



The Leader in Oil and Gas  
Information Technology

**Software Implications ...**

**International Financial  
Reporting Standards - IFRS**

January 2009

# Agenda

## Impact of IFRS on Financial Systems

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- Overview
- Software Implications
  - IFRS 8 – Operating Segments and Cash Generating Units
  - IFRS 6 – Exploration & Evaluation Costs
  - IAS 16 – Property, Plant & Equipment
  - IAS 36 – Impairment
  - IAS 23 – Borrowing Costs
  - IFRS 1 – First Time Adoption of IFRS
- Client Preparation
- Summary



# Overview

## Vendor Responsibilities

- Become knowledgeable with the requirements and the impact on the software
- Seek out client and expert participation, involving their client advisory board
- Identify potential gaps at an early stage
- Goal should be to minimize manual activities required by the user
- Ensure that adequate staff exists to support clients during the transition
- Involve Audit / Client Advisory firms that could assist clients in the transition
- Develop best practices for implementing supporting modules
- Continuous communication

## Software Vendor's Best Practices For IFRS

- Dedicate Senior Oil & Gas technical accountant(s) to focus exclusively on IFRS
- Form both a steering committee and a working group with representatives from all financial management teams (development, consulting, support, and marketing)
- Analysis of IFRS requirements, and identify the requirements that would impact the oil & gas industry
- Match the requirement with features within application
- Identify any gaps
- Develop a plan to deal with the gaps
- Develop a plan to help clients transition to IFRS

# Software Vendor's Best Practices For IFRS

- ▶ Client Advisory Board (CAB) & IFRS Focus
  - Start early, focus on IFRS
  - Involve a cross section of clients - small-mid-large, upstream-midstream, CAPP / SEPAC committee members
  
- ▶ Client Communications
  - Ongoing general communications, user groups, CAB
  - IFRS Knowledge Base resource centre
  - Series of client workshops on IFRS
  - Early 2009 "IFRS Revisited" (post CAPP guidance)

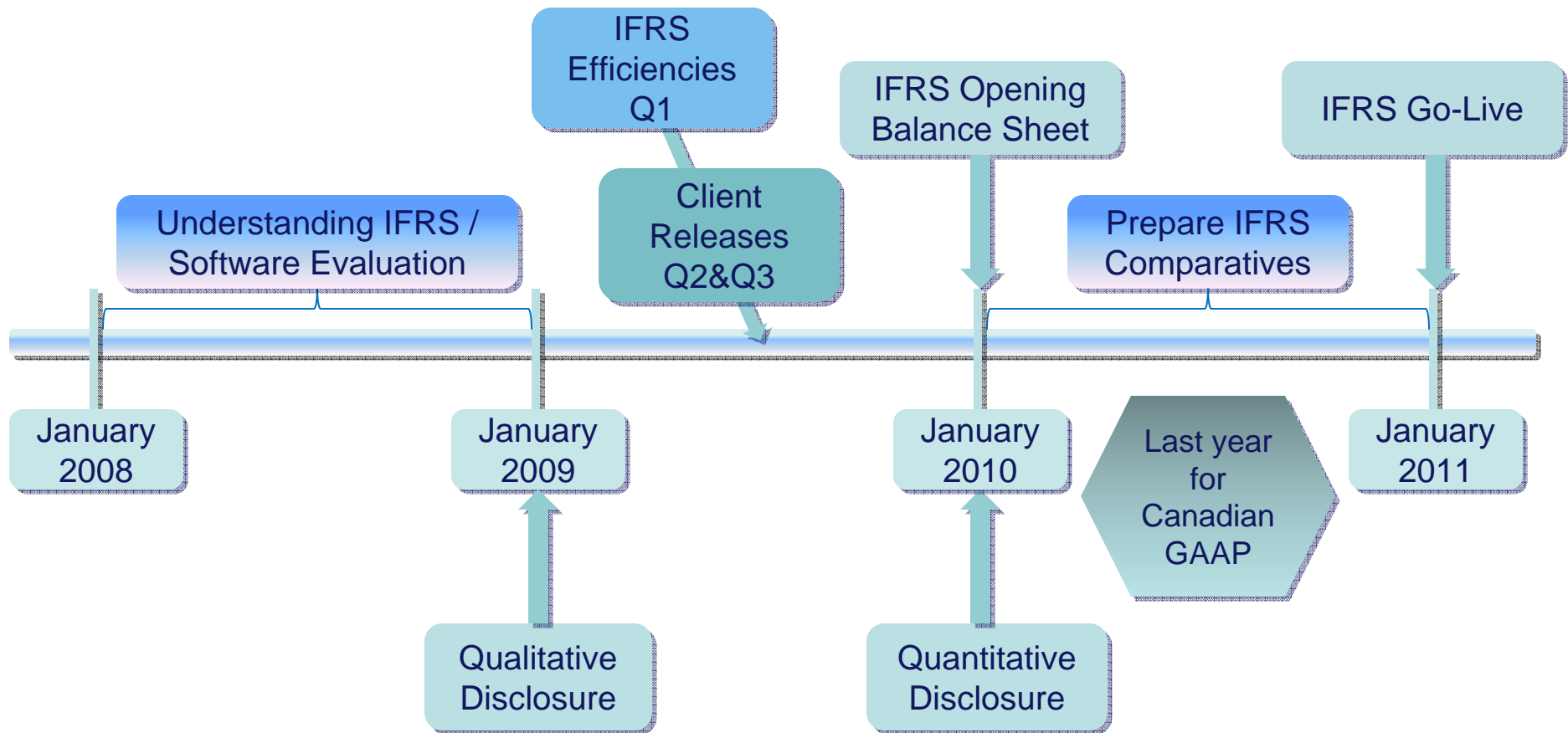
# Software Vendor's Best Practices For IFRS

