Support for IFRS

This document discusses International Financial Reporting Standards (IFRS) and the relevant capabilities in Microsoft Dynamics 365 for Operations that address IFRS compliance.
## Contents

**IFRS overview**  
5

**IFRS requirements that are applicable to Dynamics 365 for Operations**  
5

### Financial reporting
5
- IAS 1, “Presentation of Financial Statements”  
5
8
- IAS 8, “Accounting Policies, Changes in Accounting Estimates and Errors”  
9
- IAS 10, “Events after the Reporting Period”  
11
- IAS 34, “Interim Financial Reporting”  
12
- IFRS 1, “First-time Adoption of International Financial Standards”  
12
- IFRS 8, “Operating Segments”  
14
- IFRS 10, “Consolidated Financial Statements”  
15
- IFRS 3, “Business Combinations”  
16
- IFRS 11, “Joint Arrangements”  
17

### Assets and inventory
17
- IAS 2, “Inventories”  
17
- IAS 16, “Property, Plant and Equipment”  
18
- IAS 17 and IFRS 16 “Leases”  
19
- IAS 36, “Impairment of Assets”  
20
- IAS 37, “Provisions, Contingent Liabilities and Contingent Assets”  
21
- IAS 38, “Intangible Assets”  
23
- IAS 40, “Investment Property”  
24
- IFRS 5, “Non-current Assets Held for Sale and Discontinued Operations”  
25

### Foreign currency
27
- IAS 21, “The Effects of Changes in Foreign Exchange Rates”  
27

### Revenue recognition
28
- IAS 11, “Construction Contracts”  
28
- IAS 18, “Revenue”  
29
- IFRS 15 “Revenue”  
30
34
- IAS 23, “Borrowing Costs”  
34

**General ledger concepts in Dynamics 365 for Operations**  
35

**U.S. GAAP vs. IFRS**  
35
Overview of U.S. GAAP, and identification of ERP differences between U.S. GAAP and IFRS  
35

**How Dynamics 365 for Operations supports the compliance initiative**  
36
Overview of Sarbanes-Oxley  
36
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>General overview of Dynamics 365 for Operations and the compliance initiative</td>
<td>36</td>
</tr>
<tr>
<td>Compliance with corporate policies and procedures</td>
<td>36</td>
</tr>
<tr>
<td>Contacts</td>
<td>39</td>
</tr>
</tbody>
</table>
Support for IFRS

The globalization of business and finance has led to the mass adoption of International Financial Reporting Standards (IFRS). Similar to the financial reporting framework of U.S. generally accepted accounting practices (GAAP), IFRS has been designed and implemented across the world as a standard format that companies can use to report their financial results in an easily understandable and comparable nature. In the United States, the Sarbanes-Oxley Act (SOX) is designed to restore and enhance public confidence in the financial reporting and disclosure process, and improve executive responsibility and accountability.

Companies continue to find themselves in an environment of economic uncertainty and under pressure to become more efficient as they react to numerous complex regulatory requirements. Performance expectations, increasing stakeholder demands, and changing market conditions are forcing business leaders to search for cost-effective ways to enforce compliance adoption without jeopardizing organizational agility and business growth.

Technology is a key enabler for addressing the change and complexity in an organization’s compliance environment. It’s crucial that you understand how your underlying technology environment can support your business process, compliance, and regulatory requirements such as IFRS and SOX.

Microsoft Dynamics 365 for Operations is an enterprise resource planning (ERP) solution for midsize and large organizations that empowers people to work effectively, manage change, and compete globally. Dynamics 365 for Operations makes it easy to operate across locations and countries/regions by standardizing processes, providing visibility across your organization, and helping simplify compliance.

Although the dimensions of IFRS and SOX are far-reaching and can be complicated, Dynamics 365 for Operations has been designed to include capabilities that help organizations meet their compliance obligations in a flexible, adaptable, and scalable fashion.

This white paper discusses IFRS standards and the relevant Dynamics 365 for Operations capabilities that address IFRS compliance. By deploying Dynamics 365 for Operations, you can be confident that your business management solution is and will remain relevant to the needs of your people, the needs of regulation and compliance, and to the demands of your industry and business. This document was prepared by PricewaterhouseCoopers LLP (PwC) and Microsoft. It provides information that current and prospective customers can use to evaluate the reporting and compliance capabilities of Dynamics 365 for Operations.

Dynamics 365 for Operations was used to evaluate how the software supports IFRS requirements out of the box. In general, the statements that are made in this document are also applicable to other versions of the software. Every implementation of Dynamics 365 for Operations is unique, and the way that the software is deployed might affect an organization’s ability to meet its IFRS, U.S. GAAP, or SOX compliance requirements. Depending on their business processes and needs, customers should evaluate these implications and consult a professional advisor.
IFRS overview

IFRS has been designed and implemented across the world as a standard format that companies can use to report their financial results in an easily understandable and comparable nature. IFRS is slowly replacing many different national accounting standards to maintain consistency and comparability for global investors.

In fact, more than 100 countries/regions require, permit, or are converging or converting to IFRS for public company reporting. Companies are and will be affected by IFRS at varying times and to varying degrees, based on factors such as size, industry, geography, merger and acquisition activity, and global expansion. IFRS is used in most capital markets around the world and has already significantly affected U.S. companies, for the following reasons:

- It’s used by foreign subsidiaries of U.S. companies.
- It’s used by foreign private issuers for filings with the U.S. Securities and Exchange Commission (SEC).
- It stimulates questions from investors who compare U.S. companies to foreign competitors.
- It influences transaction structuring by foreign counterparties (customers, vendors, and capital providers) that report under IFRS.

Technology provides a means to manage and address IFRS compliance. Dynamics 365 for Operations is an ERP solution for midsize and large organizations that empowers people to work effectively, manage change, and compete globally. Dynamics 365 for Operations supports an organization by standardizing processes, providing visibility across the organization’s processes, and helping simplify compliance objectives.

The compliance and internal control capabilities in Dynamics 365 for Operations give companies a way to enforce compliance in a consistent, cost-effective way while they streamline business processes and improve efficiency across the organization.

IFRS requirements that are applicable to Dynamics 365 for Operations

This section discusses IFRS requirements that are applicable to software systems, such as Dynamics 365 for Operations, for the management of enterprise financial resources. However, this information isn’t intended to represent the complete list of IFRS standards. For each standard, this section provides an overview of the requirement and then information about how Dynamics 365 for Operations can support the standard.

Financial reporting

IAS 1, “Presentation of Financial Statements”

Overview

The purpose of financial statements is to provide information that is useful when economic decisions must be made. The objective of IAS 1 is to enable the presentation of that information to be compared with the entity’s financial statements from previous periods and with the financial statements of other entities.
Financial statements are prepared on a going-concern basis, unless management intends either to liquidate the entity or to cease trading, or unless it has no realistic alternative but to take these steps. Management prepares its financial statements, except cash flow information, under the accrual basis of accounting.

There is no prescribed format for financial statements. However, there are minimum disclosures that must be made in the primary statements and the notes. The implementation guidance for IAS 1 contains examples of acceptable formats.

Financial statements disclose corresponding information for the preceding period (comparatives), unless a standard or interpretation permits or requires otherwise.

**Statement of financial position (balance sheet)**

The statement of financial position presents an entity’s financial position at a specific point in time. Provided that it meets specific minimum requirements for presentation and disclosure, management may use its judgment about the form of presentation. For example, management can decide whether to use a vertical or a horizontal format, which sub-classifications to present, and which information to disclose in the primary statement and in the notes.

At a minimum, the balance sheet presents the following items:

- **Assets** – Property, plant, and equipment (PPE); investment property; intangible assets; financial assets; investments that are accounted for by using the equity method; biological assets; deferred tax assets; current tax assets; inventories; trade and other receivables; and cash and cash equivalents
- **Equity** – Issued capital and reserves that are attributable to the parent’s owners; and non-controlling interest
- **Liabilities** – Deferred tax liabilities; current tax liabilities; financial liabilities; provisions; and trade and other payables
- **Assets and liabilities held for sale** – The total assets that are classified as held for sale and assets that are included in disposal groups that are classified as held for sale; and liabilities that are included in disposal groups that are classified as held for sale in accordance with IFRS 5, “Non-current Assets Held for Sale and Discontinued Operations”

Current and non-current assets, and current and non-current liabilities, are presented as separate classifications in the statement, unless presentation that is based on liquidity provides information that is reliable and more relevant.

**Statement of profit or loss and other comprehensive income**

The statement of profit or loss and other comprehensive income presents an entity’s performance over a specific period. Entities can present this information either in a single statement or as two statements. In the single-statement approach, the statement of profit or loss and other comprehensive income includes all items of income and expense, and also includes every component of other comprehensive income. In the two-statement approach, all components of profit or loss are presented in an income statement. This statement is followed immediately by a statement of profit or loss and other comprehensive income. This statement begins with the total profit or loss for the period, displays all components of other comprehensive income, and ends with total comprehensive income for the period.
Choice in the presentation and basic requirements

At a minimum, the statement of profit or loss and other comprehensive income presents the following items:

- Revenue
- Finance costs
- Share of the profit or loss of associates and joint ventures
- Tax expense
- Post-tax profit or loss of discontinued operations
- Profit or loss for the period
- Every component of other comprehensive income, classified by nature
- Share of the other comprehensive income of associates and joint ventures
- Total comprehensive income

In the statement of profit or loss and other comprehensive income, profit or loss for the period and total comprehensive income are allocated to the amounts that are attributable to non-controlling interest and to the parent’s owners.

Additional line items and subheadings are presented in this statement when such presentation is relevant to an understanding of the entity’s financial performance.

Profit or loss section of the statement

The nature and amount of items of income and expense are disclosed separately, when they are material. Disclosure may be done in the statement or in the notes. Such income/expenses might include restructuring costs; write-downs of inventories or PPE; litigation settlements; and gains or losses on disposals of non-current assets.

