

# Accounting for complexity



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Operating in today's business environment is often characterised by managing rapid and complex change. One of the key challenges faced is the effective application of continuously evolving accounting requirements and understanding their impact on all aspects of emerging events and business developments. Failure to address the resulting risks and opportunities associated with maintaining the quality and efficient production of management and external financial reports can increase the risk of regulatory challenge and control failure.

Due to the scale and complexity of these issues many of our clients require the support of PricewaterhouseCoopers'<sup>1</sup> specialist Accounting Advisory Services (AAS) team. The team works with a global network of over 700 partners and staff in 27 PwC firms, which combines process skills with expert knowledge of Local GAAP and IFRS to support clients who face the challenge of applying the latest understanding of accounting complexities in driving their business forward.

<sup>1</sup> PricewaterhouseCoopers' refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom).

# How we can help

## Accounting conversion and embedding

**GAAP Conversion** – We assist with all aspects of the conversion process. Our established methodology covers the full spectrum of conversion from preliminary study through to embedding of new accounting policies, systems and processes.

**Financial accounting reporting manual** – We support all aspects of the development of financial reporting policies and the creation of an operational manual of policies, procedures and guidance to maintain compliance with IFRS and Local GAAP.

## Application of complex accounting standards and regulations

We provide specialist support and advisory services in relation to the application of complex accounting requirements of a wide range of business issues and environmental factors including;

- Business combinations
- Revenue recognition
- Financial instruments disclosure
- Fair value measurement and reporting
- Loan loss provisioning
- SOx and valuation control reporting
- Off-balance sheet vehicles and
- SEC regulations.

## Accounting advice and support relating to transactions

**M&A** – We provide advice throughout all stages of corporate deals from strategy, execution, and implementation to post-deal integration including;

- Due diligence support across GAAP/IFRS differences
- Carve out and pro forma financial statements and
- Pre and post-deal GAAP conversions and GAAP/IFRS alignment and embedding.

**Other business transactions and events** – We provide specialist accounting solutions for a range of issues and circumstances including;

- Business structuring/restructuring
- Distressed sales and insolvency cases
- Complex accounting in areas such as derivatives and hedge accounting
- Structured finance products such as supply chain financing and leases
- Accounting implications from fraud
- Finance transformation projects
- Pensions and share based payment accounting and
- Accounting for taxes and the tax implications of accounting developments.

# Our experience

## Global banking group - Implementation and technical accounting advisory

### Project background

An SEC registered Foreign Private Issuer required technical advice on the adoption and implementation of SFAS 157 and 159.

### Project scope

AAS worked with other specialist teams in PwC to provide global project management support, advice and comment on key project deliverables including policies and procedures documents across nine work-streams.

In addition, the teams supported the Steering, Technical and Project Management Committees through all five phases of the project from implementation planning and impact assessments through to reporting processes.

### How AAS made a difference

Through the experience they had gained from similar projects in the industry, AAS were able to provide valuable insight into market practice. AAS was also able to provide the client with a dedicated and highly skilled team who were on hand to support and offer guidance through each phase of the project.

## Global logistics company – Worldwide conversion to IFRS

### Project background

AAS worked globally to support the client, comprising over 100 entities in 29 different countries, with its worldwide conversion to IFRS as a result of new public reporting requirements.

### Project scope

Given the complexity and scale of the client's organisation, the project was phased logically to ensure the client understood and prioritised the key technical and practical impacts that IFRS would have on their business. AAS assisted in the development and delivery of accounting policies and training strategies enabling the design and efficient embedding of IFRS financial statement templates in conjunction with consolidated financial reporting systems.

### How AAS made a difference

The key benefit to the client with such a complex organisational structure was that AAS assisted in the development and management of a strong central process which was flexible to support control of the detailed implementation at a regional and local level given tight budget and time constraints.

## Global investment bank – M&A transaction support

### Project background

In connection with a time sensitive M&A transaction, AAS provided the client with technical advice and support in their preparation of IFRS special purpose financial statements.

### Project scope

The team supported management in the preparation of the special purpose financial statement which required a conversion from Local GAAP to IFRS for eight individual operating companies (including the application of first time adoption rules and preparation of comparatives) and the consolidation of these into a new financial reporting group within five weeks.

AAS provided advice on market practice for such special purpose financial information plus a mix of Local GAAP and IFRS subject matter experts including loan loss provisioning, first time adoption, tax and pensions.

