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Addressing the Issues and Challenges in Implementation of Ias & Ifrs With Oracle Erp

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Abstract: *This paper addresses the issues and challenges involved in adoption and applicability of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) to India with Oracle (ERP) Financials. Specifically, the paper highlights some major areas where the corporate entities are facing the critical issues in maintaining the Accounting Standards and its Reporting system to locally and globally. The attempt to study the major challenges that are lying before the companies which are globally spread and the common problems in achieving the good quality reporting standards keeping in view the present business complications. The study has made an attempt how to face these challenges effectively and efficiently with the help of Enterprise Resource Planning (ERP) software more specifically Oracle Financials which is having wide variety of modules like Oracle's E-Business Suite, Oracle's Hyperion Financial Management etc. Each module is having its unique features and helps in following the International Accounting Standards (IAS), IFRS and also the local accounting standards developed by the Institute of Chartered Accountants of India (ICAI), India's standard setting body, is increasingly attempting to provide this transparency by revisions and additions to accounting standards, and by Exposure Drafts which aim to bring India more in line with International Financial Reporting Standards.*
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I. About International Financial Reporting Standards (Ifrs):

IFRS, International Financial Reporting Standards (IFRS), together with International Accounting Standards (IAS), are a "principles-based" set of standards that establish broad rules rather than dictating specific accounting treatments. From 1973 to 2001, IAS was issued by the International Accounting Standards Committee (IASC). In April 2001 the International Accounting Standards Board (IASB) adopted all IAS and began developing new standards called IFRS.

IFRS are used in many parts of the world, including the European Union, Hong Kong, Australia, Russia, South Africa, Singapore and Pakistan. Nearly 100 countries currently require or permit the use of, or have a policy of convergence with, IFRSs. Here is list of countries which adopted IFRS.

IFRS is a single set of accounting principles that focuses on objectives and principles and is less reliant on detailed rules than U.S.Generally Accepted Accounting Principles (U.S. GAAP). Potential benefits of IFRS include reduced complexity, greater transparency, increased comparability and improved efficiency, all of which have helped spread global acceptance of IFRS, particularly among investors wanting a more common basis of comparison for and clearer insight into corporate performance.

About International Accounting Standards (IAS):

Since the early 1970s, the International Accounting Standards Board (IASB) and its predecessor, the International Accounting Standards Committee, have worked to develop a single set of international standards, the IFRS. The world's capital markets ebb and flow continuously and participants in that marketplace must have access to financial information that faithfully reflects their economic performance, is consistent among companies around the globe, and is governed by a trusted and respected authority of corporate compliance.

So far 41 standards have been issued by the IASB. Over 100 countries have accepted the IFRS wholly or agreed to have their national standards converged to the IFRS. In fact, application of IFRS has been made mandatory for listed companies in the European Union, Australia, Mauritius, Russia and Taiwan. The United States follows the Generally Accepted Accounting Principles (GAAP). However, the Financial Accounting Standards Board, the standard-setter in the US, entered into a memorandum of understanding with the IASB in October 2002 (the Norwalk Agreement), committing to adopt compatible standards and move towards convergence with the IFRS. India is slowly entering the arena of global accounting standards and harmonization. It has issued 29 standards so far, 25 of them in convergence with the IFRS. Complete convergence to IFRS is expected to bring down the risk premium of India among foreign investors and bring down the cost of foreign capital.

II. Issues And Challenges In Implementing Ias & Ifrs:

The book keeping system has now becoming very complex with the aggressive growth of the business entities. Many Indian companies are now concentrating external growth to increase their market share and business strength by way of acquisitions and amalgamations. Since the companies are spreading across the world and the reporting system has now considered being worthwhile. The investors are also now not hesitating to invest if the company is really fundamentally strong and has adopting good corporate governance system. Financial reporting systems have to be nimble and amenable to change so that finance professionals can respond to investor and analyst inquiries with confidence. Most companies are able to adopt a new accounting standard, but a truly successful transition depends on a company's ability to provide full audit trails, variance analyses, and reconciliations of prior standards to satisfy internal and external inquiries.

