How-To: Streamline multi-company handling

A guide for businesses running with multiple entities

VISMA

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Introduction

Successful business owners are driven, curious, hard working and never content with status quo. That's probably why so many choose to expand into multiple ventures.

If you are running multiple companies or thinking about starting a second business endeavour; you may be wondering what the best way to legally structure each business is and how you can best manage the books.

Let's face it, managing the books for one business is complicated enough, especially with the increasing complexity of International Financial Reporting Standards (IFRS).

The complexity only increases for business owners who choose to start and manage multiple companies, and for growing businesses that include subsidiaries in other countries.

The challenge does not only lie in managing the books. It is also connected to everyday matters of managing a business and in particular the need to get an instant overview of the total health of the company, ideally through real-time data and key performance indicators.

This guide addresses the challenges connected with growing your business and looks at how you can best approach, support and streamline your multiple business ventures.

How to best approach business growth

Business growth often involves the establishment of a new franchise or company within the same country, just at a different location, or alternatively within a new country.

While growth is exciting, it also brings about challenges. One particular challenge is trying to manage data from multiple companies; especially when there are multiple business management solutions and general ledgers (GL). This is a tiresome and challenging task for any accountant and often results in a lot of hours trying to consolidate and synchronise data from various companies. It becomes a constant struggle to keep everything updated and to make sense of it all.

The typical challenges associated with running multiple companies, both domestic and international, are:

- Working with different currencies, exchange rates and across different time zones
- Repetitive data entry and data being duplicated across the business
- Manual user errors
- Standardisation of data, setup, and processes
- Multiple office locations; this often creates distance and leads to a silo approach
- Gathering data; this is a challenging process when working with different versions or systems

These challenges don't have to prohibit your company's growth and can easily be avoided by investing in the right business management solution. The best approach is to find a solution that best fits your company, and that can easily be scaled and adapted to help face the challenges presented by business growth, both in terms of people, volume and company expansion. It is important to ensure that the solution you choose, fits your company structure.

Managing the multi-company organisation

The different company structures

1. The business that runs domestically with multiple business locations

All business locations have the same accounting structure, same regulatory environment, same owner, same currency, and are simply several legal entities, which we refer to as branches, with the same structure and needs.

