White paper

Next Generation Financial Consolidations for Financial Services

How software can help you overcome the challenges of consolidation today

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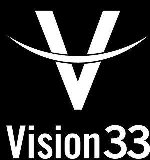

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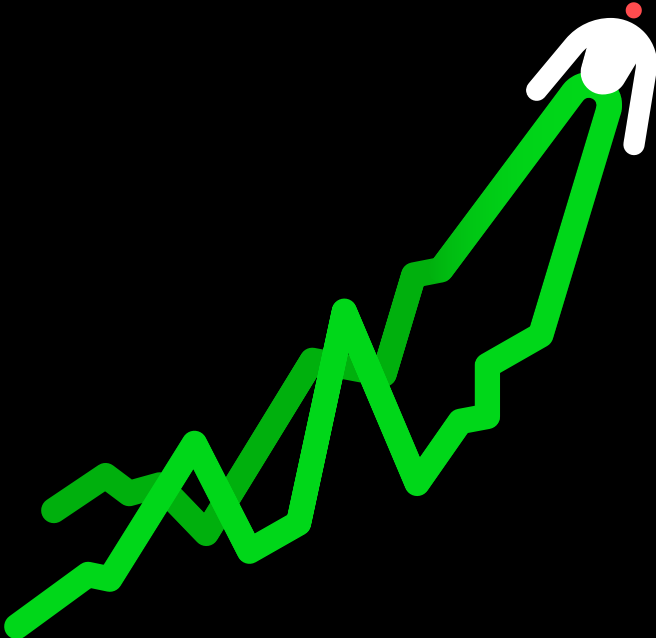
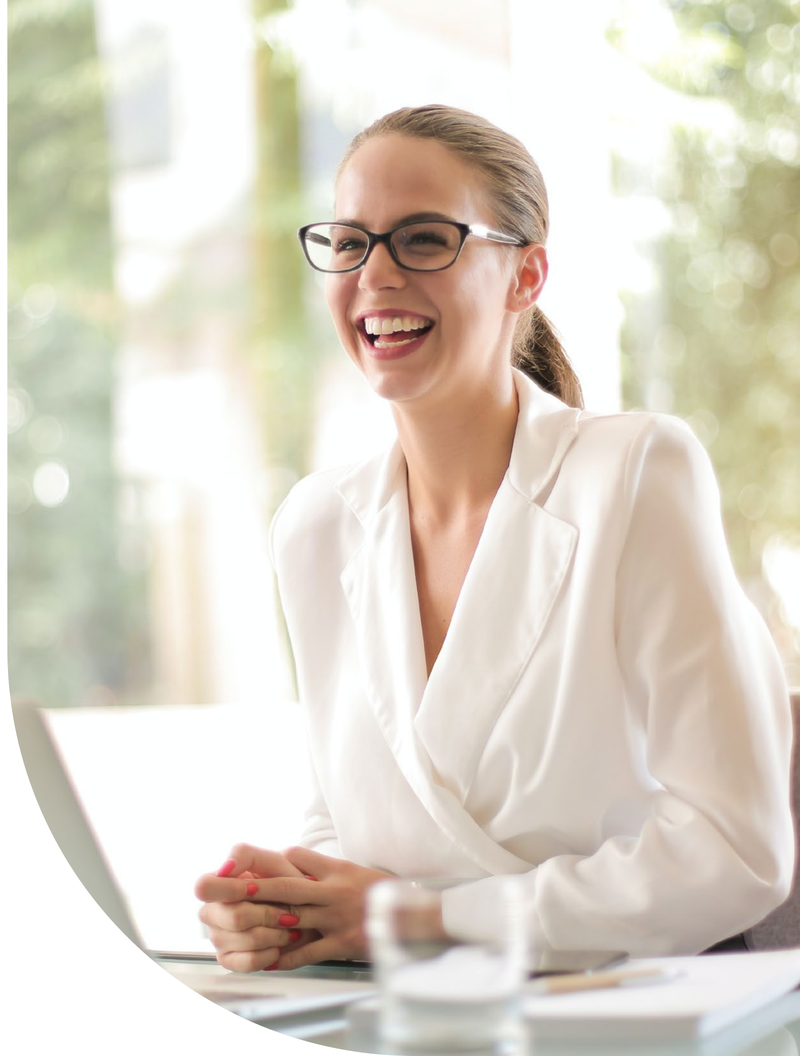