- ▶ Audit / Client Advisory Firms - PwC, E&Y, Deloitte, and KPMG
  - 1-on-1 initial research sessions with each firm
  - Client-Auditor-Vendor joint sessions on IFRS
  
- ▶ Industry
  - CAPP dialogue on expected guidance
  - IFRS training sessions for our business partners

## IFRS Deliverables

- ▶ IFRS Services
  - Project planning
  - Training sessions for modules that may be new to a client
  - Updating documentation to include references to IFRS
  - Developing best practices and data conversion support
  
- ▶ Development
  - Preparing IFRS working environment
  - Efficiency enhancements developed for 2009 timeline

# IFRS Timeline





# Software Implications

# Software Solution to IFRS

## IFRS Requirement

- ▶ IFRS 8 – Operating Segments
- ▶ IFRS 6 – Exploration for and Evaluation of Mineral Resources

## Software Solution

- ✓ Reporting Hierarchies
- ✓ WIP (Work In Progress) Process to Accommodate Full Cost and Successful Efforts

# Software Solution to IFRS

## IFRS Requirement

- ▶ IAS 16 Property, Plant and Equipment
- ▶ IAS 36 & 23 – Impairment & Borrowing Costs
- ▶ IFRS 1 – First-time Adoption of IFRS (2010 comparative reporting)

## Software Solution

- ✓ Depreciation, Depletion, & Amortization module
- ✓ Chart of Account structure
- ✓ Reporting Hierarchies, Multiple General Ledgers, Consolidated trial balance reporting



