

Close, Consolidate & Report

FOR
DUMMIES[®]

Learn to:

- Distinguish between the closing, consolidating, and financial reporting processes
- Use integration and automation to ensure data integrity and streamline CCR activities
- Identify the right CCR solution for your organization



Maire Loughran

Close, Consolidate & Report

FOR

DUMMIES®

IBM LIMITED EDITION

by Maire Loughran



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Table of Contents

Chapter 1: Introducing Close/Consolidate/ Report Activities	1
About This Book	1
Engaging the CFO	2
Achieving Finance Goals	2
Integrated CCR Solutions	3
Moderate Advances to CCR Solutions.....	4
Chapter 2: Focusing on CCR Activities	5
A Primer on Close Management.....	5
Consolidating Financial Results	7
The Evolution of Disclosure Management.....	9
Chapter 3: Advantages to CCR Integration	17
The Whole Is Greater Than	17
Advantages of an Integrated CCR Solution.....	18
Making the Move to Re-Engineer Your CCR Process	19
Chapter 4: Ten (Actually Fifteen) Features to Look for in an Integrated CCR Solution.....	21

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Chapter 1

Introducing Close/Consolidate/ Report Activities

In This Chapter

- ▶ Involving chief financial officers
 - ▶ Working out financial goals
 - ▶ Explaining CCR basics
 - ▶ Realizing why CCR matters
-

Not quite sure how closing, consolidating, and reporting activities affect financial management? Well, you've come to the right place. This chapter provides an overview of the close/consolidate/report (CCR) process and how it affects the decision-making responsibilities of finance officers and a company's ability to file accurate external disclosures to regulators in a timely manner.

About This Book

Tailored to chief financial officers and accounting and finance professionals, the four chapters in this small book explain the CCR process while reinforcing the

requirements companies must address to ensure that these activities produce materially correct results.

For Dummies books highlight certain kinds of information with icons that appear in the margin. The icons we use here are:



When you see this icon, warm up your brain cells, because it sits next to information you want to commit to memory.



This icon calls your attention to particularly useful information about specific points.

Engaging the CFO

To stay one step ahead of their competitors in today's economy, savvy chief financial officers (CFOs) have become more involved in identifying new business opportunities. Reacting to sudden changes in the market and having insight into operational performance are critical in identifying new opportunities and forming strategies to capitalize on them.

Achieving Finance Goals

CFOs can't do this alone. Having confidence in their finance team's ability to provide accurate information and insightful analysis quickly helps CFOs to make more informed, and better, business decisions.

To that purpose, today's finance organizations must avoid the constraints resulting from out-of-date technology and manual processes that are inefficient and error-prone. Finance professionals must have

access to the right tools — that both automate administrative tasks and have embedded controls — to allow them to focus on analysis and other value-added activities that will facilitate better decisions on strategic finance initiatives.

Integrated CCR Solutions

Many CFOs know that in order to make efficient and effective business decisions, they require information that is a product of controlled, auditable processes ensuring data integrity and limiting risk of errors. To that end, many finance organizations are looking to re-engineer their point solution approach to individual close/consolidate/report activities. Companies are now investing in integrated CCR solutions to automate and integrate the various CCR activities into a single, secure platform to enhance their ability to institute and monitor internal controls, evaluate risks, and automate the production of consolidated financials and external compliance reports.



The *point solution approach* involves solving a particular problem without considering any related issues and in particular any surrounding processes.

By taking a holistic look at all the activities in the close, consolidate, and “last mile” of reporting, it’s clear that end-to-end solutions strengthen the company’s ability to provide timely and accurate data required for better business decisions, and to ensure data integrity and transparency needed to comply with various regulatory requirements.

Moderate Advances to CCR Solutions

The attempt to modernize the CCR process is not new. Over the past 20 years, organizations have been incrementally improving the financial close and consolidation process using new technologies, including investing in enterprise resource planning (ERP) systems and financial consolidation software.

