



One step closer

– IFRS global conversion services

Accounting Advisory Services

The growing globalisation of business operations, and hence the need of investors for transparent and comparable financial information, are what call for the International Financial Reporting Standards (IFRS). Today IFRSs are accepted accounting standards in more than 100 countries around the world. Every single EU Member State prescribes the application of IFRS for companies listed on the stock exchange, while countries such as India, Canada and Korea are also in the process of switching over. In the US there is a harmonisation project in progress, melding IFRS and US GAAP. The main purpose of the project is a single set of high quality, comprehensive financial reporting standards to be used by public companies throughout the world. According to the current legislation in effect in the US, there is no requirement to use IFRS, but it is recommended to provide an option for adopting IFRS for preparing financial statements for listed entities.

Application of IFRS in the European Union and Hungary

The European Union has begun the process of harmonising accounting standards for all Member States. This will result in IFRS supplanting local accounting standards and regulations in the near future.

Since 1 January 2005, EU regulations and the Hungarian Act on Accounting have mandated that companies listed on the stock exchange in Hungary compile their consolidated annual financial statements in accordance with the IFRS as adopted by the European Union. Government regulation nr. 1387/2015 (VI. 12.) approves the local adaptation of IFRS in separate financial statements. The government regulation prescribes mandatory adaptation of IFRSs for some companies, and for some other companies it will be optional to choose IFRSs for their separate financial statements instead of the Hungarian Accounting Law.

The change in the regulatory environment is a milestone in the local adaptation of the IFRSs. This is an opportunity for Hungarian companies to prepare internationally understandable and comparable financial statements for their stakeholders which present the accounting processes based on their substance.

KPMG's approach to first time application of IFRS

Whether the adaptation is mandatory or optional, it is important to note that converting to IFRS can involve much more than just changing from one accounting framework to another. There are many, significantly different reporting and disclosure requirements that must be complied with, which cause material differences when compared to the accounting set-up prior to the switch.

The KPMG Accounting Advisory Group in Hungary specialises in converting from one accounting system to another. Our staff are well aware that this is more than just an accounting issue – the conversion can have impact upon the entire organisation, and hence they are well-versed in managing all aspects of the conversion process, with broad expertise in successfully implementing and coordinating complex, global and high-volume projects.

KPMG specialists working on such projects bear the required level of professional experience and advisory skills, which means, in addition to a high level of accounting support during the conversion, we can help with the effective progression of the project via customised strategies. Our staff have gained experience in standards' conversion in many sectors.

The KPMG Global Conversion Services (GCS) methodology is a standard approach of KPMG member firms for converting to IFRS. Our process begins by providing a theoretical grounding to ensure your staff gain familiarity with the different orientation required by

IFRS; we help them in identifying and quantifying differences, and we assist in drafting financial statements upon the first-time adoption of the standards and in preparing the mandatory disclosures. We also help in handling the conversion in accounting systems, defining and managing new data requirements and in determining the data required from subsidiaries.

Our methodology breaks down as follows:

1. Analysis of differences and elaboration of IFRS accounting policies

The first step in preparing for IFRS conversion involves reviewing the accounting policies prepared under the Hungarian accounting rules, examining the differences compared to IFRS requirements, analysing the accounting and disclosure variances and then preparing the IFRS accounting policies and planning their implementation.

To facilitate the recognition of such differences we organise “workshops” on various areas with decision-makers and colleagues responsible for authoring elements of the IFRS accounting policies. All of these discussions comprise a theoretical review, which is aimed at providing information about and discussing the main provisions of the given IFRS. The objective of the workshops is to provide help in identifying the critical decision-making aspects via an understanding of the theoretical background. Documenting these decision-making aspects forms the basis of the IFRS accounting policies.

When considering the differences we respond, amongst others, to the following key issues:

- What is the date of transition?
- What is the company’s functional currency and what will the presentation currency of the IFRS financial statements be?
- What IFRS differences arise, are they significant and how should they be quantified?
- What special rules are there in “IFRS 1 – First-Time Adoption” and how can these be implemented in practice?
- How should the impacts of the conversion be presented?
- What effect does the conversion to IFRS have on the financial reporting system?
- If consolidated financial statements are also prepared when converting to IFRS, what data and additional information must be requested from the consolidated subsidiaries?
- What extra information has to be produced to comply with the expanded provisions on the notes of IFRS financial statements?

2. Conversion of opening data –

we provide help in tracking the impacts of IFRS-induced adjustments, which impact on both the first IFRS balance sheet and subsequent income statements.

3. Preparation of IFRS financial statements –

we offer assistance in compiling the primary financial statements under IFRS as well as in preparing the text and tables for the notes.

The above modular structure also offers the opportunity to request assistance only in the preparation of IFRS-based financial statements applying currently existing IFRS data.

Benefits for our clients:

- Swift and efficient conversion to IFRS and preparation of financial statements
- Analysis of strengths and weaknesses when preparing separate IFRS financial statements
- Compilation of IFRS accounting policies
- Transparent financial reporting and improvement of reporting process and development of corroboratory systems
- Cost efficiency
- IFRS training for management and staff

Successful IFRS conversions in Hungary

Our IFRS professionals have participated in many high-volume conversion projects, in which they have used practical advice and ongoing support to help clients apply IFRS, prepare consolidated and separate financial statements as well as elaborate notes.

As a consequence of such conversion projects, our clients have developed much more effective reporting frameworks, which in turn has helped them to comply with relevant accounting requirements and being listed on the stock exchange. Another significant advantage of working together with the KPMG Accounting Advisory Group in Hungary is the theoretical and technical expertise passed on to staff at the client by KPMG specialists, a learning process which paves the way for the preparation of IFRS financial statements in subsequent periods.

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