Record To Report (R2R): What Is, Steps, Benefits and Challenges



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Collecting data from multiple sources is a time-consuming process for businesses.

Establishing internal controls such as the record to report (R2) process can help streamline the entire finance and accounting process by instituting a series of data management processes designed to decrease mistakes and eliminate manual reporting.

What Is the Record To Report Process?



The Record to report (R2R) process is the recording, processing, and reporting of accounting and financial information for your business.

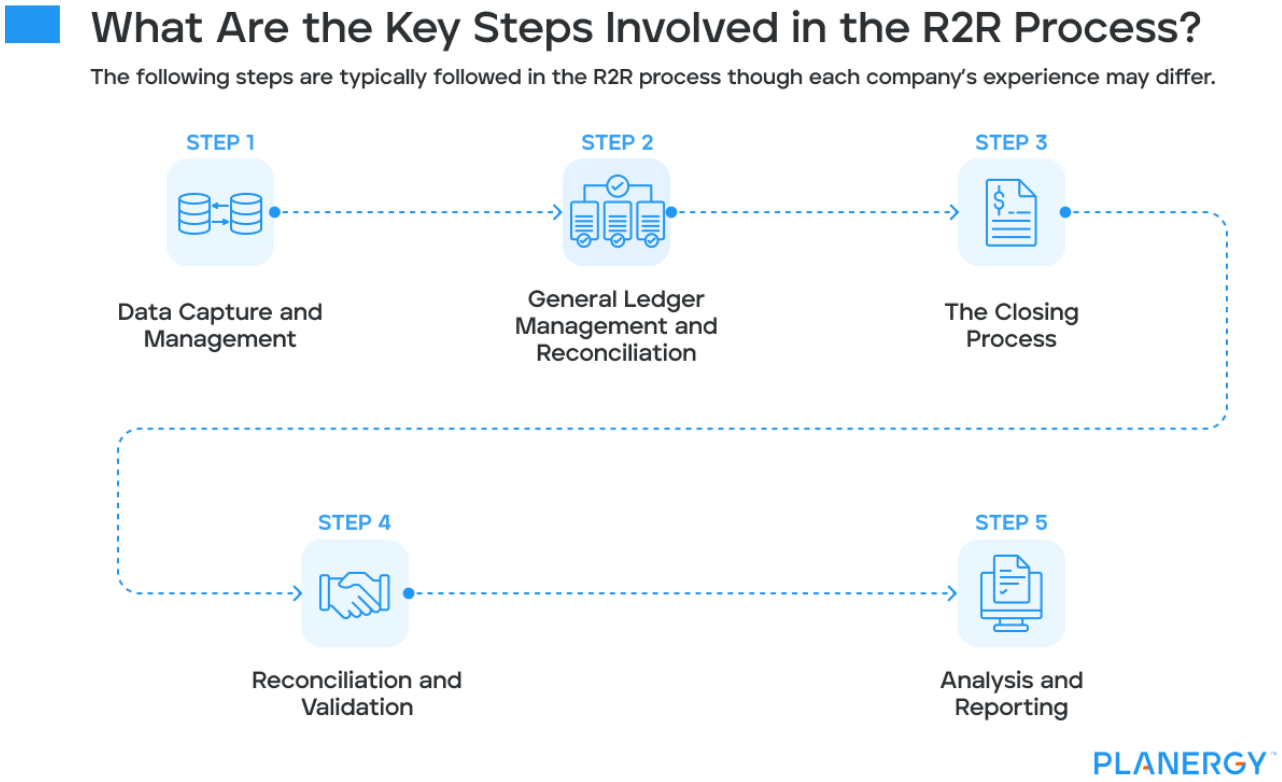
The R2R process is used to collect information from various sources, review the information for accuracy, and present the information in an acceptable format.

The record to report process generally uses four steps from beginning to end.

What Are the Key Steps Involved in the R2R Process?

Before you can institute the record to report process for your business, you should first understand exactly how it works.

The following steps are typically followed in the R2R process though each company’s experience may differ.



1. # Data Capture and Management

   The first part of the R2R process is the collection of data by your accounting team that serves as the building blocks for creating financial statements.

   Perhaps the most important step, the accuracy of the financial records collected is a direct reflection of how accurate your financial statements will be.

   The data collection process includes all financial transactions completed for the month such as product sales, money paid to vendors and suppliers, and money received as well as journal entries made throughout the month.

   The best way to ensure that collected data is accurate and not overlooked is to use an enterprise resource planning (ERP) solution or other automated system.

General Ledger Management and

2. ## Reconciliation

   The general ledger is a repository of sorts for all of your accounts.

   Before you can prepare reports, all journal entries must be prepared and posted to the general ledger.

   This step also includes the review and reconciliation of accounts including both bank statements and credit card statements.

   For example, if you forego reconciling your bank statement for the month, bank charges, outstanding checks, and NSF checks may not be properly posted to the general ledger.