Despite these investments in new solutions, however, many companies still face the same problems because the new solutions remain focused on specific processes. Critical financial data is still in non-integrated systems and many companies resort to exporting data into multiple offline spreadsheets to gather and compile information from these ERPs, GL systems, and other financial data sources.

With the adoption of new accounting pronouncements, new disclosure requirements (including XBRL and the looming transition to International Financial Reporting Standards, or IFRS), companies are realizing that they need a single, unified, and secure financial governance infrastructure that spans the entire CCR process with the automation and integration needed to make better business decisions and to provide the level of compliance and transparency needed in today's regulatory environment.

An important first step in understanding the impact of a unified CCR solution is to understand the impact that each process within the close/consolidate/report activities has and how many of the problems in each step can be eliminated with a unified and integrated solution.

Chapter 2

Focusing on CCR Activities

In This Chapter

- ▶ Getting a basic look at close management
- ▶ Bringing it together with modern consolidation
- ▶ Turning an eye toward disclosure management solutions

If you're interested in knowing what exactly takes place during the close/consolidate/report processes, look no further! This chapter gives you the complete lowdown on each.

A Primer on Close Management

Kicking off CCR activities is the *financial close*, which are the steps a company takes to complete its accounting cycle to produce various financial reports. These reports give valuable performance information to management, board members, and stockholders. Every period close has a variety of high-priority activities that need to be addressed by various people in the global finance and accounting teams as part of the closing process. These activities can include account reconciliation, preparing trial balances, post close adjustments, and so on. Companies must also ensure, throughout the CCR

process, that proper checks and controls are in place to comply with various regulatory requirements such as the Sarbanes-Oxley Act (SOX) of 2002.

Problems with current close activities

Most companies don't have a unified platform managing every step in the financial close process. This lack of unification causes finance professionals to labor through hundreds of manual and administrative checks and approvals to ensure the production of accurate financial statements.

Extremely inefficient and costly, these processes force finance organizations to update and check sometimes hundreds of offline spreadsheets, which they may forward intra-company via unsecure e-mails. In addition to the inherent security issues, operating in this fashion provides little or no visibility into the status of each step in the closing process. The time the company wastes performing redundant data checks can result in excessive overtime or missed compliance deadlines.

Bottlenecks in the close process

Procedural problems are due, in part, to the fact that during each close period many companies contend with multiple general ledgers, ERPs, and disparate transactional systems that sometimes contain inconsistent data from various subsidiaries. Some companies have invested in point solutions for portions of the close processes, like account reconciliation, but are now challenged with maintaining oversight across multiple point systems that are not integrated. This results in additional layers of manual effort to resolve irregularities between point solutions when they occur.

These are just some of the issues that can cause bottlenecks in the close process and prevent an efficient and high-quality close. For these reasons, many firms target the financial close process as an opportunity to improve efficiency and accuracy by addressing it in the context of the larger CCR process.

The goal: An effective and efficient close

Reviewing the CCR process as a whole, and not as separate activities within different applications, expedites data flow within and between these currently disparate processes. Doing so improves communication across the processes, which reduces cycle times. It also reduces errors through automation of data transfers and provides enhanced internal controls that govern the entire close process.

Consolidating Financial Results

Financial consolidation is the process by which financial statements of a parent are combined with those of its subsidiaries and accounting rules are applied to create accurate and transparent financial reports anywhere your company does business. Financial consolidation enables organizations to view the company's financial performance to gain insight into the company as a whole, while also acting as an alert system to potential risks to the business.

Many companies over time have incrementally increased efficiency and speed in their consolidation processes, but still face many risks with manual “last mile” reporting activities. With the advent of integrated financial governance platforms supporting integrated CCR activities, companies can now complete complex

financial consolidations activities and ensure that consolidated numbers are automatically updated in their financial reports and disclosure documents. This automation and integration creates an environment of enhanced controls, auditability, and visibility in the final steps of the CCR process.

Benefits of modern consolidation

So, as a finance organization, what's in it for you?

The following are some of the benefits and abilities of a modern consolidation solution.