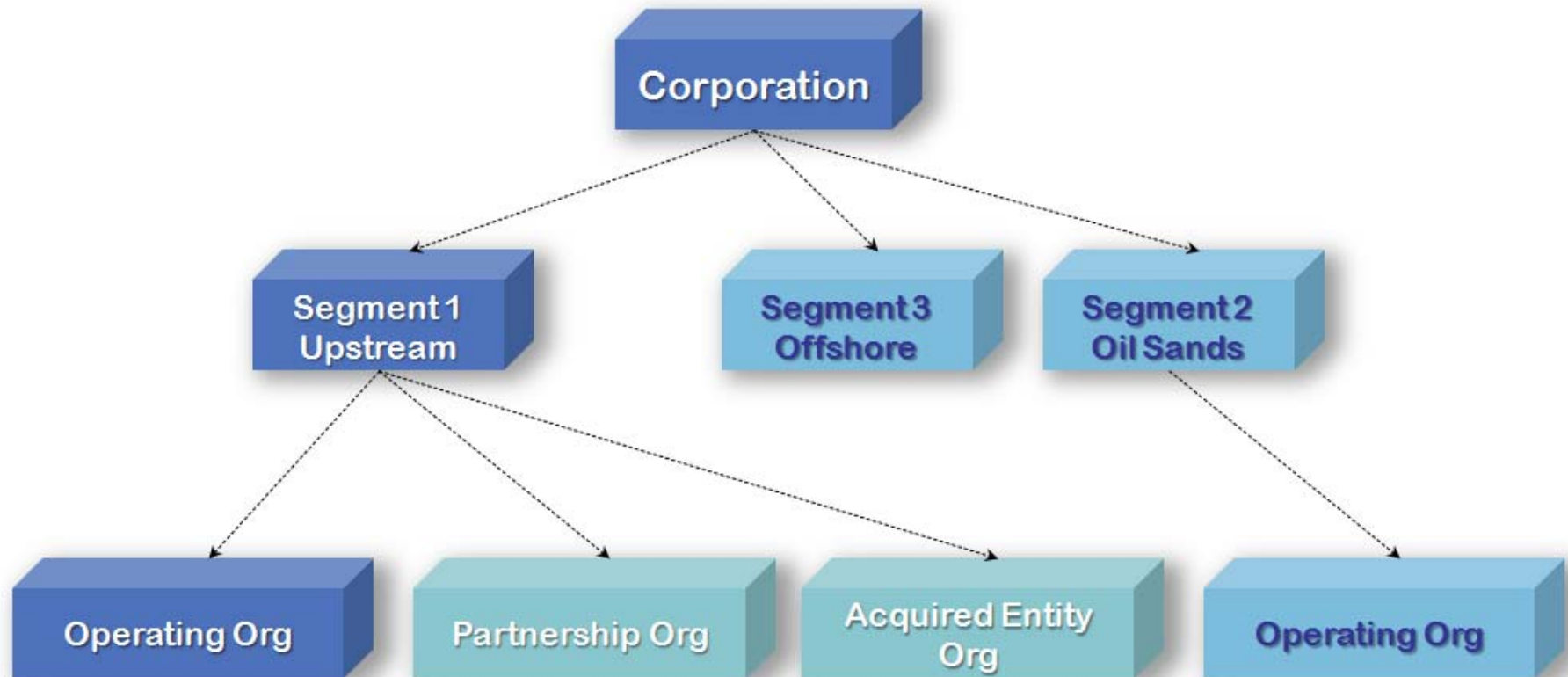
# Operating Segments

## IFRS 8

# IFRS 8 Operating Segments

- ▶ Summary
  - Requires an entity to report segment profit and loss and segment assets in annual financial statements
  - Components of an entity are evaluated regularly by management when assessing performance
  
- ▶ Software Implications ...
  - Reporting Hierarchies
  - Multiple General Ledgers
  - Assets, Revenue/Expenses recorded at cost centre or business unit level

## Example of Multiple Organization Structure (or Segments)



# Operating Segments

- ▶ Software Implications ...
  - Reporting Hierarchy should include Segment level
  - In most cases, the asset reporting requirements can be met at the organization level
  - The ability to group accounts for IFRS 8 to simplify reporting requirements

## **An Application Should Support:**

- ▶ Organizations or entities that can be:
  - Internal legal companies
  - Divisions
  - Partnerships
  - Etc.
- ▶ That roll up to Lines of business (segment)



# Cash Generating Unit (CGU)

## Cash Generating Unit (CGU)

- A CGU is the smallest group of assets that generates cash inflows largely independent of other assets or groups of assets
  - A CGU in an upstream entity will often be identified as an area and its supporting infrastructure assets
  - Reserves are also maintained at the CGU level
- ▶ Software Implications ...
- Oil and gas assets are represented by cost centres that are linked to a CGU, or likely an area level, in a reporting hierarchy