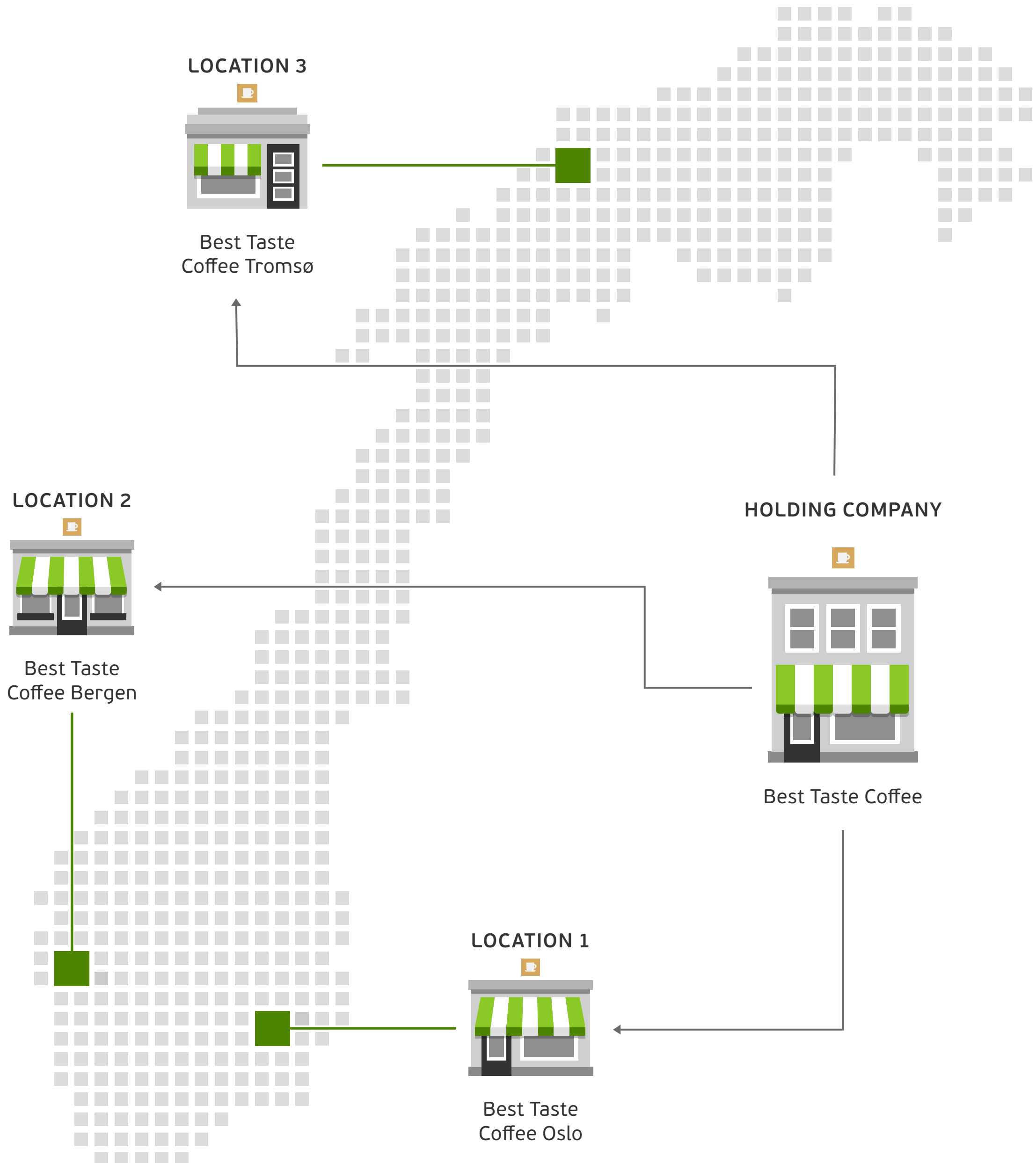
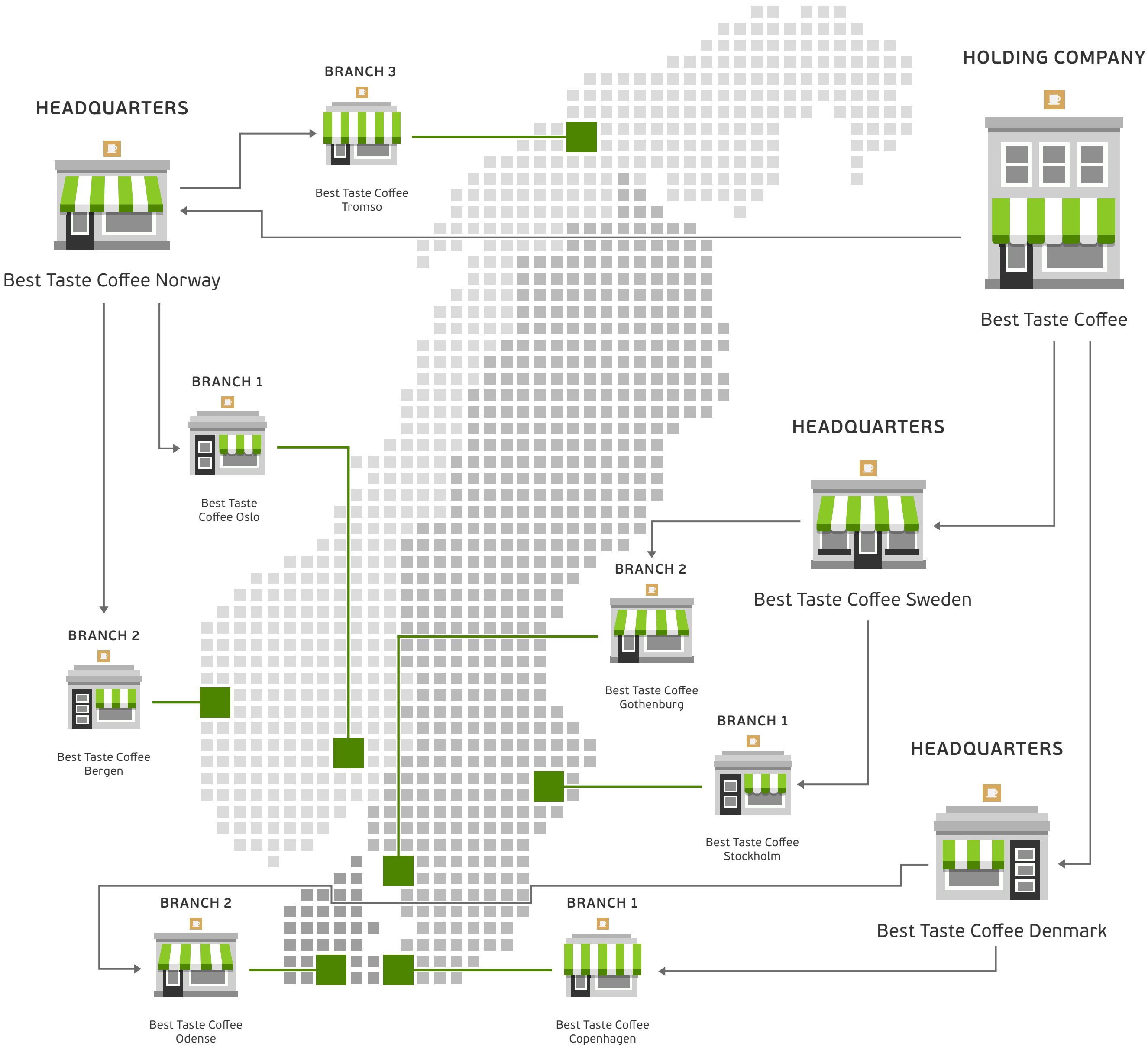