Other comprehensive income section

An entity presents each component of other comprehensive income in the statement either net of its related tax effects, or before its related tax effects, where the aggregate tax effect of these components is shown separately.

Items of other comprehensive income are grouped into those items that will later be reclassified to profit or loss, and those items that won’t be reclassified.

Statement of changes in equity

The statement of changes in equity presents the following items:

- Total comprehensive income for the period, where the total amounts that are attributable to the parent’s owners and to non-controlling interest are shown separately
- For each component of equity, the effects of retrospective application or retrospective restatement that is recognized in accordance with IAS 8, “Accounting Policies, Changes in Accounting Estimates and Errors"
- For each component of equity, a reconciliation between the carrying amount at the beginning and end of the period, where changes that are caused by the following factors are disclosed separately:
  - Profit or loss
  - Other comprehensive income
  - Transactions with owners in their capacity as owners, where contributions by and distributions to owners, and changes in ownership interests in subsidiaries that don’t cause a loss of control, are shown separately
**Statement of cash flows**

Cash flow statements are addressed in Section 30 of the IAS 7, which deals with the requirements of IAS 7, “Statement of Cash Flows.”

**Notes to the financial statements**

The notes are an integral part of the financial statements. Notes provide information that is additional to the amounts that are disclosed in the “primary” statements. This information includes accounting policies, and critical accounting estimates and judgments.

**Support for IAS 1 in Dynamics 365 for Operations**

Financial reports are included with Dynamics 365 for Operations, and provide predefined Balance sheet, Income statement, and Cash flow report templates that are based on main account category. The statement of owner’s equity isn’t predefined but can be created by using the Financial reporting client for “design.” The predefined financial statements can be modified to meet additional formatting requirements that are described in IAS 1.

In Dynamics 365 for Operations, the fiscal calendar supports any definition of the periods. When financial statements are generated by using Financial reporting, the definitions of fiscal periods and years from the fiscal calendar are used.

The year-end closing transactions must be generated, and then the period can be closed for all modules.

Dynamics 365 for Operations provides the capability to control whether the period is in an Open, On-hold, or Permanently closed state. A period that is in the On-hold state can be reopened. Dynamics 365 for Operations enables transactions to be recorded in any period that is in the Open state.

Dynamics 365 for Operations also provides the capability to restrict posting for a period to a specific user or group of users. The related parameters can be used to control adjustments to entries that are posted to the general ledger.

Dynamics 365 for Operations enables dimensions to be used to cross over all general ledger accounts. Therefore, aggregation or disaggregation can be used to separate or detail out required data for nature or function, as needed.

Financial reports can filter on any combination of dimensions at the row, column, and tree level, and it supports total accounts.

**IAS 7, “Statement of Cash Flows”**

**Overview**

The cash flow statement is one of the primary statements in financial reporting. It presents the generation and use of “cash and cash equivalents” by category (operating, investing, and finance) over a specific period. It gives users a basis for assessing the entity’s ability to generate and utilize its cash.

Operating activities are the entity’s revenue-producing activities. Investing activities are the acquisition and disposal of long-term assets (including business combinations) and investments that aren’t cash equivalents. Financing activities are changes in equity and borrowings.
Management may present operating cash flows by using either the direct method (that is, by using gross cash receipts/payments) or the indirect method (that is, by adjusting net profit or loss for non-operating and non-cash transactions, and for changes in working capital).

Cash flows from investing and financing activities are reported separately gross (that is, by using gross cash receipts and gross cash payments) unless they meet specified criteria.

The cash flows that arise from dividends and interest receipts and payments are classified on a consistent basis. They are separately disclosed under the activity that is appropriate to their nature. Cash flows that are related to taxation on income are classified and separately disclosed under operating activities unless they can be specifically attributed to investing or financing activities.

The total that summarizes the effect of the operating, investing, and financing cash flows is the movement in the balance of cash and cash equivalents for the period.

Separate disclosure is made of significant non-cash transactions, such as the issue of equity for the acquisition of a subsidiary or the acquisition of an asset through a finance lease. Non-cash transactions include impairment losses/reversals, depreciation, amortization, fair value gains/losses, and income statement charges for provisions.

**Support for IAS 7 in Dynamics 365 for Operations**

In Dynamics 365 for Operations, Financial reports provide predefined Cash flow report templates that are based on main account category. The predefined cash flow statement contains each section that is described for IAS 7. The predefined cash flow statement can be updated as required. The cash flows of a foreign subsidiary can be translated by using exchange rates and can be viewed in any of the reporting currencies, based on the rates that are defined for the cash flow accounts in Dynamics 365 for Operations.

**IAS 8, “Accounting Policies, Changes in Accounting Estimates and Errors”**

**Overview**

Among the accounting policies that IFRS requires, an entity follows those policies that are relevant to its specific circumstances. For some situations, the standards offer a choice. For other situations, IFRS gives no guidance. In both situations, management should select appropriate accounting policies.

Management uses its judgment to develop and apply an accounting policy that produces information that is relevant and reliable. Reliable information demonstrates the following qualities: faithful representation, substance over form, neutrality, prudence, and completeness. If there is no IFRS standard or interpretation that is specifically applicable, management should first consider whether the requirements in IFRS for similar and related issues apply. It should then consider the definitions, recognition criteria, and measurement concepts for assets, liabilities, income, and expenses in the framework.

Management may also consider the most recent pronouncements of other standard-setting bodies, other accounting literature, and accepted industry practices, provided that these sources don’t conflict with IFRS.

Accounting policies should be applied consistently to similar transactions and events.
**Changes in accounting policies**

Changes that are made to accounting policies when a new standard is adopted are accounted for in accordance with the transition provisions in that standard. If specific transition provisions don’t exist in the standard, a policy change (whether required or voluntary) is accounted for retrospectively (that is, by restating all comparative figures presented), unless this approach is impracticable.

**Issue of new/revised standards that aren’t yet effective**

Typically, standards are published before the required implementation date. In the intervening period, when a new or revised standard that is relevant to an entity has been issued but isn’t yet effective, management discloses this fact. It also provides the known or reasonably estimable information that is relevant to an assessment of the impact that application of the standard might have on the entity’s financial statements in the period of initial recognition.

**Changes in accounting estimates**

An entity prospectively recognizes changes in accounting estimates by including the effects in profit or loss in the period that is affected (the period of the change and future periods), unless the change in estimate causes changes in assets, liabilities, or equity. In this case, the change is recognized by adjusting the carrying amount of the related asset, liability, or equity in the period of the change.

**Errors**

Mistakes and oversights or misinterpretation of information might cause errors. Errors that are discovered in a subsequent period are prior-period errors. Material prior-period errors are adjusted retrospectively (that is, by restating comparative figures), unless this approach is impracticable.

**Support for IAS 8 in Dynamics 365 for Operations**

**Consistency of accounting policies**

Dynamics 365 for Operations uses accounting rules and application setup that, together, make up the accounting policy for a legal entity. The accounting rules are applied consistently for similar events, transactions, and conditions.

Most accounting rules and setup can be applied consistently per user-defined category when this approach is required, or when it’s permitted by a standard or interpretation.

Item groups and item model groups are two examples where accounting rules can be applied consistently per category. Categories of items that have similar characteristics are assigned to user-defined item groups that are used, for example, to control how main accounts are determined for purchase accrual and inventory at receipt for a group of items. Items are also assigned to user-defined item model groups that are used, for example, to control whether purchase accrual should be recognized in the general ledger and what cost formula should be applied. When categories are defined, validation should be done to verify that the applied accounting rules provide compliant financial reporting.
Retrospective application of changes in accounting policies or errors

The following capabilities are applicable when it’s deemed practical to determine the period-specific effects or the cumulative effect of the change for one or more prior periods that are presented. This determination is a management decision and is performed outside Dynamics 365 for Operations.

Before the final year-end close process in Dynamics 365 for Operations is performed and while the accounting periods are still on hold, the periods can be reopened, and adjusting entries can be created in the general ledger. These adjustments are included based on the report date when financial statements are generated by using Financial reports. After the final year-end close is performed, a user can define a specific legal entity to use for adjustments. Financial reports can then be used to consolidate the entries from the legal entities.

Changes in accounting estimates

Dynamics 365 for Operations supports current period adjustments and, if this approach is applicable, re-execution of automated adjustments for carrying amounts.

IAS 10, “Events after the Reporting Period”

Overview

In general, it isn’t practicable for preparers to finalize financial statements unless time passes between the balance sheet date and the date when the financial statements are authorized for issue. Therefore, the question arises, To what extent should the financial statements reflect events that occur between the balance sheet date and the date of approval (that is, events that occur after the reporting period)?

Events that occur after the reporting period are either adjusting events or non-adjusting events. Adjusting events provide further evidence of conditions that existed at the balance sheet date. For example, settlement of a court case after the year end might indicate that an obligation existed at the reporting date. Non-adjusting events are related to conditions that arose after the balance sheet date. For example, a plan might be announced to discontinue an operation after the year end.

The carrying amounts of assets and liabilities at the balance sheet date are adjusted only for adjusting events or events that indicate that the going-concern assumption in relation to the whole entity isn’t appropriate. Significant non-adjusting post–balance sheet events are disclosed, such as the issue of shares or major business combinations.

An entity discloses the date when the financial statements are authorized for issue, the persons who authorize the issue. An entity might also disclose the fact that the owners or other persons can amend the financial statements after issue, if disclosure of this fact is required.

