

IFRS case study: Volkswagen



Background

Volkswagen is Europe's biggest car manufacturer. It produces almost one in five of all cars made in Western Europe and its famous marques include Volkswagen, Audi, Bentley, Lamborghini, Skoda and SEAT. The Volkswagen Group is one of the world's most international manufacturing and service organisations: it employs around 320,000 people, has 45 manufacturing plants, and consists of 340 companies (subsidiaries, associates and joint ventures).

Volkswagen first started examining the likely effects of IFRS on fundamental accounting issues in the mid-1990s. The group's 2001 results were the first in its history to be reported in accordance with IFRS.

Reasons for change

Friedhelm Lotz, head of group accounting at Volkswagen: 'IFRS appealed to us because they are international principles. Of course, using IFRS makes access to international capital markets easier. But you are also part of an international organisation where the standards are more a result of discussion and consensus. You have more chance to contribute to the way IFRS is developed and applied in practice.'

Volkswagen's decision was made before the EU 2005 deadline became a factor. Other leading German groups had already converted either to IFRS or US GAAP. Volkswagen decided that IFRS offered greater international opportunities.

Project overview

Volkswagen worked with PricewaterhouseCoopers on an intensive 18-month project to convert the group to IFRS from the German Commercial Code (HGB). Existing internal management reporting systems helped smooth the way to IFRS adoption. Volkswagen was able to adjust its existing IT systems for IFRS reporting rather than having to create a new electronic data processing environment.

'For an international player, Volkswagen achieved the conversion in a very tight timeframe, considering the complexity of the project and the high quality of IFRS accounting that has been implemented across the group.'

Karl Gadesmann, PwC conversion team leader, Germany

Key project components:

- 1. Detailed project planning.** From March to May 2000, formal project management issues were agreed and approved by Volkswagen's board. The plan identified project team members and outlined budget, timing and other key objectives, such as ways of involving key personnel from Volkswagen's subsidiary companies. At the same time, the core Volkswagen/PwC team started to examine the 1999 group figures to determine the IFRS opening balances.
- 2. Knowledge transfer.** While a steering committee supervised overall project management, PwC technical experts and Volkswagen professionals worked on a one-to-one basis to examine the specifics of the conversion from HGB to IFRS accounting. Expert groups were established to consider the major accounting issues.

- 3. Education and training.** A key goal of the project was to maximise the transfer of know-how between team members, both at the group level and among the subsidiaries. A programme of workshops was held to help ensure the consistent treatment of accounting items across the group. The extensive education and training programme involving finance professionals in the subsidiaries started early in the project – in June 2000 – and continued well into 2001.

- 4. Market communications.** Volkswagen was careful to prepare analysts for the major differences between its HGB and IFRS figures. It held workshops for analysts at the end of 2000 to explain the principles behind the expected changes and started including preliminary IFRS data for profit before tax in its 2001 quarterly reports.



Key results

IFRS had a significant impact on Volkswagen's externally reported data. For example, opening group capital and reserves at 1 January 2000 was €20.9bn under IFRS more than double the German GAAP equivalent (€9.8bn).

Capitalisation of certain development costs – prohibited under the German Commercial Code – had an impact of almost €4bn on Volkswagen's equity position at 1 January 2000.

By maintaining this dialogue with analysts and investors during the conversion process, Volkswagen helped ensure the move to IFRS was well received, and Mr Lotz reports that the dialogue is likely to continue as the application of IFRS evolves.

Volkswagen's reporting system became less complex. Because its internal systems were already close to IFRS in the ways it measured value contributions to the business, the switch to IFRS introduced the same basis for internal and external reporting.

Reconciliation of the capital and reserves to IFRS

	€ Million
Capital and reserves according to the German Commercial Code as at 1 January 2000	9,811
Capitalisation of development costs	3,982
Amended useful lives and depreciation methods in respect of tangible and intangible assets	3,483
Capitalisation of overheads in inventories	653
Differing treatment of leasing contracts as lessor	1,962
Differing valuation of financial instruments	897
Effect of deferred taxes	(-1,345)
Elimination of special items	262
Amended valuation of pension and similar obligations	(-633)
Amended accounting treatment of provisions	2,022
Classification of minority interests not as part of equity	(-197)
Other changes	21
Capital and reserves according to IFRS as at 1 January 2000	20,918

Source: Volkswagen AG Annual Report 2001