## Example of an IFRS Hierarchy With Multiple Organizations (or Segments)



## **An Application Should Support:**

- Multiple Hierarchies
- Flexibility to define your CGU at any level within a hierarchy
- That roll up to Lines of business (segment)
- Ability to code costs at the lowest level



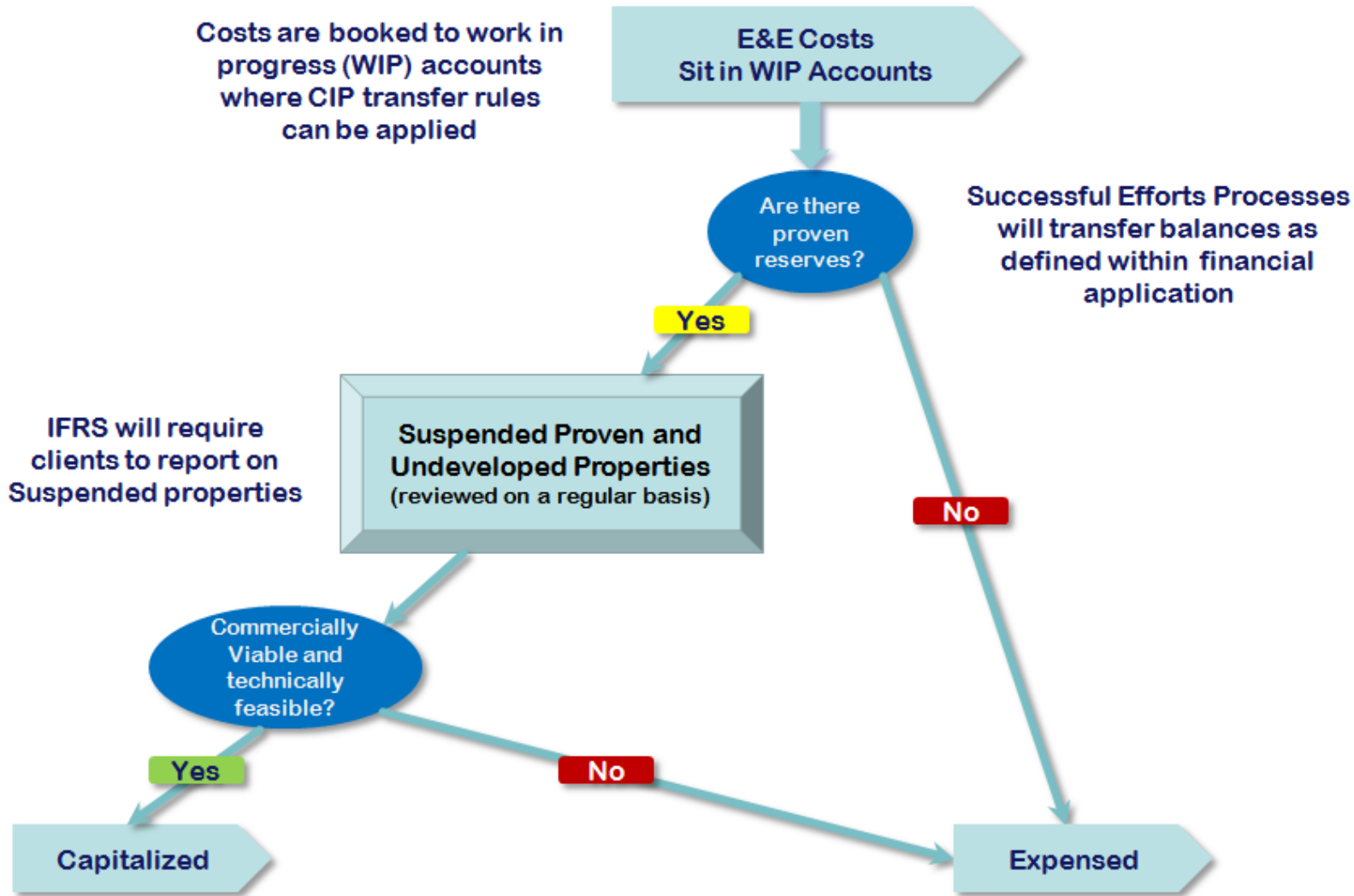
# Exploration and Evaluation Costs

## IFRS 6

# IFRS 6 – Exploration for and Evaluation (E&E) of Mineral Resources

- ▶ Summary
  - Allows continued use of existing accounting policies for E&E costs i.e. full cost or successful efforts
  - Impairment of E&E costs
  - Disclosure must identify and explain E&E costs
  