Support for IAS 10 in Dynamics 365 for Operations

Before the final year-end close process in Dynamics 365 for Operations is performed and while the accounting periods are still on hold, the periods can be reopened, and adjusting entries can be created in the general ledger. Therefore, adjustment that is based on the adjusting events can be done up to the point when financial statements are authorized for issue. At that time, the reporting period is closed.
IAS 34, “Interim Financial Reporting”

Overview
At a minimum, current period and comparative figures, either condensed or complete, are disclosed as follows:

- **Balance sheet** – As of the current interim period end, together with comparatives for the immediately preceding year end
- **Statement of profit or loss and other comprehensive income (and, if presented separately, income statement)** – The current interim period, financial year to date, and comparatives for the same preceding periods (interim and year to date)
- **Statement of changes in equity and statement of cash flow** – Financial year to date, together with comparatives for the same year-to-date period of the preceding year
- **Explanatory notes**

Typically, the accounting policies that an entity uses to recognize and measure assets, liabilities, revenues, expenses, and gains and losses at interim dates are the same as the accounting policies that the entity will use in the current-year annual financial statements.

There are special measurement requirements for specific costs that can be determined only on an annual basis (for example, tax that is calculated based on an estimated full-year effective rate) and for estimates that are used in the interim financial statements.

IAS 34 sets out criteria for determining what information should be disclosed in the interim financial statements. Here are some of these criteria:

- Materiality to the overall interim financial statements
- Unusual or irregular items
- Changes, since previous reporting periods, that have a significant effect on the interim financial statements of the current or previous reporting financial year
- Relevance to an understanding of estimates that are used in the interim financial statements

The overriding objective is to validate that an interim financial report includes all information that is relevant to an understanding of an entity’s financial position and performance during the interim period.

Support for IAS 34 in Dynamics 365 for Operations
For more details, see IAS 1, “Presentation of Financial Statements.”

IFRS 1, “First-time Adoption of International Financial Standards”

Overview
An entity that is moving from national GAAP to IFRS should apply the requirements of IFRS 1. IFRS 1 applies to an entity’s first IFRS financial statements, and to the interim reports that are presented under IAS 34, “Interim Financial Reporting,” and that are part of that period. It also applies to entities that are under “repeated first-time application.” The basic requirement is for full retrospective application of all IFRS standards that are effective at the reporting date.
However, there are several optional exemptions and mandatory exceptions to the requirement for retrospective application.

The mandatory exceptions cover areas where retrospective application of the IFRS requirements is considered inappropriate. The following exceptions are mandatory, not optional:

- Hedge accounting
- Derecognition of financial assets and liabilities
- Non-controlling interests
- Classification and measurement of financial assets
- Embedded derivatives

The optional exemptions cover standards that the International Accounting Standards Board (IASB) thinks might be too difficult to apply retrospectively, or that might produce a cost that is likely to exceed any benefits to users. Any, all, or none of the exemptions can be applied. The optional exemptions are related to the following areas:

- Business combinations
- Share-based payments
- Insurance contracts
- Deemed cost
- Leases
- Employee benefits
- Cumulative translation differences
- Investments in subsidiaries, joint ventures, and associates
- Compound financial instruments
- Designation of previously recognized financial instruments
- Fair-value measurement of financial assets or financial liabilities at initial recognition
- Service concession arrangements
- Borrowing costs
- Transfers of assets from customers
- Exinguishing financial liabilities with equity instruments
- Severe hyperinflation

Comparative information is prepared and presented on the basis of IFRS. Almost all adjustments that arise from the first-time application of IFRS are against opening retained earnings of the first period that is presented on an IFRS basis.

Some reconciliations from previous GAAP to IFRS are also required.

Support for IFRS 1 in Dynamics 365 for Operations

When IFRS is adopted for the first time, the following areas typically require careful consideration:

- PPE
- Asset impairments
- Inventories
- Revenue recognition
- Business combination

To recognize all assets and liabilities that IFRS requires recognition of, Dynamics 365 for Operations supports the capability to create new fixed assets if the adoption of IFRS requires that fixed assets be acquired.

To derecognize items as assets or liabilities if IFRS doesn’t permit recognition, Dynamics 365 for Operations supports the capability to dispose of or scrap existing fixed assets if the adoption of IFRS requires that fixed assets be disposed of or scrapped.

To reclassify items that are recognized as a different type of asset, liability, or component of equity in accordance with previous GAAP, Dynamics 365 for Operations enables reclassification and transfer into new assets.

To apply IFRS in the measurement of all recognized assets and liabilities, Dynamics 365 for Operations supports the standard cost accounting method conversion through an automated process. For any other accounting method conversion, tailored procedures that restate inventory can be applied.

If there is a requirement for parallel reporting, Dynamics 365 for Operations provides the capability to use posting layers to reflect changes between IFRS and U.S. GAAP. Fixed asset accounting in Dynamics 365 for Operations supports an automated process for posting to IFRS and GAAP layers. All other automated transactions are posted into a single layer, whereas the differences between one GAAP principle and IFRS standard can be posted to another posting layer by using a manual journal. In this case, a delta approach is used.

When parallel reporting is required, another alternative is to calculate and post IFRS adjustments into a specific legal entity, and to use Financial reports for reporting that either includes or excludes adjustments.

Dynamics 365 for Operations also supports parallel general ledger accounts for local and IFRS purposes. In this approach, different accounts are used instead of different posting layers.

For information about retrospective application, see IAS 8, “Accounting Policies, Changes in Accounting Estimates and Errors.” If the first-time adoption is known when the year end is completed for the reporting period before the adoption, a posting layer can be used for IFRS adjustments of that period as part of the year-end process.

**IFRS 8, “Operating Segments”**

**Overview**

The only entities that are required to disclose segment information are entities that have listed or quoted equity or debt instruments, and entities that are in the process of obtaining a listing or quotation of debt or equity instruments in a public market.

Operating segments are components of an entity. They are identified based on internal reports about each segment that the entity’s chief operating decision maker (CODM) regularly uses to allocate resources to the segment and assess its performance.

Operating segments are separately reported if they don’t satisfy the aggregation criteria, and if they don’t fall into the 25 percent that the company isn’t required to disclose. A reportable segment is an operating segment or a group of operating segments that exceed the quantitative thresholds that is set out in the standard. However, an entity can choose to disclose additional operating segments.
For all reportable segments, the entity is required to provide a measure of profit or loss in the format that is viewed by the CODM. The entity is also required to provide disclosure of a measure of assets and liabilities if those amounts are regularly provided to the CODM. Other segment disclosures include the revenue from customers for each group of similar products and services, revenue by geography, and dependence on major customers. Other detailed disclosures of performance and resources are required if the CODM reviews those amounts. The totals of revenue, profit and loss, assets and liabilities, and other material items that the CODM reviews must be reconciled to the primary financial statements.

Support for IFRS 8 in Dynamics 365 for Operations

**Measurements and operating segments**

Dynamics 365 for Operations supports IFRS 8 by providing the capability to define an unlimited number of segments, or financial dimensions, that can be used for reporting purposes for all general ledger accounting entries. Account structures can be used to help guarantee that a value is always provided for the segments that are used for operating segments. The allowed values for these segments can be constrained based on values for other segments, even main accounts.

The segments that are defined for operating segment reporting are used in the consolidated reporting that Dynamics 365 for Operations provides. This behavior helps guarantee that consolidated financial statements correctly reflect the operating segments.

Dynamics 365 for Operations also provides the option to select one of the segments that is used for segmented reporting as a balancing segment. This option reduces the need for manual adjustments to validate that assets and, as applicable, liabilities correctly reflect the structure of operating segments.

Financial reports can be used when measurements and operating segments are identified. The actual determination of measurements and operating segments is a management decision and is performed outside Dynamics 365 for Operations.

**Reconciliation**

Dynamics 365 for Operations provides audit trail functionality that can be used when the segment amounts are based on the entity’s IFRS accounting policy. Reconciliation of consolidated statements can be performed by using the built-in drill-down capabilities of Financial reports. Additionally, the Trial balance list page provides the capability to drill down into source documents via the Accounting Source Explorer.

**IFRS 10, “Consolidated Financial Statements”**

**Overview**

IFRS 10, which the IASB issued in May 2011, sets out principles about consolidated financial statements.

The purpose of IFRS 10 is to establish principles for presenting and preparing consolidated financial statements when an entity controls one or more entities. IFRS 10 sets out the requirements about when an entity should prepare consolidated financial statements. It also defines the principles of control, explains how to apply the principles of control, and explains the accounting requirements for preparing consolidated financial statements.
The key principle in the new standard is that control exists, and consolidation is required only if the investor has power over the investee, has exposure to variable returns from its involvement with the investee, and can use its power over the investee to affect its returns.

In difficult situations, the precise facts and circumstances will affect the analysis under IFRS 10. IFRS 10 doesn’t provide “bright lines.” It requires that many factors be considered in order to assess control, such as the existence of contractual arrangements and rights that are held by other parties.

**Support for IFRS 10 in Dynamics 365 for Operations**

In Financial reports, consolidated reports are created by using reporting trees that roll up subsidiaries into the parent. These reporting trees can be used on any of the financial statements.

Intragroup balances and transactions can be eliminated by specifying the elimination accounts and subtracting them from the consolidated amounts. Calculations can also be created to report non-controlling interests in subsidiaries separately from the parent’s equity. A separate legal entity can be used for adjustment and elimination purposes.

Financial reports provide financial reporting support for IFRS 10 through the capability to report on the recognized value of identifiable assets that are acquired and liabilities that are assumed. They support the capability to measure any non-controlling interest in an acquisition at fair value or as the non-controlling interest’s proportionate share by letting you enter a percentage of the acquiree’s net identifiable assets.

For top-side adjustments, changes might be appropriate at the transaction level in Dynamics 365 for Operations, because Financial reports adjustments at the consolidation level might not be sufficient.

**IFRS 3, “Business Combinations”**

**Overview**

A business combination is a transaction or event where an acquirer obtains control of one or more businesses (acquirees).

Business combinations occur in various structures. IFRS 3 focuses on the substance of the transaction instead of the legal form. The overall result of a series of transactions is considered if several transactions occur among the parties that are involved. For example, any transaction that depends on the completion of another transaction might be considered a linked transaction.