2.1: Accessing the Right Information:

Companies transitioning to IAS & IFRS will inevitably find themselves having to capture data in new ways or gathering additional information. They may need to use new accounting definitions and valuations for certain balance sheet and income statement lines, obtain more comprehensive reporting from overseas operations, provide more detailed segment reporting, or comply with wider disclosure obligations.

2.2: evolving international standards:

International Standards will challenge as governing bodies amend policies, set new standards, and adjust regulation processes and accounting profession grapples with an evolving collective understanding of IFRS in practice. In addition, the IFRS committee is providing guidance on financial reporting issues not specifically address to IFRS, so it will influence how IFRS are implemented.

2.3: new standards introduce discrepancies:

Discrepancies can occur between reports based on IFRS and those based on local GAAP simply because of a change in accounting policy or in the method of accounting policy or in the method of measurement. For example, IAS 39: Financial Instruments: Recognition and Measurement significantly changes reporting in the financial services industry, whereas IAS 16: Property, Plant and Equipment significantly changes reporting in capital intensive industries, such as manufacturing and utilities. Therefore, as companies attempt to implement IFRS, they are constantly calculating and recalculating management and statutory accounts to quantify the potential impact of the new standards. In addition, companies are spending considerable effort attempting to reconcile results achieved with different standards, and to tease out the reasons for the differences so that they can explain the effect the standards have on reported results.

2.4: management reporting:

These challenges also present obstacles to accurate and effective management reporting. Statutory reporting must be aligned with management reporting, and executives have to understand the impact that IFRS have on performance management and key performance indicators (KPIs). Forward-looking statements of performance based on IFRS have to be consistent with budgets based on the operational GAAP. Reporting tools and dashboards must be versatile enough to allow management to monitor, understand, and report performance based on whatever GAAP or other set of standards they choose. In a compliance culture, in which good governance equals superior management capability, nothing short of complete oversight of performance and risk is acceptable.

2.5: managing multiple frameworks:

Not only does management need to respond to the specific accounting policies and procedures laid down in IFRS, but it also needs to keep firm control of all of the other statutory requirements relevant to the group at the same time. It is this "multi-GAAP" view of the world that makes IFRS so challenging. How does management move from reporting one GAAP to another or local reporting requirements to IFRS without losing control? How can management be certain that results reported one way are consistent and reconcilable to the numbers reported another way? Do management's systems allow complete mastery of performance or is management to be continuously exposed to unexpected volatility of results?

III. Introduction Erp:

Enterprise Resource Planning (ERP) is the latest high-end solution that Information Technology has lent to business applications. ERP solutions streamline and integrate operation processes and information flows in the company to synergize the resources of an organization namely men, material, money and machine through information. An ERP system is a fully integrated business management system covering functional areas of an enterprise like Logistics, Production, Finance, Accounting and Human Resources.

It can also be defined as "an amalgamation of a company's information systems designed to bind more closely a variety of company functions including human resources, inventories_and financials while simultaneously linking the company to customers and vendors.

3.1: Need for ERP:

The recent changes that have been taken place in the Global Economy where in the entrepreneurs are letting their business to grow by leaps and bounds have demanded for an effective business control, accounting and reporting system. This is possible only through efficient and effective ERP software. The reasons that are led for going with an ERP are summarized below:

- Integration
- Financial Reporting
- Operational Efficiency
- Effective Decision Making
- Reducing the cost
- Minimizing the time frame
- Security

IV. A Brief About Oracle (Erp) Financials:

Oracle is the leader in Enterprise Performance Management (EPM), unifying Performance Management and Business Intelligence (BI), supporting a broad range of strategic, financial and operational management processes. Oracle provides a complete and integrated system for managing and optimizing enterprise-wide performance. This allows organizations to achieve a state of management excellence - being smart, agile and aligned - which provides competitive advantage and leverages their operational investments.

- **Smart**—Enable advanced integration that improves agility and lowers costs of ownership
- **Agile**—Integrate information from your financial performance management, operational intelligence, and transactional applications
- **Aligned**—Drive pervasive intelligence across the enterprise by linking strategic, financial and operational management processes.

