Binary Stream

6 best practices for solving financial consolidation challenges

The ultimate playbook for multi-entity management

Why financial consolidation matters

Whether you run a family company with a couple of branches or an international conglomerate, you will have to think about financial consolidation and how best to tackle its inherent challenges. The complications introduced by multiple legal entities go far beyond complying with global accounting standards, and touch every facet of your business. Companies can struggle to scale without a framework in place, getting bogged down by obsolete processes and the difficulty of trying to align financial statements across multiple companies. This booklet offers a comprehensive list of tactics to overcome the most common challenges of financial consolidation.

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The challenges

Challenge one: maintaining data accuracy

For most modern companies, performance data is critical to informing decisions. Data collected at every level of your company matters. Yet, even today, some still rely on outdated excel sheets collected from branches, which they subsequently consolidate. Inaccuracies can arise from the use of multiple disparate sources. Often information is manually inputted—a cumbersome task that results in errors—and then emailed between entities.

Consolidating data from multiple sources and judging the accuracy of the resulting reports can become an almost impossible task, sinking resources into a process that may take months to resolve. It can even be hard to get to the root of the errors if several different teams and systems are involved.

Tactic one: introduce consistent standards, processes, and automate where possible

The best practice is to implement an automated system to reduce errors and increase efficiencies. Using tools that introduce consistency across all branches is critical—for instance, using a system with a chart of accounts will streamline how each entity records data.

It's also vital to align accounting processes across all entities to ensure data accuracy from input to normalization. Otherwise, you will face issues across the board, including data entry errors and bottlenecks caused by cross-checking transactions.

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Challenge two: integrating your other tools and systems

Many companies make the mistake of using multiple systems without checking if they integrate fully. Unfortunately, this can mean that even once a file is downloaded from one system, it is not necessarily compatible with another system unless the data is manually manipulated, or changes are made. As you can imagine, this results in a headache for those responsible for consolidating all this information into one system.

The problem only escalates the bigger a company gets. If each entity introduces a new set of tools and systems, it can quickly become difficult to manage the consolidation of financial statements.

If each entity introduces a new set of tools and systems, it can quickly become difficult to manage financial consolidation.

Tactic two: invest in industry-specific, fully integrated tools and systems

All information required for financial consolidation needs to be integrated in a single Enterprise Resource Planning (ERP) system, giving your team effortless access to the information they need. It's a waste of resources to sink time into compiling and interpreting data from systems that don't speak to each other.

Research and invest in a single ERP system that creates a chart of accounts adhered to by all entities. For best results, look for one that integrates with your current tools and processes. In addition, it's wise to consider systems specifically built for your industry. For example, hospitals should look for solutions that focus on healthcare, and SaaS companies may want to look for solutions built to handle subscription billing models.

Challenge three: adjusting and balancing intercompany transactions

Intercompany transactions often result in heavy workloads for accounting teams, a fact that is as true for smaller organizations as it is for global corporations. Rarely does the size of your company dictate the level of complexity faced once intercompany transactions enter the equation.

Complications arise when companies try to record and make adjustments to the balance sheet for intercompany transactions. These happen between entities of the same company and include three categories.

The three types of intercompany transactions

1. Lateral transactions: between two subsidiaries in the same company
2. Upstream transactions: from the subsidiary to the parent company
3. Downstream transactions: from the parent company to the subsidiary

You need to adjust for these transactions to give a fair view of the group’s financial health. Making these adjustments can be a time-consuming process that leads to significant delays in the close cycle.

Tactic three: prioritize the automation of intercompany transactions

Using a system to automate matching, reporting, and eliminations from intercompany transactions can dramatically decrease your reporting errors. When intercompany transactions are managed manually through spreadsheets, they result in time-consuming processes, and there’s usually not enough control over the data entered.

These ongoing errors become evident in the final phases of financial consolidation. Unfortunately, they are cumbersome to remedy and may require sifting through incredible amounts of data to find a single typo. By automating these processes, you reduce the amount of time spent triple-checking for data integrity.

Challenge four: adapting to different global reporting requirements

Reporting guidelines, statutory requirements and compliance regulations are continually evolving. As a company scales, it can be challenging to keep on top of all the changes to best practices. Compliance is an ongoing hurdle for most companies, one that is integral to financial reporting and consolidation. Constant growth means constant change, and both IFRS and GAAP regulations can change the way you need to report or recognize certain financial information.

