

WHITE PAPER

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*NEXT GENERATION  
FINANCIAL CONSOLIDATIONS  
FOR HOSPITALITY  
ORGANISATIONS*



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# Introduction

**Corporate accounting has long been viewed as custodian and curator of financial data for hospitality organisations. 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 hospitality accounting teams is sometimes measured in months, often measured in weeks, but rarely measured in days.**

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

Hospitality companies across hotels, restaurants, gyms and other businesses often consist of separate multi-entities for legal, tax and location purposes. Multi-location and multi-entity organisations face many complexities such as decentralised payables, inter-entity transactions, multiple currencies, global consolidations and more. As a hospitality company grows and adds more entities, they often face increased complexity that can handicap business growth. This complexity causes challenges that include:

- Having to maintain and juggle multiple systems and processes
- Lack of control and workflows
- Inefficient reporting through Excel, subject to errors
- Lack of visibility across entities
- Inability to scale and grow the business

**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 globalisation.
- 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 inter-company 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 well controlled consolidation process that preserves & enhances financial reporting integrity.

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

# The Consolidation Process

**The traditional approach to consolidation, still used by many companies, uses a blend of human capital, formalised, and in many cases manual, processes, and different technologies to bring the data and information together to form the basis for consolidation. The financial consolidation process in many of these organisations would follow a pattern along the lines outlined below.**

1

The close process is initiated with a detailed calendar that sets target dates for 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 harmonised 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 organised, 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.**

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 organisations. While clinging to the manual processes and spreadsheets of the past are comforting for many finance people, it's important that everyone recognises that approaches to financial consolidation have advanced significantly in recent years. There is a better way to design and architect your consolidation process.



**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<sup>1</sup>.**

<sup>1</sup>Executives 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 analyser 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 capitalise 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 compliance requirements. The chart of accounts is easily adapted to localise reporting to meet the needs of the new business unit.

At the same time, because one ERP system forms the back bone of the organisation's systems and processes, centralisation 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 of 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 functions 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 also bring 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. Inter-company accounts are automatically reconciled and elimination entries posted to deal with inter-company transactions and balances. This mitigates the risk of missed 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 decisions 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 globalisation of business has also increased the complexity of preparing and analysing 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 an organisation forward. The benefits of automating the consolidation process can be summarised 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 enterprise to centralise core processing functions.
- Drilldown 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 from across the enterprise 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 consolidations, 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 spend less time with the manual assembly and reconciliation when the consolidation process becomes automated.

As a financial executive in a hospitality organisation, 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 ([www.sage.com/uk/intacct](http://www.sage.com/uk/intacct)) is the innovation and customer satisfaction leader in cloud Financial Management. With the powerful combination of Sage and Intacct, the Sage Business Cloud offers the best capabilities of both companies. Bringing cloud computing to finance and accounting, Sage Intacct's innovative and award-winning applications are the preferred financial applications for AICPA business solutions. In use by organisations from startups to public companies, Sage Intacct is designed to improve company performance and make finance more productive. Hundreds of leading Accounting firms and Value Added Resellers also offer Sage Intacct to their clients. The Sage Intacct system includes accounting, cash management, purchasing, vendor management, financial consolidation, revenue recognition, subscription billing, contract management, project accounting, fund accounting, inventory management, and financial reporting applications, all delivered through the cloud.

What distinguishes Sage Intacct most is the company we keep—the employees, partners, and customers that come together to inspire continuous innovation and success. We are the only cloud accounting software company to be appointed a **preferred provider by the AICPA** and recognised by finance professionals as the **highest rated solution for customer satisfaction**. We've been ranked **Top Workplace for seven consecutive years** and our leadership team includes award winners for **Finance Executive of the Year**, **CTO of the Year**, and **Top Midmarket IT Executive**.

[sage.com/uk/intacct](http://sage.com/uk/intacct)

