The primary role of Intercompany Accounting (ICA) is to make sure legal entities don't show a profit or loss on the parent company's balance sheet, what is called 'elimination'. This is an important process that can impact statutory reporting and cause business impact. So getting the process right is key. Yet, according to a survey by Deloitte, 92% of companies, at the time of the survey, have further room for improvement in their intercompany accounting.

In a world where businesses are growing rapidly through acquisitions or by organic growth, once they achieve a certain size, the complexity of their organization structure grows and the likelihood that subsidiaries conduct business with one another increases.

According to Itelligence, (a service from NTT Data Business Solutions) assimilating these new entities into the organization is difficult enough from an operations, personnel, and technology standpoint and these can typically happen at their own pace; however, the accounting and financial reporting departments must still report the company's financials in a timely manner, including processing intercompany reconciliations.

Both groups of businesses need to deal with the accounting issues.

For Corporate Accounting, the intercompany element is more challenging than the vendor element, as it deals with money that flows across multiple legal entities within the corporate group.

A Deloitte poll, published in Journal of Accountancy, of more than 3,800 accounting and finance professionals suggests the following pose the biggest problems:

Figure 1 Intercompany Issues. Courtesy of Deloitte and CFO Magazine.

What impact does this have

Ultimately it can mean adverse audit comment and even refusal to sign off the accounts. Mistakes can impact share prices after restatement of accounts. Less serious but worrying for the business units is if amounts must be written off as this hits the P&L or they cause errors that impact the balance sheet. Large balances are subject to currency and interest rate changes.

Various sources mention the cooperation of accounting, tax, and treasury to make it easier to tackle the challenges. This combined approach applied to about one-quarter of respondents. However (55.7%) said accounting had taken the lead.

Several sources mention a framework of standardized global policies applied to Intercompany accounting. However, only a minority of the participants in the Deloitte survey are following a holistic approach. More than two-thirds of respondents said an intercompany accounting framework was a goal they were working toward, but only 9.2% said it was in place.

Figure 2 cutting things down to size.

Cutting things down to size using Coprocess Netting

1. **Intercompany Netting**

   As stated in the Journal of Accounting article, “Define a cash management strategy to net and settle transactions”. To achieve effective netting and settlement, which is critical for the treasury function, companies need multilateral settlements based on a regular settlement process, this compliments their cash management strategy. Coprocess has over 175 clients currently using its Netting solution and is one of a few dedicated providers.

2. **Consolidation of Disparate Software Systems**

   In a company with multiple ERP’s the Coprocess system might be the only common platform. It provides visibility over all AR & AP across the group. Coprocess assists in a number of areas such as promoting communication, allowing discussion & dispute at invoice level (even the original invoice detail if desired), clearly indicating contacts and providing messaging via the corporate email to improve workflow.

3. **Intercompany Settlement**

   Coprocess provides a structure and brings rigour to the settlement process for all Intercompany Invoices. It contains a calendar to set group settlement dates, multiple settlement options to accommodate currency restrictions and invoice approval processes for cash and non-cash settlement (IHB).

4. **Reconciliation and Invoice Matching**

   Reconciliation and elimination can be time-consuming and resource-intensive for the accounting function. With Coprocess you can reconcile transactions across multiple ERP systems and focus on resolving unmatched items.

5. **Foreign Exchange Elimination**

   Intercompany netting reduces foreign exchange exposure. It also provides a historical analysis of the exposures and the accuracy of forecasts which measures performance and can help with future Hedging decisions.

Contact Coprocess **to see how we can help with your biggest intercompany challenges**