> Your software provider should be cognizant of global accounting standards, and their tools should enable you to achieve compliance.

Tactic four: stay on top of IFRS and GAAP regulations to enable compliance

One of the purposes of financial consolidation software is to make it easier for your company to prove compliance. However, no system can ensure compliance, so you need to stay on top of regulations and standards, particularly when your company undergoes significant changes like introducing a new legal entity.

Both IFRS 10 and ASC 810 present a framework to help companies consolidate financials. Teams should elect go-to people who familiarize themselves with these standards, keeping up to date with changes as time passes.

That being said, the best ERP systems for financial consolidation are built in adherence to these accounting standards, so it’s also essential that the provider of your software is aware of global accounting standards and has tools to enable you to achieve these standards.

Challenge five: avoiding security breaches

One of the most significant issues with financial consolidation is security. It's much easier to manipulate and change data when information is moving between disparate systems but it can often be hard to track the source of fraud or manipulation.

One of the first ways you can mitigate the security issues multi-companies face is to take a step back and identify where and why problems arise. Broader awareness of the security threats will help you prevent issues by identifying and solving problem areas early.

Companies should look for cloud-based solutions with advanced security features.

Tactic five: protect financial data with advanced security features

Part of the financial consolidation process should be aligning accounting solutions so that financial data can be communicated efficiently and securely between entities.

Companies should look for cloud-based solutions with advanced security features like Intrusion Detection and Prevention Systems, data encryption, firewalls, and anti-virus tools. There should also be security role features which allow you to make data visible only to specific users and roles.

Challenge six: training your teams and standardizing processes

There's nothing worse than a bottleneck that could have been avoided. One issue companies run into is making their financial consolidation system IT reliant. They train the IT team and get them to implement and integrate the system, with the idea that they will teach the finance team. Although well-intentioned, this method can be problematic as IT may not fully understand all the nuances of financial consolidation and compliance.

Sometimes, admin privileges also rest with IT, which can be problematic in larger companies. Companies use hundreds of different systems and tools each day. Waiting for IT to respond to a ticket every time the system runs into an issue can create bottlenecks in the workflow. It should be possible for the accounting team and cost centre managers to edit and create their reports without assistance.

Teams at each branch should receive ongoing training until new systems are stable.

Tactic six: enable your team with continuous training and support

Financial consolidation is a big project, often requiring a mix of new tools, software, and skills. Find out if any of your team has experience with financial consolidation and use their existing knowledge to help decide on the resources and tools that are most appropriate. Perhaps they've used software built for your industry that can streamline the process.

The best practice is not merely using what already exists within your organization. Effective financial consolidation will most likely require a lot of change. Invest appropriately in change management to help integrate software, train staff and implement processes.

