Handling Fixed Assets in IFRS Implementation Program

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Agenda

- Introduction
- IFRS Implementation Approach
- Differences in Fixed Assets Treatment
- Strategy for Adoption Approach
- Strategy for Convergence Approach

IFRS Introduction

- Globalization is the primary force behind the spread of International Financial Reporting Standards (IFRS)
- IFRS are ‘principle based’ accounting standards
- IFRS History
  - 41 International Accounting Standards issued by International Accounting Standards Committee (IASC) between 1973 and 2001
  - 9 IFRS standards issued by International Accounting Standards Board (IASB) since 2001

IFRS Introduction..Continued..

- More than 100 countries now require or permit the use or IFRS or converging with IASB standards
  - Countries which require or permit the use of IFRS includes EU countries and Australia
  - Countries which are converging their national standards with IFRS includes USA, India and Japan

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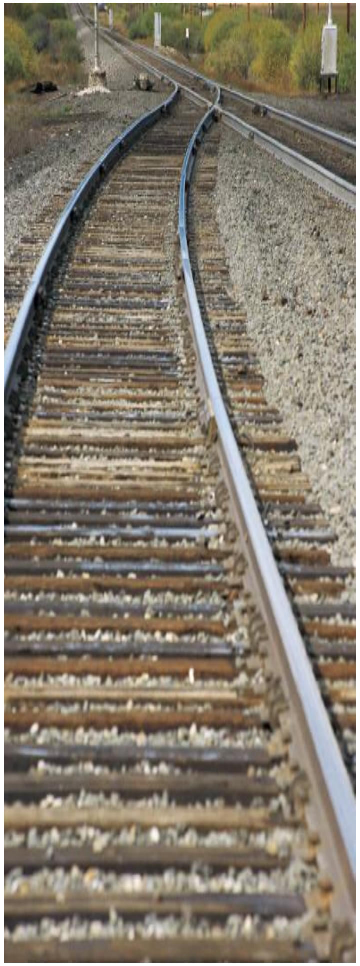
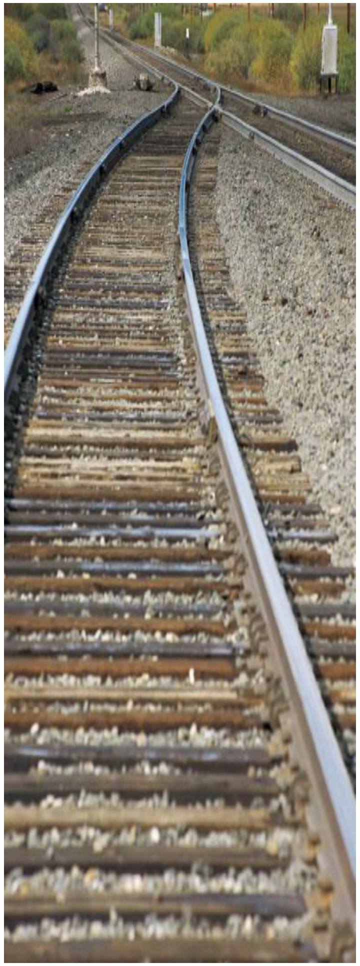
IFRS Implementation Approach



- There are two approaches for transition to IFRS – Convergence and Adoption
- Adoption
  - Abandoning the existing national GAAP and embracing IFRS
  - Two years of dual reporting (IFRS 1)
  - After reporting date, accounting and financial reporting as per national GAAP is abandoned

IFRS Implementation Approach



- Convergence
  - Amending national GAAP and IFRS Standards to eliminate the differences
  - After convergence, organizations continue to report as per their national but converged standards
  - Some differences might still exist after convergence
- Each country’s national accounting body selects the one of the two approaches

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Differences in FA Treatment

- IAS 16 – Property, Plant & Equipment primarily covers the tangible fixed assets.
- The following are the generic differences about accounting treatment of fixed assets between IAS - 16 and respective national GAAP standards
  - Asset Componentization
  - Inspection Cost
  - Depreciation as per useful life of asset

Differences in FA Treatment

Topic	IFRS	National GAAPs
Componentization	IAS - 16 mandates that each part of a tangible Fixed Asset having cost that is significant in relation to its total cost and having a different useful life than the mother asset, should be depreciated separately. As a result, cost of replacing such component is also capitalized and carrying amount of replaced component is derecognized.	National GAAPs, in general, leaves the componentization decision on organizations. Hence organizations may depreciate the full assets using the life of mother asset even though components are depreciated and replaced during this life time. Cost of replacing components being treated as expense.