All business combinations, except those combinations that involve businesses that are under common control, are accounted for by using the acquisition method. The acquisition method can be summarized in the following steps:

1. Identify the acquirer.
2. Determine the acquisition date.
3. Recognize and measure the identifiable assets that are acquired, liabilities that are assumed, and any non-controlling interest in the acquiree.
4. Recognize and measure the consideration that is transferred for the acquiree.
5. Recognize and measure goodwill or gain from a bargain purchase.
Support for IFRS 3 in Dynamics 365 for Operations

For more details, see IFRS 10, “Consolidated Financial Statements.”

IFRS 11, “Joint Arrangements”

Overview

A joint arrangement is a contractual arrangement where at least two parties agree to share control over the activities of the arrangement.

Unanimous consent in decisions about relevant activities is required in order to meet the definition of joint control.

Joint arrangements can be joint operations or joint ventures. The classification is principle-based and depends on the parties’ exposure to the arrangement. When the parties’ exposure to the arrangement extends only to net assets of the arrangement, the arrangement is a joint venture.

Often, joint operations aren’t structured through separate vehicles. Each operator has rights to assets and obligations for liabilities, and these rights and obligations aren’t limited to the operator’s capital contribution.

Joint operators account for their rights to assets and obligations for liabilities. Joint venturers account for their interest by applying equity accounting.

Support for IFRS 11 in Dynamics 365 for Operations

For more details, see IFRS 10, “Consolidated Financial Statements.”

Assets and inventory

IAS 2, “Inventories”

Overview

Inventories are initially recognized at cost. Inventory costs include import duties, non-refundable taxes, transport and handling costs, and any other directly attributable costs, minus trade discounts, rebates, and similar items.

Inventories are valued at the lower of cost and net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business, minus the estimated costs of completion and estimated selling expenses.

IAS 2 requires that the cost of items that aren’t interchangeable, or that have been segregated for specific contracts, be determined on an individual-item basis. The cost of other items of inventory that are used is assigned by using either the first in, first out (FIFO) or weighted average cost formula. The last in, first out (LIFO) formula isn’t permitted. An entity uses the same cost formula for all inventories that have a similar nature and are of similar use to the entity. A different cost formula might be justified where inventories have a different nature or use. The cost formula that is used is applied on a consistent basis from period to period.
Support for IAS 2 in Dynamics 365 for Operations

Inventory cost – Measurement of inventories

Dynamics 365 for Operations supports the accumulation of costs, such as costs of purchase, costs of conversion, or costs that are incurred when inventories are brought to their present location. These costs are included in inventory valuation.

When Dynamics 365 for Operations is correctly configured, it validates that only applicable costs are accumulated and recognized as inventory costs. Direct and indirect costs can be recognized during the procurement process and accumulated during the conversion process. Indirect cost, such as overhead, is absorbed based on the rate or surcharge.

Dynamics 365 for Operations supports the following cost formulas: standard cost, weighted average (both perpetual and periodic); FIFO perpetual and retrospective, and specific identification costing that is based on batch or serial number. Inventory items can be correctly classified as, for example, finished goods, work in process (WIP), and raw material. Cost can be maintained per site within a legal entity.

Expense recognition

Dynamics 365 for Operations supports perpetual recognition of the cost of goods sold (COGS) when inventory is sold.

Net realizable value

Dynamics 365 for Operations supports write-down of individual inventory items or groups of inventory items. The comparison and identification of net realizable value is a management decision, and is performed outside Dynamics 365 for Operations.

IAS 16, “Property, Plant and Equipment”

Overview

PPE is recognized when the cost of an asset can be reliably measured, and if it’s likely that the entity will derive future economic benefits from the asset.

PPE is initially measured at cost. Cost includes the fair value of the consideration that is given to acquire the asset (net of discounts and rebates) and any directly attributable cost of bringing the asset to working condition for its intended use (inclusive of import duties and non-refundable purchase taxes).

Directly attributable costs include the cost of site preparation, delivery costs, installation costs, relevant professional fees, and the estimated cost of dismantling and removing the asset and restoring the site (to the extent that such a cost is recognized as a provision).

Classes of PPE can be carried at historical cost minus accumulated depreciation and any accumulated impairment losses (the cost model). Alternatively, they can be carried at a revalued amount minus any accumulated depreciation and subsequent accumulated impairment losses (the revaluation model). The depreciable amount of PPE (that is, the gross carrying value minus the estimated residual value) is depreciated on a systematic basis over the useful life.

Subsequent expenditure that is related to an item of PPE is capitalized if it meets the recognition criteria.
PPE can comprise parts that have different useful lives. Depreciation is calculated based on each part’s life. If a part is replaced, the new part is capitalized to the extent that it meets the recognition criteria of an asset, and the carrying amount of the part that is replaced is derecognized.

Support for IAS 16 in Dynamics 365 for Operations

Dynamics 365 for Operations provides the capability to create and maintain fixed asset records. Costs that are associated with the acquisition of assets can be recorded in a project, in a vendor invoice, in inventory, or directly in fixed assets. Acquisition adjustments can be made to record additional costs that are incurred to make the asset ready for service.

Depreciation entries can be automatically generated based on user-defined depreciation profiles that control the systematic allocation of the depreciable amount of an asset over its useful life. Posting policies for each asset are used to determine the correct accounts for financial reporting.

For cost-based accounting, Dynamics 365 for Operations supports carrying the asset at cost minus any accumulated depreciation and impairment losses.

For fair value accounting, Dynamics 365 for Operations supports carrying the asset at fair value. It also supports the capability to record revaluation. The determination of fair value is a management decision and is performed outside Dynamics 365 for Operations.

Fixed assets can be disposed of when the asset is sold or scrapped, or when it no longer provides future economic benefits. The carrying amount of the fixed asset is removed, and any gain or loss is recognized.

IAS 17 and IFRS 16 “Leases”

IAS 17 overview

A lease gives one party (the lessee) the right to use an asset over an agreed period in return for payment to the lessor. Leasing is an important source of medium-term and long-term financing. Accounting for leases can have a significant impact on lessees’ and lessors’ financial statements.

Leases are classified as finance leases or operating leases at inception. For a finance lease, substantially all the risks and rewards of ownership are transferred to the lessee. All other leases are operating leases. Leases of land and buildings are considered separately under IFRS.

Under a finance lease, the lessee recognizes an asset that is held under the finance lease and a corresponding obligation to pay rentals. The lessee depreciates the asset. The lessor recognizes the leased asset as a receivable. The receivable is measured at the “net investment” in the lease. The net investment is the minimum lease payments receivable after it has been discounted at the internal rate of return of the lease, plus the unguaranteed residual that accrues to the lessor.

Under an operating lease, the lessee doesn’t recognize an asset and lease obligation. The lessor continues to recognize the leased asset and depreciates it. Typically, the rentals that are paid are charged to the income statement of the lessee and credited to the income statement of the lessor on a straight-line basis.
Linked transactions that have the legal form of a lease are accounted for on the basis of their substance. For example, a sale and leaseback where the seller is committed to repurchase the asset might not be a lease in substance if the “seller” retains the risks and rewards of ownership, and also retains substantially the same rights of use as before the transaction.

Additionally, some transactions that don’t have the legal form of a lease are leases in substance if they depend on a particular asset that the purchaser can control physically or economically.

**IFRS 16 overview**

In January 2016, the IASB superseded IAS 17 with IFRS 16. IFRS 16 will be effective for periods that begin on or after January 1, 2019. The main impact of the new standard is that, from a lessee’s perspective, all leases will come on a balance sheet. Their treatment will resemble the treatment of finance leases under IAS 17, unless they qualify for the short-term or low value exemptions. The distinction between operating leases and finance leases is removed for lessees. Therefore, in general, the cost of leases will be accelerated, because the asset will be depreciated on straight-line basis, but the interest expense will be weighted towards the front end of the lease term because of the operation of the effective interest method. The geography of the expenses in profit or loss will also change. The amortization of the right of use asset will be charged as part of operating expenses, and the interest portion will be booked as part of interest expense.

IFRS 16 doesn’t make major changes to the lessor accounting model. From a lessor’s perspective, the classification of leases as finance leases or operating leases will remain.

**Support for IAS 17 and IFRS 16 in Dynamics 365 for Operations**

The lessee can use acquisition journals to capitalize finance leases. The decision to classify leases as financial or operating, and the determination of the correct value are management decisions, and are performed outside Dynamics 365 for Operations. The application of payments can be split into reduction of liability and finance charges. Configurable depreciation profiles are used to calculate depreciations. The determination of the correct depreciation period is a management decision and is performed outside Dynamics 365 for Operations.

Standard processing of vendor invoices can be used to expense operating lease payments (Note that this capability is relevant only under IAS 17).

Standard processing of customer invoices can be used to record receivables for the lessor. After the lease income or finance income is determined, it can be recognized for the invoice or through journal entry adjustments.

**IAS 36, “Impairment of Assets”**

**Overview**

Almost all assets, both current and non-current, are subject to an impairment test to confirm that they aren’t overstated on balance sheets.

The basic principle of impairment is that an asset may not be carried on the balance sheet at an amount that is above its recoverable amount. The recoverable amount is defined as the higher of the asset’s fair value minus costs to sell and its value in use. The fair value minus costs to sell is the amount that can be obtained from the sale of an
asset in an arm’s-length transaction between knowledgeable, willing parties, minus disposal costs. Value in use requires that management estimate the future cash flows that will be derived from the asset, and discount them by using a pre-tax market rate that reflects current assessments of the time value of money and the risks that are specific to the asset.

All assets that are subject to the impairment guidance are tested for impairment if there is an indication that the asset might be impaired. In addition, some assets, such as goodwill, indefinite lived intangible assets, and intangible assets that aren’t yet available for use, are tested annually for impairment, even if there is no impairment indicator.