- ✔ **Adapting to business changes:** Over the years, organizations have become more dynamic, requiring that they rapidly address a myriad of business changes, which include financial and accounting reporting requirements, new organizational structures, absorbing or divesting assets or entities, and adopting policies for new markets.
- ✔ **Dealing with complex accounting policies:** During the consolidation process, global companies must have the ability to handle multiple sophisticated accounting procedures taking place in entities located in different parts of the world, including properly applying generally accepted accounting principles (GAAP), handling currency translations, assessing the risk of *expropriation* (the seizure of company assets by the company in which the subsidiary is located) or *blocked funds* (the foreign government not allowing the repatriation of profit), and facilitating the transition to International Financial Reporting Standards (IFRS).

- ✔ **Facilitating audit and compliance mandates:** This includes integrated governance solutions spanning data collection, account reconciliation, financial consolidation, and the last mile of management reporting (see the “Walking through the last mile of reporting” section later in this chapter for more info about this topic).
- ✔ **Integration with source systems and validation:** Integration and validation ensures data integrity, consistency, and auditability during each step of the reporting cycle.

The Evolution of Disclosure Management

All publicly held companies have external compliance reporting requirements. This means that companies must report on a timely basis, their financial results as well as provide narrative analysis of the financial performance of the company.



In recent years, several regulatory releases have pushed for more transparency, accountability, and auditability in the corporate financial reporting process. Penalties for noncompliance or misleading or untrue disclosures have also become more severe.

Complying with SOX and the SEC

In 2002, Sarbanes-Oxley (SOX) began requiring management to report on internal controls and auditors to sign off on annual numbers. SOX also established the new requirement that CEOs and CFOs sign off on the accuracy and integrity of their company’s financial reports and disclosures.

In addition to SOX, the U.S. Securities and Exchange Commission (SEC) continues to actively release new rules to protect investors from companies involved in illegal accounting and reporting practices and to ensure investors have access to company disclosures in a timely manner.

Here are just some examples of new SEC rules over the last few years that are affecting corporate disclosures:

- ✔ **Accelerated filer status.** Depending on how large your company is, the SEC has shortened the amount of time to file 10-Qs and 10-Ks, meaning even less time for companies to close, consolidate, and report quarterly and annual financial reports and disclosures.
- ✔ **XBRL.** Starting in 2009, the SEC began mandating that reporting companies file in XBRL. By the end of 2011, all SEC reporting companies will have to report in XBRL. In the second year of a company's XBRL compliance initiative, they will have to "detail" tag their disclosures, significantly increasing the time and effort required to tag. In the third year of a company's XBRL compliance initiative, the XBRL files will lose their safe harbor and will have the same liability as the officially filed financial statements.
- ✔ **Looming GAAP to IFRS conversion.** Around the globe, regulatory bodies, stock exchanges, corporate tax authorities, and other institutions are converging accounting principles from local GAAP to IFRS. In the U.S., the SEC is still working on the convergence roadmap and figuring out when to mandate that reporting companies convert from U.S. GAAP to IFRS.

✔ **Increased disclosure requirements, as follow.**

- **Proxy disclosures regarding executive compensation.** SEC now requires reporting companies to disclose much more detail on how executives get compensated. The new Compensation Discussion and Analysis (CD&A) disclosure requirements have led to proxy and annual reports growing by several pages of new analysis and in many companies more people are involved in the proxy creation process who might not have been involved before, such as HR and newly formed Executive Compensation Committee members on the Board of Directors.
- **Implementation of Dodd Frank requirements.** The SEC is currently in the rule-making process to implement many of the new requirements in the recently passed Dodd Frank bill. Among the new SEC rules will be new disclosure requirements — for example, reporting of conflict materials that may impact upwards of 5,000 issuers.

Walking through the last mile of reporting

Unfortunately, for years companies used manual and error-prone processes to create financial reports and regulatory disclosures and to constantly update numbers and ensure that proper checks and validations were completed on critical reports.