Differences in FA Treatment

Topic	IFRS	National GAAPs
Inspection Cost	IAS – 16 requires that the cost of major inspections should be capitalized with consequent de-recognition of carrying amount of any previous inspection	As per National GAAPs, in general, Organizations have the option to either capitalize or expense such inspection costs.
Depreciation	IAS – 16 requires that the assets should be depreciated over the useful life of the assets.	However in some countries depreciation rates are fixed by Government Authorities which can be different than the rate as per useful life of asset.

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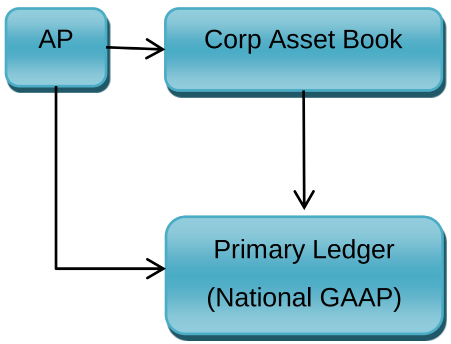
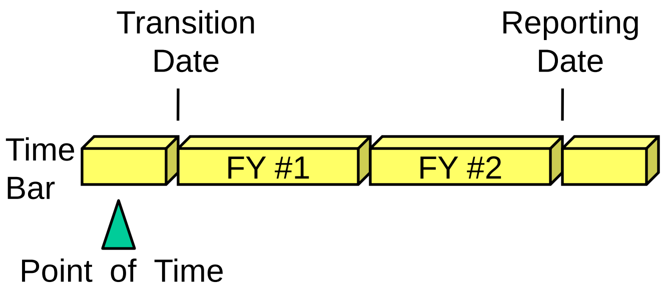
Assumptions

- Property plant & equipment are carried forward at historical cost leveraging the exemptions allowed in IFRS 1.
- It is assumed that client is on R12 of Oracle E-Business Suite.
- The strategy is conceptualized for an asset intensive organization.

The Pre-IFRS Landscape



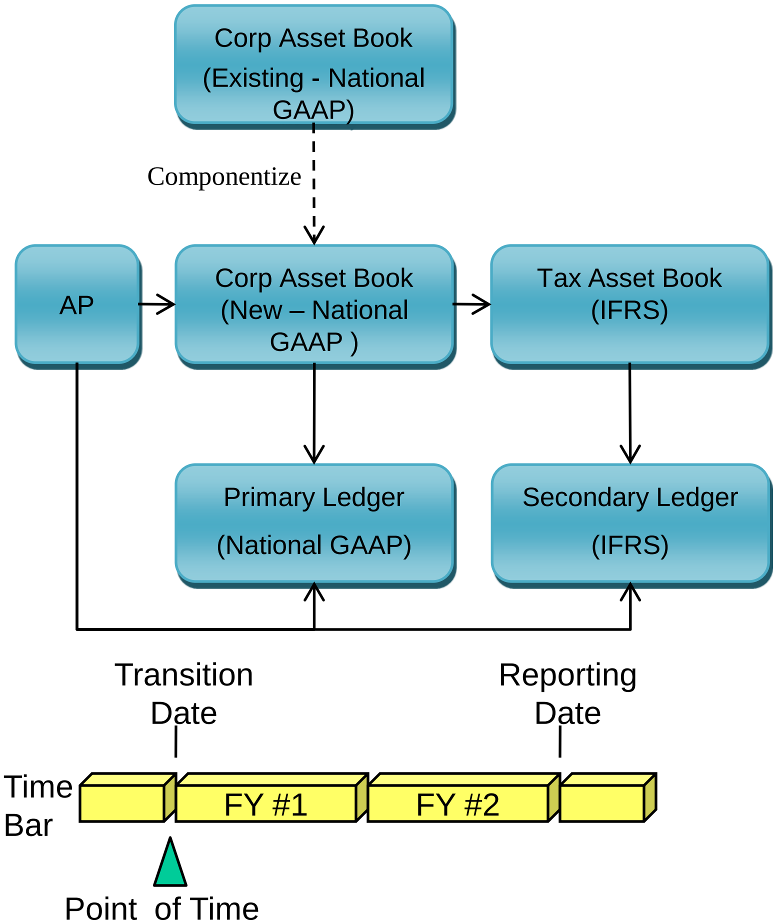


- Assets are maintained in Corporate Asset Book
- Purchase Accounting Entry flows from AP to Primary Ledger
- Capitalization, Depreciation and other asset related entry flows from Corp Asset Book to Primary Ledger

