

Compliance

Microsoft Dynamics® GP 10.0

International Financial Reporting Standards (IFRS)

White Paper

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USING THIS DOCUMENT

This document is an overview of several International Financial Reporting Standards (IFRS), along with a description of the related functionality of Microsoft Dynamics GP, a customizable, scalable, and global ERP solution that helps companies connect with their business partners, optimize business processes, and gain competitive advantages. This document is intended to give the user an idea of where to focus when starting an IFRS compliance process for standards related to their business management system. The scope of the document is to call attention to issues related to preparing financial statements according to IFRS. It is not intended as a complete description of the IFRS framework and is not an exhaustive description of all IFRS standards.

DISCLAIMER

The uses of Microsoft Dynamics GP described in this document are intended as examples only and are not intended to describe the only way to use the functionality of Microsoft Dynamics GP in accordance with IFRS. This material is for informational purposes only.

Refer to the full legal disclaimer on the last page of this document

Table of Contents

| | |
|---|----|
| White Paper Overview | 4 |
| IFRS Background | 5 |
| Definition of compliance & comparing Microsoft Dynamics GP to the IFRS requirements | 5 |
| The Challenge for Finance Departments | 6 |
| Document Sources | 6 |
| IFRS Compliance Standards | 7 |
| IAS 1 PRESENTATION OF FINANCIAL STATEMENTS (REVISED 2007) | 8 |
| IAS 2 INVENTORIES | 9 |
| IAS 7 CASH FLOWS STATEMENT | 10 |
| IAS 8 ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS | 11 |
| IAS 10 EVENTS AFTER THE BALANCE SHEET DATE | 11 |
| IAS 11 CONSTRUCTION CONTRACTS | 12 |
| IAS 12 INCOME TAX | 12 |
| IAS 16 PROPERTY, PLANT AND EQUIPMENT | 13 |
| IAS 17 LEASES | 14 |
| IAS 18 REVENUE | 15 |
| IAS 19 EMPLOYEE BENEFITS | 16 |
| IAS 20 ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURE OF GOVERNMENT ASSISTANCE | 16 |
| IAS 21 THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES | 17 |
| IAS 23 BORROWING COSTS (REVISED) | 17 |
| IAS 24 RELATED PARTY DISCLOSURES | 18 |
| IAS 26 ACCOUNTING AND REPORTING BY RETIREMENT BENEFIT PLANS | 18 |
| IAS 27 CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS | 18 |
| IAS 28 INVESTMENTS IN JOINT VENTURES | 19 |
| IAS 29 FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES | 19 |
| IAS 31 INTERESTS IN JOINT VENTURES | 20 |
| IAS 32 FINANCIAL INSTRUMENTS: PRESENTATION | 20 |
| IAS 33 EARNINGS PER SHARE | 20 |
| IAS 34 INTERIM FINANCIAL REPORTING | 21 |
| IAS 36 IMPAIRMENT OF ASSETS | 21 |
| IAS 37 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS | 22 |
| IAS 38 INTANGIBLE ASSETS | 23 |
| IAS 39 FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT | 24 |
| IAS 40 INVESTMENT PROPERTY | 25 |
| IAS 41 AGRICULTURE | 25 |
| IFRS 1 FIRST TIME ADOPTION OF IFRS | 26 |
| IFRS 2 SHARE-BASED PAYMENT | 26 |
| IFRS 3 BUSINESS COMBINATIONS (REVISED) | 27 |
| IFRS 4 INSURANCE CONTRACTS | 27 |
| IFRS 5 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS | 28 |
| IFRS 6 EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES | 28 |
| IFRS 7 FINANCIAL INSTRUMENTS: DISCLOSURES | 28 |
| IFRS 8 OPERATING SEGMENTS | 29 |
| Country Addendum - CHILE | 31 |
| Background | 31 |
| The impacts of IFRS in the domestic industry | 31 |
| IFRS and Income taxes | 32 |
| Disclaimer | 33 |

White Paper Overview

Effective January 1st 2005 all listed companies in the 15 European Union (EU) countries were required to prepare consolidated financial statements compliant with International Financial Reporting Standards (IFRS). Prior to 2003, the old standards were referred to as International Accounting Standards, IAS. In this document we refer to these standards as IFRS, since it is the more widely used and recognized term.

The adoption of IFRS in the EU in 2005 has impacted financial reporting in terms of recognition and measurement, and consolidation and reporting. Depending on the local generally accepted accounting principles (GAAP) in use at the time, one of the major recognition and measurement differences is the extended use of the fair-value principle instead of historical cost. The fair value concept is focused on current and expected discounted cash flow streams rather than historical purchase price (for example, amortization of goodwill over 30 years will now be evaluated based on discounted cash flows every period and only amortized if an impairment is assessed). On the reporting side, operating segment reporting either by business or geographical location will be required. Additional countries, both inside and outside of the EU, will be adopting the IFRS standards over the coming years – each with their own timelines and transition plans.

This guide is intended to explain the position of Microsoft Dynamics® GP 10.0 in relation to IFRS. Within this guide, the IFRS standards are compared to Microsoft Dynamics GP. Only those IFRS standards where you would expect the business application suite to support decision making and reporting in regard to the given IFRS standard are considered. These descriptions provide a summary of the given standard, the relevance for Microsoft Dynamics GP and how Microsoft Dynamics GP can help users comply with the given standard.

Compliance in terms of this White Paper is defined as Microsoft Dynamics GP's ability to help enable businesses to meet the requirements of IFRS. For example, specific features in Microsoft Dynamics GP allow a business to create Financial Statements that help meet specific IFRS standards. Some IFRS standards are not related to information captured inside of a company's business management system. This is the reason why several of the specific IFRS standards can be excluded from deeper analysis in this White Paper.

Complying with IFRS does not necessarily require the business application suite to be able to generate the final financial statement used for public disclosure (for instance, the annual report). Availability of the information needed to prepare financial statements and the absence of any misleading information (for example, incorrect bookkeeping) is highlighted in this report. It should be emphasized that IFRS compliance for a business application suite involves more than just functionality—it includes the setup and use of the system as well as specific processes or procedures a business follows outside of the business management system. The use of any ERP (including Microsoft Dynamics GP) alone does not make a company IFRS compliant. ERP applications simply help enable businesses to achieve compliance provided they follow all of the relevant standards and regulations both inside and outside of the business management system.

Potential issues regarding add-ons and localized versions of Microsoft Dynamics GP products are not addressed in full. The sheer number of available add-ons makes it impossible to make any definite statement regarding these; hence the comments are only guidelines.

IFRS Background

More than 7,000 group companies in Europe are already focusing on IFRS. The first deadline¹ for publicly listed companies in the Europe Union that consolidated their financial statements and had to comply with IFRS was in 2005. In practice, this meant that financial data for 2004 had to undergo a conversion as well, given that IFRS requires comparative data. Additionally, the balance sheet for January 1st 2004 had to be presented in accordance with IFRS since it is the starting balance for 2004, which must be linked with reconciliations to the first IFRS balance sheet.

The transition regulations require that the first IFRS financial statements had to comply with the accounting policies effective when the financial statements for 2005 were prepared. For this reason, IFRS-compatible data for 2003 and 2004 could not be published before the publication date of the 2005 financial statements in 2006.

The objectives² of the reform as defined by the European Council in 2000 were to:

- Create a high-performance and liquid European financial market
- Facilitate the evaluation of companies through greater financial transparency

Adopting IFRS in the EU was regarded as essential to ensuring transparency and comparability of financial statements and thereby ensuring an efficient capital market in the EU by providing much more detailed information to users, with emphasis on content and not form.

IFRS continues to gain momentum worldwide. Since the EU began requiring certain companies in 2005, additional countries have begun to adopt the standards as well. For example, Australia, New Zealand, and Israel have already adopted IFRS. Beginning in 2011, Canada and Japan will also begin enforcement. Additional countries continue to create strategic plans for adoption of the IFRS standards.

Definition of compliance & comparing Microsoft Dynamics GP to the IFRS requirements

Compliance in terms of this White Paper is defined as Microsoft Dynamics GP's ability to help enable businesses to meet the requirements of IFRS. For example, specific features in Microsoft Dynamics GP allow a business to create Financial Statements that help meet specific IFRS standards. Some IFRS standards are not related to information captured inside of a company's business management system. This is the reason why several of the specific IFRS standards can be excluded from deeper analysis in this White Paper.