Accountants refer to these manual steps as “the last mile” in financial reporting. The steps generally include the following procedures:

1. Exporting financial and operational data from multiple structured and unstructured data sources into multiple spreadsheets.
2. Copying and pasting the financial and operational data into master spreadsheets, including wrapping MS Word files with notes to financials, management discussion and analysis (MD&A), and other narrative disclosure around the spreadsheets.
3. Using multiple unsecure e-mails, the report distributes throughout the organization for review and edits approval.
4. Every time a figure updates in a source system, someone has to manually edit every occurrence of that update in the report.
5. Horrifyingly then, each reporting period in this convoluted and time-consuming cycle starts all over again.

Because of these manual processes, the risk of error is much greater and reporting cycles become much longer — which could lead to missed compliance deadlines or restatements. Also, without security, internal controls, or an audit trail, data integrity is at risk every time a number changes. Until recently, there were no disclosure management applications that integrated with data sources to pull consolidated financial data and other operational and risk data into a single, secure governance platform to streamline the financial reporting and regulatory disclosure process.

Advances in disclosure management

Organizations have traditionally expected minimal financial reporting capabilities in existing close and

consolidation tools and have become accustomed to throwing more people at the disclosure process to overcome these issues and deliver approved financial statements within a short amount of time.

In the face of growing penalties and additional disclosure requirements, many CFOs are hesitant to sign off on financial data coming from their existing reporting processes. With the need to ensure that financial disclosures are accurate and that external reports do not contain incomplete or inaccurate data, CFOs turn to new disclosure management technologies to automate, reduce risk, and increase controls over their financial reporting processes.

Best-in-class disclosure solutions

Disclosure management and financial governance solutions automate the creation of external reports (including XBRL) by providing a unified financial governance platform that provides a single version of the truth at all times.

Best-in-class solutions include

- ✔ **Integration to source data:** This includes but is not limited to general ledgers, enterprise resource planning (ERP), financial consolidation solutions, online analytical processing (OLAP) or relational data sources, and unstructured data in spreadsheets.
- ✔ **Collect and link data:** Specifically, this is the ability to collect operational, risk, and statistical data not existing in financial systems and link it directly into a report.

- ✔ **Collaboration tools:** These tools enable employees from multiple departments in various locations to work on the same document in parallel and eliminate multiple versions of the same spreadsheet or report section.
- ✔ **Integrated XBRL tagging capabilities:** With an integrated XBRL solution, the XBRL tagging process is embedded within the external reporting process. As such, XBRL tags can be applied and validated at any time within the external reporting process, avoiding a “mad rush” to apply the XBRL tags just prior to filing with the SEC. Integrating XBRL into the external reporting process makes the tagging, validation, and creation of XBRL documents dramatically more efficient and less error-prone.
- ✔ **Workflow and task management dashboard:** Aiding the control function, dashboards provide transparency into the entire reporting process to ensure proper reviews and approvals were followed during each step of the process.
- ✔ **Enhanced security:** Useful for both controlling access to sensitive financial data and disclosures and for providing that all-important audit trail tracking of who did what and when they did it.
- ✔ **Report consistency:** The ability to share like data across multiple reports — ensuring consistency across separate reports with same data points.
- ✔ **Multiple output options:** Providing output options including MS Word, MS Excel, Adobe PDF, and integration with desktop publishing software.

After reviewing the preceding list, it's easy to see how integrated disclosure management solutions make it much easier to ensure data quality and accuracy in financial reports, while enhancing internal controls and audit trail reporting.

Chapter 3

Advantages to CCR Integration

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In This Chapter

- ▶ Looking at the big picture
 - ▶ Using integration to lower costs
 - ▶ Driving more productive results
 - ▶ Reducing error rates
-

In Chapters 1 and 2, we give you a great overview of what goes on during the close/consolidate/report process, including a walk-through of inherent problems and bottlenecks.

This chapter discusses the advantages of replacing existing CCR point solutions and manual processes with an integrated solution that automates and streamlines the entire CCR process.