When you’re considering whether an asset is impaired, both external indicators and internal indicators are considered. External indicators include significant adverse changes in the technological, market, economic, or legal environment, or increases in market interest rates. Internal indicators include evidence of obsolescence or physical damage of an asset, or evidence from internal reporting that the economic performance of an asset is or will be worse than expected.

The recoverable amount is calculated at the level of the individual asset. However, an asset rarely generates cash flows independently of other assets, and most assets are tested for impairment in groups of assets that are described as cash-generating units (CGUs). A CGU is the smallest identifiable group of assets that generates inflows that are largely independent of the cash flows from other CGUs.

The carrying value of an asset is compared to the recoverable amount (the higher of the asset’s fair value minus costs to sell and its value in use, as explained earlier). An asset or CGU is impaired when its carrying amount exceeds its recoverable amount. Any impairment is allocated to the asset or assets of the CGU, and the impairment loss is recognized in profit or loss.

Goodwill that is acquired in a business combination is allocated to the acquirer’s CGUs or groups of CGUs that are expected to benefit from the synergies of the business combination. However, the largest group of CGUs that is permitted for goodwill impairment testing is the lowest level of operating segment before aggregation.

Support for IAS 36 in Dynamics 365 for Operations

Impairment is recognized in the general ledger as an expense, and Dynamics 365 for Operations supports subsequent revaluations through the Fixed assets module. The decision to identify the impairment and recoverable amount of an asset, regardless of whether it’s from an external or internal source, is a management decision and is performed outside Dynamics 365 for Operations.

IAS 37, “Provisions, Contingent Liabilities and Contingent Assets”

Overview

A liability is a present obligation that an entity has as a result of past events. Settlement of that obligation is expected to produce an outflow, from the entity, of resources that embody economic benefits. A provision falls in the category of liabilities and is defined as a liability of uncertain timing or amount.
**Recognition and initial measurement**

A provision is recognized when the following conditions are met:

- The entity has a present obligation to transfer economic benefits as a result of past events.
- It’s probable (that is, more likely than not) that such a transfer will be required in order to settle the obligation.
- A reliable estimate of the amount of the obligation can be made.

The amount that is recognized as a provision is the best estimate of the expenditure that is required in order to settle the obligation at the balance sheet date. The estimate is measured based on the expected cash flows that are discounted for the time value of money. Provisions aren’t recognized for future operating losses.

A present obligation arises from an obligating event and can take the form of either a legal obligation or a constructive obligation. An obligating event gives the entity no realistic alternative to settling the obligation. If the entity can avoid the future expenditure through its future actions, it has no present obligation. Therefore, no provision is required. For example, an entity can’t recognize a provision just because it intends to incur expenditure at some future date or expects future operating losses, unless these losses are related to an onerous contract.

**Restructuring provisions**

There are specific requirements for restructuring provisions. A provision is recognized when the following conditions are met:

- There is a detailed formal plan that identifies the main features of the restructuring
- The affected parties have a valid expectation that the entity will carry out the restructuring, because the entity either starts to implement the plan or announces the main features of the plan to the affected parties.

A restructuring plan doesn’t create a present obligation at the balance sheet date if it’s announced after that date, even if it’s announced before the financial statements are approved. The provision includes only incremental costs that are produced by the restructuring. It doesn’t include those incremental costs that are associated with the entity’s ongoing activities. Expected gains on the sale of assets aren’t considered in the measurement of a restructuring provision.

**Reimbursements**

An obligation and any anticipated recovery are presented separately as a liability and an asset, respectively. However, an asset can be recognized only if it’s virtually certain that settlement of the obligation will produce a reimbursement. The amount that is recognized for the reimbursement should not exceed the amount of the provision. The amount of any expected reimbursement is disclosed. Net presentation is permitted only in the statement of profit or loss.

**Subsequent measurement**

At each balance sheet date, management performs an exercise to identify the best estimate of the discounted expenditure that is required in order to settle the present obligation at the balance sheet date. The increase in provision because of the passage of time (that is, because of the discount rate) is recognized as an interest expense.
Contingent liabilities

Contingent liabilities are possible obligations, the existence of which will be confirmed only when uncertain future events that are outside the entity’s control either occur or don’t occur. Alternatively, contingent liabilities are present obligations that aren’t recognized because either it isn’t probable that an outflow of economic benefits will be required in order to settle the obligation, or the amount can’t be reliably measured.

Contingent liabilities aren’t recognized, but are disclosed and described in the notes to the financial statements. The information includes an estimate of the potential financial effect of the contingent liabilities, and uncertainties that are to the amount or timing of any outflow, unless the possibility of settlement is remote.

Contingent assets

Contingent assets are possible assets, the existence of which will be confirmed only when uncertain future events that are outside the entity’s control either occur or don’t occur. Contingent assets aren’t recognized. When the realization of income is virtually certain, the related asset isn’t a contingent asset but is recognized as an asset.

Contingent assets are disclosed and described in the notes to the financial statements. The information includes an estimate of the potential financial effect of the contingent assets if the inflow of economic benefits is probable.

Support for IAS 37 in Dynamics 365 for Operations

The determination of a contingent asset, a liability, or a provision is performed outside Dynamics 365 for Operations. Dynamics 365 for Operations provides indirect support for IAS 37 by providing the capability to record journal entries for any provision that must be recognized, or to classify a contingent liability or asset.

IAS 38, “Intangible Assets”

Overview

An intangible asset is an identifiable non-monetary asset that doesn’t have physical substance. An intangible asset qualifies as identifiable if it’s separable (that is, it can be sold, transferred, or licensed), or if it arises from contractual or other legal rights.

Separately acquired intangible assets

Separately acquired intangible assets are initially recognized at cost. Cost comprises the purchase price (which includes import duties and non-refundable purchase taxes) and any directly attributable costs of preparing the asset for its intended use. The purchase price of a separately acquired intangible asset incorporates assumptions about the probable economic future benefits that the asset might generated.

Internally generated intangible assets

The process of generating an intangible asset is divided into a research phase and a development phase. No intangible assets that arise from the research phase may be recognized. Intangible assets that arise from the development phase are recognized when the entity can demonstrate the following facts:

- The technical feasibility of the development
- The entity’s intention to complete the development
The entity’s ability to use or sell the intangible asset

- How the intangible asset will generate probable future economic benefits (for example, the existence of a market for the output of the intangible asset or for the intangible asset itself)
- The availability of resources to complete the development
- The entity’s ability to reliably measure the attributable expenditure

An expenditure that is written off during the research or development phase can’t be capitalized if the project meets the criteria for recognition at a later date. The costs that are related to many internally generated intangible items can’t be capitalized and are expensed as they are incurred. These costs include research, start-up, and advertising costs. Expenditure on internally generated brands, mastheads, customer lists, publishing titles, and goodwill aren’t recognized as intangible assets.

**Intangible assets that are acquired in a business combination**

If an intangible asset is acquired in a business combination, both the probability and measurement criteria are always considered to be met. Therefore, an intangible asset will always be recognized, regardless of whether it has previously been recognized in the acquiree’s financial statements.

**Subsequent measurement**

Intangible assets are amortized unless they have an indefinite useful life. Amortization is carried out on a systematic basis over the useful life of the intangible asset. An intangible asset has an indefinite useful life when, based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

Intangible assets may be measured at a revalued amount later, as a policy choice, but only to the extent that an active market exists for the asset.

**Support for IAS 38 in Dynamics 365 for Operations**

The **Fixed assets** module supports recognition of intangible assets at cost in the financial statements. The identification of an intangible asset is a management decision and is performed outside Dynamics 365 for Operations. Project accounting can be used to recognize internally generated intangible assets. The amortization of assets can be performed by using the depreciation routines.

**IAS 40, “Investment Property”**

**Overview**

In accordance with IAS 40, some properties are classified as investment properties for financial reporting purposes, because the characteristics of the properties differ significantly from owner-occupied properties. For such properties, the current value and changes to those values are the details that are relevant to users of financial statements.

Investment property is property (for example, land, a building or part of a building, or both) that an entity holds to earn rentals and/or for capital appreciation. This category includes such property while it’s under construction or development.
Any other properties are accounted for in accordance with the following standards:

- IAS 16 if the properties are held so that they can be used in the production or supply of goods or services. Owner-occupied property doesn’t meet the definition of investment property.
- IAS 2 if the properties are held as inventory that is put up for sale in the regular course of business.

Initial measurement of an investment property is the fair value of its purchase consideration plus any directly attributable costs. After initial measurement, management can choose, as its accounting policy, to carry investment properties at either fair value or cost. The policy that is chosen is applied consistently to all the investment properties that the entity owns. If the fair value option is chosen, investment properties that are under construction or development are measured at fair value if this value can be reliably measured. Otherwise, they are measured at cost.

Under IAS 40, fair value is the price that the property could be exchanged at in an arm’s-length transaction between knowledgeable, willing parties. Under IFRS 13, fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. Changes in fair value are recognized in profit or loss in the period where they arise.

The cost model requires that investment properties be carried at cost minus accumulated depreciation and any accumulated impairment losses that are consistent with the treatment of PPE. The fair values of these properties is disclosed in the notes.

Support for IAS 40 in Dynamics 365 for Operations

In Dynamics 365 for Operations, an investment property can be recorded as a fixed asset. The determination of a fixed asset by using the fair value or cost model is a management decision, and is performed outside Dynamics 365 for Operations. The fixed asset journals can be used to adjust acquisition value, based on changes in fair value. They can also be used to recognize the change in the income statement.

Investment properties can be classified by using specific asset groups and specific posting rules to make disclosure of the required information easier.

IFRS 5, “Non-current Assets Held for Sale and Discontinued Operations”

Overview

IFRS 5 is relevant when any disposal occurs or is planned. The held-for-sale criteria in IFRS 5 apply to non-current assets (or disposal groups) where the value will be recovered primarily through sale instead of continued use. The criteria don’t apply to assets that are being scrapped, wound down, or abandoned.