Complying with IFRS does not require the business application suite to be able to generate the final financial statement (for instance, the annual report) used for public disclosure. This compliance report emphasizes the availability of information needed to prepare the financial statement and the absence of any misleading information (for example, incorrect bookkeeping). The compliance overview in this report only considers non-financial services companies (ex: banks and other financial services institutions).

¹ See

http://europa.eu.int/smartapi/cgi/sga_doc?smartapi!celexapi!prod!CELEXnumdoc&lg=en&numdoc=32002R1606&model=guichett

² Source: http://europa.eu.int/comm/internal_market/accounting/ias_en.htm#regulation

The Challenge for Finance Departments

From the finance department's perspective, the workload involved in preparing financial statements that comply with IFRS standards lies mostly with processes that are outside the business application suites themselves. A business application suite does not in any way ensure that the financial statements created with the system will be compliant.

Implying that a business application suite will enable customers to deliver timely and accurate financial information could bias customers towards systems that are labeled as IFRS compliant. The larger business application suite vendors have already tagged their product with "Complies with International Financial Reporting Standards". No business management application can be truly IFRS compliant; they can simply enable customers to help meet specific compliance standards.

Even though it is important to provide business application suites with functionality to handle the IFRS requirements, it is critical that users understand how to use their systems and set up their parameters in line with the reporting requirements.

Depending on a company's activities, the major compliance challenges for typical finance departments often include:

- Leasing agreements (IAS 17)
- Pensions (IAS 19)
- Foreign currency (IAS 21)
- Financial instruments and hedge accounting (IAS 39)
- Segment reporting (IAS 14 or IFRS 8)
- Differences to local accounting standards (GAAP for example)
- Considerably more extensive notes to the financial statements

The changes will come primarily from:

- Inclusion of some of the current off-balance sheet items in the balance sheet, for example, derivatives
- More focus on fair (market) value revaluations of assets and liabilities
- Operating segment reporting, providing more detailed information on economic and geographic dimensions
- New classification for financial instruments and related accounting rules

Document Sources

Web sites

Official Web sites can be found at <http://www.iasc.org.uk>. Since the IFRS is a legal requirement, the summary part of each standard is copied almost word-for-word from these official sources.

The Regulation

Application of International Financial Reporting Standards in EU: Regulation (EC) 1606/2002 of the European Parliament of the Council of 19.7.2002

Useful link: http://europa.eu.int/comm/internal_market/accounting/ias_en.htm

IFRS Compliance Standards

This section provides an overview of the currently enforced IFRS standards (as per August 2008).

| IAS No. | Description | Revised |
|---------|--|---------|
| IAS 1R | Presentation of Financial Statements (Revised 2007) | 2007 |
| IAS 2 | Inventories | 2005 |
| IAS 7 | Cash Flows Statements | 2007 |
| IAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors | 2005 |
| IAS 10 | Events After the Balance Sheet Date | 2005 |
| IAS 11 | Construction Contracts | 1995 |
| IAS 12 | Income Taxes | 2000 |
| IAS 16 | Property, Plant and Equipment | 2008 |
| IAS 17 | Leases | 2003 |
| IAS 18 | Revenue | 1998 |
| IAS 19 | Employee Benefits | 2008 |
| IAS 20 | Accounting for Government Grants and Disclosure of Government Assistance | 2008 |
| IAS 21 | The Effects of Changes in Foreign Exchange Rates | 2005 |
| IAS 23R | Borrowing Costs | 2008 |
| IAS 24 | Related Party Disclosures | 2003 |
| IAS 26 | Accounting and Reporting by Retirement Benefit Plans | 1994 |
| IAS 27 | Consolidated and Separate Financial Statements | 2008 |
| IAS 28 | Investments in Joint Ventures | 2008 |
| IAS 29 | Financial Reporting in Hyperinflationary Economies | 2008 |
| IAS 31 | Interests in Joint Ventures | 2008 |
| IAS 32 | Financial Instruments: Presentation | 2008 |
| IAS 33 | Earnings per Share | 2003 |
| IAS 34 | Interim Financial Reporting | 1998 |
| IAS 36 | Impairment of Assets | 2008 |
| IAS 37 | Provisions, Contingent Liabilities and Contingent Assets | 1998 |
| IAS 38 | Intangible Assets | 2008 |
| IAS 39 | Financial Instruments: Recognition and Measurement | 2008 |
| IAS 40 | Investment Property | 2008 |
| IAS 41 | Agriculture | 2008 |
| IFRS 1 | First time adoption of International Financial Reporting Standards | 2008 |
| IFRS 2 | Share-based Payment | 2008 |
| IFRS 3R | Business Combinations | 2008 |
| IFRS 4 | Insurance Contracts | 2005 |
| IFRS 5 | Non-current Assets Held for Sale and Discontinued Operations | 2008 |
| IFRS 6 | Exploration for and Evaluation of Mineral Resources | 2005 |
| IFRS 7 | Financial Instruments: Disclosures | 2005 |
| IFRS 8 | Operating Segments | 2006 |
| | Country Addendum – Chile | 2008 |

IAS 1 PRESENTATION OF FINANCIAL STATEMENTS (REVISED 2007)

Summary of IAS 1 (revised 2007)

The objective of IAS 1 is to outline the basis for presentation of financial statements. It sets out the overall framework and responsibilities for the presentation of financial statements, the guidelines for their structure, and the minimum requirements for the content of the financial statements.

IAS 1 prescribes the minimum level of detail required on the face of the balance sheet and the income statement, and also defines the overall considerations for financial statements, such as fair presentation, accrual basis of accounting, consistency of presentation, materiality and aggregation, and comparative information.

IAS 1 defines four basic financial statement elements and prescribes the minimum structure and content for each:

- a statement of financial position as at the end of the period (separated in current/noncurrent)
- a statement of comprehensive income for the period
- a statement of changes in equity for the period
- a statement of cash flows for the period ([IAS 7](#))

For statement of comprehensive income an entity shall present all items of income and expense recognized in a period:

- (a) In a single statement of comprehensive income, or
- (b) In two statements: a statement displaying components of profit or loss (separate income statement) and a second statement beginning with profit or loss and displaying components of other comprehensive income (statement of comprehensive income).

Comprehensive income for a period includes profit or loss for that period plus other income recognized in that period. The components of other comprehensive income include:

- Changes in revaluation surplus ([IAS 16](#) and [IAS 38](#)).
- Actuarial gains and losses on defined benefit plans recognized in accordance with paragraph 93A of [IAS 19](#).
- Gains and losses arising from translating the financial statements of a foreign operation ([IAS 21](#)).
- Gains and losses on re-measuring available-for-sale financial assets ([IAS 39](#)).
- The effective portion of gains and losses on hedging instruments in a cash flow hedge ([IAS 39](#)).

Microsoft Dynamics GP Functionality Related to IAS 1 (revised 2007)

In the **General Ledger** module, create a chart of accounts (COA) and add dimensions to track financial information from the COA. In Microsoft Dynamics GP, users can choose how they want the chart of accounts to be structured, or they can import directly from a predefined setup. Setting up the chart of accounts is one activity where it is possible to get very detailed information using dimensions via the **Analytical Accounting** module. The dimensions can be managed by validation roles and controls. This functionality enhances users' ability to get very detailed information for auditing and analysis purposes and is used throughout the system. This means that very detailed information can be presented in most modules, and only the ledger transactions are transferred to the general ledger. Validation, parameters setup, and journal setup/controls are other extended facilities to enhance the degree of specification.

Microsoft Dynamics GP can retrieve and present data using predefined reports, the financial statements, or online analytical processing (OLAP) with its modules: **Analysis Cubes for Excel**, **Microsoft SQL Server Reporting Services**, **Excel** based reports and **Microsoft Office PerformancePoint Server**. Also, with **Analytical Accounting**, data can be presented in Excel as a predefined report. Detailed financial statements can also be created with **Microsoft FRx**.

When transactions are being entered into Microsoft Dynamics GP, the system can control certain elements. However, it is not possible to verify whether the amounts are correct or not. This remains the user's responsibility, unless certain controls and validation rules have been setup.

IAS 2 INVENTORIES

Summary of IAS 2

The objective of IAS 2 is to prescribe the accounting treatment for inventories under the historical cost system. It provides guidance on how to determine the cost of inventories and subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

Inventories include assets held for sale in the ordinary course of business (finished goods), assets in the production process for sale in the ordinary course of business (work in process), and materials and supplies that are consumed in production (raw materials).