The Dual Reporting Challenge

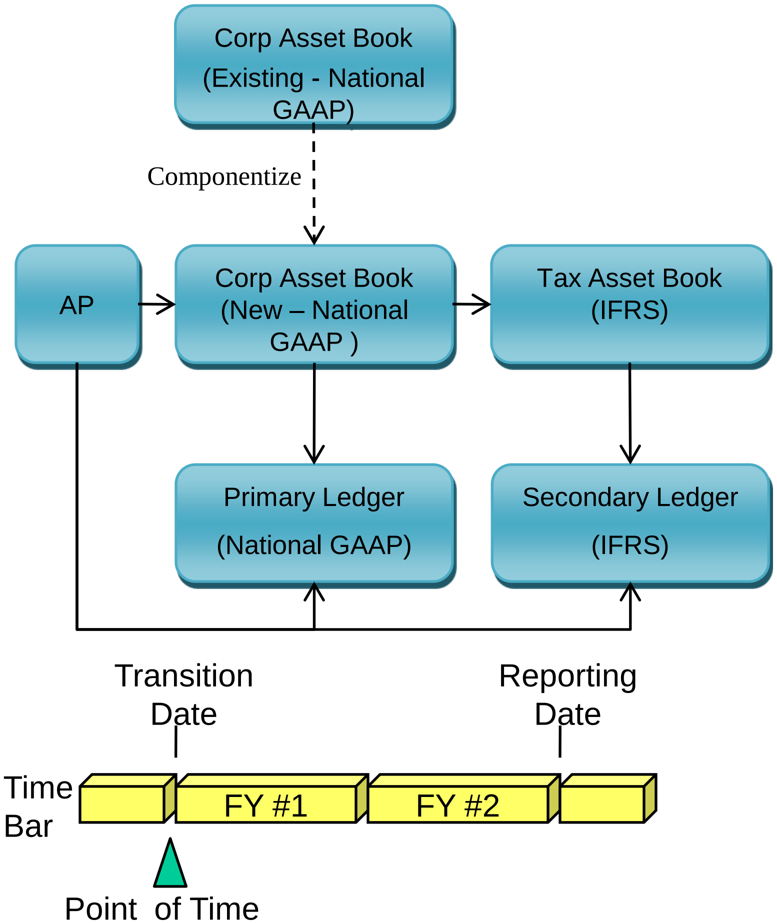
- IFRS 1 requires two years of dual reporting as per national GAAP and IFRS
- Depreciation amount as per IFRS will be different than the depreciation as per national GAAP. Hence two asset books may be required.
- Some assets may exist only in one asset book e.g. capitalized inspection cost

Transition Strategy



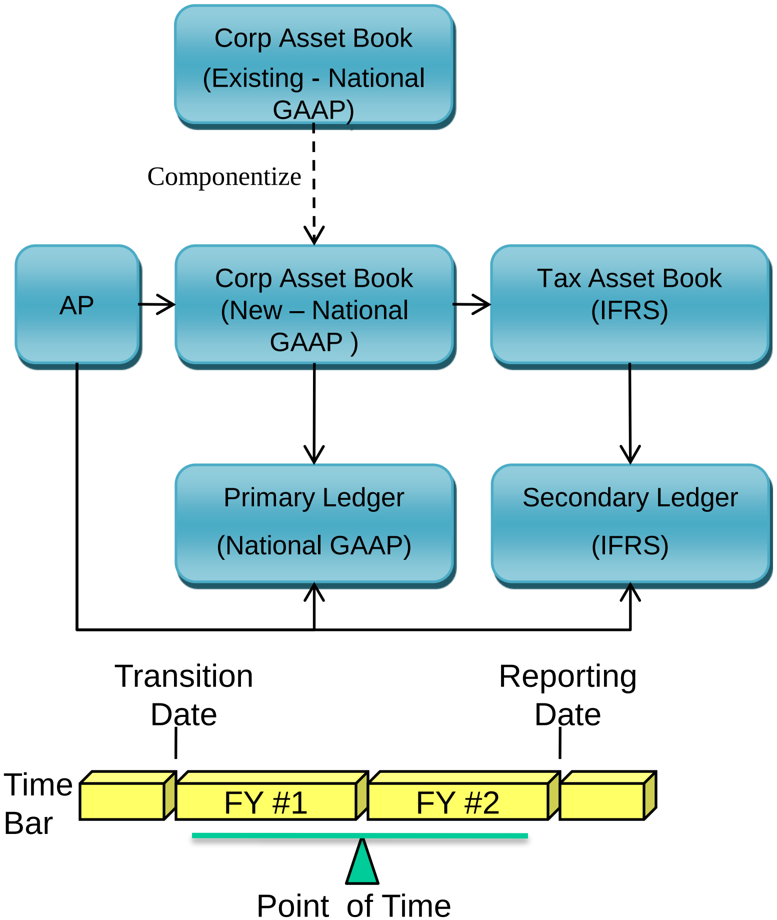
- Configure a new corporate asset book and disable existing book.
- Componentize assets and load them in new corporate asset book
- Maintain the existing depreciation rates in new corporate asset book
- Configure secondary ledger for IFRS reporting