- ▶ Software Implications ...
  - Application should be able to manage modified Full Cost and/or Successful Efforts

## Exploration and Evaluation Costs



## **An Application Should Support:**

- Ability to automatically transfer costs dependant upon business requirements (Commercial viability)
- Rules are applied and controlled at the AFE
- Ability to transfer by Organization
- Full audit and transaction tracking
- Reporting that supports the processes and audit trail



# Property, Plant, & Equipment

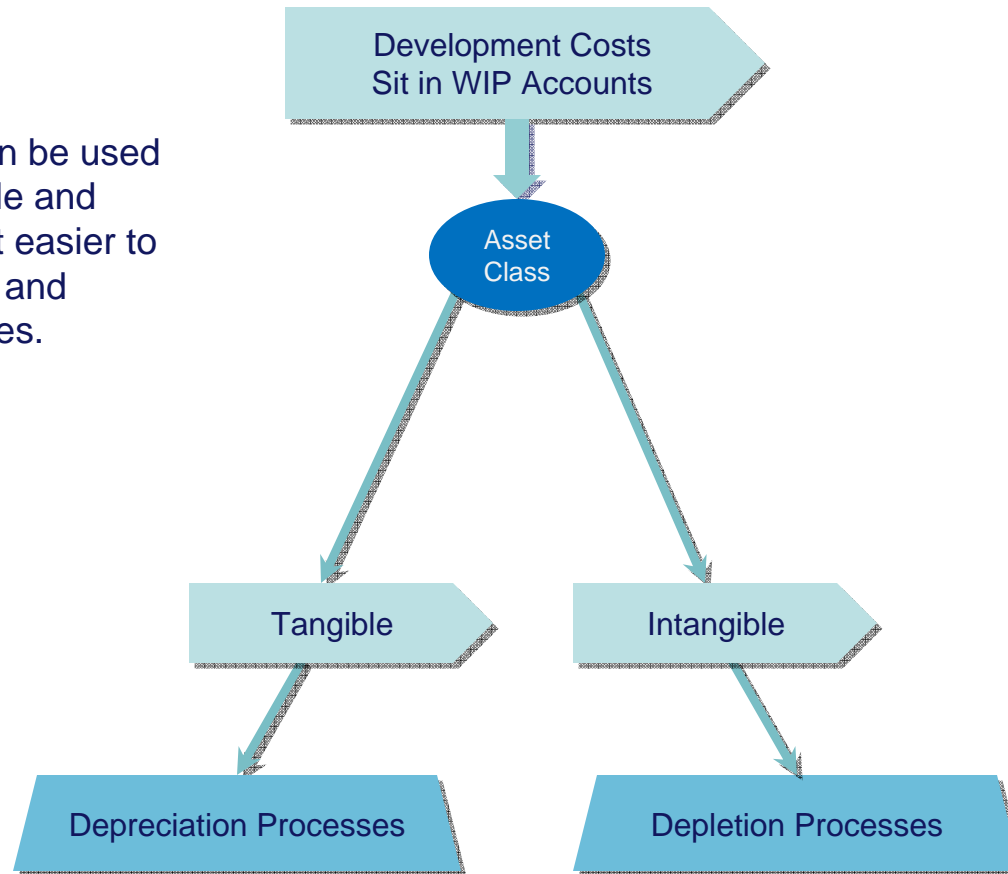
## IAS 16

# IAS 16 Property, Plant and Equipment

- ▶ Summary
  - Defines allowed capital costs
  - Allows either cost model or revaluation model for asset valuation subsequent to acquisition
  - Components of an asset depreciated separately
  - Depreciation charged over assets useful life
  
- ▶ Software Implications...
  - Capability to automatically book Depreciation, Depletion, and Amortization rules at a component level

## Transfer Development Costs

The WIP Transfer module can be used to sum up the tangible and intangible cost, making it easier to generate depletion and depreciation entries.