However, IAS 2 excludes certain inventories from its scope:

- Work in progress arising under construction contracts (see [IAS 11](#), Construction Contracts)
- Financial instruments (see [IAS 39](#), Financial Instruments)
- Producers' inventories of agricultural assets, such as livestock, forest products, and mineral ores to the extent that they are measured at net realizable value (whether above or below cost) in accordance with established industry practices

Fundamental Principle of IAS 2

Inventories are measured at the lower of cost and net realizable value (NRV). Net realizable value is the selling price less the cost to complete the inventory and sell it. Cost includes all costs to bring the inventories to their present condition and location. If specific cost is not determinable, the benchmark treatment is to use either the first in, first out (FIFO) or weighted average cost formulas.

The cost of inventory is recognized as an expense in the period in which the related revenue is recognized. If inventory is written down to net realizable value, the write-down is charged to expense. Any reversal of such a write-down in a later period is credited to income by reducing that period's cost of goods sold.

Required disclosures include:

- Accounting policy
- Carrying amount of inventories by category
- Carrying amount of inventory carried at net realizable value
- Amount of any reversal of a write-down
- Carrying amount of inventory pledged as security for liabilities
- Cost of inventory charged to expense for the period

Microsoft Dynamics GP Functionality Related to IAS 2

Microsoft Dynamics GP's **Inventory Control** module supports different principles of inventory valuation methods like "last in, first out (LIFO)", "first in, first out (FIFO)", weighted average and standard cost.

FIFO perpetual valuation method is used for items purchased first that are considered sold first (First In, First Out). Detailed information about the cost of all items is maintained, and the inventory is valued at its actual cost. The current cost for items is the cost of the item the last time it was purchased. *FIFO periodic* valuation method is used for items purchased first that are considered sold first (First In, First Out), and are valued at their standard cost. To update the standard cost, you can use the Inventory Year-End Closing window. At the end of the year, the standard cost can be adjusted to the current cost.

In the *Weighted average* valuation method, the cost of items with the same item number is totaled and an average cost is assigned to the items. The average cost of an item is revalued throughout the period as you enter transactions for items. The average cost also is used as the current cost.

The formula is:

$(\text{Current units} \times \text{current moving average cost}) + (\text{New units} \times \text{purchase price}) / (\text{Current units} + \text{new units})$

For advanced inventory tracking, Microsoft Dynamics GP can track dimensions (sites and bins) with its **Analytical Accounting** module (financial analysis). These figures can be reported on a detailed basis or on a more summarized level.

IAS 7 CASH FLOWS STATEMENT

Summary of IAS 7

IAS 7 prescribes how to present information about the historical changes in cash and cash equivalents of an enterprise by means of a cash flow statement. A cash flow statement classifies cash flows during the period according to operating, investing, and financing activities.

The cash flow statement explains changes in cash and cash equivalents during a period. The cash flow statement should classify changes in cash and cash equivalents as operating, investing, and financial activities.

- Cash equivalents are short-term, highly liquid investments subject to insignificant risk of changes in value
- Operating activities: May be presented using either the direct or indirect method. Direct method shows receipts from customers and payments to suppliers, employees, government (taxes), and so on. Indirect method begins with accrual basis net profit or loss and adjusts for non cash items.
- Investing activities: Separately disclose cash receipts and payments that arise from acquisition or sale of property, plant, and equipment; acquisition or sale of equity or debt instruments of other enterprises (including acquisition or sale of subsidiaries); and advances and loans made to, or repayments from, third parties.
- Financing activities: Separately disclose cash receipts and payments that arise from an issue of share or other equity securities; payments made to redeem such securities; proceeds arising from issuing debentures, loans, notes; and repayments of such securities.

Cash flows from taxes should be disclosed separately within operating activities, unless they can be specifically identified with one of the other two headings.

Investing and financing activities that do not give rise to cash flows (a non-monetary transaction such as acquisition of property by issuing debt) should be excluded from the cash flow statement but disclosed separately.

Microsoft Dynamics GP Functionality Related to IAS 7

With Microsoft Dynamics GP, it is possible to use the taxonomy for **XBRL** (Extensible Business Reporting Language, an open standard for exchanging financial reports among users) reporting. This is one way to make it possible to create a cash flow statement using Microsoft Dynamics GP.

Microsoft Dynamics GP can provide the data for creating a cash flow statement for disclosure in the following ways:

- Using different predefined reports in Microsoft Dynamics GP
- Financial statements using **Microsoft FRx**, including **XBRL integration**
- The report wizard (which helps users define their own reports)
- Using the Microsoft Dynamics GP **Advanced Analysis Cubs Library**
- Using the **Cash Flow Management** module, including the Cash Flow Calendar

IAS 8 ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

Summary of IAS 8

IAS 8 specifies how profit or loss from ordinary activities and extraordinary items must be presented in the income statement. IAS 8 also specifies how errors and changes in accounting policy and changes in estimates must be accounted for.

Errors are defined as newly discovered omissions or misstatements of prior period financial statements, based on information that was available when the prior financial statements were prepared.

All material errors will be accounted for retrospectively by restating all the prior periods presented and adjusting the opening balance of retained earnings of the earliest prior period presented. Cumulative effect recognition in income will be prohibited.

Microsoft Dynamics GP Functionality Related to IAS 8

Microsoft Dynamics GP provides the ability for reversing and correcting entries with full audit trail functionality in the **General Ledger** module. Users can add a note for each correction and add it to the disclosure. Changes in accounting policies or transactions may be traced through the audit trail. If errors are found in previous years you can make adjusting entries in those fiscal periods and the retained earnings account is automatically updated for the next fiscal year. Additionally, **Microsoft FRx** for financial reporting can be used to add notations to the financial statements.

IAS 10 EVENTS AFTER THE BALANCE SHEET DATE

Summary of IAS 10

This is primarily a matter of disclosing the economic effects of events occurring after the balance sheet date. If the events are recorded as transactions in Microsoft Dynamics GP, these may be retrieved for reporting and disclosure.

Microsoft Dynamics GP Functionality Related to IAS 10

Microsoft Dynamics GP provides the ability for reversing and correcting entries with full audit trail functionality in the **General Ledger** module. Users can add a note for each correction and add it to the disclosure. Changes in accounting policies or transactions may be traced through the audit trail. If errors are found in previous years you can make adjusting entries in those fiscal periods and retain earnings is automatically updated for the next fiscal year. Additionally, **Microsoft FRx** for financial reporting can be used to add notations to the financial statements. Normally the events are disclosed as corrections to the financial statements (included in the financial statements) or disclosed in notes to the financial statements.

Using **Business Alerts** with Microsoft Dynamics GP users can be proactive in understanding the effects of changes to business conditions. For example, create a business alert to be notified when an account values changes by X dollars.

Additionally, with **Key Performance Indicators** for Business Portal, the account status changes can be easily observed.

IAS 11 CONSTRUCTION CONTRACTS

Summary of IAS 11

IAS 11 prescribes the treatment of revenue and costs associated with construction contracts.

The principles are:

- If the total revenue, past and future costs, and the stage of completion of a contract can be measured or estimated reliably, revenues and costs should be recognized by stage of completion (the "percentage-of-completion method")
- Expected losses should be recognized immediately.
- If the outcome cannot be measured reliably, costs should be expensed, and revenues should be recognized to the extent that costs are recoverable ("cost recovery method")
- Disclosure requirements include (for each major contract or class of contracts):
 - o The amount of contract revenue recognized
 - o The method for determining that revenue
 - o The method for determining stage of completion
 - o For contracts in progress, disclose the aggregate costs incurred, the recognized profits or losses, advances received, and retentions of the gross amount due from customers under the contract(s)
 - o The gross amount owed to customers under the contract(s)

Microsoft Dynamics GP Functionality Related to IAS 11

The Microsoft Dynamics GP **Project Accounting** module handles transactions related to construction contracts. Users record all information related to the contract cost directly in Microsoft Dynamics GP.

Users can recognize revenue and expense in the Microsoft Dynamics GP **Project Accounting** module using a percent of completion. This means that the revenue and expense will be a percentage of the total contract sum. Microsoft Dynamics GP can record work in progress if the turnover and the cost are not matched in the same period. All the transactions will be placed in the balance sheet as work in progress.