Introduction



Corporate accounting has long been viewed as custodian and curator of financial data. However, whether it's bringing the data together or distributing the financial results broadly, the financial consolidation process has long been an onerous drudgery of information assembly, validation, and reporting. The consolidation process for many corporate accounting groups is sometimes measured in months, often measured in weeks, but rarely measured in days.

Consolidated financial statements group together all the related entities (locations, divisions, subsidiaries, legal structures, etc.) that are under a single parent company's control. This gives the reader a unified "operational" view of the consolidated entities.

The financial stakeholders of the parent organization want and need to understand how management has allocated capital and resources into the various lines of business to generate a return. Consolidation eliminates all inter-group activities and balances to report transactions with external third parties as if the entire group of companies was operating as a single entity.

Different legal entities (e.g., companies, partnerships, funds) are created by a parent company for a range of reasons and purposes. Some are legally driven (e.g., limited liability), others are tax driven (e.g., optimizing the tax profile), and yet others are strategically driven (e.g., international expansion, mergers, and acquisitions). Regardless of the origin of these entities, it doesn't take long before the corporate organizational chart begins growing tentacles of various subsidiaries and subsidiaries of subsidiaries.

The pace and complexity of today's business environment is driving financial executives to shift their financial management solution to a system of intelligence, rather than a system of record, a critical part of which is access to continuous, accurate, consolidated financial reporting.

If consolidated financial statements are the desired and necessary outcome to meet stakeholder and regulatory reporting needs, then working backwards, we can chronicle the consolidation process and discuss the challenges of aggregating the balances and transactional activity from the business units. This will set the stage for discussing an approach for improving not only the financial consolidation process, but also augment the analytical and real-time reporting capabilities of the finance function.

The challenges of consolidation today

Consolidations have been a routine part of many corporate accounting departments for as long as most can remember. What has changed over time is the complexity and compressed timelines of consolidations.

Consolidation complexity is driven by factors such as:

- Geographic growth of subsidiaries across states, regions, and around the world with the advent of globalization.
- The varying and changing nature of accounting rules in different jurisdictions.
- Emphasis on growing the business through both organic new ventures or by acquiring others.
- Increasing inter-relationships and intercompany activities between entities within a control group.
- The international mix of business activities giving rise to translation of foreign currency denominated transactions, balances, and operations.

The timelines for consolidation are compressing and are driven by factors such as:

- Tightening reporting deadlines and the desire to improve the timeliness of reporting with financial stakeholders.
- Transparency of relevant information about the business to the financial stakeholders.
- The need for a well-documented and controlled consolidation process that preserves and enhances financial reporting integrity.

These factors conspire to make the consolidation process ever more challenging for many corporate accounting functions.

The traditional approach to consolidation, still used by many companies, incorporates a blend of human capital, manual processes, and different technologies to bring data and information together to form the basis for consolidation. The financial consolidation process in many of these organizations would follow a pattern along these lines:

The consolidation process

1. The close process is initiated with a detailed calendar that sets target dates or each business unit to close their books and submit results to the corporate accounting group. It's common to see business units needing a week or more to close their books, which means that the corporate accounting group isn't able to start the consolidated close until a week or more after the period ending date.

2. The corporate accounting group receives the results of the business unit, often through offline mechanisms such as an email. Such submissions often require a degree of manual manipulation to align the results of the various business units using harmonized accounting policies and account grouping structures—a painstaking process for the corporate accounting group.