Figure 1: The multi-location company

2. The business that has distributed subsidiaries or branches, both domestic and foreign

These branches are run across multiple borders, on an international setup, with multiple locations, different local regulatory environments, different currencies, but the same owner, so there are several legal branches all with different needs.

For example, Figure 2 below illustrates how Best Taste Coffee runs each of their international operations in the same company structure as highlighted in Figure 1, meaning the same currency and regulatory environment. To find out the financial status of all operations, so of the Holding Company for Best Taste Coffee, a consolidation needs to be performed across company 1, 2 and 3 due to different currency and regulatory conditions.



Note: For Visma.net, a branch is defined as a legal entity of a large business or organisation, with distinct and independent existence.

Figure 2: The multi-country company

The factors influencing how you manage your company structure

- Today's hyper-competitive marketplace
- The need for immediate visibility across the entire business
- The emphasis on compliance

In this guide, we will also focus on an area of critical importance for all multi-company businesses, independent of their business model, that is managing the consolidation of all financial reporting.

Multi-company financial management

Businesses that operate in multiple countries or with multiple locations are often faced with challenges when it comes to the financial reporting. Each subsidiary is required to maintain its books, pay its employees, manage accounts receivable and payable, and pay taxes in the currency of the region in which it is located. However, for businesses running across multiple borders, all charts of accounts have to be consolidated in the monetary unit in which the corporation is run.

For example, Figure 2 above illustrates how Best Taste Coffee has its holding company in Oslo, Norway and also has subsidiary companies in Sweden and Denmark. Each subsidiary company has multiple branches in each of these countries. All subsidiaries and branches are owned by the Best Taste Coffee holding company, based in Oslo, Norway.

Traditionally, consolidating the accounts for all of these subsidiaries and branches would have been a challenging task, managed manually or through multiple spreadsheets likely full of errors. So reconciliation would take weeks, and not be complete until weeks after the month ended.

Additionally, these subsidiaries previously had no visibility across borders and inventory is a good example of this lack of transparency. For example, if a customer wanted an out of stock product in the local subsidiary, ordinary this would need to be ordered from headquarters and result in a lengthy wait. However, with visibility across borders, it is possible for the subsidiary to easily see what stock is available across borders.

This lack of visibility and high risk of manual errors simply leads to an ongoing accounting nightmare. However, with the right business management solution, these challenges can be avoided.