IAS 12 INCOME TAX

Summary of IAS 12

The objective of this Standard is to prescribe the accounting treatment for income taxes. The principal issue in accounting for income taxes is how to account for the current and future tax consequences of:

- the future recovery (settlement) of the carrying amount of assets (liabilities) that are recognized in an entity's balance sheet; and
- transactions and other events of the current period that are recognized in an entity's financial statements.

Key Definition:

Current tax: The amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.

Deferred tax liabilities: The amount of income taxes payable in future periods in respect of taxable temporary differences.

Deferred tax assets: The amounts of income taxes recoverable in future periods in respect of:

- (a) Deductible temporary differences;
- (b) The carry forward of unused tax losses; and
- (c) The carry forward of unused tax credits.

Microsoft Dynamics GP Functionality Related to IAS 12

In the Microsoft Dynamics GP **Fixed Assets** module, the user can set up several depreciation methods for a given asset, including one for tax purposes, which allows reporting for that purpose subsequently. For direct reporting of income taxes, however, a manual transaction must be made by the user to allow Microsoft Dynamics GP to display it in a report.

IAS 16 PROPERTY, PLANT AND EQUIPMENT

Summary of IAS 16

IAS 16 prescribes the treatment of initial recognition and subsequent measurement of property, plant, and equipment. Property, plant, and equipment should be recognized when (a) it is probable that future benefits will flow from it, and (b) its cost can be measured reliably.

Initial measurement should be at cost. Subsequently, the benchmark treatment is to use depreciated (amortized) cost but the allowed alternative is to use the revaluation model (similar to fair market value).

Main principles

Depreciation:

- Long-lived assets other than land are depreciated on a systematic basis over their useful lives
- Depreciation base is cost less the estimated residual value
- The depreciation method should reflect the pattern in which the asset's economic benefits are consumed by the enterprise
- If assets are revalued, depreciation is based on the revalued amount
- The useful life, residual value and amortization method should be reviewed on an annual basis and any change should be reflected prospectively.
- Significant costs to be incurred at the end of an asset's useful life should either be reflected by reducing the estimated residual value or by charging the amount as an expense over the life of the asset
- If the cost model is used, each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately ("component approach").

Revaluations (allowed alternative):

- Revaluations should be made with sufficient regularity so that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date
- If an item of property, plant, and equipment has been revalued, the entire class to which the asset belongs must be revalued (selective revaluations are not allowed)
- Positive revaluations should be credited to equity (revaluation surplus) unless it is a reversal of previous charge to income
- Decreases in valuation should be charged to income unless reversing a previous credit to equity (revaluation surplus)
- If the revalued asset is sold or otherwise disposed of, any remaining revaluation surplus that is transferred directly to retained earnings (not through the income statement)
- If the revaluation model is used the revaluation surplus included in equity shall be controlled on an item by item basis.

If an asset's recoverable amount falls below its carrying amount, the decline should be recognized and charged to income (unless it reverses a previous credit to equity). Gains or losses on retirement or disposal of an asset should be calculated by reference to the carrying amount.

Required disclosures include:

- Reconciliation of movements
- Capital commitments
- Items pledged as security

- If assets are revalued, disclose historical cost amounts
- Change in revaluation surplus

Microsoft Dynamics GP Functionality Related to IAS 16

The Microsoft Dynamics GP **Fixed Assets** module lets the user record all asset transactions for each given asset. The standard calculation is the acquisition price equals cost, less accumulated depreciation. This shows a net book value. Transfers and Retirement transactions can be recorded. Revaluations can be manually registered through the **General Ledger**.

Fixed Assets allows the user to set up the depreciation schedules, which includes depreciation method, service life of the asset, acquisition cost, and special depreciation allowances to be used for each individual asset or a group of assets. With Fixed Assets, users can easily reset the depreciation for the life or year of an asset based on changes to depreciation sensitive information.

Users control the treatment of gains or losses when selling an asset via the posting account setup. This forces transactions to be posted to the correct general ledger accounts when creating either a retirement or disposal transaction. To help track the development of fixed assets, users can attach notes to the asset in Microsoft Dynamics GP. Therefore, users can record all transactions related to the asset and can view the development of the asset over time.

IAS 17 LEASES

Summary of IAS 17

Two classes of leases are considered:

- A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership
- All other leases are classified as operating leases

For operating leases, the lease payments should be recognized as an expense in the income statement over the lease term on a straight-line basis, unless another systematic basis is more representative of the time pattern for the user's benefit.

Financial Leases

Accounting for the lessee:

- The lessee should capitalize a finance lease at the lower end of the fair value and the present value of the minimum lease payments
- Rental payments should be split into (i) a reduction of liability, and (ii) a finance charge designed to reduce in line with the liability
- The lessee should calculate depreciation on leased assets using useful life, unless there is no reasonable certainty of eventual ownership. In the latter case, the shorter of the useful life and the lease term should be used
- The lessee must include disclosure of rental expenses, sublease rentals, and a description of the leasing arrangements
- The lessee should expense the operating lease payments

Accounting for the lessor:

- For lessors, finance leases should be recorded as receivables and the lease income should be recognized on the basis of a constant periodic rate of return
- Lessors must disclosure information about future minimum rentals and amounts of contingent rentals included in net profit or loss
- Lessors should use the net investment method to allocate finance income, the net cash investment method is no longer permitted

Microsoft Dynamics GP Functionality Related to IAS 17

Microsoft Dynamics GP uses the **Fixed Assets** module to record lease transactions. Users can record the necessary transactions that are required to support reporting for IAS 17. Users control the correct booking of transactions and obligations by setting posting profiles in Microsoft Dynamics GP Fixed Assets. The posting profiles define where the program books the lease amount and the opposite liability.

IAS 18 REVENUE

Summary of IAS 18

The objective of IAS 18 is to prescribe the accounting treatment for revenue arising from certain types of transactions and events, such as sales of goods, rendering of services, interests, royalties, and dividends.

Key Definition:

Revenue: The gross inflow of economic benefits (cash, receivables, and other assets) arising from the ordinary operating activities of an enterprise (such as sales of goods, sales of services, interest, royalties, and dividends).

Measurement of Revenue

Revenue should be measured at the fair value of the consideration received. An exchange for goods or services of a similar nature and value is not regarded as a transaction that generates revenue. However, exchanges for dissimilar items are regarded as generating revenue.

If the inflow of cash or cash equivalents is deferred, the fair value of the consideration receivable is less than the nominal amount of cash and cash equivalents to be received, and discounting is appropriate. This would occur, for instance, if the seller is providing interest-free credit to the buyer or is charging a below-market rate of interest. Interest must be imputed based on market rates.

IAS 18 prescribes the following disclosures:

- The accounting policy for recognizing revenue
- The amount of each of the following types of revenue:
 - o sale of goods
 - o rendering of services
 - o interest
 - o royalties
 - o dividends
- Within each of the above categories, the amount of revenue from exchanges of goods or services

It is important for IAS 18 compliance that the criteria for revenue recognition for each category of revenue be met.

Microsoft Dynamics GP Functionality Related to IAS 18

Revenue recognition in Microsoft Dynamics GP is performed in the **Receivables Management** and/or **Sales Order Processing** modules when invoicing the customer and the related cost of goods sold is automatically recorded. Rendering of services uses exactly the same principle, so that revenue is recognized upon invoicing. Interest, royalties, and dividends must be recorded in the specific related period. The Microsoft Dynamics GP chart of accounts can help users split each type of transaction on a specific account.

IAS 18 deals with recognition of revenue from certain transactions, and as such, does not describe specific features. Microsoft GP allows the user to set up the system so that recognition of revenue is in accordance with IFRS. The **Revenue deferral** module provides the ability to defer the amount values until the service is performed and it can be recognized over a period of time.

IAS 19 EMPLOYEE BENEFITS

Summary of IAS 19

The objective of IAS 19 is to prescribe the accounting for and disclosure of employee benefits (all forms of compensation given by an organization in exchange for service rendered by employees). The principle underlying all of the detailed requirements of the standard is that the cost of providing employee benefits should be recognized in the period in which the employee earns the benefit, rather than when it is paid or payable.

Microsoft Dynamics GP Functionality Related to IAS 19

For customers in USA and Canada, specific transaction types from the **Human Resources and Payroll** modules can be posted into a specific account in Microsoft Dynamics GP and the related dimensions.

