Globalized Financials in R12: Avoiding the Risk of Nuclear Disaster

an eprentise white paper

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Growing globally is an engrained goal of organizations that adhere to the principle of increasing shareholder value. New markets for product adoption often must be pursued across national boundaries as local markets approach saturation. Strategies must be developed to both create and manage operations overseas. One of the difficulties inherent in operating globally is that different localizations, such as regulations and currency, complicate business operations since the business must comply both with global and local policies. So, while the company must abide by localized tax laws and regulatory requirements, it is also important for management to maintain a concise view of financial performance of the company as a whole.

Enterprise resource planning (ERP) systems were developed as a solution to this problem, as well as other problems. However, complexities that result from international operations are still a major hassle, and there comes a point when a business must evaluate its current structure and determine if changes to the fundamental setups of certain ERP components should be undertaken.

Chart A is a depiction of the financial translation structure of a multinational corporation. It is clear at first glance that the structure of the company is forcing a difficult financial consolidation process, but it is worth taking a closer look at the relationships between the entities in order to better understand how time-consuming and error-prone month- and year-end accounting processes must be.

According to Chart A, the company has operations in the following ten locations: the US, Canada, New Zealand, Australia, Mexico, Brazil, Chile, Taiwan, the UK, and Russia. Reporting requirements mandate that the financial transactions be reported in multiple currencies, while maintaining drill-down capabilities to all the subledgers. In order to facilitate financial reporting based on both currencies and location, the company has structured a number of different units by which to categorize transactions:

1. Operating Units – grouped by currency type
2. Sets of Books (AAA and BBB) – grouped by currency type (AAA) and country (BBB)

These consolidations are grouped and ungrouped by a combination of spreadsheets and by using the financial consolidation in GL. Looking first at the AAA US Set of Books (marked in orange in Chart A), we can see that it is comprised of eight balancing segments that originate from USD transactions from eight different locations that operate with USD as one of their currencies. The financial translation from the AAA US Set of Books to the BBB Books involves separating the 8 balancing segments into 7 different new sets of books as the grouping method changes from grouping by currency (AAA) to grouping by country (BBB). What this means is that an accounting error made in the AAA US Set of Books could have far-reaching implications, potentially causing an error in 7 different BBB Sets of Books (US SOB, BBB NZ, BBB AUS, BBB TWN, BBB BRZ, BBB MEX, and UK SOB).

Another example is shown in green and involves an extra translation step. When the company first implemented E-Business Suite, they created a separate set of books for each currency (rather than have an entered currency translated to the functional currency for the transaction). The transactions for Legal Entity (Balancing Segment Value) 007 are in 3 separate sets of books: one for each currency. So, if the company wants to find out how LE 007 is performing, they have to consolidate all the transactions for LE 007 across all sets of books. When they bring that data into their OBIEE implementation, they need to do a join for every transaction across 3 sets of books. There is no drill down from their reports, and no way to determine the accuracy of the data entry on the spreadsheets.

These are just a couple of examples – imagine what a significant number of errors (they happen) in multiple sets of books would set off: it would resemble a chain reaction, the kind that a nuclear bomb undergoes before it causes virtually irreparable damage. Also imagine what happens as the company acquires a new legal entity, or wants to sell part of their business. No company wants to endure an irreparable financial mistake, certainly in today's era of Sarbanes-Oxley, IFRS, and countless other regulations. The problem is that some organizations are sufficiently complex that avoiding mistakes involved in financial consolidation becomes impossible. It is a common occurrence, but one that is all too frequently overlooked.

In Oracle® E-Business Suite R12, the company will have a primary transaction ledger and then create ledger sets to create the accounting for each of the reporting currencies. But, there is really no way of getting to a R12 subledger accounting function given the complexity of the consolidation rules currently implemented. The company is in the process of re-evaluating their legal entity structure, their operating unit structure, and moving to a global chart of accounts before moving to R12. They will use Multiple Organization Access Control (MOAC) to report from different operating units. They estimate that the close cycle will be reduced from their current 20 days to 3 days, that they will have increased visibility into the enterprise operations as a whole, and that they will reduce the number of spreadsheets significantly.