A Strategic CFO's Guide to Consolidations

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Introduction

It's well known that executives and corporate leaders value the empirical mindset and hard data the CFO brings to the table, and agree that they want their CFOs to play a larger part in the company's strategy. Now more than ever, though, CFOs face the growing need to support decision-making with fast, high-quality, and accurate information.

The financial consolidation and reporting process has long been seen as a finance-only, legal obligation. Today, however, the most successful organizations embrace it for its strategic value. Good financial consolidation allows the CFO to show the CEO what top line growth looks like. It presents the leadership team with a view on the organization's financial health across all divisions and subsidiaries.

Even outside of the reporting requirements, decentralized reporting systems, and M&As, the financial consolidation process is difficult enough. And yet, independent performance management researcher BPM Partners, says:

> "Enterprises are still handling the process with outdated legacy systems and/or separate applications that don't integrate well with each other."

CFOs aiming to take the lead in harnessing change and growth and help steer strategy need to first move away from outdated methods.

What is financial consolidation?

Financial consolidation isn't exactly new and depends on the scope of your business.

Being the process of combining financial accounting functions from subsidiaries and moving them up to parent-company level for reporting, it needs to account for foreign currency translation, elimination of intercompany transactions and balances, adjusting journal entries, partial ownerships, as well as specific reporting rules and regulations, like the International Financial Reporting Standards (IFRS), US Generally Accepted Accounting Principles (GAAP), and various requirements from regulatory professional organizations.

The changing purpose of financial consolidation

Where the historical purpose of consolidation has been to meet regional and international reporting requirements, it has more lately taken on an equally strategic function.

This is especially true more recently, with the shockwaves the COVID-19 pandemic sent through organizations and finance offices worldwide. McKinsey & Company, for example, reported that the pandemic had compressed 10-years' worth of eCommerce growth into just 90 days. The pandemic also accelerated the rate and number of mergers and acquisitions.

Under these conditions, CFOs need to provide deep and accurate insights on the organization's financial health, as well as present opportunities for growth and operational efficiency, all in as real a time as possible.

Aligning consolidation with budgeting and planning

It probably goes without saying that financial consolidation is the necessary final step in budgeting and planning. Without a clear picture of where you are on a consolidated basis, there's no way to set comprehensive short and long-term objectives, or the steps you'll need to take to achieve them.

Leveraging financial consolidation in budgeting and planning allows CFOs to plan for multiple scenarios with alternative roll ups, allocate more effectively, and provide a clear chain of accountability. In fact, according to McKinsey & Company, the top economic performers are those that perform certain critical tasks, such as portfolio evaluation for opportunities to add or divest, faster and more often.

So, here again, speed and accuracy are crucial - a speed and accuracy that is not possible without the right solution.

Consolidation solutions

More often than not, the speed and quality of an organization's information comes down to the solutions it implements.

Legacy systems and incompatible financial systems have turned consolidation into more of an art than a science. On the other hand, "best of breed" financial performance platforms remove guesswork and human error, making the process easier, faster and more efficient.

Legacy systems

ERP systems like Infor, Oracle Hyperion, IBM Cognos, and SAP BPC may be perfectly adequate for some enterprises – and even preferred, if they are deeply embedded in the business – but as their name suggests, they were not built for today's environment.

They are even likely to prevent growth as they can be costly to maintain and don't integrate well with newer, more necessary technology.

Enterprise Resource Planning (ERP)

ERPs are built for operational efficiency. Some have built-in reporting features as well as consolidation capabilities. The reality however, is that mergers and acquisitions make it virtually impossible to get one single ERP system without significant disruptions to one or more portfolio companies.

That's why companies will benefit from augmenting their ERPs with a more advanced financial performance platform.

Financial Performance Management (FPM)

FPM platforms are among the most sophisticated instruments currently available to the Office of the CFO. With most of them being cloud-based, they also offer a scalable model that facilitates integrations with ERPs and multiple other systems into a single platform and all at a fraction of the time and cost of a typical on-premise system.

By automating key accounting and finance processes, FPM platforms and systems minimise the risk of error while increasing the speed, frequency, and accuracy of the financial consolidation process.

What to look for in a cloud-based platform

1

Data integrity

Considering the sensitivity and magnitude of the data being processed, its accuracy and reliability become an obvious, central concern. Look for solutions that automatically pull all financial, nonfinancial, and internal and external data, preferably even one that manages a single set of master records. Cloud-based platforms offer a unique point of entry for data, with strict, accounting-based methodologies from the beginning of the process to the end.

2

Security and control

A good financial consolidation and reporting platform will be clear on the security of your data. Technically speaking, it should host and maintain its own infrastructure, which includes all the relevant servers, operating systems, and databases involved. It should also offer clear tech security, such as firewalls, hacker protection, and backup management and data restore functionality, to make sure that all your vitals are safe in the software provider's hands.

At the same time, it should provide full application control to the customer along with direct and full access to all functionality from a web-browser, whatever the device.