Multi-company consolidation

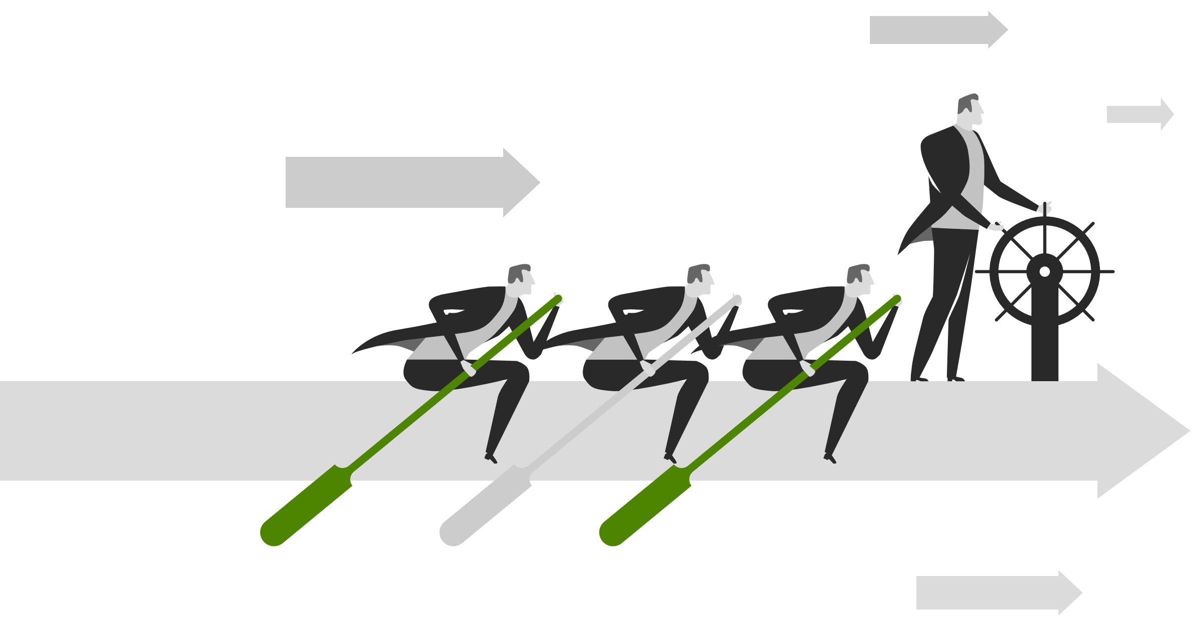
Companies with multinational branches need to perform local accounting functions, done in the local currencies and then consolidate all of the financial data into the ledger of record and maintain the information over time.

So each physical location belonging to a holding company must maintain its own General Ledger (GL), just as the holding company must manage a corporate-wide GL. It is a common practice to shift inventory, assets, and other resources between locations. As such, each transaction must be noted in the GL by both the originating business and the destination business.

Traditionally, companies have tried to track consolidated financial data in spreadsheets and often have had to wait for data from their subsidiaries, causing the typical delays associated with manual accounting processes.

Performing manual transactions and reconciliations for each business branch is extremely time-consuming and prone to miscalculations. What's more, misrepresenting intercompany transactions could distort a business' financial position, possibly resulting in managers or shareholders making poor decisions, as well as raising red flags with regulatory agencies.

Thankfully, there are now fully automated multi-company accounting solutions available that facilitate closing the books in a timely and accurate fashion. This robust software facilitates the ability to collect, utilise and report data generated from multiple operations. It also enables timely reporting, billing and reduced expenses.



Financial reporting

Fast and efficient report generation and distribution is an essential requirement in all financial management. Consolidated reporting has to clearly show the relation of all the parts - the separate subsidiaries, branches and business units and departments.

The data from all subsidiary companies has to be trustworthy and precise for the resulting consolidation to be accurate. As does the data from all entities, branches and departments reporting to the subsidiary company.

The reasoning for running branches:

- For measuring and comparing each branch on a profit/loss level
- Proper control of each branch on the operation level
- To ascertain the financial position of each branch separately

Furthermore, branches are advantageous when there are several entities split into multiple locations, and that essentially perform the same types of accounting functions within the same company group structure, currency and work in the same regulatory environment.

