

# Hitachi IFRS Solution Based on Experience with 2011 Mandatory Adoption of IFRS in South Korea

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*OVERVIEW: The Hitachi IFRS Solution was developed by extending existing solutions based on experience with companies in South Korea, where adoption of IFRS was made mandatory in 2011. LG CNS Co., Ltd. is a global IT solution provider based in South Korea with experience in incorporating IFRS into SAP systems for multinational companies including LG Group. Hitachi has drawn on this experience to support the fast and efficient implementation of planning, implementation, operation, maintenance, and other processes. Hitachi provides consulting and implementation services for this solution in partnership with LG Hitachi, Ltd., a joint venture between LG Electronics, Inc. and Hitachi.*

## INTRODUCTION

ADOPTION of IFRS (International Financial Reporting Standards) has been growing internationally since it became mandatory in EU countries in 2007.

In June 2011, the Financial Services Agency in Japan announced a postponement in the mandatory adoption of IFRS by Japanese listed companies, which

was previously intended for 2015 or 2016 based on its conclusion that IFRS adoption would require a period of five to seven years' preparation.

This has given Japanese listed companies time to prepare for IFRS adoption, including spreading the work over the available time and putting adequate organizational measures in place (see Fig. 1).

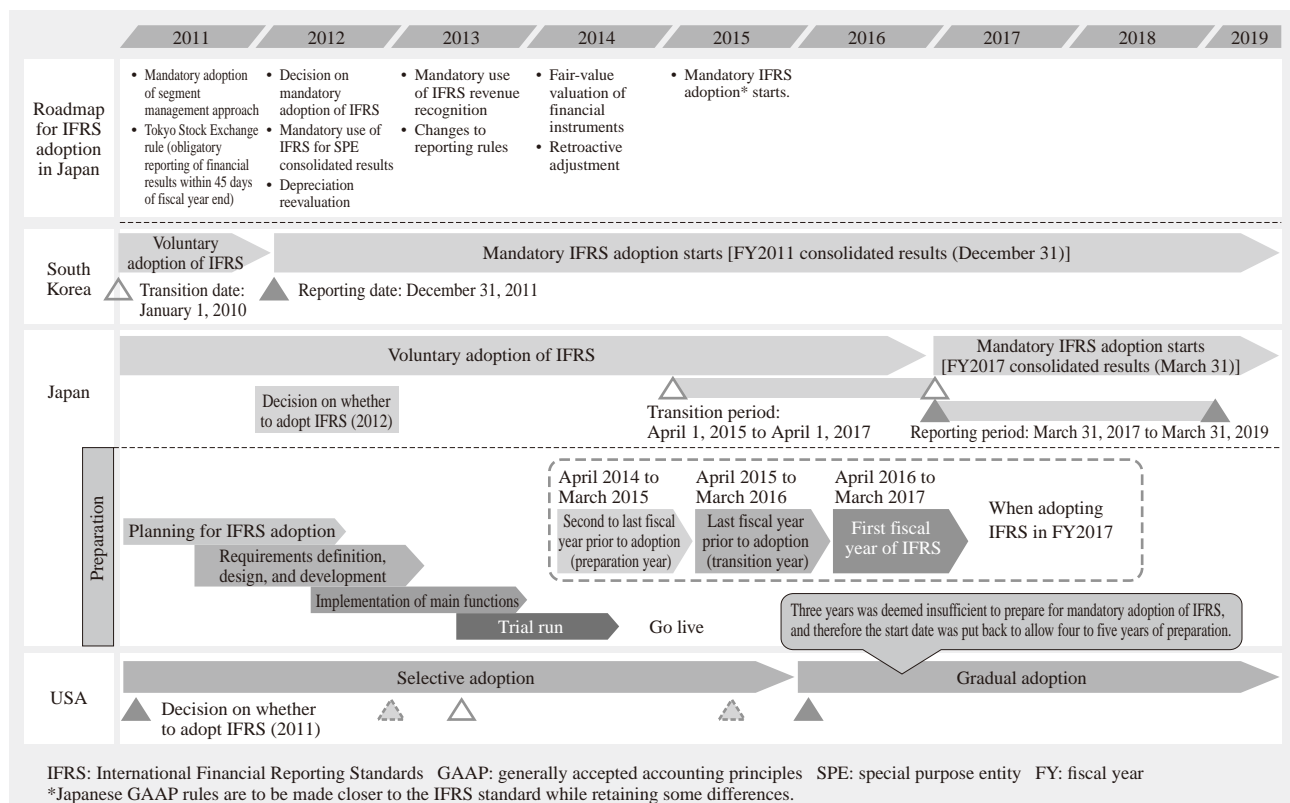


Fig. 1—IFRS Adoption Roadmap.

To date, more than 110 countries have adopted IFRS. In Japan, voluntary use of IFRS has been permitted since 2010.

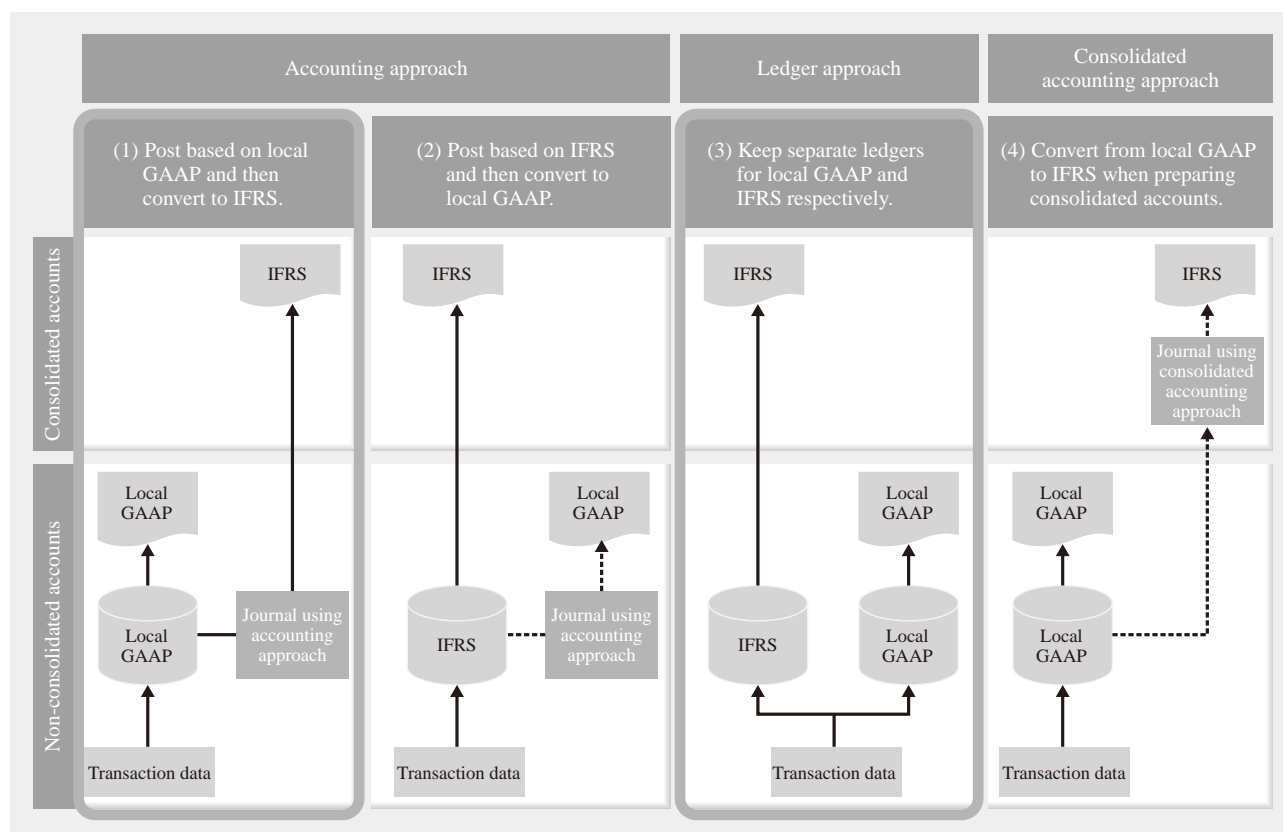


Fig. 2—Approaches to IFRS.