Transition Strategy



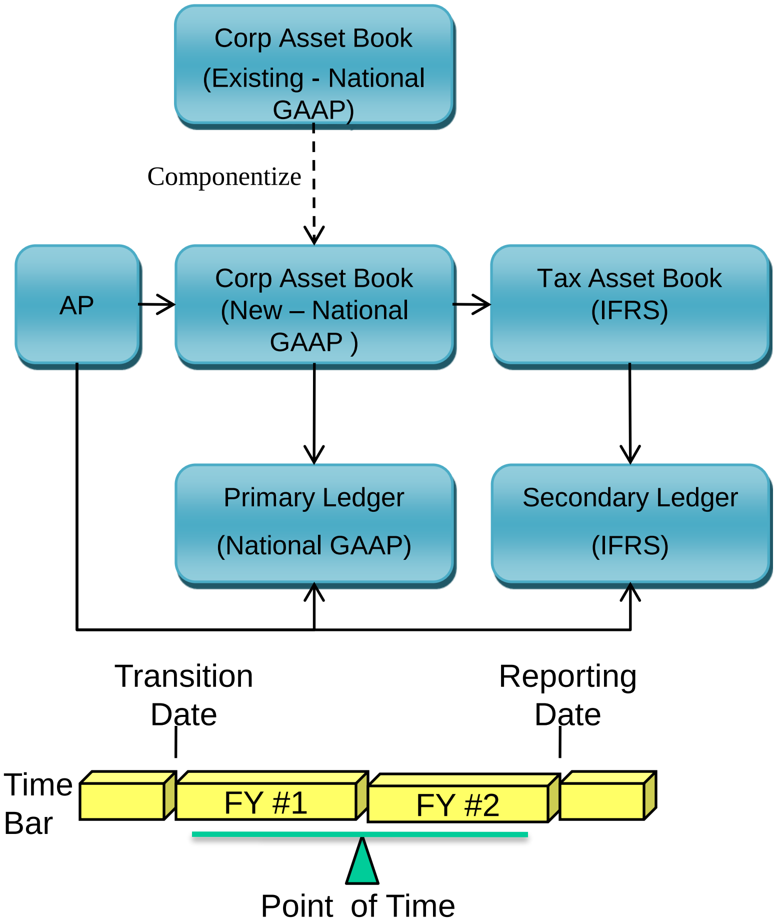
- Configure a tax asset book, link it to secondary ledger & copy componentized assets.
- Adjust the accumulated depreciation of asset components in tax book, if required.
- Similarly update the useful life / depreciation rate of the asset components in tax book.

Transition Strategy



- During transition period capitalize new assets with components in corporate book (because copied asset can not be split in tax book)
- Components will have same useful life in corporate book and different useful life in tax book.

