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FINANCIAL STATEMENT CONSOLIDATION

It's time to close your books, which means consolidating your financial records across the company. And combining all the financial statements into a single source of truth requires combing through miles of spreadsheets, eliminating intra-company transactions, and more.

Unfortunately, this process includes hours of manual labor leading to a high probability of errors and non-compliance. And without clear, consolidated financial statements, your shareholders won't have proof of company performance.

We'll cover top tips and systems for a smooth consolidation process in two sections:

SECTION ONE: **Proper Financial Statement Consolidation Checklist**

SECTION TWO: **Common Pitfalls to Statement Consolidation and Their Solutions**

At the end of this ebook, you'll be able to create a customized consolidation plan following sound financial principles.

SECTION ONE

Proper Financial Statement Consolidation Checklist

The first step to proper financial statement consolidation is understanding what success looks like. So this section will describe the target end result and steps to achieving it.

Defining Success

Financial statement consolidation is an annual process for companies with subsidiaries or where a parent company owns multiple brands and organizations. Company management, the Board of Directors, and shareholders must understand how all the company parts work together.

For example, company leadership needs to understand how to allocate resources, if they need to sell a company subsidiary, or if they should expand certain brands over others.

Creates a Single Source of Truth

The first goal is to create a single source of truth across all organizations. For example, an accurate financial picture requires you to filter out transactions between subsidiaries and the parent company.

You'll also need to consolidate all balance sheets and profit & loss statements into a single balance sheet and P&L statement. You may need to unify transaction classification systems to eliminate differences in coding preferences between financial departments.

At the end of the process, company stakeholders will understand the financial health of the entire organization.

Uses Consistent Accounting Principles

All entities under the parent company need to use consistent accounting methodology to ensure a smooth consolidation process.

Would Pass an Audit

Your consolidated financial statements must have supporting documentation and be error-free. Create a consolidation process that is "audit proof."

Not only will you be more confident in the quality of your consolidated reports, but you can rest easy that your company will be prepared for a surprise audit.

Three Steps for Accurate Statement Consolidation

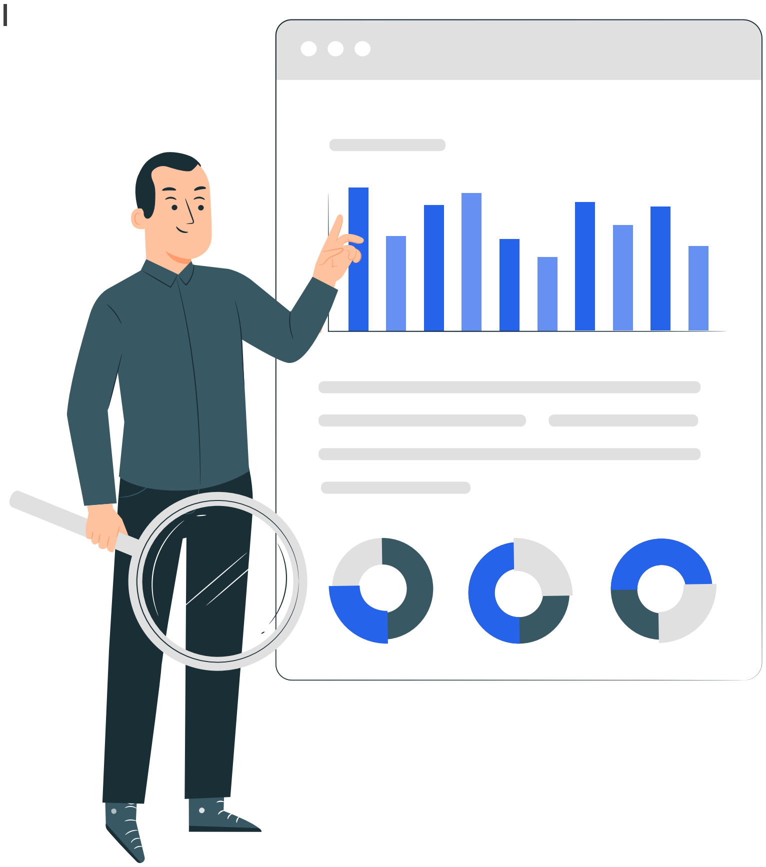
So what process do you need to implement to increase your chances of accurate statement consolidation?

We recommend building your process off of the following three guidelines:

1. Start By Removing Automatable Tasks

The financial statement consolidation process is infamously long. One of the best places to start is by identifying all the tasks you can automate with financial software.

These tasks often mitigate or remove manual data entry by pulling transactions directly from the bank and processing the raw data with the same formula every time.



2. Create a Timeline for the Remaining Tasks

Identify the tasks that cannot be accurately performed automatically, then create a timeline for when tasks need to be completed. Finally, clearly outline which teams or departments will head up each task.

This timeline will help you identify the day-to-day systems that will set you up for success at the end of the year.

3. Focus on Communication and Accountability

After assigning all tasks, the final step is maintaining open communication and accountability. Your carefully planned schedule will be left to chance without following up on progress and supporting inter-department collaboration.