The Whole Is Greater Than . . .

When looking to enhance controls, eliminate risks, and automate manual processes in your existing CCR process, consider the benefits of treating the whole as being greater than the sum of its parts.

Integrated CCR solutions that include account reconciliation, consolidation, business intelligence and analytics, management reporting and regulatory disclosure capabilities will give business leaders better understanding and insight into the performance of the business at any time during the accounting cycle.

Advantages of an Integrated CCR Solution

What can an integrated CCR process do for your business? There are many benefits to investing in an integrated CCR solution; the following are just a few. Look around your own business, and you'll find many more.

- ✔ **Streamlining and automation:** Instead of walking the last mile, imagine what a time and money saver it will be to automate many of the manual and administrative tasks in the routine close/consolidate/report process.
- ✔ **Coordination and control:** A platform that shares workflow and offers greater visibility into the entire process keeps the close/consolidate/report activities as streamlined and controlled as possible.
- ✔ **Embedding compliance and controls:** Integrated solutions have purpose-built compliance and control functionality embedded into each step of the financial close process. This secure environment also enables users to share accounting documentation and internal control policies to ensure proper checks are made throughout the process.

Note: While important for employees, this feature has the added attraction of facilitating sign-off by external auditors for such initiatives as SOX compliance. The quicker you can get your external auditors out of your workspace, the faster you can free up your affected employees to resume their normal routines.

- ✓ **Improving timing and quality:** All operational managers need accurate and timely internal reports to make any needed departmental changes to increase profitability. The same holds true for financial statements that business executives and managers use to drive better performance.
- ✓ **Enhancing decision-making:** Flipping back and forth between data sources that may contain stale information is an inefficient and ineffective foundation upon which to formulate decision-making.

Say good-bye to the days of rustling through multiple files or paperwork to find the most timely and relevant version of the required data! Using an integrated CCR process provides finance organizations with a single set of reliable data with real-time updates.

Making the Move to Re-Engineer Your CCR Process

The close/consolidate/report process is an intensive, time-consuming process that touches employees in the entire organization. Once you have a unified platform integrating the close activities, financial consolidations,

and disclosure management, the results will be clear: lower costs, higher productivity, and reduced error rates.

Improving the close/consolidate/report process is acknowledged as a critical starting point in finance for being able to make better business decisions.



The information in this small book is intended to reinforce the requirements that companies must address to ensure controlled, auditable processes that guarantee integrity and reduce risk across all close/consolidate/report activities. In addition, this information is intended to promote the value of a single unified platform for which to build an integrated CCR solution.



As you move forward to a time when you revisit your particular process and the technology that supports it, be sure to consider all relevant features when making your decision about the available integrated CCR solutions. To fully reap the benefits of a unified platform, make sure you get the benefit of taking a holistic approach in investing in an end-to-end solution, rather than addressing one piece of the CCR process. (See Chapter 4 for a handy list of features you'll want to consider.)

Chapter 4

Ten (Actually Fifteen) Features to Look for in an Integrated CCR Solution

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In This Chapter

- ▶ Centralizing and streamlining
 - ▶ Working faster through automation
 - ▶ Reducing error and risk
 - ▶ Taking care of your users
 - ▶ Automating compliance reporting (including XBRL)
 - ▶ Amping up user satisfaction
-

As we state throughout this book, an integrated CCR solution provides significant benefits for your organization. CFOs can make better business decisions with access to timely performance data and can be confident that external reports are accurate.

This chapter offers you a shopping list of 15 features to look for in an integrated CCR Solution.

A Central Secure Environment for All CCR Activities

The success of a streamlined CCR process is dependent on the integration of the CCR activities in a centralized and secure platform. This ensures data integrity and enhances controls over the entire CCR process, from data collection to account reconciliation, financial consolidation, and external regulatory reporting.

Functionality to Streamline and Automate Manual Closing Tasks

Check for solutions that have advanced automation that can streamline much of the CCR process, from the close of sub-ledgers, systems, and automated journal entries to automating the creation of external reports and XBRL tags.