Transition Strategy

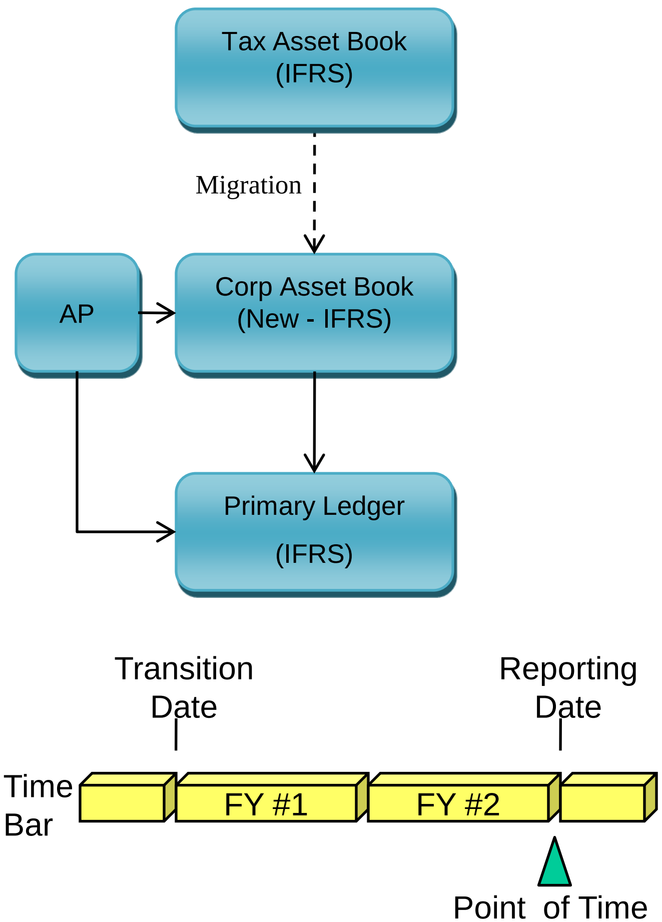


- Inspection cost
  - Capitalize inspection cost
  - Fully depreciate in the period of addition in corporate book
  - Depreciate over the period between current and next inspection in tax book

Post Transition Strategy

- After reporting date if the organization needs to report only in IFRS and it wants to discontinue reporting as per national GAAP then following approach can be followed:
  - Primary ledger to function as IFRS ledger
  - From Asset perspective only, pass a journal in primary ledger to zero the balance of existing asset accounts.
  - Then pass another journal in primary ledger to build balances as per IFRS (secondary) ledger. A control account will be used to balance both journals
  - The balance in control account can be squared out against equity / retained earnings.

Post Transition Strategy



- Configure a new Corporate asset book
- Migrate all assets from IFRS asset book to new corporate asset book. Reverse the ‘create accounting’ journals in GL.
- Disable existing corporate book and tax book
- Ensure the balance as per Fixed Asset module matches with account balances in primary (IFRS ledger)

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Convergence Approach Scenario

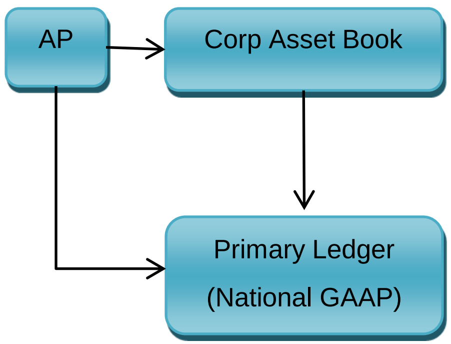
- National accounting authority determines the ‘switch-over’ date after which revised (converged) accounting standards are followed.
- Till the switch-over date, the existing standard are followed. Hence there will be no dual accounting and reporting.
- Scope of work at switch over will depend on the mandate given in the revised standards about its retrospective or prospective application.

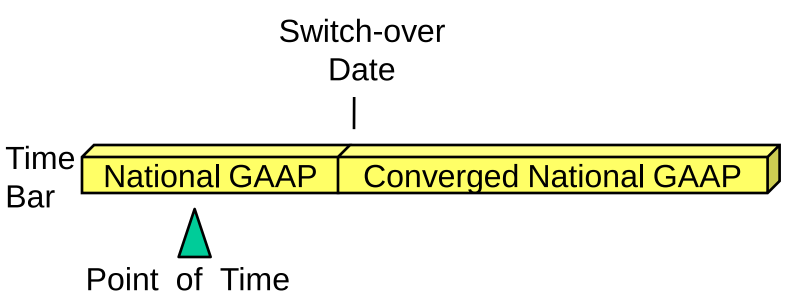
Assumptions

Let’s assume that revised standard and government notifications, mandates the following regarding Fixed Assets:

- Fixed depreciation rates mandated by government regulations will be scraped and depreciation will be computed based on use full life of assets as required by IAS – 16.
- Optionally componentize existing assets but mandatorily componentize all applicable future Asset purchases.
- All future inspection cost to be capitalized.