IAS 20 ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURE OF GOVERNMENT ASSISTANCE

Summary of IAS 20

IAS 20 prescribes the accounting and disclosure of government grants and other forms of government assistance.

Service concession arrangements are arrangements whereby a government or other body grants contracts for the supply of public services such as roads, energy distribution, prisons or hospitals to private operators.

IAS 20 draws a distinction between two types of service concession arrangement.

- In one, the operator receives a financial asset, specifically an unconditional contractual right to receive cash or another financial asset from the government in return for constructing or upgrading the public sector asset.
- In the other, the operator receives an intangible asset – a right to charge for use of the public sector asset that it constructs or upgrades. A right to charge users is not an unconditional right to receive cash because the amounts are contingent on the extent to which the public uses the service.

IAS 20 allows for the possibility that both types of arrangement may exist within a single contract.

The operator of a service concession arrangement recognizes and measures revenue in accordance with IAS 11 and IAS 18 for the services it performs.

Microsoft Dynamics GP Functionality Related to IAS 20

Users can either use the Microsoft Dynamics GP **Fixed Assets** module to register the amount of government assistance for a specific fixed asset, or they can manually book the amount in the **General Ledger** module. The **Grant Management** module tracks the receipt of grants and applies these through dimensions in **Analytical Accounting** allowing for comprehensive grant analysis and reporting.

IAS 21 THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

Summary of IAS 21

IAS 21 prescribes the treatment of an entity's foreign currency transactions and foreign operations. IAS 39 prescribes the criteria for selecting the functional currency (not described in this document). Functional currency must be determined for each entity in a group.

Foreign Currency Transactions

Transactions in currencies other than the functional currency should be translated on the date of the transaction. In practice, the exchange rates applied are adjusted periodically, for example, weekly or monthly. Monetary assets and liabilities are translated at the rates existing on the balance sheet date. Fixed Assets only allows multicurrency information when the asset is created and retired.

Investments in Foreign Entities

Transactions in currencies other than the functional currency should be translated on the date of the transaction. Monetary assets and liabilities should be translated at closing rates, and income statement items should be translated at transaction rates (or, in practice, average rates). Differences should be taken directly to equity.

Disclosures:

- Translation differences included in net income
- Analysis of translation differences in equity
- Changes in rates after balance sheet date
- Foreign exchange risk management policies

Microsoft Dynamics GP Functionality Related to IAS 21

The **Multicurrency** module in Microsoft Dynamics GP provides the ability to register transactions in either the originating or functional currency. Transactions are converted using the exchange rate from the relevant currency. Periodically, it is possible to exchange adjust the transactions in the foreign currency. For monetary assets and liabilities, users will normally use the exchange rate of the balance sheet date.

All the adjustments arising from the exchange adjustment over a given period will be posted on a profit and loss account. Reports can be generated in **Microsoft FRx** in any currency. Consolidations can also be performed in Microsoft FRx.

IAS 23 BORROWING COSTS (REVISED)

Summary of IAS 23 (Revised)

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset and, therefore, should be capitalized.

Microsoft Dynamics GP Functionality Related to IAS 23 (revised)

Users can record borrowing transactions manually in Microsoft Dynamics GP through general journals in the **General Ledger** module. Combined with the proper setup of the chart of accounts and the dimensions of **Analytical Accounting**, costs related to borrowings can be reported separately and to the detailed level required by the standard.

IAS 24 RELATED PARTY DISCLOSURES

Summary of IAS 24

IAS 24 describes the required disclosure of transactions with related parties.

Related parties are those able to control or exercise significant influence. Such relationships include:

- Parent-subsidiary relationships (see [IAS 27: Consolidated Financial Statements](#))
- Entities under common control
- Associates (see [IAS 28: Investments in Associates](#))
- Individuals who, through ownership, have significant influence over the enterprise and close members of their families
- Key management personnel

Disclosures include:

- Nature of relationships where control exists, even if there were no transactions between the related parties
- Nature and amount of transactions with related parties, grouped as appropriate

Microsoft Dynamics GP Functionality Related to IAS 24

In Microsoft Dynamics GP, users can either define an account for showing specific transactions with a related entity in **General Ledger**, or they can use dimensions for this purpose with **Analytical Accounting**.

IAS 26 ACCOUNTING AND REPORTING BY RETIREMENT BENEFIT PLANS

Summary of IAS 26

IAS 26 describes the criteria used for measurement and disclosure of retirement benefits plans.

Microsoft Dynamics GP Functionality Related to IAS 26

Microsoft Dynamics GP does not contain specific functionality for retirement benefit plans, but the solution is designed to integrate third-party tools for this task. An appropriate third-party tool can provide detailed information of retirement benefits.

IAS 27 CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Summary of IAS 27

IAS 27 defines the concept of a subsidiary as: “a company controlled by another enterprise (the parent)”. If a parent has one or more subsidiaries, consolidated financial statements are required.

IAS 27 has the following criteria for the consolidated financial statement:

- All subsidiaries must be included. There is a limited exception available to some non-public entities
- The difference between reporting dates of consolidated subsidiaries should be no more than three months from the parent company’s reporting date, having any significant transactions or adjustment occurred between these dates recorded.
- Uniform accounting policies should be followed for the parent and its subsidiaries.
- In the parent’s separate financial statements subsidiaries may be shown at cost or at fair value in accordance with IAS 39.

Required disclosures include:

- Name, country, ownership, and voting percentages for each significant subsidiary
- Reasons for not consolidating a subsidiary
- The nature of relationship if parent company does not own more than 50 percent of the voting power of a consolidated subsidiary
- The nature of relationship if the parent company does own more than 50 percent of the voting power of a subsidiary excluded from consolidation
- The effect of acquisitions and disposals of subsidiaries during the period

In the parent company's separate financial statements the method used to account or subsidiaries must be described.

Microsoft Dynamics GP Functionality Related to IAS 27

Using **Microsoft FRx** and Microsoft Dynamics GP, consolidations can be performed. Additionally, eliminations of intercompany transactions on consolidated reports are possible through **Microsoft Office PerformancePoint Server**.

IAS 28 INVESTMENTS IN JOINT VENTURES

Summary of IAS 28

IAS 28 prescribes the accounting treatment to be adopted by an investor for investments in associates or joint ventures.

An associate/joint venture is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. If an investor holds, directly or indirectly (eg. through subsidiaries), 20% or more, but less than 50%, of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case.

Microsoft Dynamics GP Functionality Related to IAS 28

Microsoft Dynamics GP does not automatically support the treatment of investments in associated companies. Microsoft Dynamics GP supports normal journals where users can post the related net profit in the profit and loss statement and the current value of the asset in the equity. Using dimensions in **Analytical Accounting** can add even more detail to the transactions to facilitate later analysis.

IAS 29 FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES

Summary of IAS 29

IAS 29 establishes standards for enterprises that report in the currency of a hyperinflationary economy, so that the financial information provided is meaningful.

Hyperinflation is indicated if cumulative inflation over three years is 100 percent or more (among other factors). In such a circumstance, financial statements should be presented in a measuring unit that is current at the balance sheet date. Comparative amounts for prior periods are also restated in the measuring unit at the current balance sheet date.

Any gain or loss on the net monetary position arising from the restatement of amounts in the measuring unit current at the balance sheet date should be included in net income and separately disclosed.

Microsoft Dynamics GP Functionality Related to IAS 29

Microsoft Dynamics GP does not support statements in hyperinflationary economies. The Microsoft Dynamics GP **Multicurrency** module does permit the use of the closing rate at the end of a period. However, the other tasks related to this requirement must be performed manually.

IAS 31 INTERESTS IN JOINT VENTURES

Summary of IAS 31

The objective of IAS 31 is to prescribe the accounting treatment required for interests in joint ventures, irrespective of the structures or forms under which the joint venture activities take place. For the purposes of the standard, joint ventures are classified as jointly controlled operations, jointly controlled assets, and jointly controlled entities.

Key Definition:

Joint venture: A contractual arrangement by which two or more parties (ventures) undertake an economic activity that is subject to joint control.

Microsoft Dynamics GP Functionality Related to IAS 31

The Microsoft Dynamics GP **Project Accounting** module can be used to track revenue or expenses associated with contracts/projects within a single company. The projects may be related to joint ventures. The consolidation of expense/revenues across all companies within a joint venture would occur in a tool; for example **Microsoft FRx**, which has the capability of creating consolidated reports.

