Assessing ERP solutions for multicurrency capability

Prepared by:
Peggy Evleth, Senior Associate, RSM US LLP
peggy.evleth@rsmus.com, +1 303 298 6492
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As national borders become more fluid, more and more middle-market companies are finding themselves presented with international opportunities. Along with these international opportunities, comes a new set of challenges. When international opportunities present themselves, companies need to look at how their existing enterprise resource planning (ERP) solution addresses multicurrency processing with the view of using its existing functionality, expanding its functionality or replacing it with an ERP solution that better meets the company’s multicurrency processing needs.

Assessing the company’s needs

The first component to assessing the suitability of an ERP solution for multicurrency needs is to assess the level of international presence that the company is both maintaining and planning for in the future.

1. Does the company have multiple entities with multiple functional currencies?
   Multiple entities with different functional currencies require that the ERP solution be able to maintain ledger balances in currencies that are not the U.S. dollar, as well as process in currencies and maintain balances in currencies that are not the functional currency. Frequently, intercompany transactions may be occurring in multiple currencies and need to be reconciled in more than one currency. Additionally, companies with multiple foreign locations may want to be able to have their ERP software be capable of presenting to users in the various countries in their native language.

2. Do individual companies process transactions and maintain balances in more than one currency?
   Many companies have income and expense streams that are denominated in currencies other than their functional...
currency. This, in turn, brings a need to maintain asset and liability accounts that are also denominated in currencies that are not the functional currency of the company.

3. Does the company consolidate its financial statements? In the case of entities that have international locations, consolidation of the foreign operations into the corporation’s global results in the corporation’s reporting currency is a necessity. This includes translation of foreign currency balances at the appropriate rates for the balance type, as well as potentially needing to convert into multiple consolidating companies and being able to handle elimination entries in multiple currencies.

4. Does the company have to maintain both GAAP- and IFRS-based ledgers? If a company has subsidiaries whose legal presence is overseas, those subsidiaries are generally expected to maintain statutory records that are in compliance with local accounting standards. However, for the purposes of U.S. consolidation, the company may also need to report based on U.S. GAAP.

5. Does the company need to manage multiple currencies that have a variety of different rates that may be used in different situations? Companies may need to translate financial results using a variety of rates, depending on the type of transaction or account balance. Additionally, depending on the type of business, different individual transactions may need to have specific rates attached to them that do not use the same exchange rate as other transactions of the same type.

6. Does the company actively manage its foreign exchange exposure? For companies active in a variety of currencies, the ability to monitor, track and forecast the impact of potential foreign currency rate fluctuations is a key part of their international treasury function.

**Assessing ERP system capabilities**

Once a company has assessed its multicurrency environment and needs, it is a matter of determining which features meet the company’s current needs and which features are necessary to facilitate future growth. Following are key features that a company would look at in terms of making sure that the ERP system they are using or planning to use will meet their multicurrency needs.

1. The ability to have multiple individual legal entities that have different functional currencies, but which are able to seamlessly process transactions between each other, regardless of currency, without having to duplicate entry from company to company. Because most multicurrency environments have intercompany accounts between entities, the ability to process intercompany transactions as a single entry is crucial. Additionally, in many cases, the intercompany entry will include a translation piece, so the ability to process multicurrency intercompany transactions as one entry is crucial.

2. The ability to process transactions in multiple currencies, maintain information on nonfunctional currency transactions in both the originating currency and the functional currency, ability to maintain account balances in originating currency and the ability to revalue individual non-functional currency accounts at specific exchange rates and book the unrealized gain and loss on that revaluation. This also includes the ability to reconcile accounts, notably bank accounts, in the currency the account is held in. While many ERP systems have the capability of translating a foreign currency transaction, not all have the capability of tracking balances in the nonfunctional currency or reconciling bank accounts that are carried in the nonfunctional currency. Since many companies have bank accounts in different currencies, it is important that the system be able to reconcile in the account currency, while simultaneously carrying a balance in the functional currency.

3. The ability to automatically recognize realized gains and losses on nonfunctional currency transactions at the time the transaction is completed. Because transactions in the nonfunctional currency carry potential foreign exchange exposure, it is important that the system be able to calculate and book realized gains and losses incurred between the original transaction and its completion – such as the entry and subsequent payment of a foreign currency-based accounts payable voucher.

4. The ability to consolidate financial statements based on flexible company structures combined with the ability to translate foreign currency. Some companies have complex corporate structures, including multilevel consolidations. A system should be able to handle consolidation of those companies, elimination entries that may be in multiple currencies and the ability to translate the financial information of foreign companies at the appropriate exchange rates.

5. The ability to maintain multiple ledgers for the same legal entity to permit both GAAP and IFRS reporting. Many countries are adopting the IFRS accounting standards. These differ from GAAP in certain key areas. Reporting to local government and tax authorities may need to be done on an IFRS basis. As a result, a system that has the ability to maintain multiple ledgers for the same company becomes important.

6. The ability to attach individual exchange rates to both transactions and account translations depending on the transaction or translation type. Sometimes a single exchange rate, even on the same day, cannot be applied to different transactions. Additionally, revaluation methodology is such that different exchange rates may need to be used to revalue different accounts. A system needs to have the ability to select or input individual rates for different transactions, as well as select what rate to use for translation for individual accounts.
The ability to automatically update foreign exchange rates from an outside source for companies with significant transaction and currency volume. If a company has significant volume on a daily basis in multiple currencies, the ability to automatically upload currencies is a huge time-saver.

The ability to produce reports showing foreign exchange balances both within individual companies and across multiple companies and the ability to model potential changes to the functional currency equivalent, based on rate changes. As companies grow, managing foreign exchange exposure becomes more and more important. While most companies are probably not at a level where a dedicated treasury management software for handling foreign exchange risk is called for, it is still important to have the ability to create reports showing originating currency balances and have the ability using an outside tool, such as Excel or SQL Reporting Services, to do some basic modeling of rate fluctuations, based on current and projected future exposures.

The ability to have the accounting system in multiple languages. For companies with foreign locations, the ability to have the accounting system in the local language can be of crucial importance.

Conclusion

Each company needs to decide for themselves which of the above features are necessary for multicurrency environment. While not everyone may need all the features listed, particularly if they are starting out in the international arena, it is good to know about them, as needs can change as a company’s international presence grows. Having a starting checklist can help take some of the uncertainty and confusion around assessing a company’s multicurrency needs.