Oracle Financial Analytics helps front-line managers improve financial performance with complete, up-to-the-minute information on their department's expenses and revenue contributions. Hundreds of key performance indicators and more than 200 reports enable financial managers to improve cash flow, lower costs, and increase profitability while maintaining more accurate, timely, and transparent financial reporting that helps ensure Sarbanes-Oxley compliance.

V. Addressing Ifrs Challenges With Oracle's Financial Management Solutions:

Oracle's Financial Management Solutions provide a complete offering for all of your Accounting systems, financial control and reporting needs. Oracle E-Business Suite Financials records business transactions according to the accounting rules you define, whether they're based on IAS or AS or IFRS. If you operate a single consolidated general ledger or ERP instance, then the consolidation and reporting capabilities in Oracle E-Business Suite Financials can easily support IFRS reporting. If your company has complex entity relationships and consolidation structures across heterogeneous environments, then Oracle's market-leading consolidation and reporting module, Hyperion Financial Management (HFM), is the right solution for you. Hyperion Financial Management complements existing ERP and transaction systems by integrating data from multiple sources, providing a common view across the enterprise, and enabling an integrated financial management process that helps businesses comply with stringent reporting regulations.

Oracle's enterprise performance management system helps finance professionals confidently meet and exceed the levels of versatility in analysis and transparency in reporting that are now required globally. This application suite offers three modules that enable companies to generate reports that comply with current requirements, as well as respond quickly and accurately to new requirements as global standards and policies evolve. These modules are Oracle Hyperion Financial Management, Oracle Hyperion Financial Data Quality Management, and Oracle Hyperion Strategic Finance.

The following modules will address the above challenges effectively in Oracle ERP:

5.1: Oracle's E-Business Suite with General Ledger (GL) and Sub-ledger Accounting (SLA) Functionality,

5.2: Oracle's Hyperion Financial Management,

5.3: Oracle's Hyperion Financial Data Quality Management,

5.4: Oracle's Hyperion Strategic Finance, 5.5: Oracle's Governance, Risk and Compliance (GRC) Controls Suite.

5.1: Oracle's E-Business Suite with General Ledger (GL) and Sub-Ledger Accounting (SLA) Functionality:

The process of standardizing accounting policies usually involves documenting the policy, communicating it to those who must apply it, and ensuring the standard policy is enforced. Sub-ledger Accounting, a common accounting engine in Oracle E-Business Suite Financials, enables you to standardize your accounting policies, document them in the form of user-defined accounting rules, and distribute them across the entire enterprise, ensuring that everyone adheres to the same set of rules. The rules that you define centrally determine the appropriate accounting for all transactions, and users without access to the rules cannot modify or override them.

Oracle General Ledger is a base module where we define the Chart of Accounts, Accounting Periods, Accounting Calendars, Multiple Currencies and other vital information and we do all the relevant setups that are required to create and maintain the accounting information of the business. The General Ledger needs to be setup according to the business requirement and also the complexity of the business. Before the setting up the General Ledger, the reporting system should be well defined and depending on which the total accounting system lies.

In addition, the Sub-ledger Accounting engine reduces reconciliation issues caused by the recording of accounting entries to the wrong account. For example, reversing a supplier liability or customer receivable when cash is dispersed or received can easily introduce problems if the liability or receivable account that is reversed doesn't match the one used to record the original invoice. Sub-ledger Accounting prevents problems related to this kind of string of events or transaction flow by 'remembering' the original account that was used in the initial event (i.e. invoicing), and ensuring that the same account is reversed during the subsequent event (i.e. payment). It also lets you define, test and validate accounting rules so that you have little risk of error when generating journal entries.

Sub-ledger Accounting, in combination with Oracle's Financial Services Accounting Hub, can be used in heterogeneous application environments to centralize accounting data from any third party transactional system. Together, they offer an open repository and a centralized accounting engine for transactional data from any third party source. The accounting engines behave like a detailed version of your general ledger and provide a rich store of information for reporting and analysis.

5.2: oracle hyperion financial management:

Oracle Hyperion Financial Management is an IFRS-compliant, Web-based financial systems application that consolidates global reporting and analysis in a single, highly scalable solution.