3. Some corporate accounting groups set up a consolidation entity inside the financial reporting system to separately house the consolidation and elimination journal entries. However, many others continue to rely on a simple spreadsheet tool for this purpose. Whether it's journal entries or separate columns and/ or rows the intercompany activities and the investment/ equity accounts get eliminated, and the books for any acquisition related balances (e.g.,goodwill) adjusted.

4. The consolidated accounts are manipulated to put them into a financial reporting framework. This is often the beginning of the "last mile of financial reporting."

This multi-stage consolidation process is time consuming and error-prone, no matter how well organized, communicated, or executed the process becomes. To preserve financial reporting integrity, checks and balances along with manually prepared account reconciliations using spreadsheet files and print outs, are often assembled to prove the numbers.

In a recent study by Financial Executives Research Foundation and Robert Half, 58% of companies manually reconcile accounts. Only 22% of companies in the US use software to reconcile accounts.[1]

Difficult challenges can arise when late entries or other adjustments get posted and this process is repeated. Updating the consolidated results for a late adjustment is often a significant undertaking using this type of process. Consolidated results are often unknown until the very end of the close process.

No one disputes that the old way of preparing a consolidation no longer works, it's extremely inefficient and comes with greater risk. Reliance on spreadsheets and manual procedures is what in reality holds many finance functions back from playing greater strategic roles in their organizations. While clinging to the manual processes and spreadsheets of the past are comforting for many finance people, it's important that everyone recognizes that approaches to financial consolidation have advanced significantly in recent years. There is a better way to design and architect your consolidation process.

1. *Executive Research Foundation and Robert Half*

Consolidations: the next generation

The better way comes from leveraging leading cloud financial management systems. The characteristics of this type of configuration include four critical differences between other traditional, on-premise solutions.

1. The scalable accounting foundation enables automation
Businesses today are often adding virtual and physical entities to their corporate structures. However, traditional accounting and finance systems struggle to add these entities.

On-premise solutions cannot replicate the systems and processes for new entities and across geographic jurisdictions.

Cloud financial management systems alleviate this shortcoming, enabling you to add new business units seamlessly and without any additional investments in hardware, software, or configuration. When one integrated system gets leveraged, training and user resources are readily available to support the implementation.

When all business entities—regardless of location, old and new—use the same system, you achieve significant productivity gains. Automation means you can redeploy corporate accounting staff to more strategic activities. Finance's role changes from a mere preparer to the analyzer and reviewer. It creates a shift in mindset and positions finance to add value to information and move beyond simply reporting it.

2. Supporting faster growth
Many companies are moving quickly these days to capitalize on international growth and M&A opportunities. The finance function must be nimble enough to keep up with the corporate strategy by establishing books and records that align with the rest of the company. They also need a turnkey solution to get their systems and processes up and running to generate valuable information to support all the myriad of decisions that happen at the beginning of a new entity. At the same time, those in the corporate accounting group want and need to roll-up a new entity without missing a beat.

Cloud financial management systems are ideal for ramping up new entities. Existing divisions or companies, perhaps with like-businesses, can be used to quickly configure the accounts of the new entity. Report writers can be used to adapt reporting needs to meet the different jurisdictional and GAAP requirements. The chart of accounts is easily adapted to localize reporting to meet the needs of the new business unit.

At the same time, because one ERP system forms the backbone of the organization's systems and processes, centralization of core finance functions, such as accounts receivable or accounts payable, represent an efficiency opportunity to leverage one database of customers and vendors across the consolidated entity.

Investing in today's world has grown more complicated as companies attempt to mitigate risk through various legal and risk management approaches. As companies structure minority investments, but maintain legal or de facto control, the system needs to consolidate these results as well within the integrated platform without further offline analysis.