Four different approaches can be considered for incorporating IFRS into ERP (enterprise resource planning) systems.

Consequently, Hitachi has focused on South Korea, where IFRS has already been made mandatory (in 2011), and acquired know-how regarding how LG CNS Co., Ltd. went about incorporating IFRS into SAP\* systems at the LG Group.

This article describes how Hitachi has utilized this know-how to develop the Hitachi IFRS Solution.

Meanwhile, the USA has also reviewed the mandatory adoption of IFRS, which had been scheduled to commence in December 2014, deciding in June 2010 to shift the date back to 2015 or 2016.

## MANDATORY ADOPTION OF IFRS IN SOUTH KOREA

South Korea established an accounting standards board in February 2006 and formulated the K-IFRS (Korean IFRS) in which reporting standards and interpretation guidelines are nearly identical to IFRS.

South Korea then decided in 2009 to make adoption mandatory for all domestic listed companies with more than two trillion Korean won in assets from 2011.

Whereas Japan intends to adopt IFRS for consolidated accounts only, South Korea decided

to adopt IFRS for both consolidated and non-consolidated accounts. South Korea is also revising its tax accounting standards to comply with IFRS.

## SOUTH KOREA'S EXPERIENCE WITH SYSTEM IMPLEMENTATION

### Incorporation of IFRS into Information Systems

As South Korea differs from Japan in its adoption of IFRS for consolidated, non-consolidated, and tax accounting standards, Korean companies are typically not adopting the practice of keeping separate ledgers for IFRS and local GAAP (Generally Accepted Accounting Principles) standards respectively.

The following considerations need to be taken into account when applying experience from South Korea to the incorporation of IFRS into information systems at Japanese companies.

In many countries, IFRS has only been adopted in part rather than in its entirety (which includes consolidated, non-consolidated, corporate, and tax accounting standards).

This means that information systems often need to support both IFRS and local GAAP standards. Specifically, Hitachi has identified four different approaches to this problem depending on whether

\* SAP is a registered trademark of SAP AG in Germany and in several other countries.

entries are made based on IFRS or the local GAAP standards and the timing at which conversion between the two is performed.

The first approach is to post entries using local GAAP standards and perform IFRS conversion subsequently and the second is to post entries using IFRS standards and perform local GAAP conversion subsequently. These two methods are called the “accounting approach.” The third is called the “ledger approach” and involves keeping two ledgers for the local GAAP and IFRS standards respectively. The fourth is the “consolidated accounting approach” whereby conversion from local GAAP to IFRS standards is performed when preparing the consolidated accounts (see Fig. 2).

These different approaches have various advantages and disadvantages. An advantage of the accounting approach is that existing ledgers can be used, and therefore information system development is less expensive. The disadvantage is having several journal entries on a ledger based on different standards. The ledger approach, on the other hand, uses separate ledgers for local GAAP and IFRS, but this requires time-consuming and costly information system development. Although the consolidated accounting approach is the cheapest of these options, it does not allow non-consolidated company accounts to be assessed on an IFRS basis.

Hence, it is necessary to adopt the approach that best suits the customer’s situation.

### Utilization of LG CNS Experience

When incorporating IFRS into a customer’s information system, LG CNS found that many customers, including companies within the LG group, had adopted the accounting approach whereby entries were posted using local GAAP standards and then converted to IFRS in accordance with South Korea’s IFRS requirements.

Other companies that needed to consider reporting requirements outside South Korea used the ledger approach of keeping separate ledgers for local GAAP and IFRS (in practice, however, many companies ended up only using the IFRS standards as the differences between the financial results produced by the two standards were small).

Based on this experience, Hitachi decided to offer solutions to Japanese companies that are capable of supporting both IFRS and the local GAAP standards. In other words, Hitachi’s solutions use both the accounting approach and ledger approach. Hitachi assumes that, as

often happened in South Korea, Japanese companies will adopt one of these two approaches.