- Helps companies align the processes for collecting financial results, operating results, and sustainability information in response to investor demands for increased disclosures of both financial and non-financial metrics.
- Streamlines the collection, consolidation, and reporting of financial and non-financial information. The result is more control and consistency over financial and non-financial reporting, improved data integrity and audit trails, as well as savings in time, effort, and costs.
- Supports standardized consolidation and reporting processes in compliance with IAS, IFRS, and local statutory requirements.
- Provides all inter-company eliminations, multicurrency translations, and minority interest calculations, delivering them quickly and cost-effectively out of the box.
- Comprised of entity structures which define the group structure, i.e., the management or statutory hierarchies of reporting units and a chart of accounts hierarchy which maintains the relationship or roll-up of account lines used in management and statutory reporting.

5.3: oracle's hyperion financial data quality management:

Oracle's Hyperion Financial Data Quality Management, together with Oracle's Hyperion Financial Management, eliminates the data integrity risks associated with collecting, mapping, verifying, and moving critical financial data from multiple source systems. It allows business analysts to develop standardized financial data management processes and validate data from any source system—all while reducing costs and complexity.

- It helps in integrating the data from any local source system. Local end users are responsible for reporting quality data for corporate consolidation because these users are closest to the accounting sources and can react easily and quickly to errors or inconsistencies.

- Validates that reported data has been correctly mapped and ensures accurate communication and consistency among local and corporate systems, no matter which standards are used.
- Develops standardized financial data management processes, and integrate and validate financial data from any of their source systems.

5.4: oracle's hyperion strategic finance:

Oracle Hyperion Strategic Finance module effectively addresses the challenges in Strategic planning. Since the introduction of IFRS, proliferating standards in global reporting have affected more than how companies integrate and report data. From a strategic standpoint, management must continue to plan for different business scenarios, carry out business sensitivity analysis, and adjust inputs and assumptions based on strategic goals. Its features include:

- Forecasting capabilities enable management to develop a suitable economic model of the business as a critical context for developing strategy.
- Capability to test alternative strategies, build contingency plans, and learn what the impact of those strategies and plans would be on the company's long-term performance.
- Makes it possible to create a complete economic model of the business and allows management to run asset impairment tests within this context. In doing so, the company's key decision-makers can determine the effects of applying different IFRS and IAS guidelines and other critical results.

5.5: Oracle's Governance, Risk and Compliance (GRC) Suite:

Oracle's Governance, Risk, and Compliance Suite enable you to gain insight into critical risk areas with executive dashboards and drill-down reporting, prioritize control activities with quantitative and qualitative assessments, and accelerate risk response with integrated risk reporting and remediation. Oracle's unified view of financial close processes and associated controls enables you to better assess and scope controls, as well as gain a greater level of confidence from auditors.

Additionally, Oracle's GRC application suite provides the most comprehensive solution for managing GRC processes, integrating robust process management capabilities with automated controls monitoring. As the leading provider of enterprise GRC and financial consolidation platforms, Oracle offers the winning combination for financial reporting and compliance assurance.

VI. Conclusion:

International Financial Reporting Standards (IFRS) are standards and interpretations issued by the International Accounting Standards Board (IASB). IFRS is considered more principles-based and is less detailed than, for example, U.S. GAAP. Over 100 countries have already adopted IFRS for public company filing. Countries currently in the process of adopting IFRS include Brazil, Chile, and Canada. Other countries such as Japan and India have begun converging their national GAAP to IFRS. In the United States, the Securities and Exchange Commission (SEC) has proposed a roadmap outlining the potential adoption of IFRS by U.S. issuers. The proposed roadmap could allow some American corporations to start filing under IFRS as early as 2011. IFRS is already adopted in more than 110 countries as of now and countries like Canada, Brazil, India, Korea and Japan is planning for IFRS compliance by 2011.

In the context of globalization, the use of ERP software has become an evitable tool for the purpose of effective integration and reporting system to all the stake holders as per the requirements of both local accounting compliance standards (AS) and international standards (IAS). Developing economies like India, many companies are now spreading across the globe aggressively and the demand for the implementation of IFRS and IAS has becoming mandatory. All the critical issues that are associated with the implementation of IAS and IFRS can be addressed efficiently with the help of ERP application. Both the time and the cost can also be minimized in developing the reports according to local statutory requirements and for the purpose of IFRS and IAS.

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