The **General Ledger** module also provides the normal general journal for making manual transactions according to the chosen principle.

IAS 32 FINANCIAL INSTRUMENTS: PRESENTATION

Summary of IAS 32

The objective of IAS 32 is to enhance users' understanding of the significance of on-balance sheet and off-balance sheet financial instruments to an enterprise's financial position, performance, and cash flows.

Microsoft Dynamics GP Functionality Related to IAS 32

IAS 32 deals with the classification of financial instruments and does not as such relate to specific functionality in accounting systems. The required disclosure items specified under IAS 32 will primarily be provided by sources outside Microsoft Dynamics GP, for example, recognition methods, interest rate risk exposure, and so on. Once users have the positions, they are able to post them in the **General Ledger**, using the general journal as an asset or liability and the related cost or interest. Users can make reports by using the financial statement.

IAS 33 EARNINGS PER SHARE

Summary of IAS 33

IAS 33 describes the measurement and disclosure of earnings per share and is not supported by any specific enterprise resource planning (ERP) solution.

Microsoft Dynamics GP Functionality Related to IAS 33

No such functionality is supported in Microsoft Dynamics GP. However, users will need to retrieve data from Microsoft Dynamics GP in order to perform the necessary calculations. This can be done using predefined reports or customized reports that are provided in Microsoft Dynamics GP. The relevant information needed for the calculation can be retrieved from the Shareholders equity, the Paid in Capital account or similar equity accounts.

IAS 34 INTERIM FINANCIAL REPORTING

Summary of IAS 34

IAS 34 prescribes the requirements for the interim reports and requires that the accounting policies to be applied on these financial statements should be the same as the annual financial statements, however, summarized disclosures are required; therefore, interim reporting must also comply with all the IFRS.

Microsoft Dynamics GP Functionality Related to IAS 34

Microsoft Dynamics GP can provide financial statements for an interim period. For those transactions that have not yet been realized (not posted), but are entered in the system, the user can choose to include those transaction within the financial statement created within **Microsoft FRx**.

IAS 36 IMPAIRMENT OF ASSETS

Summary of IAS 36

IAS 36 mainly addresses accounting for impairment of goodwill, intangible assets, and property, plant, and equipment. The standard includes requirements for identifying an impaired asset, measuring its recoverable amount, recognizing or reversing any resulting impairment loss, and disclosing information on impairment losses or reversals of impairment losses.

IAS 36 prescribes how an enterprise should ensure that its assets are not overstated in the financial statements, how an enterprise should assess the amount to be recovered from an asset (the "recoverable amount"), and when an enterprise should account for an impairment loss identified by this assessment.

Main requirement of IAS 36: An impairment loss should be recognized whenever the recoverable amount of an asset is less than its carrying amount (sometimes called "book value").

Other requirements of IAS 36 are:

- The recoverable amount of an asset is the higher of its fair value, less cost to sell and its value in use (based on discounted cash flows)
- Fair value is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable willing parties, less the costs of disposal
- The value in use is the amount obtainable from the use of an asset until the end of its useful life and from its subsequent disposal. Value in use is calculated as the present value of estimated future cash flows. The discount rate should be a pretax rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Recording impairment:

- An impairment loss should be recognized as an expense in the income statement for assets carried at cost and treated as a revaluation decrease for assets carried at revalued amount
- An impairment loss should be reversed (and income recognized) when there has been a change in the estimates used to determine an asset's recoverable amount since the last impairment loss was recognized, except for goodwill for which impairment reversal is not allowed.
- A reversal of an impairment loss should be recognized as income in the income statement

for assets carried at cost and treated as a revaluation increase for assets carried at the revalued amount

When impairment losses are recognized or reversed, an enterprise should disclose certain information by class of assets and by reportable operating segments. Further disclosure is required if impairment losses that are recognized or reversed are material to the financial statements of the reporting enterprise as a whole.

The recoverable amount of an asset should be estimated whenever there is an indication that the asset may be impaired. IAS 36 includes a list of indicators of impairment to be considered at each balance sheet date.

Single Asset or Cash-generating Unit

If an asset does not generate cash inflows that are largely independent of the cash inflows from other assets, an enterprise should determine the recoverable amount of the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. Principles for recognizing and reversing impairment losses for a cash-generating unit are the same as those for an individual asset. The concept of cash-generating units will often be used in testing assets for impairment because, in many cases, assets work together rather than on an individual basis.

Microsoft Dynamics GP Functionality Related to IAS 36

Microsoft Dynamics GP's **Fixed Assets** module lets the user record the initial recognition of an asset at cost. Subsequent revaluations must be carried out manually, as the Fixed Assets module cannot provide guidance to net selling price nor value in use.

Under IFRS, the depreciation schemes in Fixed Assets can still be used. Any adjustments resulting from an impairment being recorded for a given asset will result in adjustment entries to the subsequent depreciation for that asset. Depending on whether the asset is carried at cost or revalued amount, the impairment amount must be recorded as an expense or as a deduction from equity or both. If an asset is partially impaired, a transfer can be performed that would break one asset into two assets. This would break cost and depreciation on the asset.

IAS 37 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Summary of IAS 37

IAS 37 primarily deals with provisions, the focus being on the recognition of obligations, defined as liabilities as a result of past events. These provisions, for example, refund provisions, asset retirement obligations, contingent liabilities, and so on, cannot be done automatically. Therefore, the accounting systems can only offer indirect support for IAS 37.

Microsoft Dynamics GP Functionality Related to IAS 37

The Microsoft Dynamics GP **General Ledger** module provides the normal general journal for making manual transactions according to the chosen principle.

IAS 38 INTANGIBLE ASSETS

Summary of IAS 38

IAS 38 applies to all intangible assets that are not specifically dealt with in other IAS. It applies, among other things, to expenditures on:

- Advertising
- Training
- Start-up
- Research and development (R&D) activities

IAS 38 does not apply to financial assets, insurance contracts, mineral rights, and the exploration for and extraction of minerals and similar non-regenerative resources.

IAS 38 requires an enterprise to recognize an intangible asset if, and only if, certain criteria are met. The standard also specifies how to measure the carrying amount of intangible assets and requires certain disclosures regarding intangible assets.

An intangible asset should be recognized initially, at cost, in the financial statements, if, and only if:

- The asset meets the definition of an intangible asset. Particularly, there should be an identifiable asset that is controlled and clearly distinguishable from an enterprise's goodwill
- It is probable that the future economic benefits that are attributable to the asset will flow to the enterprise
- The cost of the asset can be measured reliably

IAS 38 includes additional recognition criteria for internally generated intangible assets

It follows from the recognition criteria that all expenditure on research should be recognized as an expense. The same treatment applies to start-up costs, training costs, and advertising costs. IAS 38 also specifically prohibits the recognition internally generated goodwill, such as brands, mastheads, publishing titles, customer lists, and items similar in substance. However, some development expenditure may result in the recognition of an intangible asset if the defined criteria is met (for example, some internally developed computer software).

After initial recognition in the financial statements, an intangible asset should be measured according to one of the following two treatments:

- Benchmark treatment: historical cost less any amortization and impairment losses
- Allowed alternative treatment: revalued amount (based on fair value) less any subsequent amortization and impairment losses

An entity shall assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

Finite useful life intangibles are amortized over the defined period. Indefinite useful life intangibles are tested for impairment in accordance with IAS 36 on an annual basis.

Microsoft Dynamics GP Functionality Related to IAS 38

The Microsoft Dynamics GP **Fixed Assets** module can register the transactions used for intangible assets and keep track of any amortizations required. The amortization of assets can be performed by using the depreciation routines, but posting to an amortization expense account. All the related information needed for tracking and changing the transactions, such as depreciation period, lifetime of the asset, and type of asset, must be entered manually.

IAS 39 FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT

IAS 39 is especially important for banks and financial institutions, since it deals with financial risk management, hedging, investments, and financing policies. The impact of IAS 39 may also be significant for non-financial companies, particularly with regard to hedge accounting.

Summary of IAS 39

IAS 39 will have a significant impact on listed companies, because it requires these companies to recognize and measure almost all financial instruments at fair value (market price). In most cases, a formal treasury management system is needed. IAS 39 requires all hedges to be documented and continually evaluated for effectiveness.

