

# International Management Accounting Standards Project

First meeting, July 10, 2006

## Meeting Minutes

July, 10<sup>th</sup>, 2006  
SAP offices, London-Heathrow  
UK

<b>Objective of the meeting</b>	<ul style="list-style-type: none"><li>▪ Introduce and discuss the idea of “International Management Accounting Standards” with the participating representatives of management accounting/controllers organisations and from the practice.</li><li>▪ Decide, if there is enough interest to move forward with this pan-European initiative</li><li>▪ Discuss and decide possible next steps</li></ul>
<b>Called by / organised by</b>	International Group of Controlling (IGC) / Juergen H. Daum
<b>Minutes by</b>	Juergen H. Daum
<b>Meeting Participants (alphabetical)</b>	<u>Dr Wolfgang Berger-Vogel</u> (IGC, Internationaler Controller Verein (ICV) / Austria), <u>Juergen Daum</u> (ICV, SAP / Germany), <u>Stefan Gesing</u> (Deutsche Telekom /Germany), <u>Joachim Kattrup</u> (Controller Forum Denmark / Denmark), <u>Richard Mallet</u> (Chartered Institute of Management Accountants- CIMA/United Kingdom) <u>Dr Walter Schmidt</u> (ICV / Germany)
<b>Persons/organisations, who want to participate in future meetings</b>	<u>Prof Frank Hartmann</u> (Dutch Controlling Institute, Erasmus University, Rotterdam/NL), <u>Chris Jackson</u> , (Institute of Chartered Accountants in England & Wales – ICAEW, UK) <u>Guido Kerkhoff</u> (Deutsche Telekom / D), <u>Christian Lenz</u> (Association Nationale des Directeurs financier et Contrôle de Gestion – DFCG, LENZ International SARL / F), <u>Prof G Roland Kaye</u> (CIMA, Management Standards Advisory Board, School of Management University of East Anglia / UK), <u>Piotr Madziar</u> (European Commission / B), <u>Prof Andy Neely</u> (Cranfield School of Management, Advanced Institute for Management Research – AIM / UK), <u>Emma Riddell</u> (ICAEW / UK), <u>Dr Lukas Rieder</u> (Controller Zentrum St. Gallen – CZSG / CH), <u>Prof Dr Irena Sobanska</u> (Accounting Association of Poland, Accounting Department of Lodz University / PL), <u>Dr Anna Szychta</u> (Accounting Department of Lodz University / PL)

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## I. Meeting AGENDA

**Moderation of the meeting:** *Juergen H. Daum, ICV and SAP*

### **Opening and introduction of participants:**

#### **10:00 Welcome and objective of the meeting**

*Dr Wolfgang Berger-Vogel, Chairman of the Internationaler Controller Verein (ICV),  
Chairman of the Managing Committee of the International Group of Controlling (IGC),  
retired CFO, Brau AG, Austria*

#### **10:15 Why this initiative?: motivation and perspectives**

*Juergen H. Daum, Management and CFO Adviser, member of the ICV, and  
Chief Solution Architect, Business Solutions Architects Group, SAP*

#### **10:30 Introduction of participating (management) accounting/ controlling organisations:**

- *personal background of representative(s)*
- *introduction of organisation (objective, activities...)*
- *interest in International Management Accounting Standards (IMAS) Project*

#### **11:00 Break**

### **Presentations and discussion:**

#### **11:30 IFRS from the controllers' perspective – Threat or Challenge?: Experiences from the conversion from German GAAP to IFRS at Deutsche Telekom AG**

*Stefan Gesing,  
Business Customer Group Controlling  
Deutsche Telekom AG, Group Headquarters*

#### **12:15 The future of the management accounting practice in the light of IFRS – overview of the current work at CIMA and IFAC**

*Richard Mallett, Director, Technical Development, CIMA, UK*

#### **13:00 Lunch**

#### **13:45 The role of management accounting and of the central European**

#### **“Grenzplankostenrechnung”-concept in managing successfully a turnaround process at Brau Union in Austria**

*Dr Wolfgang Berger-Vogel*

#### **14:30 Finance (&Control) Transformation at large multinationals: insights from the SAP Finance Best Practice Network**