For example, Best Taste Coffee, operate with their main branch in Oslo, but run two additional branches, one in Tromsø and one in Bergen.

All branch stores sell a similar range of tea and coffee, mainly common items customers want to purchase locally. All branches work on the same database that is installed on the server in the main branch. By using multi-branch, Best Taste Coffee only needs to maintain one company database for all stores. Although the data is centralised in one database, the data for each individual store can be manipulated and reported separately.

How to streamline multi-company handling

The challenges of managing multi-company organisations do not only apply to international companies or large organisations. Owners of multiple separate companies also share the same challenges in consolidating their total financial data across separate legal branches, whether those branches are large or small. The variations for structuring these organisations is endless.

Challenges arise from the inability to roll up financial records in a timely and accurate way.

These challenges include:

- CEOs who don't have the data to make confident business decisions
- Missing, incomplete or inaccurate data
- Unreliable reporting
- Compliance issues

To help customers avoid these challenges and assist those who need to streamline their multi-company handling, Visma has introduced a new solution called Visma.net Branches. The solution offers new functionality solving the challenges connected with running multiple companies with multiple branches. It also allows Intercompany transactions that automate posting between different branches.

The requirements that must be met in order to take advantage of this exciting new solution include:

- All branches must use the same base currency.
- The chart of accounts must be shared among branches, or similar charts of accounts and subaccounts must be used by the different branches so they can be merged into one chart of accounts used by all branches.
- The branches must have the same financial year and periods.
- The branches must follow the same tax settings.
- Each branch can use the same customers and vendors.

If a branch operates with different currencies, then fiscal years and periods must be configured as an individual company and the Visma.net consolidation functionality must be used.

If the above criteria are met, the benefits of using Visma.net Branches for handling multiple companies are endless, and include:

- Ability to work across branches, within one company database, and easily create a new branch.
- All branches share master data, such as users and business partners.
- According to the working process in the company, master data, such as warehouses and business partners, can be assigned to specific branches.
- From a single company database, you can work across multiple branches and access authorised data.
- You can automatically assign transactions to a specific branch.
- You can then run accounting and financial reports per branch.
- Centralised accounting.
- Cash management in real-time across branches.

Conclusion

With business growth, comes great opportunity and also considerable challenges, like managing data from multiple companies in various locations and countries.

Whether you choose to grow your business by adding new locations or by entering new markets, the challenge of managing data from multiple companies need not prohibit your growth. The key to success lies in choosing the right financial management solution.

Visma.net Branches is designed to make business growth easier. It is explicitly designed for businesses running with multiple companies and helps standardise, control and streamline financial reporting.

The ability to consolidate multiple charts of accounts creates a powerful advantage for organisations with multiple separate business subsidiaries, branches and global businesses with multiple distributed locations worldwide.

As well as simplifying reconciliation and consolidation, Visma.net Branches provides business owners with the possibility to get an instant overview of the total health of the company.

While you can't avoid all growing pains, Visma.net Branches helps make your company's growing process easier and more enjoyable.

Dictionary

Holding company

A company created to buy and own the shares of other companies, which it then controls.

A holding company is a parent company, that owns another company to control its policies and management. Normally a Holding Company exists for the sole purpose of controlling another Company.

Subsidiary company

A company controlled by a holding company.

A subsidiary is a company where the majority, more than 50%, is controlled by another company, usually referred to as the parent company or the holding company.

Entity

An entity refers to a legal company.

Branch

Visma.net defines a branch as a legal entity of a large business or organisation, with distinct and independent existence.

Department

An accounting entity within the same legal structure of the company, that refers to different departments in an organisation.

Multi-company accounting

Multi-company accounting is software that manages the project accounting functions of multiple operations, locations and companies in a single database. This is a robust software that facilitates the ability to collect, utilise and report data generated from multiple operations. The software enables timely reporting, billing and reduced expenses.

Intercompany

Intercompany refers to transactions between two or more related internal legal branches with common control, i.e. in the same enterprise.