The Pre-IFRS Landscape





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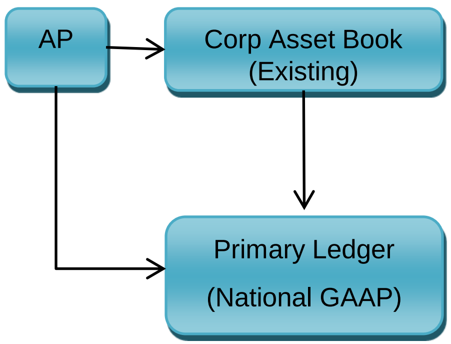
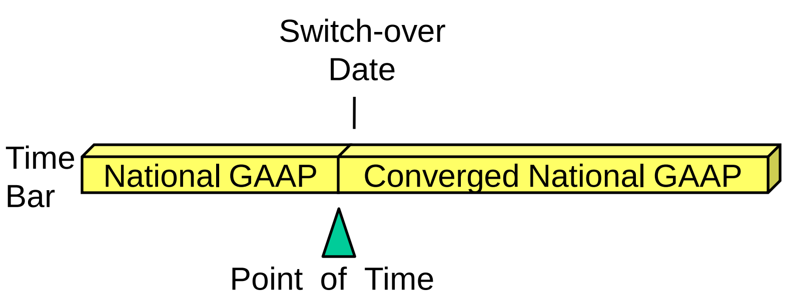
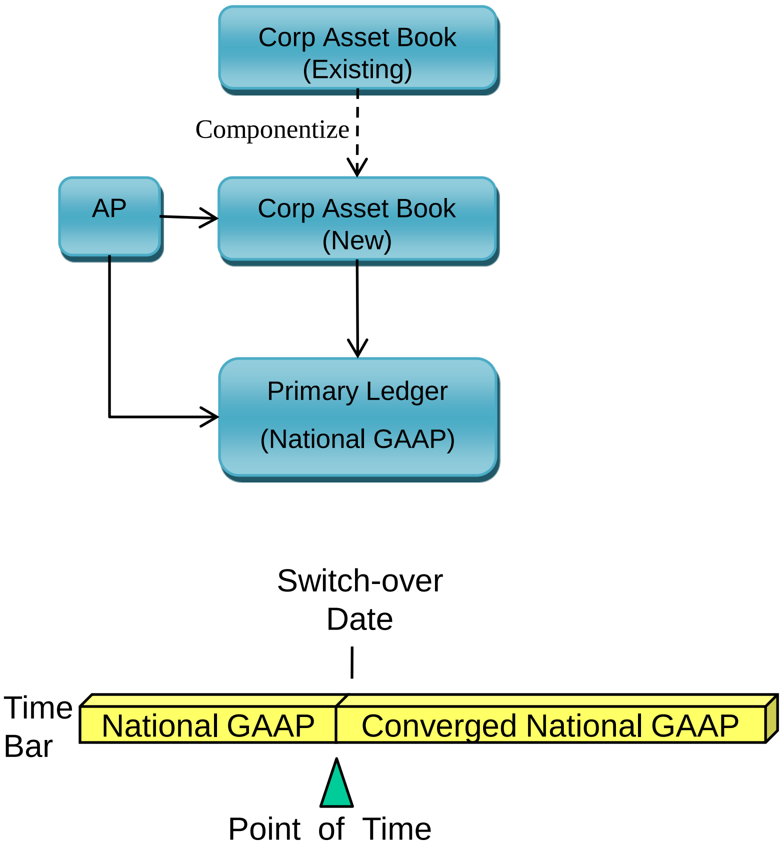
Switch-Over Strategy





- Same Primary Ledger will continued to be used.
- If organization does not opt for componentization of existing Assets then same Corp Asset Book can continued to be used.
- Depreciation Method and Rates will have to be updated as per revised mandate.

Switch-Over Strategy



- If organization opts for componentization of existing asset then a new Corp Asset Book will be set up. Assets will be componentized, for applicable assets, and migrated with updated depreciation method and rates to new Corp Asset Book.

Q & A

Thank You