Under IAS 39, all financial assets and financial liabilities must be recognized on the balance sheet, including all derivatives instruments. They are initially measured at cost, which is the fair value of consideration paid or received to acquire the financial asset or liability.

An enterprise should recognize normal purchases and sales of financial assets in the marketplace either at trade date or settlement date. Certain value changes between trade and settlement dates are recognized for purchases if settlement date accounting is used.

Financial assets are classified as follows:

- *Loans and receivables*: These are loans and receivables originated by an enterprise and not held for trading. The enterprise does not need to demonstrate intent to hold originated loans and receivables to maturity. These assets are carried at amortized cost, this is principal plus accrued interest at effective rate.
- *Held-to-maturity investments*: Fixed maturity investments, for example, debt securities and mandatorily redeemable preferred shares that an enterprise intends and is able to hold to maturity. The classification depends on management intent and capability. These financial assets are carried at amortized cost.
- *Fair value through profit or loss*: Financial assets acquired for the purpose of generating a profit from short-term fluctuations in price (trading purpose). Derivative assets are always deemed held for trading unless used as hedging instruments. There is a subcategory within this one which basically allows companies to designate financial instruments to be marked to its fair value if this methodology corrects an accounting mismatch or the company manage its financial assets based on their fair values rather than its historical cost. All these financial assets are recorded at fair value with the change recognized in income.
- *Available-for-sale financial assets*: All financial assets not in one of the above listed categories. These financial assets are recorded at fair value with the change recorded in a separate component of equity.

Under IAS 39, if an enterprise actually sells a held-to-maturity investment other than in a circumstance that could not be anticipated or in insignificant amounts, all of its other held-to-maturity investments must be reclassified as available-for-sale for the next and the following two financial reporting years.

Reclassification of financial assets is not allowed, except for certain circumstances.

Key Definition:

Hedging: To designate a derivative or a non-derivative financial instrument (only for hedges of net investments) as an offset in net profit or loss, in whole or in part, to the change in fair value or cash flows of a hedged item.

Hedge accounting is permitted under IAS 39 in certain circumstances, provided that the hedging relationship is clearly defined, measurable, and effective at inception and on an ongoing basis.

Hedge accounting is permitted only if an enterprise designates a specific hedging instrument as a hedge of a fair value or cash flow of a specific hedged item, rather than as a hedge of an overall net balance sheet position or macro hedges. However, the approximate income statement effect of hedge accounting for an overall net position can be achieved, in some cases, by designating part of one of the underlying items as the hedged position.

For hedges of forecasted transactions the gain or loss on the hedging instrument will adjust the basis (carrying amount) of the acquired asset or liability.

Microsoft Dynamics GP Functionality Related to IAS 39

Companies need a special treasury system to support business activities related to IAS 39. Microsoft Dynamics GP does not support tracking of this detailed and customized financial information. When companies implement an external system to manage their outstanding financial activities, they can then manually enter the values into Microsoft Dynamics GP.

IAS 40 INVESTMENT PROPERTY

Summary of IAS 40

IAS 40 covers investment property held by all enterprises and is not limited to enterprises whose main activities involve property investment.

Investment property is property (land or a building - or part of a building - or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.

Under IAS 40, an enterprise must choose either:

- *Fair value model*: the investment property should be measured at fair value and changes in fair value should be recognized in the income statement
- *Cost model* (the same as the benchmark treatment in IAS 16: Property, Plant, and Equipment): the investment property should be measured at depreciated cost (less any accumulated impairment losses). An enterprise that chooses the cost model should disclose the fair value of its investment property

An enterprise should apply the model that it chooses to all its investment property.

Microsoft Dynamics GP Functionality Related to IAS 40

Microsoft Dynamics GP users can record investment property transactions in the Microsoft Dynamics GP **Fixed Assets** module, allowing a better overview of the individual assets. No specific feature supports investment property revaluation processes (for example, cost or market value). These processes must be carried out manually through fixed assets journals or general journals in the **General Ledger** module.

IAS 41 AGRICULTURE

Summary of IAS 41

IAS 41 describes how accounting for biological assets should be done. Biological assets are livestock, crops, and so on that are transformed into agricultural products.

Microsoft Dynamics GP Functionality Related to IAS 41

The recognition of a biological asset, which occurs primarily when the enterprise gains control of the asset, and the measurement, which is fair value less estimated point-of-sale costs, cannot be automated. Companies must configure their accounting systems manually to reflect these criteria. Therefore, Microsoft Dynamics GP can only offer indirect support through manual transactions in **Fixed Assets** or **General Ledger**.

IFRS 1 FIRST TIME ADOPTION OF IFRS

Summary of IFRS 1

The objective of IFRS 1 is to set out the procedures that an entity must follow when it first adopts IFRS in the preparation of financial statements.

The objective of this IFRS is to ensure that an entity's first IFRS financial statements, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that:

- Is transparent for users and comparable over all periods presented;
- Provides a suitable starting point for accounting under International Financial Reporting Standards (IFRSs); and
- Can be generated at a cost that does not exceed the benefits to users.

An entity is required to explain how the transition from the previous standards (ex: GAAP) to IFRS affected its financial position, financial performance and cash flows by using reconciliations of the opening balances.

Microsoft Dynamics GP Functionality Related to IFRS 1

This standard is not applicable to the business management system.

IFRS 2 SHARE-BASED PAYMENT

Summary of IFRS 2

The objective of this IFRS is to specify the financial reporting by an entity when it undertakes a share-based payment transaction. In particular, it requires an entity to reflect in its profit or loss and financial position the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted to employees.

An entity shall disclose information that enables users of the financial statements to understand how the fair value of the goods or services received, or the fair value of the equity instruments granted, during the period was determined.

Key Definition:

Share-based Payment: A share-based payment is a transaction in which the entity receives or acquires goods or services either as consideration for its equity instruments or by incurring liabilities for amounts based on the price of the entity's shares or other equity instruments of the entity. The accounting requirements for the share-based payment depend on how the transaction will be settled, that is, by the issuance of (a) equity, (b) cash, or (c) equity or cash.

Microsoft Dynamics GP Functionality Related to IFRS 2

This standard is not applicable to the business management system.

IFRS 3 BUSINESS COMBINATIONS (REVISED)

Summary of IFRS 3

The objective of this IFRS is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. To accomplish that, this IFRS establishes principles and requirements for how the acquirer:

- Recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;
- Recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and
- Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

Key Definition:

Business Combination: A business combination is a transaction or event in which an acquirer obtains control of one or more businesses. A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return directly to investors or other owners, members or participants.

Microsoft Dynamics GP Functionality Related to IFRS 3

This standard is not applicable to the business management system.

IFRS 4 INSURANCE CONTRACTS

Summary of IFRS 4

The objective of this IFRS is to specify the financial reporting for insurance contracts by any entity that issues such contracts (described in this IFRS as an insurer) until the Board completes the second phase of its project on insurance contracts. In particular, this IFRS requires:

- Limited improvements to accounting by insurers for insurance contracts.
- Disclosures that identify and explains the amounts in an insurer's financial statements arising from insurance contracts and helps users of those financial statements understand the amount, timing and uncertainty of future cash flows from insurance contracts.

An insurer shall assess at each reporting date whether its recognized insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred acquisition costs and related intangible assets) is inadequate in the light of the estimated future cash flows, the entire deficiency shall be recognized in profit or loss.

Key Definition:

Insurance Contract: An insurance contract is a "contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder."

Microsoft Dynamics GP Functionality Related to IFRS 4

This standard is not applicable to the business management system.

IFRS 5 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Summary of IFRS 5

IFRS 5 sets out requirements for the classification, measurement and presentation of non-current assets held for sale and discontinued operations. In particular, the IFRS 5 requires:

- a) Assets or group of assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets to cease; and
- b) Assets or group of assets that meet the criteria to be classified as held for sale or that have already been disposed of to be presented separately on the face of the balance sheet and the results of discontinued operations to be presented separately in the income statement.

Key Definition:

Discontinued Operation: A component of an entity that either has been disposed of or is classified as held for sale and:

- a) Represents a separate major line of business or geographical area of operations,
- b) Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or
- c) Is a subsidiary acquired exclusively with a view to resale.

Disposal group: A group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. The group includes goodwill acquired in a business combination if the group is a cash-generating unit to which goodwill has been allocated or if it is an operation within such a cash-generating unit.