IFRS 5 defines a disposal group as a group of assets that will be disposed of together, through sale or other means, in a single transaction, and liabilities that are directly associated with those assets and will be transferred in the transaction.

The non-current asset (or disposal group) is classified as held for sale if it’s available for immediate sale in its present condition, and its sale is highly probable. A sale is highly probable when the following conditions are met:

- There is evidence of management commitment.
- There is an active program to locate a buyer and complete the plan.
● The asset is actively marketed for sale at a reasonable price compared to its fair value.
● It’s expected that the sale will be expected to be completed within 12 months of the date of classification.
● Actions that are required in order to complete the plan indicate that it’s unlikely that there will be significant changes to the plan, or that it will be withdrawn.

Non-current assets (or disposal groups) that are classified as held for sale have these characteristics:
● They are carried at the lower of the carrying amount and the fair value minus costs to sell.
● They aren’t depreciated or amortized.
● They are presented separately in the balance sheet (assets and liabilities should not be offset).

A discontinued operation is a component of an entity that can be distinguished operationally and financially from the rest of the entity for financial reporting purposes, and that meets the following conditions:
● It represents a separate major line of business or major geographical area of operation.
● It’s part of a single coordinated plan to dispose of a separate major line of business or geographical area of operation.
● It’s a subsidiary that was acquired exclusively for the purpose of eventual resale.

An operation is classified as discontinued only at the date when it meets the criteria for classification as held for sale, or when the entity has disposed of it. Although balance sheet information is neither restated nor remeasured for discontinued operations, the information in the statement of comprehensive profit or loss must be restated for the comparative period.

Discontinued operations are presented separately in the statement of profit or loss, and either on the face of the cash flow statement or in the notes. There are additional disclosure requirements that are related to discontinued operations.

The date of disposal of a subsidiary or disposal group is the date when control passes. The consolidated income statement includes the results of a subsidiary or disposal group up to the date of disposal. The gain or loss on disposal is the difference between the carrying amount of the net assets plus any attributable goodwill and amounts that have accumulated in other comprehensive income (for example, foreign translation adjustments and available-for-sale reserves), and the proceeds of sale.

**Support for IFRS 5 in Dynamics 365 for Operations**

In Dynamics 365 for Operations, fixed assets that are classified as held for sale can be measured at the lower of the carrying amount and the fair value minus costs to sell. For any assets that are held for sale, Dynamics 365 for Operations enables reclassification and transfer into new assets.

Asset disposal groups can be managed by transferring multiple assets into a single asset. Assets can be set so that they don’t depreciate. General ledger accounts can be defined for the assets that are held for sale to allow for the correct presentation in the financial statements.
Foreign currency

IAS 21, “The Effects of Changes in Foreign Exchange Rates”

Overview

Many entities do business with overseas suppliers or customers, or they have overseas operations. This situation causes two main accounting issues:

- Some transactions, such as transactions with overseas suppliers or customers, might be denominated in foreign currencies. For financial reporting purposes, these transactions are expressed in the entity’s own currency (functional currency).
- An entity might have foreign operations, such as overseas subsidiaries, branches, or associates that maintain their accounting records in their local currency. Because transactions that are measured in different currencies can’t be combined, the foreign operation’s results and financial position are translated into a single currency. The currency that is used is the currency that the group’s consolidated financial statements are reported in (presentation currency).

The following sections summarize the methods that are required for each of these issues.

Expressing foreign currency transactions in the entity’s functional currency

A foreign currency transaction is expressed in the functional currency by using the exchange rate at the transaction date. Foreign currency balances that represent cash or amounts that will be received or paid in cash (monetary items) are reported at the end of the reporting period by using the exchange rate on that date. Exchange differences on these monetary items are recognized as income or expense for the period.

Non-monetary balances that aren’t remeasured at fair value and that are denominated in a foreign currency are expressed in the functional currency by using the exchange rate at the transaction date. When a non-monetary item is remeasured at fair value in the financial statements, the exchange rate at the date when fair value was determined is used.

Translating functional currency financial statements into a presentation currency

Assets and liabilities are translated from the functional currency into the presentation currency at the closing rate at the end of the reporting period. The income statement is translated either at exchange rates at the transaction dates or at the average rate if that rate approximates the actual rates. All resulting exchange differences are recognized in other comprehensive income.

For a foreign operation that has the currency of a hyperinflationary economy as its functional currency, the financial statements are first restated in accordance with IAS 29, Financial Reporting in Hyperinflationary Economies.” All components are then translated to the presentation currency at the closing rate at the end of the reporting period.
Support for IAS 21 in Dynamics 365 for Operations

Dynamics 365 for Operations provides the capability to define a functional currency as the accounting currency for a ledger. The initial recognition of foreign currency transaction amounts is translated into the accounting currency by using the exchange rate at the transaction date.

For foreign currency monetary items, a periodic currency revaluation process can be run in accounts receivable, accounts payable, and the general ledger for accounts that are set up for currency revaluation.

Non-monetary items that are measured in terms of historical cost in a foreign currency can be excluded from currency revaluation and can be carried at the exchange rate at the transaction date.

Non-monetary items that are measured at fair value in a foreign currency can be translated by using the exchange rate at the transaction date.

Dynamics 365 for Operations automatically recognizes realized profit and loss postings that are related to the settlement of monetary items at rates that differ from the previous closing rate.

Investments in foreign operations can be recognized in Dynamics 365 for Operations as separate financial statements of the reporting entity.

Reporting currency translation is supported through the use of either a consolidation company or Management Reporter. For consolidation companies, the transaction rate, average exchange rate, or closing rate can be applied to accounts. The difference that is calculated to balance when you translate to the reporting currency will be identified as the currency translation adjustment amount and will be presented appropriately in the financial statements.

Financial reports can be viewed in any of the currencies, and the appropriate rate is applied. Additionally, the Financial reporting client for “design” can be used to create reports that show balances in specific currencies side by side.

Revenue recognition

IAS 11, “Construction Contracts”

Overview

A construction contract is a contract that is negotiated specifically for the construction of an asset or a combination of assets. Construction contracts include contracts for the rendering of services that are directly related to the construction of the asset, such as project management and architectural design services. Typically, these contracts are structured with the buyer as a fixed-price or cost-plus contracts.

Revenue and expenses on construction contracts are recognized by using the percentage-of-completion method. Therefore, revenue, expenses, and profit are recognized gradually as contract activity occurs.

When the outcome of the contract can’t be reliably estimated, revenue is recognized only to the extent of incurred costs that are likely to be recovered. Contract costs are recognized as an expense that is incurred. When it’s probable that total contract costs will exceed total contract revenue, the expected loss is immediately recognized as an expense.
IFRIC 15, “Agreements for Construction of Real Estate”, clarifies which standard (IAS 18, “Revenue,” or IAS 11, “Construction Contracts”) should be applied to specific transactions.

Support for IAS 11 in Dynamics 365 for Operations

Dynamics 365 for Operations supports the percentage-of-completion accounting method as a basis for recognizing revenue and cost for fixed-price projects. Determining whether the contract can be reliably estimated is a management decision and is performed outside Dynamics 365 for Operations.

The stage of completion of a contract can be determined based on the contract cost that has been incurred to date versus the estimated total contract cost and the completion of contract milestones.

In some scenarios, the outcome can’t be reliably estimated, contract costs must be expensed as they occur, and no profit can be recognized. In these cases, recognized revenue can be manually adjusted.

Any expected losses for construction contracts should be recognized immediately as an increase in recorded costs.

IAS 18, “Revenue”

Overview

Revenue that arises from the sale of goods is recognized when an entity transfers the significant risks and rewards of ownership, and gives up the managerial involvement that is usually associated with ownership or control, if it’s probable that economic benefits will flow to the entity, and if the amount of revenue and costs can be reliably measured.

Revenue from the rendering of services is recognized when the outcome of the transaction can be reliably estimated. This recognition is done by referencing the stage of completion of the transaction at the balance sheet date. Requirements that resemble the requirements for construction contracts are used. The outcome of a transaction can be reliably estimated when the following conditions are met:

- The amount of revenue can be reliably measured.
- It’s probable that economic benefits will flow to the entity.
- The stage of completion can be reliably measured.
- The costs that are incurred and costs to complete can be reliably measured.

Here are some examples of transactions where the entity retains significant risks and rewards of ownership, and revenue isn’t recognized:

- The entity retains an obligation for unsatisfactory performance that isn’t covered by normal warranty provisions.
- The buyer has the power to rescind the purchase for a reason that is specified in the sales contract, and the entity is uncertain about the probability of return.
- The goods are shipped subject to installation, and that installation is a significant part of the contract.

Interest income is recognized by using the effective interest rate method. Royalties are recognized on an accruals basis, in accordance with the substance of the relevant agreement. Dividends are recognized when the shareholder’s right to receive payment is established.
IFRIC 13, “Customer Loyalty Programs,” clarifies the accounting for award credits that are granted to customers when they purchase goods or services under programs such as frequent-flyer or supermarket loyalty schemes. The fair value of the consideration that is received or receivable with respect to the initial sale is allocated between the award credits and the other components of the sale.

**Support for IAS 18 in Dynamics 365 for Operations**

*Measurement of revenue*

Dynamics 365 for Operations provides the capability to record the fair value of consideration that is received or receivable. The determination of fair value and discounted revenue is a management decision, and is performed outside Dynamics 365 for Operations.

Sales commissions, tax, compensation arrangements, and legal payments occur outside Dynamics 365 for Operations. Typically, they are made through accounting journals, so that the recognition of the expense is consistent with the recognition of contract revenue.

*Recognition of revenue*

Dynamics 365 for Operations supports configuration to recognize revenue for order-based sales at either the point of delivery or the point of invoicing. The configuration is user-defined, so that the appropriate recognition policy can be applied to each good, service, and so on. Like construction contracts in IAS 11, “Construction Contracts,” services that are delivered over a period can use Project management and accounting in Dynamics 365 for Operations to specify the appropriate revenue recognition policy.

