accounting policy, internal controls, and delivery of financial statements.

### **About Delbert Krause**

Delbert Krause is the Business Unit Executive, Financial Performance Management Solutions, for Cognos Software in the Information Management division of IBM. In addition to his formal training in finance, Mr. Krause has more than 20 years of experience in consulting, selling, and marketing performance management software solutions for finance, business and IT users. Mr. Krause can be reached at [delbert.krause@ca.ibm.com](mailto:delbert.krause@ca.ibm.com).

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3755 Riverside Drive  
Ottawa, ON, Canada K1G 4K9

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