*Jürgen H. Daum*

#### **15:15 Break**

#### **15:45 Discussion about next steps**

#### **16:30 End of meeting**

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## II. Meeting Summary

Item	Speaker	Content / Discussion
1. <b>Welcome</b>	Dr Wolfgang Berger-Vogel	<p>Wolfgang Berger-Vogel introduced the International Group of Controlling (IGC) and its mission. The IGC's members are controlling education organisations as well as software vendors in central continental and in Eastern Europe. It's main mission is to promote the function and the role of the controller. The IGC defines quality standards for controlling and controller education (see slides attached). He then explained the motivation of the IGC to start this initiative: to not just being object of the pressure for 'harmonisation' of management accounting that comes from IFRS and that will change the management accounting / controlling practice, but to actively shape the new management accounting practice. And that requires an international initiative.</p>
2. <b>Why this initiative?: motivation and perspectives</b>	Juergen Daum	<p>Juergen Daum, in his role as organiser of this meeting, explained that several people had to cancel their participation very short term before the meeting. But nevertheless it has been decided to go for this first meeting in order to start the process. The good news is, that European management accounting organisations and corporations from CH, D, F, NL, PL, UK, and also the European Commission are interested in this initiative and would like to participate in future meetings (and possibly more, if we start to make more advertisement for this initiative).</p> <p>Juergen Daum introduced 3 motivations for IMAS:</p> <ol style="list-style-type: none"> <li>1. The international standardisation of financial accounting through IFRS is also calling for an international harmonisation of the management accounting / controlling practice: the redesign of management accounting / controlling concepts and the rethinking of the role of controllers should be 'harmonised' across countries according to an internationally accepted 'best practice'.</li> <li>2. Europe is rich in well-tested, highly advanced management accounting and controlling concepts (e.g. Tableau de Bord in France, Intellectual Capital Statements in Scandinavia, 'Grenzplankostenrechnung' in A, CH, D). This represents a huge opportunity to shape the future 'management accounting/controlling best practice' globally. But also a threat exist that these proven concepts are 'washed away' by new 'de-facto standard', if these concepts are not brought into the discussion actively.</li> <li>3. A need exist today to fundamentally rethink accounting – both the concept and the practice: First, IFRS is introducing new accounting concepts that challenge traditional practices – in financial and management accounting (see the current discussion around 'performance reporting'). Second, a principles-based approach to financial accounting (IFRS) requires an updated model for</li> </ol>

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		<p>management accounting that reflects the economic reality of today's enterprises in order to create the analytic basis for 'interpretation' in financial accounting. European management accounting / controlling experts and practitioners should actively contribute in developing the new (management) accounting concepts and 'standards'.</p> <p>(see slides attached).</p> <p>In the discussion the participants all agreed that 'standards' in the context of management accounting / controlling should have a different meaning as 'standards' in financial accounting: they are not regulatory standards, but a 'principles-based good practice guidance'.</p>
<p><b>3. Introduction of participating (management) accounting/controlling organisations</b></p>	<p>all</p>	<ul style="list-style-type: none"> <li>- Introduction of the International Controller Verein by Walter Schmidt – the largest controller organisation in the German speaking countries that is currently expanding into Eastern Europe (see attached slides)</li> <li>- Introduction of the Controller Forum Denmark by Joachim Kattrup – the only (commercial) controller education organisation in Denmark</li> <li>- Introduction of CIMA by Richard Mallet – the international accountancy body with a sole focus on business with members in 158 countries (see slides attached for topic 5)</li> </ul>
<p><b>4. IFRS from the controllers' perspective – Threat or Challenge?: Experiences from the conversion from German GAAP to IFRS at Deutsche Telekom AG</b></p>	<p>Stefan Gesing (replacing Guido Kerkoff, Senior Executive Vice President Group Accounting and Controlling, Deutsche Telekom AG)</p>	<p>Stefan Gesing started by explaining the accounting and regulatory environment of Deutsche Telekom (listed at the Frankfurt Stock Exchange and at NSYE) and the shareholder structure. Main objective of financial statements are: information and stewardship – both externally and in internal controlling. The aim of Deutsche Telekom is to do internally what is expected externally (in terms of profitability and growth). This requires a certain 'consistency' of internal management accounting with external financial accounting.</p> <p>Financial accounting: Through IFRS-conversion there were hardly any effects on revenues, EBITDA and Free Cash Flow – but significant changes in Net Income, Shareholders' Equity and Net Debt (mainly through introduction of fair value accounting). One challenge is that IFRS-net income is not a good indicator for potential dividend distribution (no amortization of goodwill). Another challenge is performance reporting (-&gt; clear separation of net income and fair value gains/losses required / to show the true economic reality of the enterprise)</p> <p>Management accounting: key objective is to optimize output from input. For this output has to be compared with input on the relevant (same) basis = acquisition costs, not fair value; assets should be depreciated; revenues should be realised in accordance with production;</p>