The default revenue accounts are defined by accounting rules, but they can be modified for each transaction. Revenue adjustments, such as recognition for multiple elements and rights of return, are primarily made through accounting journals.

Uncollected amounts or amounts that recovery is no longer probable for are expensed as part of the receivable collection process in Dynamics 365 for Operations.

**IFRS 15 “Revenue”**

*Overview*

The new revenue recognition standard takes effect for periods that begin on or after January 1, 2018, and applies to revenue from contracts with customers. This section gives a high-level overview of elements of the standard. You should give yourself enough time before adoption to evaluate the implications of the new standard. Be sure to note the significance of the change in the new standard, and the likely need for technical accounting assessments before process and/or technology adoption.

Companies that generate revenue and apply IFRS (or U.S. GAAP) are currently adapting to a new five-step model to recognize revenue from customer contracts. Significant management judgment about accounting for revenue recognition might be required, and the changes could have pervasive impact on people, policies, processes, and systems. Companies are finding that circumstances such as tiered pricing, marketing offers (for example, volume
discounts), contract modifications, and many other potential contract terms create issues that require careful consideration under the new standard.

Many revenue transactions are straightforward, but some can be highly complex. For example, software arrangements, licenses of intellectual property, outsourcing contracts, barter transactions, contracts that involve multiple elements, and contracts that involve milestone payments can be challenging to understand. It might be difficult to determine what the entity has committed to deliver and how much, and when revenue should be recognized. Contracts often provide strong evidence of the economic substance, because parties to a transaction generally protect their interests through the contract. Any amendments, side letters, and oral agreements can provide additional relevant information. Other factors, such as local legal frameworks and business practices, should also be considered to help guarantee full understanding of the economics of the arrangement. An entity should consider the substance, not only the form, of a transaction to determine when revenue should be recognized. The revenue standard provides principles that an entity applies to report useful information about the amount, timing, and uncertainty of revenue and cash flows that arise from its contracts to provide goods or services to customers. The core principle requires that an entity recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to in exchange for those goods or services.

**Scope of contracts with customers**

The revenue standard applies to all contracts with customers, except contracts that are within the scope of other standards, such as leases, insurance, and financial instruments. Other items might also be presented as revenue, because they arise from an entity’s ordinary activities, but might not be within the scope of the revenue standard. These items include interest and dividends. Arrangements might also include elements that are partly in the scope of other standards and partly in the scope of the revenue standard. The elements that are accounted for under other standards are separated and accounted for under those standards. Only contracts with a customer are in the scope of the revenue standard.

**Five-step model**

The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration that the entity expects to be entitled to in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following steps:

1. **Identify the contracts with a customer** – A contract is an agreement between two or more parties that creates enforceable rights and obligations. The requirements of IFRS 15 apply to every contract that has been agreed upon with a customer, and that meets specified criteria. In some cases, IFRS 15 requires that an entity combine contracts and account for them as one contract. IFRS 15 also provides requirements for the accounting for contract modifications.

2. **Identify the performance obligations in the contract** – A contract includes promises to transfer goods or services to a customer. If those goods or services are distinct, the promises are performance obligations and are accounted for separately. A good or service is distinct if the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer, and if the entity’s promise to transfer the good or service to the customer is separately identifiable from the other promises in the contract.
Determine the transaction price – The transaction price is the amount of consideration in a contract that an entity expects to be entitled to in exchange for transferring promised goods or services to a customer. The transaction price can be a fixed amount of customer consideration, but it can sometimes include variable consideration or consideration in a form other than cash. The transaction price is also adjusted both for the effects of the time value of money, if the contract includes a significant financing component, and for any consideration that is payable to the customer. If the consideration is variable, an entity estimates the amount of consideration that it will be entitled to in exchange for the promised goods or services. The estimated amount of variable consideration will be included in the transaction price only to the extent that it’s highly probable that a significant reversal in the amount of cumulative revenue that is recognized won’t occur when the uncertainty that is associated with the variable consideration is later resolved.

Allocate the transaction price to the performance obligations in the contract – Typically, an entity allocates the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service that is promised in the contract. If a stand-alone selling price isn’t observable, an entity estimates it. Sometimes, the transaction price includes a discount or a variable amount of consideration that is related entirely to a part of the contract. The requirements specify when an entity allocates the discount or variable consideration to one or more, but not all, performance obligations (or distinct goods or services) in the contract.

Recognize revenue when (or as) the entity satisfies a performance obligation – An entity recognizes revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer. (At that point, the customer obtains control of that good or service.) The amount of revenue that is recognized is the amount that is allocated to the performance obligation that was satisfied. A performance obligation can be satisfied either at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer). For performance obligations that are satisfied over time, an entity recognizes revenue over time by selecting an appropriate method for measuring the entity’s progress towards complete satisfaction of that performance obligation.

Other revenue considerations
Transactions where a seller retains a right or obligation to repurchase the goods don’t cause revenue recognition, because control wasn’t transferred.

Support for IFRS 15 in Dynamics 365 for Operations

Five-step model

1 Identify the contracts with a customer – Dynamics 365 for Operations provides the capability to define customer contracts so that they capture applicable data attributes that are critical to the evaluation of revenue for contracts with customers (for example, contract start/end dates, pricing, volume discounts, and product or service bundling).

2 Identify the performance obligations in the contract – Often, simple performance obligations can be defined in Dynamics 365 for Operations as the following items:
   • Customer orders (sales or service orders)
   • Stock keeping unit (SKU) items in Item master data
   • Projects in Project management and accounting
Relevant pricing can then be assigned to each simple performance obligation. However, the concept of performance obligation isn’t a native data element in Dynamics 365 for Operations. Therefore, complex product and service bundling will require analysis outside Dynamics 365 for Operations in order to identify the unique performance obligations.

3 **Determine the transaction price** – The overall price for the contract (inclusive of all the performance obligations) can be set in Dynamics 365 for Operations.

4 **Allocate the transaction price to the performance obligations in the contract** – Transaction prices can be set and associated at the most granular selling unit level. However, if the performance obligation (sales order, SKU, or project) can’t reflect a single, “unbundled” performance obligation, additional analysis and manual adjustment outside Dynamics 365 for Operations might be required in order to estimate the transaction price and assign it to the sellable unit.

5 **Recognize revenue when (or as) the entity satisfies a performance obligation** – Dynamics 365 for Operations supports configuration to recognize revenue for contract-based sales at either the point of delivery or the point of invoicing. The configuration is user-defined, so that the appropriate recognition policy can be applied to each good, service, and so on.

For performance obligations that are delivered over a period, you can use Project management and accounting in Dynamics 365 for Operations to specify the appropriate revenue recognition policy (1 – Ratable or Straight-line, 2 – Percent complete, 3 – Cost amount, or 4 – Quantity).

Some complex judgments (for example, revaluation of variable considerations) will require analysis outside the Dynamics 365 for Operations environment in order to identify and measure revenue against the delivery of performance obligations (instead of invoice and/or billing dates). Adjustments are primarily made through accounting journals.

Note that you should consider third-party “bolt-on” applications in industry sectors of significantly complex contract arrangements (for example, technology and telecommunications).

**Other revenue considerations**

Contract modification introduces a downstream risk that might affect revenue recognition patterns that are set by the initial customer contract agreement. In this scenario, revenue adjustments might be required in order to adjust revenue. These adjustments are primarily made through accounting journals.

The default revenue accounts are defined by accounting rules, but they can be modified for each transaction. Revenue adjustments, such as recognition for multiple elements and rights of return, are primarily made through accounting journals. Note that the new standard might introduce additional complexity. Therefore, judgments might require analysis outside Dynamics 365 for Operations, and manual adjustment to system entries in an organization’s transaction and/or reporting systems.

Uncollected amounts or amounts that recovery has ceased to be probable for are expensed as part of the receivable collection process in Dynamics 365 for Operations.

Overview

Government grants are recognized when there is reasonable assurance that the entity will comply with the conditions that are related to them, and that the grants will be received.

Grants that are related to income must be matched with the related costs that they are intended to compensate. Therefore, these grants are recognized in profit or loss over the appropriate periods that will enable this matching to occur. They are either offset against the related expense or presented as separate income. The timing of such recognition in profit or loss depends on the fulfillment of any conditions or obligations that are attached to the grant.

Grants that are related to assets are either offset against the carrying amount of the relevant asset or presented as deferred income in the balance sheet. Profit or loss will be affected either by a reduced depreciation charge or when deferred income is systematically recognized as income over the useful life of the related asset.

Support for IAS 20 in Dynamics 365 for Operations

Dynamics 365 for Operations supports the registration of grants and grants amounts. Grants can be classified as deferred income. The Project management and accounting module can be used to recognize conditional grants as income and match them with the related costs that they are intended to compensate. Alternatively, the recognition and matching can be done by using journal entries. If a grant becomes repayable, it can be recognized within unamortized deferred income, and any excess can be recognized as an expense.

Grants that are related to assets can be registered as carrying amount adjustments in the Fixed assets module in Dynamics 365 for Operations. Adjustments are tracked separately and can be reversed in the event of repayment. Adjustments to cumulative depreciation because of a repayment can be charged as an expense.

IAS 23, “Borrowing Costs”

Overview

Under IAS 23, costs that are directly attributable to the acquisition, construction, or production of a qualifying asset should be capitalized.

Support for IAS 23 in Dynamics 365 for Operations

For more details, see IAS 16, “Property, Plant and Equipment.”
General ledger concepts in Dynamics 365 for Operations

Dynamics 365 for Operations provides the capability to define and share any number of charts of accounts, fiscal calendars, and currencies. The general ledger for a company or legal entity defines a combination of a specific chart of accounts, a fiscal calendar, and the functional and reporting currency. Furthermore, attributes for main accounts, fiscal calendars, and currencies can be defined per legal entity.