Account Reconciliation

Look for automated account reconciliation that automatically checks GLs, sub-ledgers, and operational systems, compares data to bank accounts, and reports the abnormal deltas.

Advanced Consolidation Capabilities

Check for robust consolidation capabilities including intercompany matching and elimination, equity elimination, currency conversion, and minority ownership calculations. Check as well for support for local, regional, and global reporting requirements and for the ability to consolidate diverse ledgers of multiple global operating units into single currencies.

Validation and Business Rules

Look for business rules and automated data validation that ensure data is correct and up-to-date in every step of the CCR process, especially in the “last mile” of reporting where many companies have become accustomed to manual checks.

Digital Storage of Reference Documentation

The ability to attach supporting documentation, notes, and accounting principles within the CCR platform will give users reference materials at their fingertips and replace the many binders that exist on various desks within the office of finance.

Currency Conversion and Translation

Look for support for currency conversion methods and translations in detail, so that operating entities can work in their own currency while corporate finance can present figures in any currency.

Source System Integration

It is a must that you can integrate to multiple structured and unstructured data sources including ledger systems, ERP systems, and OLAP and relational databases, as well as the all-too-familiar Microsoft Excel spreadsheets.

Tools to Collect Non-financial Data

Since many companies include operational and statistical data (such as headcount) in their disclosures, integrated solutions should have the ability for non-finance employees to upload data that will automatically flow into the workflow of the CCR process, greatly improving the ability to gather non-financial data for use in reporting.

Jumpstart the CCR Process

The ability to use prior reports and templates to jumpstart the close/consolidate/report process (including XBRL tagging) will greatly streamline the CCR process and ensure more time to focus on value-added financial analysis.

Integrated XBRL Tagging Capability

For public companies filing with a regulator that requires XBRL filings, integrated XBRL tagging is the best way to ensure timely and accurate tagging of company financial statements. Integrated XBRL tools allow users to tag data further upstream in the reporting process, ensuring that errors are discovered earlier and fixed quickly — instead of mere minutes before a compliance filing deadline. Solutions should also have the ability to support multiple taxonomies from various XBRL jurisdictions from around the globe.

Ability to Generate Outputs in Multiple Formats

Integrated solutions use a single source of data, or a single source of the truth, but also should have the ability to output from that single data source multiple output formats for various reporting and filing requirements. Output formats should include PDF, Microsoft Office (Excel, Word, PowerPoint), Adobe InDesign (for publishing), HTML, XBRL, and so on.

Audit Trail Reporting

Don't settle for less than detailed and automated audit trail reporting from data source through each step until disclosure.

Integration with Business Intelligence and Business Analytics Tools

CCR solutions that are integrated with business intelligence (BI) and analytics tools, as well as planning and modeling applications, will help business leaders make better strategic decisions quicker and with more confidence that the data in their internal reports is the same accurate data that's in their external reports.

Familiar and Easy to Use

Familiar and easy-to-use interfaces, such as those applications in Microsoft Office, will help drive internal adoption of a new integrated CCR solution. Also, be sure that the solution can be managed and maintained by your finance department to ensure a low total cost of ownership.

Integrating and unifying your closing, consolidating, and reporting process is key!

Learn about re-engineering your point solution approach to close, consolidate, and report activities by investing in integrated solutions. Achieve automation and enhance your ability to manage internal controls, reduce risks, and efficiently create consolidated financial statements and regulatory reports (including XBRL).

- **Understand the close/consolidate/report process** — walk through each step of the CCR process and understand the risks of manual and isolated CCR activities
- **Realize why integrated CCR matters** — find out how integrated CCR solutions enhance internal controls and provide better insight into business performance
- **Optimize financial and regulatory reporting** — enable business leaders and stakeholders with a better understanding of business performance through meaningful financial data and disclosure



Open the book and find:

- How a unified CCR process gives leaders timely and accurate insights to make smarter decisions
- Features of the ideal CCR solution
- What to look for in the selection process

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