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		<p>consistency over time is required.</p> <p>Conclusion: IFRS is a good opportunity to standardise reporting both internally and externally. But full fair value accounting is not useful for controlling. (see attached slides)</p> <p>In the discussion we concluded that IFRS will lead to a clear split between management accounting (focus on economic reality from a management point of view – without fair value) and financial accounting. The question is, where to make the split and how to reconcile (or reconcile at all?)</p>
<p><b>5. The future of the management accounting practice in the light of IFRS – overview of the current work at CIMA and IFAC</b></p>	<p>Richard Mallet</p>	<p>Richard Mallet introduced the 'Management Accounting Guidance' project where CIMA is working with IFAC, an organisation who's members are international professional accountancy bodies in 118 countries (mainly US, UK + 'Commonwealth'). The official title at IFAC for this project is "Professional Accountants in Business" (PAIB), run by the PAIB committee of IFAC. It's mission is to enhance the profession by encouraging and facilitating global exchange of knowledge and best practices + to build public awareness of value of professional accountants.</p> <p>Richard gave us an overview of the past work of the PAIB committee and of the current work, which is focused on: good practice guidance, IFAC knowledge resource, narrative reporting, internal controls, PAIB and sustainability, PAIB's role in governance. (see attached slides)</p> <p>In the discussion we concluded that it makes sense (after we have 'consolidated' the work/concepts among the participants of the IMAS initiative) to reconcile with IFAC. Both agendas seem to be similar, but there are also differences: IMAS is focused just on management accounting - not on finance/accounting in general; and in the IMAS initiative, in addition to collecting best practice, we intend also to actively shape the future practice through more detailed guidelines how to 'model a business' from an economic perspective in order to design appropriate (company individual) management control systems. Both initiatives would complement each other and both organisation could benefit from a closer cooperation.</p>
<p><b>6. The role of management accounting and of the central European "Grenzplankostenrechnung" concept in managing successfully a turnaround</b></p>	<p>Dr Wolfgang Berger-Vogel</p>	<p>Wolfgang Berger-Vogel introduced us to the 'Grenzplankostenrechnung'-concept for flexible profitability management in manufacturing businesses – taking the example of Brau Union, Austria's largest brewing company (since a couple of years part of Heineken Group and where Wolfgang Berger-Vogel was the company's CFO before he retired in 2005). It's challenge was to manage for profitability in a shrinking market (the beer market in central Europe is constantly shrinking). With the concept of 'Sollkosten' (fixed costs + variable costs based on actual production/sales volumes) Brau Union was able to define flexible cost targets and to master the challenge to get back to sustainable positive economic profits.</p>

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<p><b>process</b></p>		<p>But because this system is not directly reconcilable with IFRS-financial accounting (IFRS operating profit doesn't fully equal the management result in management accounting) the managerial 'analytic' accounts have to be separated from financial accounting, which are reconcilable with management accounting only on a segment level.</p> <p>(see attached slides).</p> <p>In the discussion we concluded that this is a good example for a management accounting practice that is useful for successfully steering a business, but that does not fit under the umbrella of IFRS. All agreed that there is a need for a 'good practice' how to separate management accounting for decision making and 'responsibility accounting' from an IFRS perspective.</p>
<p><b>7. Finance (&amp;Control) Transformation at large multinationals: insights from the SAP Finance Best Practice Network</b></p>	<p>Juergen Daum</p>	<p>Juergen Daum first introduced the participants to the SAP Finance Best Practice Network – a communication platform and service that SAP offers to the CFOs and the 'finance architects' below the CFO (controllers, chief accountants, finance operations managers, risk managers ...) of its large European customers for exchanging best practice in finance (not primarily software related) and to learn from each other.</p> <p>He then showed several examples of 'Finance Transformation' projects at member companies and what these companies are actually doing and what the vision of the CFOs are. He also talked about the focus of current projects in Enterprise Performance Management / Management Accounting (in planning &amp; budgeting, reporting, performance management, fast close). He also briefly talked about 'next practice trends'. The main message was: the ongoing 'industrialisation' of finance&amp;control services in large organisations (moving to shared services and outsourcing – now also for tasks, which are not the traditional transactional tasks) will create a de-facto 'best practice' standard for management accounting that will have an influence also on smaller companies and on the entire future practice. Therefore we need to involve controllers/management accountants from these companies in our discussion (like today from Deutsche Telekom).</p> <p>(see attached slides)</p>
<p><b>8. Discussion about next steps</b></p>	<p>all</p>	<p>In the discussion we were following these questions:</p> <p><b>Is there enough motivation for you to participate in this initiative (IMAS)?</b></p> <p>-&gt; all participants agreed</p> <p><b>What should be done?</b></p> <p>-&gt; create a 'principled-based good practice guidance' for management accounting / controlling</p>