3. Managing the Consolidation Process
A cloud financial management system allows for all our consolidation information to be fully integrated at any point in time. This puts all the data of the subsidiaries at the fingertips of the corporate accounting staff. This virtually eliminates the need for the copious emails and other forms of inquiry back and forth between those working in corporate accounting and those working in the various business units to gather the necessary information for preparing the consolidation. The corporate accounting staff now has drill down transparency into the data of the business unit to enhance their own understanding of the financials as the results roll-up.

Leading cloud financial management systems will also have the collaboration, and documentation tools built-in. Collaboration tools, such as a chat function and the ability to save electronic notes, enable staff to communicate easily with those working in the business units. Those conversations can be directly documented and attached to the relevant accounts and reports. This puts the supporting documentation at the fingertips of whoever needs it and creates a permanent archive. This eliminates the cumbersome binders or the file directories full of spreadsheet backups littering many servers today.

Leading cloud financial management systems centralize the set up and management of inter-entity relationships. Bringing greater visibility to inter-corporate transactions between entities. Because the data is self-contained, inside a single system, the elimination and consolidation entries can be automated. While posting the source entry along with the inter-entity transaction as one journal entry. Inter-company accounts are automaically reconciled and elimination entries posted to deal with inter-company transactions and balances, across mulitple currencies. This mitigates the risk of mised postings of inter-company transactions on one side or the other.

4. Better insight
Traditional consolidation processes often result in a gap between the originating data and the data inside of whatever system or spreadsheet is used to perform the consolidation. This gap inhibits transparency, limits insight, and creates a time lag between when business activities happen and when they get reported.

A cloud financial management system eliminates the gaps between the consolidation and the data. The configuration has a profound outcome. Real-time consolidated financial information is now available to decision-makers at the push of a button. This eliminates the "black box" of accounting that often arises when the executives must wait several weeks to find out the consolidated financial results, sometimes impeding important resource allocation decisions.

The globalization of business has also increased the complexity of preparing and analyzing consolidated results. Foreign currency translation of transactions, balances, and operations is a common point of pain during the consolidation process. Having the ability to choose the reporting currency and pivot the view between looking at the results in the presentation currency of the parent, and the local currency of the subsidiary, often help the corporate accounting group and senior executive isolate the impact foreign currency is having on overall financial results.

Conclusion

Addressing the challenges of consolidation using a cloud financial management system can propel the finance function and a financial services organization forward. The benefits of automating the consolidation process can be summarized as: • Accelerating the initiation and integration of new entities in any global jurisdiction with the corporate consolidation function.

- Improved control and opportunities to leverage a cloud financial management system across the financial services firm to centralize core processing functions.
- Drill down insight from the consolidated perspective to the operating entity.
- Greater coordination throughout the close process between those working in the business units and those in the corporate accounting group.
- Real-time consolidation f rom across the financial services firm at any time without the need to wait for period ends.

Never in history has the finance function been so data rich, yet time poor. By leveraging a truly integrated cloud financial management system, the consolidation process becomes automated.

Most importantly, by automating the consolidation, quality and trust are reintroduced into the close process. Senior finance executives can circulate timely information with confidence.

Achieving such an accomplishment enhances the credibility of the finance function and opens the door to opportunities to add incremental value.

The opportunity is before every senior financial leader to high-grade the financial talent. Accounting staff performs higher valued work and spends less time with the manual assembly and reconciliation when the consolidation process becomes automated.

As a senior financial executive, you need to ask yourself, is my consolidation process a source of value creation or a barrier inhibiting greater strategic contribution?

About Sage Intacct
Sage Intacct is the AICPA's preferred provider of cloud financial applications. Sage Intacct streamlines accounting, while delivering real-time budget vs actual visibility and detailed financial reporting for finance teams.

Our modern, cloud solution with open APIs, gives organizations the connectivity, visibility, and efficiency they need to drive business performance. At Sage Intacct, we help organizations strategically grow their business through detailed insights to support critical decisions.

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