3 Accelerated cycle time

Speedy implementation and execution should be basic features of your platform so that you can start seeing results as soon as possible after purchase. You should also look for ease of actual use, with minimal required set-up and training, and simple self-management. The platform should have high computing capabilities in order to execute your consolidation processes quickly, as well as reporting, information sharing, and communications.

4 Reporting and analysis

Within the process capabilities, the platform should include functionalities such as multi-consolidation scopes, sub-consolidations, and simulations of group structures. It should offer full analysis capabilities including segmentation analysis, batch reports/repository audit trail reports, and financial ratios, KPIs, etc.

Also keep an eye out for full portability of functions, such as browser-based spreadsheets. This guarantees you can access and work on your reporting, whether or not you're online. Browser-based spreadsheets offer powerful report functionality, making it possible to create advanced presentations–including calculations, graphs, etc.–as well as to create secure input forms, guide data entry, and more.

Best practices: the consolidation process

Whatever the means, the consolidation process must be accurate, efficient, and precise. Every number in a report must have a purpose and a source to which it can be traced. Because of this, the process requires a well thought out approach.

The scope

Determining the scope of consolidation is probably the most significant task of the overall process simply because it determines which companies in the group will be consolidated and which method will be used. Taking advantage of a consolidation platform can simplify the process of calculating control and interest percentages.

The first step in determining the scope is categorizing the company's holdings into direct holdings, indirect holdings, cross holdings, and circular holdings.

With all the holdings categorized, it is then possible to attribute a percentage of control to each. Although these percentages are not helpful for any other aspect of the process, they will demonstrate which method of consolidation to use. For example, exclusive control of a company leads to full consolidation.

When determining the scope, it is also vital to calculate the parent company's interest percentage in each subsidiary. This number can vary from the control percentage, but it's just as necessary. The interest percentage enables the calculation of the share of assets held directly or indirectly.

The larger the parent company, the more time it takes to figure out all these numbers. A good consolidation platform allows for the maximum automation of scope determination, so that no one spends an overwhelming amount of time crunching numbers.

The consolidation bundle

There are three main elements to consider when drafting a consolidation package: structure, content, and validations.

Structure

The structure of the consolidation package must be equal for every entity of the group. Achieving this uniformity can be especially challenging for groups in which the activity of the entities varies greatly. Since it's uncommon that every subsidiary will use the same GAAP, it is advisable to build a bundle that allows the possibility to trace the local adjustments to compare them with the group adjustments.

The most efficient way to implement this is to structure information into three columns that divide local information, adjustments, and information in group standards. Setting up a mapping table to showcase the flow of transactions is also essential. A professional consolidation platform can facilitate this work by interfacing with the accounting software.

As the structure develops, it might be necessary to account for foreign currency exchange, if applicable. At this stage, it's best to receive numbers from the subsidiaries in their relevant currency, so that the consolidation platform can exchange them later. This eliminates the risk of human error and miscalculation.

One tricky aspect of decision making with the software is choosing the language used for the final report, particularly for parent companies with global subsidiaries. The best practice is to use only one language in the final report: the most common language of the group.

Content

The content of a consolidation package should encompass qualitative and quantitative data, which can be split into five components.

1. General information such as the period, the reference period, details about the entity, local currency, and the names and positions of the people concerned.

2. The local data presented in the accounting standard of the group. The transition from local to group standards needs to be as transparent as possible, and it is advisable to list adjustments as a part of a separate table.

3. Information about participation and intercompany accounts in the group required standard. These amounts will be used to analyze intercompany transactions, and differences will be corrected in the reconciliation process.

4. Information about participation and intercompany accounts within the group is required to meet the standard. These flows may include acquisition from third parties, intragroup acquisition, intragroup or third parties' cession, currency translation differences, the entry in or departure from the consolidation scope, and so on. The longer-term flows will be more detailed than shorter-term accounts.

5. A series of helpful information to the consolidator in table format. This section covers any information required in the legal annexes of the consolidated accounts. This information can include dividends received, intragroup cessions and acquisitions, information about the group's staff, information about the management team, breakdown of the turnover in the function of specific criteria, and relations with linked parties. When this information is detailed in a table, it encourages coherence and accuracy of the bundle.

Validations

Several validations are vital to the content of the report, acting as a safeguard for the local accountant who fills out the package because it guarantees the quality of information sent to the consolidation manager. Obtaining top quality information saves a lot of problems and time during the consolidation process.

The general elements to report at the end of the consolidation cycle depend on the data source received in the validations. It's crucial to rely on high-performance tools to maximize on-time delivery.

Standardization

It is rare that all subsidiaries use the same valuation methods and rules, and corporate accounts will inevitably have to be re-processed to ensure their homogeneity with group standards. Re-processing must therefore be as effective and transparent as possible.

The best practice is to have the subsidiaries perform the standardization adjustments themselves. Central consolidation departments would then be available to provide advice and corrections to the adjustments and feedback to the entity.