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		<p>-&gt; guidelines for solving certain problems: e.g. for valuing goodwill based on management accounting data / to help to better understand the business model for that purpose</p> <p>-&gt; getting some influence on IFRS: e.g. in the areas of performance reporting and for better bridging the management view and financial accounting view – joining forces for that</p> <p>-&gt; rethinking accounting: create a concept and an impulse to help managers to better rethink from an economic perspective their business models and to exchange best practice</p> <p><b>Are there other topics which should be considered in the context of this initiative?</b></p> <p>-&gt; 'the cultural thing': how to deal with it in management accounting?</p> <p><b>Which other parties should be involved?</b></p> <p>-&gt; more European management accounting / controller organisations should actively participate</p> <p>-&gt; more representatives from the larger European companies should be involved</p> <p>-&gt; the European Commission should be involved</p> <p><b>What traps should we avoid?</b></p> <p>-&gt; that IMAS is regarded as 'a regulatory thing'. Instead, the intention is to establish them as 'principles-based good practice guidance'</p> <p><b><u>Decisions on next steps:</u></b></p> <ul style="list-style-type: none"><li>- It was decided that Juergen Daum will draft a new/more detailed version of the IMAS mission statement based on the discussion of today and will reconcile it with all participants and potential participants until the next meeting</li><li>- At the next meeting we will try to get more organisations involved (both companies and management / Controlling organisations) Richard Mallet will send Juergen Daum a list of candidate companies for the UK. Contact data for additional candidates in general should be send to Juergen Daum.</li><li>- At the next meeting concrete steps for how to proceed to define 'IMAS' should be decided</li><li>- The next meeting will be held in Paris and will be organised again by Juergen Daum: he will reconcile a final date with all potential participants (preferred is: 2<sup>nd</sup> week of November, but not the 9<sup>th</sup>; second priority: 2<sup>nd</sup> week of October)</li></ul>
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## III. Action Items

Item	Timing	Owner	Detail	Next Step	Status
<b>Action Item 1:</b>	asap	<b>Juergen Daum</b>	Define date for next meeting in Paris	Lydia-Behrens Ullmann (assistant at SAP) will send proposals and get feedback from potential participants	ongoing
<b>Action Item 2:</b>	Until next meeting	<b>J. Daum</b>  <b>all</b>	draft a new/more detailed version of the mission statement  Give feedback / agree	Juegen Daum will send out draft before his vacation (starting at August 4)	in week 31
<b>Action Item 3:</b>	asap	<b>all</b>	send contact data for additional candidates to participate in the initiative to Juergen Daum		ongoing
<b>Action Item 4:</b>	Organise next meeting	<b>J. Daum</b>	- send out announcement - - draft agenda - send out invitation	Send out announcement with final meeting minutes	in week 31

## IV. Attachments

Item	Description
1	<b>All presentations from the meeting (file: IMAS_Meeting_10_07_06_presentations.zip)</b>
2	<b>Detailed list of participants and interested parties / possible participants at future meetings (file: participants.pdf)</b>
3	<b>Article from Juergen Daum: "French Tableau de Bord: Better Than the Balanced Scorecard", of which printouts have been distributed at the meeting (file: Tableau_de_Bord_J_Daum_en.pdf)</b>