### How AAS made a difference

A key success factor was the ability of AAS to mobilise and dedicate a team in a short timeframe to work with management and other transaction advisors in different locations and to facilitate evaluation and conclusion of complex issues.

## Global beverages group – Carve-out financial statement preparation and technical accounting advisory

### Project background

AAS supported the client with its plans to separate the major division it owned in North America from its core global business and other divisions.

### Project scope

The team supported the transaction by providing assistance in four key areas;

- Data collection and analysis including initial data analysis for IFRS accounts with subsequent wider review of US GAAP treatment and the consolidation model
- Compilation, reconciliation, and maintenance of data and adjustments to underlying financial statement account records for the carve-out entity
- Preparation of year end financial statements and
- Project management.

### How AAS made a difference

AAS provided specialist technical advice and data analysis that the company did not possess internally which was necessary for the transaction to be completed within the tight timeframe.

# Where we can help

Flash points	Questions to consider
<b>Financial Reporting</b>	
GAAP conversion and convergence	<ul style="list-style-type: none"><li>• What is the extent of your multi-GAAP and multi-regulatory environment?</li><li>• Do you have standardised IFRS policies?</li><li>• Do you know the required conversion timeline of your subsidiaries?</li><li>• What would be your next steps if the SEC mandated IFRS reporting tomorrow?</li><li>• Are the hedge relationships giving you the results you are looking for?</li><li>• Will you have the right and efficient reporting in place to provide the disclosures required from IFRS 7?</li><li>• Do you have a robust system in place to monitor and identify embedded derivatives in your products (i.e. prepayment options in investment products)?</li><li>• How do your disclosures benchmark against your peers?</li><li>• Do you have a consistent and approved framework in place for the implementation of new standards?</li><li>• Have you got a well established process in place to interpret the impact of new standards on your business?</li><li>• Do you have the industry benchmarking knowledge to identify and implement efficient and effective financial reporting processes?</li><li>• Have you got the resources to appropriately assess risk through the organisation?</li><li>• How embedded is your organisation's risk culture?</li></ul>
Restatements of financial accounts	
Regulatory challenge, e.g. SEC enquiries	
Sector specific regulatory changes e.g. carbon emissions rules	
Significant accounting changes to implement	
Boards looking for an independent accounting advice provider	
Faster implementation of new standards	
Fraudulent trading activities being exposed	
Exposure to accounting driven litigation	
<b>Deals</b>	
M&A activity	<ul style="list-style-type: none"><li>• What are going to be the complex accounting areas of this transaction and how are you equipped to deal with them?</li><li>• What are the regulatory and compliance complexities?</li><li>• Is the accounting under both IFRS and local GAAP fully understood prior to deal closure?</li><li>• How effective have you been at integrating your previous acquisitions?</li><li>• Are you able to produce quality consolidated financial information post-merger on a timely basis?</li><li>• How well do you know the post-acquisition income statement impact of the transaction?</li></ul>
Inability to meet reporting deadlines	
Complex carve-out required	
Post-acquisition finance integration	
<b>Valuation reporting risks and controls</b>	<ul style="list-style-type: none"><li>• Are financial reporting valuation policies aligned?</li><li>• How do you know on a real-time basis whether key controls that mitigate risks of reporting misstatement are effective?</li><li>• How extensive is your financial reporting risk assessment process and do you focus efforts on reporting areas where risks of misstatement manifest?</li><li>• Are your valuation disclosures transparent, auditable and in line with peers?</li><li>• Do your valuation processes and controls accurately reflect the complexity of currently traded products?</li><li>• Are valuation judgments and analysis evidenced and communicated effectively?</li><li>• Has your fair valuation hierarchy been validated?</li><li>• Are valuation calculations subject to model valuation, updating of inputs and other common-sense measures that mitigate misstatement risks?</li></ul>
<b>Project management</b>	
Missing milestones in a financial reporting change programme	<ul style="list-style-type: none"><li>• Does your project leader understand the scope of this project and all the interdependencies?</li><li>• Are the right people with the necessary time and knowledge assigned to the project?</li><li>• How do you find extra resources when you are already short staffed?</li><li>• Do you have effective project management governance and structure?</li></ul>
Lack of resources in the finance function to manage multiple projects.	
Very complex set of work streams and tight deadlines	

# Who to contact

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Find out more about the issues AAS addresses,  
our services and the questions to consider

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