The experience gained by LG CNS included useful information about incorporating IFRS into SAP, which is the most widely used ERP (enterprise resource planning) system software worldwide.

As of the end of 2010, only one company in Japan had adopted IFRS (Nihon Dempa Kogyo Co., Ltd.). This means that the experience of companies in South Korea can provide many useful pointers. Hitachi believes that applying this experience to suit the situation at Japanese companies will bring numerous benefits to its customers.

### DEVELOPING HITACHI IFRS SOLUTION

In drawing on the experience of LG CNS in the adoption of IFRS, Hitachi needed to take account of differences such as language, culture, and the local GAAP standards. It was able to do so thanks to cooperation from LG Hitachi, Ltd., which has consulting skills in both Japan and South Korea. LG Hitachi also acted as a coordinator in the collaboration between Hitachi and LG CNS (see Fig. 3).

To satisfy the requirements of Japanese companies, Hitachi applied the experience of LG CNS in the following ways.

(1) To satisfy the requirements of Japanese companies, changes were made to the accounting approach in which entries are posted based on the local GAAP standards and then converted to IFRS (the approach most commonly adopted by companies in South Korea). (Japanese companies can decide whether to

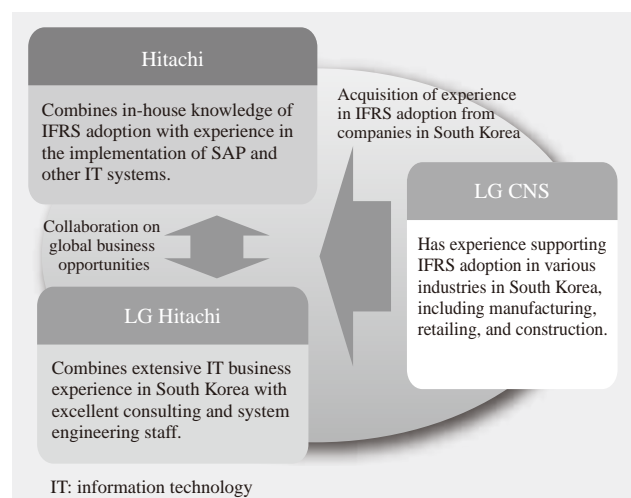


Fig. 3—Collaboration between Hitachi, LG CNS, and LG Hitachi.

The three companies have taken advantage of synergies by working together on preparing the solution.



Fig. 4—Hitachi IFRS Solution Consortium.  
To date, 11 companies have joined the consortium since its launch in March 2010.

use the accounting approach or ledger approach.)  
(2) Customer survey forms and worksheets for defining customer requirements were prepared. These requirements include system changes not directly related to accounting.

In March 2010, in cooperation with LG Hitachi and LG CNS, Hitachi hosted a conference in South Korea for Japanese companies considering adopting IFRS to persuade them about the benefits of learning from South Korea's experience.

Hitachi also launched the Hitachi IFRS Solution Consortium around the same time, with companies from within the Hitachi group joining as consortium members. The aim was to strengthen and promote Hitachi's IFRS business (see Fig. 4). Hitachi invited experts with knowledge of IFRS application requirements and accounting systems to join the consortium. They are currently contributing their knowledge to the development of new solutions suitable for Japanese companies.

## CONCLUSIONS

IFRS is constantly being updated to offer useful information to those involved.

In situations where each company in a group operates its own financial system, adoption of IFRS requires the separate upgrading of all of these systems, and this significantly increases the amount of operation and maintenance work that the group has to undertake.

On the other hand, adopting IFRS is much easier if all group companies use the same financial system with common financial policies. This also reduces operation and maintenance costs.

Accordingly, the adoption of IFRS has been a catalyst for Japanese corporations to consider standardizing the financial systems used within their group companies.

Hitachi intends to strengthen the Hitachi IFRS solution in partnership with its affiliates, which include LG Hitachi, the member companies of the Hitachi IFRS Consortium, and LG CNS. Furthermore, Hitachi will streamline and extend its solution while aiming to extend its introduction to the overseas sites of Japanese companies.

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