Dynamics 365 for Operations provides comprehensive support for global businesses, and for intracompany and intercompany transactions.

Dynamics 365 for Operations supports an unlimited number of financial dimensions. Based on the chart of accounts and the organizational hierarchies, accounting rules are defined to enable the appropriate dimensions and dimension values to be captured for each accounting entry. These rules should be used to confirm that correct information is available for financial and management reporting.

Management Reporter for Microsoft Dynamics ERP supports the creation of statutory and operational reports that are based on general ledger data. Management Reporter is used to create, distribute, and analyze financial statements and other financial reports, and is included in Dynamics 365 for Operations. Management Reporter provides out-of-box report templates that can be used to report on general ledger data in Dynamics 365 for Operations. These templates can be modified to meet specific business needs.

U.S. GAAP vs. IFRS

Overview of U.S. GAAP, and identification of ERP differences between U.S. GAAP and IFRS

U.S. companies became increasingly aware of IFRS over the last decade, as the Financial Accounting Standards Board (FASB) and the IASB (collectively, “the Boards”) worked jointly and focused their agendas on the convergence of U.S. GAAP and IFRS. However, the formal bilateral relationship between the Boards will end soon. Although the Boards’ work both improved financial reporting and brought the accounting frameworks closer together in some areas, the future of further convergence remains uncertain as the Boards shift their attention to their own independent agendas. IFRS is increasingly relevant to many U.S. companies, large and small, public and non-public. To help the reader understand the implications and variations between U.S. GAAP and IFRS reporting requirements, PwC has created a document that is named IFRS and US GAAP: similarities and differences.
How Dynamics 365 for Operations supports the compliance initiative

Overview of Sarbanes-Oxley

SOX was signed into law on July 30, 2002. This act was designed to restore/enhance public confidence in the financial reporting and disclosure process, and in the accounting profession. Additionally, it was designed to strengthen enforcement of federal securities laws, and to improve executive responsibility and accountability.

SOX has the following requirements:

- Public companies must have an effective framework for internal controls and extensive documentation of those controls.
- Management must complete quarterly certification of the nature and effectiveness of internal controls, and the quality of the information.
- Management must submit an annual report about internal controls and procedures for financial reporting. In some cases, the company’s external auditor must also submit an attestation about the company’s internal controls for financial reporting.

General overview of Dynamics 365 for Operations and the compliance initiative

Companies continue to find themselves in an environment of economic uncertainty and under pressure to become more efficient. At the same time, the number and complexity of regulatory requirements continues to increase. Performance expectations, increasing stakeholder demands, and changing market conditions are forcing business leaders to search for cost-effective ways to enforce compliance adoption without jeopardizing organizational agility and business growth.

The compliance and audit features in Dynamics 365 for Operations enable companies to enforce compliance in a consistent, cost-effective way while they also streamline business processes and improve efficiency across the organization.

Compliance with corporate policies and procedures

Dynamics 365 for Operations policies and workflows let you define business rules and automate processes. Therefore, you help guarantee that users follow a specified set of processes that give companies greater and stronger internal automated controls.

One way to enable policies is by deploying the workflow system in Dynamics 365 for Operations. The workflow system enables the setup of an approval process for selected source documents, such as accounting journals. The approval process lets a user define the conditions under which approvals are required. The user can then link this definition to the organizational hierarchy to provide appropriate levels of review and approval. Then, when a
transaction is posted, the posting is put in a pending status until the appropriate approvals are received. Therefore, internal control is provided over workflow-enabled processes. Finally, in addition to capturing levels of approach, workflow capabilities in Dynamics 365 for Operations provide a mechanism for tracking the status of a document workflow (for example, from initiation, to pending approval, to approval or rejection). Therefore, these capabilities help guarantee timely completion of open items.

Other module-specific policies can also be configured to help secure an appropriate level of internal control for a specific business process. For example, in Account payables, a configuration can be applied at an enterprise-wide vendor or product level to enable automated control areas, such as a three-way or two-way matching. Other capabilities that can be configured let you define the matching policy for any level, based on invoice totals and tolerances. Therefore, these capabilities provide control but also provide flexibility in accordance with your organization’s requirements. Any matching discrepancy that exceeds the tolerance will have to be resolved or accepted should the differences be approved by an authorized user.

Furthermore, to help maintain data integrity in your environment, you can deploy automated controls to enable your data governance strategy. Internal controls that are relevant to mandatory data fields and validation of data input (for example, within your customer or vendor master records) can help make your core master data more reliable. They can also increase confidence and improve the integrity of downstream business transactions.

**Automating auditing by using audit rules, policies, and cases**

Internal controls that rely heavily on manual control activities (for example, reconciliations and reviews) can be time-consuming and expensive. Leading practice suggests that companies should take advantage of automation whenever they can to unlock the return on investment (ROI) and value through an ERP implementation. When audit rules and policies that are available in Dynamics 365 for Operations are enabled, the internal control framework can shift its mix of controls to greater automation. Potential benefits include strong preventative internal controls and a reduction in the cost of compliance. Furthermore, audits that take advantage of automation can produce a standard, global control environment that is flexible and scalable enough to adapt to your organization’s growth. For example, when the automated bank reconciliation functionality is configured in the system, the matching and processing of bank transactions becomes more reliable.

You can define common audit rules that are based on specific keywords. You can then associate audit policies with these rules to evaluate items such as expense reports, vendor invoices, and purchase orders for compliance with your company’s policies. Audit rules can be applied to one or multiple legal entities in your organization. Each audit policy can be scheduled to run automatically and on a recurring basis. When an audit policy has finished running, audit policy violations are grouped into audit cases, so that auditors can research and record all their findings about non-compliant issues.

**Tracking and tracing changes**

Many compliance requirements focus on recording exactly what was done, when, and by whom. Dynamics 365 for Operations supports complete and robust audit trails to identify the origin of an entry, the user who created it, and the date and time when it was created. Database logging in Dynamics 365 for Operations lets you track, trace, and report changes to data fields and tables that are relevant to your compliance strategy. Additionally, alert rules can easily be configured to deliver automatic notification about sensitive data.
Access control and segregation of duties

As a key component of compliance, you must help secure who has access to various features and data in the system. The setup and management of security can be time-consuming. The correct setup of permissions can require multiple iterations. In addition, to enforce strong controls, companies must create appropriate checks and balances to help guarantee not only that their systems are secured but that they also maintain strong segregation of duties between conflicting functions in the organization to minimize the risk of unintended, malicious, or fraudulent activity.

Dynamics 365 for Operations supports role-based security. Role-based security helps manage growing complexities in organization security through reusable permissions, and default and sample security definitions. In an environment that uses role-based security, users are assigned to roles, based on their responsibilities in the organization and their participation in business processes. Dynamics 365 for Operations supports segregation of duties. Therefore, rules can be set up to indicate when two duties must be performed by separate roles for better security or better compliance with policies and regulations. Dynamics 365 for Operations supports access to only authorized users through single sign-on capabilities.

In Dynamics 365 for Operations, the extensible data security framework can be used to help secure the data. By using this framework, you can create data security policies that, for example, grant View access to one subset of sales orders and Edit access to another subset. Dynamics 365 for Operations supports electronic signatures to help enable compliance and accountability for critical business processes, as required by regulations, law, or company policy.

Documenting processes and controls

Another key component in any compliance program is the documentation of business processes and controls. In addition, you must test the validity and effectiveness of those controls. Dynamics 365 for Operations helps organizations enforce standard operating procedures by providing a shared collaborative workspace that automates the process of creating and business process documentation and standard operating procedures, and sharing them with stakeholders.

Dynamics 365 for Operations provides a central location where users can view, manage, and control the internal controls, business process content, and reporting for the organization’s compliance program. The Compliance site provides easy and convenient access to required documentation, internal controls, and status tracking. From the Compliance site, users can view charts that represent the efficiency and effectiveness of the internal controls, examine key performance indicators (KPIs), manage action items from alerts or workflow, and add links to important external compliance sites.

The Business process modeler in Microsoft Dynamics Lifecycle Services (LCS) is prefilled with a standard process map that is based on the cross-industry framework from the American Productivity & Quality Center (APQC). Task Recorder in Dynamics 365 for Operations provides the capability to automatically document business processes. You can record tasks that are performed in Dynamics 365 for Operations as video recordings, process flow diagrams, and step-by-step documentation.
Contacts

PricewaterhouseCoopers LLP (PwC) and Microsoft Corporation have formed a strategic alliance to help companies that are engaged in enterprise transformation projects that use Microsoft Business Solutions technology. As a result of this alliance, PwC is the first major service partner that has been recognized by the Microsoft Dynamics Group as a Global Business Transformation Partner. Therefore, PwC is allowed to build business transformation services around the Microsoft Dynamics suite of applications.

Under the agreement, PwC consultants will provide advice and implementation assistance to clients who select Microsoft Dynamics together with other Microsoft technologies as part of a business transformation project. These other technologies include Dynamics 365 for Operations enterprise resource planning (ERP), customer relationship management (CRM), and business intelligence (BI) solutions.

**PwC contacts**

Jamie Draper  
(415) 806-0576  
james.draper@pwc.com

Rajesh Balaraman  
(312) 298-6885  
rajesh.balaraman@pwc.com

Matthew Korros  
(206) 398-3324  
matthew.d.korros@pwc.com

Michael Gallagher  
(704) 444-5528  
michael.gallagher@pwc.com

**Microsoft contacts**

Dynamics 365 for Operations IFRS Discussion  
daxifr@microsoft.com
Microsoft Dynamics is a line of integrated, adaptable business management solutions that enables you and your people to make business decisions with greater confidence. Microsoft Dynamics works like and with familiar Microsoft software, automating and streamlining financial, customer relationship, and supply chain processes in a way that helps you drive business success.

United States and Canada toll-free: (888) 477-7989
Worldwide: (1) (701) 281-6500

www.microsoft.com/dynamics