## **An Application Should Support: Depletion and Amortization (DD&A)**

- Application must have the ability to calculate depletion
- Application must have the ability to record production gas and oil volumes, as well developed and undeveloped reserves in order to deplete using the Units of Production method
- Ability to group properties together, ie. Cash Generating Unit level (for depletion processes)

# An Application Should Support: Depreciation

- ▶ Various Methods:
  - Straight line amortization may be appropriate for some assets
  - Whereas others may require declining balance
- ▶ Componentization
  - Application must have the ability to keep assets separate from others in order to apply different write-off requirements
  - Have the ability to account for additions or improvements that extend the asset's useful life



# Impairment

## IAS 36

# IAS 36 Impairment of Assets

- ▶ Summary
  - An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount
  - Impairment calculations are at the **cash generating unit**
  - Reversal of prior years' impairment losses is permitted
  
- ▶ Software Implications ...
  - Assets and reserves can be reported at the CGU level for impairment calculations using reporting hierarchies



# Borrowing Costs

## IAS 23

## IAS 23 Borrowing Costs

- ▶ Summary
  - Borrowing costs directly attributable to production or construction of qualifying assets must be capitalized
- ▶ Software Implications ...
  - Borrowing costs should be coded to a unique capital account by AFE and or Cost Centre so the charges can be easily identified by capital project. The account balance may also be depreciated over the useful life of the asset



# First Time Adoption for International Financial Reporting Standards

## IFRS 1

# IFRS 1 First-time Adoption of IFRS

- ▶ Summary
  - Assets recognized in the opening balance sheet measured in accordance with IFRS (cost versus fair value)
  - Comparative information for prior period (2010) shall be in accordance with the IFRS standards
  - Optional and mandatory exemptions
  
- ▶ Software Implications ...
  - Consolidation reporting with working paper organizations facilitating adjusting entries
  - Chart of Account structure and logical account groups for report simplification

## **An Application Should Support:**

- The ability to maintain a common chart of accounts
- Ability to book working paper entries in a separate organization within the system
- Ability to include or exclude the working paper organization to report in either Canadian GAAP or in IFRS
- Combine a variety of company general ledgers together for consolidated reporting
- Help to minimize manual effort



# Client Preparation

## Survey the Landscape

- ▶ What else is happening?
  - What other IT projects are underway?
  - Consider the impact of outsourced applications and infrastructure
  - Implement a Program Management Office
    - Develop a project plan
    - Budget for the project, there will be both internal and external costs
    - Build your team
    - Assign a project lead
    - Contact your software vendor, find out what their system can do to support your requirements
    - Audit / Advisory firms, understand the support that they can offer

## Spreadsheets

- ▶ They are everywhere and IFRS is likely to see even more instances of use throughout financial processes
- ▶ Where possible, use your financial system's features to minimize the reliance on spreadsheets
- Remember!** Incidence of error increases with complexity and size
- ▶ Apply sound IT development, change, access and security practices
  - Inventory and documentation
  - Development lifecycle
    - Requirements
    - Design
    - Logic inspection
    - Build
    - Test
    - Maintenance

## Spreadsheets (Con't)

- ▶ Applying IT practices
  - Change control
  - Version control
  - Segregation of duties
  - Access controls / passwords
  - Input controls
  - Lock down embedded data
  - Backups
  - Archives



# Summary

## Things to Watch for

- ▶ Does your software support:
  - Modified Full Cost or Successful Efforts accounting policies
  - Handle multiple reporting hierarchies
  - Support a common chart of accounts that facilitate consolidation reporting across segments
  - Comparative Reporting
  - Provides for automated DD&A at a CGU level
  - Minimizes manual effort
  - Allows for scalability for the potential of increased volumes of transactions that IFRS will drive
  - Understand the impacts to other systems
  - Address impacts to reports developed outside of the core financial application
  - Minimize the reliance on spreadsheets where possible



## For Further Information:

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