You can use software to streamline and even automate communication processes. For example, project management and financial software can effortlessly protect data, track deadlines, reduce manual errors, and send deadline reminders.

Every organization can adapt these steps to its unique circumstances to create an efficient, trustworthy consolidation process.

Section One Key Points:

Start by defining what successfully consolidated financial statements will provide company leaders and stakeholders:

- A single source of truth, including eliminating irrelevant transactions made between subsidiaries and the parent company.
- Use the same accounting principles across the organization to create continuity in the financial narrative.
- Would pass an audit, including clear documentation trails, and is error-free.

Use a basic three-step process to guide your financial statement consolidation process.

- Automate as many tasks as possible to save time, reduce errors, and uniformly synthesize data.
- Assign remaining tasks to teams according to a clear timeline.
- Maintain open communication from all involved parties and enforce accountability for task completion.

SECTION TWO

Common Pitfalls to Statement Consolidation

So why do talented financial teams with clear objectives struggle to contain their financial statement consolidation process?

Even the best companies are prone to simple mistakes– the larger the company, the more common simple mistakes are. Here are some of the top pain points for financial departments when consolidating financial reports (and suggestions on where to focus repairs).

Overly-Siloed Data

Many corporations prioritize data security over all else– and understandably so! With malware attacks and protecting data from internal leaks, data security is critical. But an unintended outcome of data protection is overly-siloing data.

When financial data is overly compartmentalized, you chop up the picture too small and reduce meaningful communication across the organization. However, there are ways to maintain data security and open communication channels.

Solutions:

- Meet regularly with company leadership, including each of the subsidiaries. Review the financial statements of each entity at least quarterly to ensure that reporting methods are up-to-date and organized for smooth consolidation.
- Have a clear org chart that delineates proper access to data and ensure all org charts are consistent standards across all entities.
- Update your financial software stack. Your financial software comes with encrypted data protection and allows you to customize access by job role. You'll increase transparency without exposing your data.

Incorrect Adjustments for Intercompany Transactions

As mentioned in Section One, consolidated financial statements require removing any transactions performed between subsidiaries or the parent company. These transactions do not include new revenue or true expenses as they never leave the parent organization, so they do not help understand the health of the overall organization.

Removing these superfluous transactions can be complicated and create many opportunities to adjust them improperly. This is partly because the transactions can move in three directions: from one subsidiary to another, from the parent to a subsidiary, and from a subsidiary to the parent.

Solutions:

- Reduce the likelihood of manual entry errors by using software to automate removing intercompany transactions.
- Create a consistent char of account across all entities to ensure that all data is coded the same way from the start.
- Ensure that your financial stack is designed for enterprise-level companies. Not all financial software can handle a multi-entity corporation's high volume of nuanced transactions.

Relying on Copy-Paste

Another top culprit is copying and pasting to bring all transactions to the same spreadsheet. Departments often format their numbers in different ways to fit the preferences of their financial team. Custom formulas do not transfer well from one sheet to another either.

You also are much more likely to miss and replicate manual errors. Overly relying on spreadsheets within a single entity has cost companies millions– and if you're using spreadsheets to consolidate multiple financial reports, you're at an even higher risk of error.

Solutions:

- Create standardized formulas, data processing methods, and metrics across the organization. Involve all entity leadership teams and the financial department to design a standardized process that will work for everyone. You'll reduce transfer errors if the methods are the same from the start.
- Skip the spreadsheet altogether and use the same financial programs across the organization. You'll reduce manual entry and procedural differences if all financial departments employ the same software to begin with.
- Refrain from replacing large data sections by recopying the original and pasting over the original transfer. Many organizations will use this method to correct a copy/paste error, but this method often layers the problem, making it harder to identify the source.

Inflexible Spreadsheets

Many companies still use spreadsheets like Excel as their primary financial database. And while Excel is easy to use and customize, it also is incredibly prone to errors and over-reliance on the original designer of the spreadsheet.

They also don't allow for simple copy and pasting when teams don't use identically coded sheets.

Solutions:

- Update your financial systems to more robust solutions than Excel, particularly for records needed for consolidation. You'll gain more features than standardized code–features like forecast modeling, real-time updates, and automatically generated reports.
- Limit spreadsheet use for data that isn't used in financial statement consolidation.
- If you continue to use spreadsheets for financial statement data, then have a clear delineation of who codes the sheets and who edits them. Keep the number of employees who directly change or edit the sheets to a minimum to reduce errors.

SMOOTH FINANCIAL STATEMENT CONSOLIDATION BEGINS WITH A POWERFUL TECH STACK

Multi-entity finance is incredibly difficult to manage, particularly if you want a tight turnaround. That's why one of the foundational pillars of complicated corporate finance is robust financial applications.

Your financial tech stack will improve report integrations, reduce manual errors, and automatically generate complex reports. It will also provide continuity in methodology and organization from the beginning, significantly reducing the need to standardize data at the end of the year.

Ready to streamline your financial statement consolidation process and eliminate the stress of annual reporting? Request a demo of our financial software today and see how it can automate your consolidating tasks, provide a single source of truth, ensure compliance, and save you valuable time. Take the first step towards an efficient and accurate financial consolidation process by contacting us now.