Microsoft Dynamics GP Functionality Related to IFRS 5

In Microsoft Dynamics GP, users can specify each transaction or project using dimensions that allow segment reporting for displaying the discontinued operations with **Analytical Accounting**. In order to comply with IFRS 5, other information than the figures tracked by Microsoft Dynamics GP may need to be disclosed as well.

IFRS 6 EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES

Summary of IFRS 6

IFRS 6 allows an entity to continue to use the accounting policies applied immediately before adopting the IFRS to their assets for exploration and evaluation. This includes continuing to use recognition and measurement practices that are part of those accounting policies.

Microsoft Dynamics GP Functionality Related to IFRS 6

This standard is not applicable to the business management system.

IFRS 7 FINANCIAL INSTRUMENTS: DISCLOSURES

DISCLOSURE: Replaced IAS 30 DISCLOSURES IN FINANCIAL STATEMENTS OF BANKS AND SIMILAR FINANCIAL INSTITUTIONS and disclosures of IAS 32 FINANCIAL INSTRUMENTS: DISCLOSURE AND PRESENTATIONS

Summary IFRS 7

The IFRS requires disclosure of:

- a) The significance of financial instruments for an entity's financial position and performance
- b) Qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk.
- c) An entity must group its financial instruments into classes of similar instruments and, when disclosures are required, make disclosures by class. The class are following:
 - a. Financial assets at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those classified as held for trading in accordance with IAS 39
 - b. Held-to-maturity investments
 - c. Loans and receivables
 - d. Available-for-sale financial assets
 - e. Financial liabilities at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those classified as held for trading in accordance with IAS 39 and
 - f. Financial liabilities measured at amortized cost.

Microsoft Dynamics GP Functionality Related to IFRS 7

Microsoft Dynamics GP does not support this requirement for banks and similar financial institutions.

IFRS 8 OPERATING SEGMENTS

Note: Replaces IAS 14 SEGMENT REPORTING starting January 1, 2009

Summary of IFRS 8

Listed companies must report information about their entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. This is based on how the company is managed.

The following should be disclosed for each operating segment:

- Revenue (external and inter-segment shown separately)
- Segment assets and segment liabilities and basis of measurement
- Profit or loss before tax expense and discontinued operations
- Depreciation and amortization
- Material non-cash items other than depreciation and amortization
- Profit or loss of associates and joint ventures accounted for by the equity method
- Interest revenue separately from interest expense
- Income tax expense or income
- Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

It requires reconciliations of total reportable operating segment revenues, total profit or loss, total assets, liabilities, profit or loss before tax expense and other amounts disclosed for reportable segments to corresponding amounts in the entity's financial statements.

If revenues from transactions with a single external customer amount to 10 per cent or more of an entity's revenues, the entity shall disclose that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenues.

IFRS 8 prescribes the operating segment definition:

Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. The segments must also meet the following criteria:

- Segments must not be constructed solely for external reporting purposes
- Ten percent materiality thresholds (as a ratio to revenue, assets, or net income)
- Operating segments must equal at least 75 percent of consolidated revenue

Microsoft Dynamics GP Functionality Related to IFRS 8

Microsoft Dynamics GP provides flexible segment reporting functionality through the use of dimensions with **Analytical Accounting**. Users can allocate several dimensions to describe any specific transaction in different ways. The segment (dimension) could be department, sales area, product line, cost center, and so on. These dimensions can then be reported using the financial statement in **Microsoft FRx** and allow users to slice data different ways. In fact, users can add extra information to any specific transaction to get more flexible analysis options and to reduce the complexity of the chart of accounts. The split between revenue, expenses, assets, and liability, and so on, is selected in the setup of the chart of accounts.

Country Addendum - CHILE

Background

Chile has decided to adopt IFRS gradually. The 1st of January of 2009 is the deadline for the 133 companies, including their subsidiaries, registered with the *Superintendencia de Valores y Seguros* (SVS). The role of the SVS is to supervise the activities of the listed entities involved in Chilean securities and insurance markets. The IFRS that the current listed companies are required to adopt are the standards as issued by the International Accounting Standards Board (IASB). The SVS is asking for preliminary numbers and accounting policies to be applied.

The rest of the companies listed with the SVS are required to adopt IFRS between 2010 and 2011, while the deadline for banks adopting IFRS is set at January 1st, 2009.

The Chilean chartered accountant association has not made it mandatory for non-listed companies to adopt IFRS, but they have allowed them to adopt IFRS on a voluntary basis starting on January 1st, 2009.

Additionally, the SVS has decided to use XBRL (extensible Business Reporting Language), but companies are not required, but encouraged, to use it and an interactive form will be made available to these companies. This interactive form will then be used to convert the information to XBRL for public use.

The impacts of IFRS in the domestic industry

There is no industry that will not be impacted by the conversion to IFRS, but the complexity and impact will depend on the industry and its financial or operating structure. For example, the wine industry will have the added complexity of determining the fair value of their biological assets, while the retail industry will have to determine how to report their operating segments when their operations are fairly integrated.

In Chile, the most significant impacts in terms of accounting policies refer to the elimination of price-level restatements, the discontinuation of amortization of goodwill, impairment testing, determining the functional currency, extensive use of fair value, particularly measuring fair value of financial instruments, biological assets, and intangible assets.

Some examples of the impacts of adopting IFRS on operations are an increase in information required to be disclosed, changes in operations and modifications or replacement of operating information systems. The challenges that are involved in the increased amount of disclosure are reporting operating segments, the exposure to risks and how they are managed, and the assumptions made in determining fair value. Other important business impacts of adopting IFRS are the ability to meet debt covenants and other legal requirements, volatility in earnings, and performance based compensations.

As stated earlier, one of the main changes introduced by the IFRS is the concept of Fair Value. This concept approximates the economic value of the assets, liabilities, income and expenses based on the market valuation or current economic price of such goods or amounts. The difficulty arises when fair value is not easily determinable, resulting in assumptions and estimates being made in the determination of fair value. For example, there are some assets that are not frequently sold (making a Fair Value estimation difficult), which require a valuation model to be used in determining the fair value. This valuation model will involve the estimation of the effective interest rates, as well as an assumption over the length of time

that the cash flows will be earned.

In capital intensive entities there exists the potential to start revaluating their fixed assets, which would significantly improve their balance in equity, especially if they are companies highly dynamic in investing in assets that tend to have increases in prices. The same impact will be felt in companies that possess biological assets (forests, salmons, vines, etc.), as far as calculating the fair value is concerned, reflected in profit or loss and impacting their assets.

Moreover, for capital intensive industries, service and utilities companies such as electricity, sanitation and, in general, companies with high investment in fixed assets and normally having all their loans in local re-adjustable currency (*Unidades de Fomento*), the change in the statements of results and in the financial ratios will be substantial and structural, since IFRS does not consider Chile to have a hyperinflationary economy and does not permit the mechanism for monetary correction due to the variation of the Consumer Price Index (CPI).

Despite all the difficulties which could arise in the conversion process, the adoption of IFRS in Chile will be essential to ensure both transparency and a unique model for comparing financial statements between companies, providing much more detailed information to users and putting the emphasis on the contents rather than in the format.

IFRS and Income taxes

The significant impact resulting from the adoption of IFRS is the need to maintain two separate accounting systems: one for IFRS and one for tax purposes. This is necessary in keeping track of deferred tax values arising from the differences in IFRS treatment and Income Tax Law regulated by the Internal Revenue Service (*Servicio de Impuestos Internos, SII*). The following list outlines some of the already known differences:

- Elimination of monetary correction (IFRS), as opposed to keeping it according to article 41 of the Income Law.
- Decommissioning costs included in the cost of fixed assets
- Utilization of the company's functional currency in the financial statements (IFRS), which may not necessarily be the Chilean Peso.
- Revaluation of assets according to the market value (IFRS), as opposed to the historical cost, corrected by the inflation rate for the year.
- Depreciation policies of assets shall be determined by the senior management of the company (IFRS), as opposed to the criteria of generic useful lives determined by the Internal Revenue Service.

While so far the SII has had only a role as an observer with the arrival of IFRS, but the more time that elapses without this institution getting involved in the process, this could result in higher costs for companies. In fact, companies have invested a considerable amount by adopting new internal procedures and updating or replacing their entire IT systems so that it could handle tracking both sets of values under IFRS and Tax law.

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