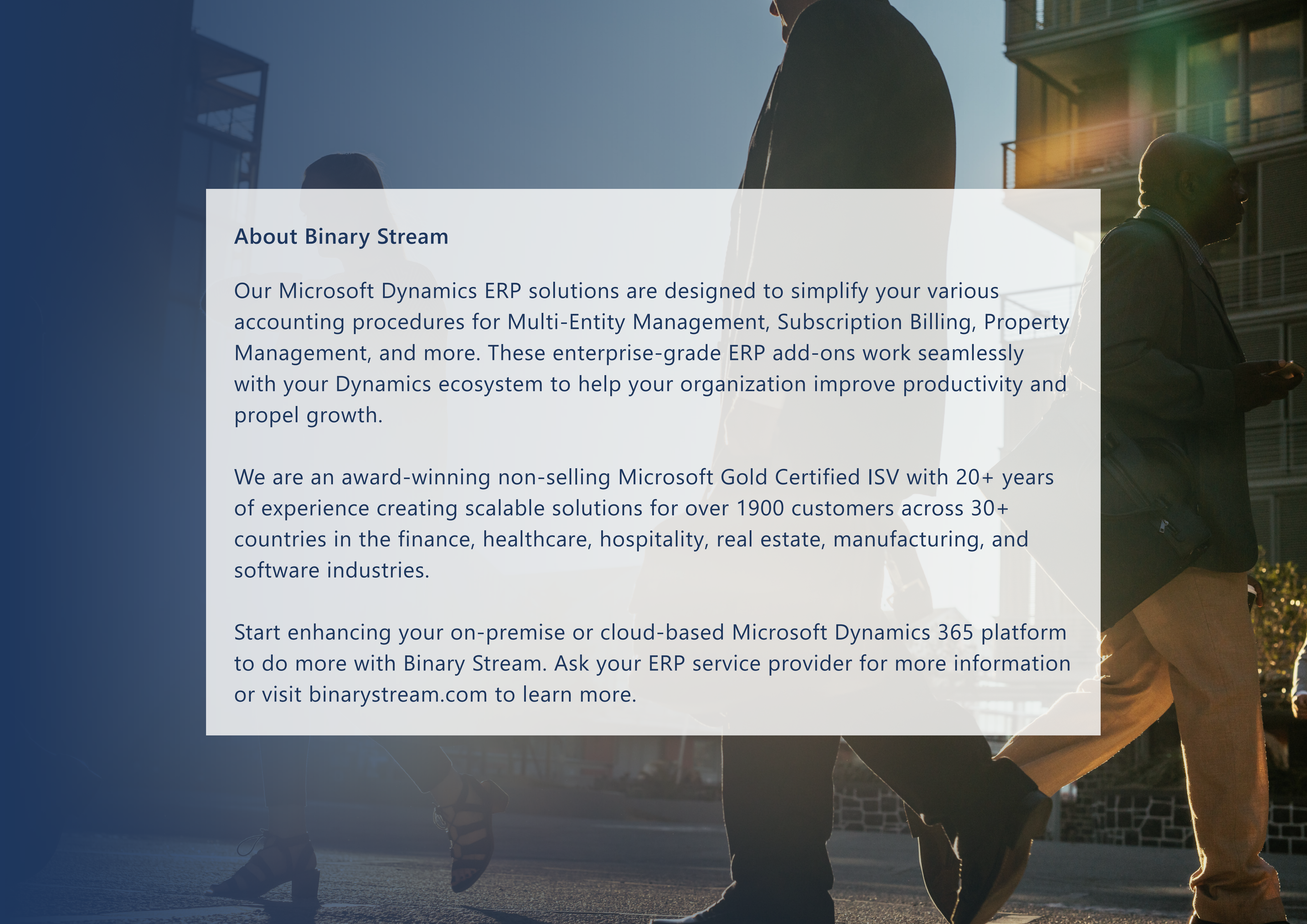
If your team currently uses spreadsheets, you will need to make sure teams at each branch receive ongoing training until new systems are stable. One training day will not cut it. Financial consolidation is a continuing process, so make sure there's always someone on hand to help with the transition. Financial consolidation is adopted more effectively when a change manager has been available throughout the transition period (think months rather than days!).

Solve all six challenges with Multi-Entity Management

Multi-Entity Management (MEM) is a comprehensive solution that solves multi-company and financial consolidation accounting challenges. Integrating fully with Microsoft Dynamics, MEM enables organizations to gain a complete view of their different entities, streamlining inter-company transactions and improving security at every level. Designed with flexibility in mind, it meets your organization's unique needs to ensure success as you continue to scale and grow.

The advantages of Multi-Entity Management

1. Eliminate data errors and redundancy by sharing a single master record for customers, vendors, items, fixed assets, and more.
2. Meet your company's security needs by managing each individual user's access per entity.
3. Centralize the payables and receivables for any number of child/subsidiary entities to reduce potential errors from occurring during transactions.
4. Create audit-friendly reports across your entire organization and simplify your period-end process.
5. Include multiple legal entities in a single transaction with proper allocations and reporting.
6. Streamline intercompany transactions, and complete the process from end-to-end within a single instance.



About Binary Stream

Our Microsoft Dynamics ERP solutions are designed to simplify your various accounting procedures for Multi-Entity Management, Subscription Billing, Property Management, and more. These enterprise-grade ERP add-ons work seamlessly with your Dynamics ecosystem to help your organization improve productivity and propel growth.

We are an award-winning non-selling Microsoft Gold Certified ISV with 20+ years of experience creating scalable solutions for over 1900 customers across 30+ countries in the finance, healthcare, hospitality, real estate, manufacturing, and software industries.

Start enhancing your on-premise or cloud-based Microsoft Dynamics 365 platform to do more with Binary Stream. Ask your ERP service provider for more information or visit binarystream.com to learn more.

Binary Stream

Scale your operations across multiple locations with Multi-Entity Management

A comprehensive solution for pricing, billing, invoicing, and recognition challenges directly embedded within Dynamics 365.

Discover more

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