However, manually implementing a standardized approach can be daunting for large parent companies. A consolidation platform makes decentralizing responsibilities not just possible, but also quick and easy.

Automation

All of the above steps can be easily accomplished and sped up through automation, saving team members' time by sparing them the tedious work of manual adjustments and standardization. By automating data collection, input, and validation, financial experts have more time to analyze the final numbers and apply them to the larger, strategic focus.

Furthermore, cloud-based platforms integrated with ERPs can consolidate data in real-time. In this way, automation allows for a level of efficiency and accuracy that humans can't achieve without dedicating a significant amount of time and energy to the task. Automation also makes the consolidation process traceable in case of auditing or need for backtracking.

Case study: Migrating to an automated, cloud-based consolidation platform

Founded in 1995 as a real estate developer, Banimmo is an innovative player, focusing on the needs of its future building users and with the ambition to follow up on the new trends that will revolutionize the real estate sector. It has been listed on Euronext Brussels since 2007, and showed a balance sheet total of € 154.3 million ($162.1 million USD, £ 133.6 million) in June 2021.

> “When we first began to consider financial consolidation and reporting software, we had 20 subsidiary companies to consolidate. We were specifically looking for an intuitive, user-friendly solution that could replace our SAP Business Planning and Consolidation (BPC) tool while integrating with Adfinity, our real estate management accounting software. BPC struggles with very large datasets and performing top-down planning.”

Sylvain Aubry
Consolidator
Banimmo

Banimmo was especially frustrated with not being able to drill down to information sources. The consolidation process took 15 days, of which 2 or 3 were spent only on researching information.

To make things worse, they were usually plagued with system bugs in the close period. The company brought on an independent agency to solve their system problems, but was altogether suffering from a huge drain on resources and budget.

Prophix One, a Financial Performance Platform, aligned well with Banimmo's financial, operational and IT requirements, making Prophix One a no-brainer for the company.

At a strategic level, the company uses Prophix One Financial Consolidation to drill down into a nearly real-time view of company-wide or subsidiary level performance, or to quickly access historical views to measure the performance of various initiatives.

Customers don't just buy a solution from Prophix, they enter into a long-term relationship. Banimmo has leveraged Prophix expertise in consolidation and reporting and optimized Prophix One to fit their specific needs. This has allowed them to make further advancements in their consolidation process.

As a result, Banimmo has seen its process cycle go from 15 days to only 2 to 3 days, at a 3.5x lower cost.

However, perhaps the greatest testament to their belief, is in their plans to implement Prophix One on a group level, with the 80-company strong Patronale Life.

About Prophix®

Ambitious finance leaders rely on Prophix® to plan smarter, move faster, and lead with greater control. Prophix One™, a Financial Performance Platform, connects planning, budgeting, forecasting, reporting, reconciliation, and consolidation in one unified experience.

With a complete suite of scalable solutions, AI-powered automation, and data you can trust, Prophix helps teams eliminate manual work, improve accuracy, and deliver insights that drive business results. Backed by nearly 40 years of experience, more than 3,000 active customers partner with Prophix to simplify complexity and stay ready for what's next. www.prophix.com

NORTH AMERICA

CANADA

3250 Bloor St. West
East Tower, Suite 1200
Toronto, ON
M8X 2X9
1 (800) 387-5915
+1-905-279-8711

UNITED STATES

707 SW Washington St.
Suite 1100
Portland, OR 97205
1 (800) 387-5915

UNITED KINGDOM

Paddington Works
8 Hermitage Street
London
W2 1BE
+44 (0) 208 050 3590

EUROPE

BELGIUM

Route de Lennik
451 Lenniksebaan
1070 Brussels
+32 (0) 2 456 89 60

DENMARK

Vesterbrogade 149
1620 København C
+ 45 7023 2375

FRANCE

Roosevelt House 6
avenue Franklin Roosevelt
75008 Paris
+33 (0)1 70 91 56 20

GERMANY

Messeturm
60308 Frankfurt am Main
+49 69 509 565 607

ITALY

Via Giuseppe Piazzi 2/4
20159 Milano MI
+39 02 8128 7010

LUXEMBOURG

22, rue de l'Industrie
L-8399 Windhof
+352 27 02 01 20

NETHERLANDS

De Boelelaan 7, 7th floor
1083 HJ Amsterdam
+31 (0)85 400 01 30

PORTUGAL

Av. D. João II n°35
Edificio Infante 11°A
1990-083 Lisbon
+351 308 806 770

ASIA-PACIFIC

AUSTRALIA

Ground Floor 171
St Georges Terrace
Perth WA 6000
1300 559 827

SOUTH AMERICA

BRAZIL – SÃO PAULO

Rua André Ampére
153/7o andar
Novo Brooklin – SP
04562-080
+55 11 3583-1678

BRAZIL – RIO DE JANEIRO

Av. Marechal Câmara 160 cj 932
Centro – RJ
20.020-080
+55 21 3094-3900

FIND US ONLINE

prophix.com

info@prophix.com

v 2025.06.02

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