   If you're using an automated accounting software application, much of this process will be completed for you, but a review of account balances is always necessary to check for posting accuracy.

   Though you'll need to analyze completed financial statements once they're finalized, a brief review before closing helps identify any issues before the closing process begins.

3. ## The Closing Process

   The closing process also known as the closing cycle is completed at the end of each accounting period.

   During the closing process, all additional journal entries are completed to ensure that the general ledger and all subsequent reports are accurate.

   During the financial close process, all balances in temporary accounts such as expense and revenue accounts are moved to a permanent account so that the balance will be zero at the start of the next accounting period.

   This will need to be done manually if you're using a paper-based accounting system, though it will be completed automatically if you're using an accounting software application.

4. ## Reconciliation and Validation

   Once the closing process is complete, senior staff should review the recorded transactions.

   This includes all intercompany accounting transactions to ensure that all transfers have been properly accounted for and all relevant accounting standards have been met.

   This step must be completed for financial statements to be accurate.

5. ## Analysis and Reporting

   The final step in the R2R process is the reporting process, with the appropriate staff creating the necessary financial reports that are usually distributed to senior staff and outside stakeholders.

   However, creating the reports is only the first step; spending time analyzing the results is just as important for strategic decision-making.

   Reports that should be created and analyzed include:

   - Income statement
   - Balance sheet
   - Profit and loss statement
   - Cash flow statement

   During this final step, you'll also want to create any other necessary reports and calculate relevant accounting ratios if desired.

What Are the Benefits of an Automated R2R Process?

The R2R process provides a structured framework to ensure that your business properly and accurately records and reports all pertinent financial information.

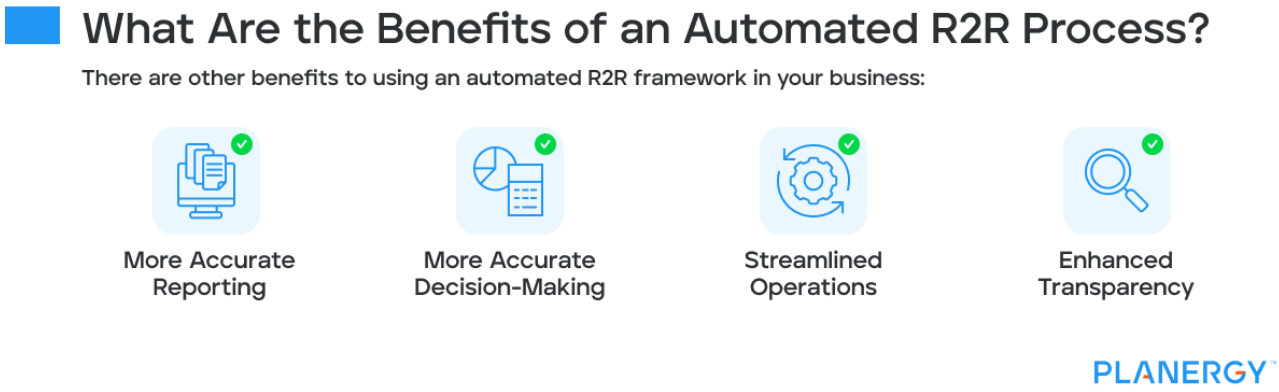
Unfortunately, when using manual accounting systems, even the most robust framework can contain errors.

The best way to utilize the R2R process is by automating your accounting software.

Automation simplifies the R2R process while reducing human errors and posting omissions.

An automated system also handles most of the monthly account reconciliation process as well.

There are other benefits to using an automated R2R framework in your business:



- ## More Accurate Reporting

  Accuracy matters, particularly in financial reporting.

  Providing company stakeholders such as the CEO and CFO with inaccurate financial statements can be problematic.

  And if the reports are shared with external stakeholders such as investors and lenders, your business reputation can be irrevocably damaged.

  Using the R2R framework helps identify missing and inaccurate data before it becomes a part of your financial statements.

- ## More Accurate Decision-Making

  It’s difficult to make informed decisions about your business if you don’t have the correct information available.

By having access to accurate, up-to-date financial data in real time, you can make better strategic planning and forecasting decisions for your business.

The R2R framework also helps you identify potential issues before they become problematic.

- ## Streamlined Operations

  Compiling month-end financial statements manually can be time-consuming at best, and are often riddled with errors.

  By using an automated system, you can eliminate the labor-intensive task of closing the books and preparing financial statements while engaging your staff in more productive tasks.

- ## Enhanced Transparency

  Accurate and detailed financial statements are a must for businesses that need to provide monthly financial statements to regulatory agencies or investors.

  Accurate reporting builds trust and helps to improve these vital business relationships.

What Are the Best Practices for Improving the Efficiency of the Record To Report (R2R) Process?

If you’re interested in implementing record to report processes for your business, effective best practices are essential:

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If you're interested in implementing record to report processes for your business, effective best practices are essential:



- **Invest in Automation** – The single best thing you can do to streamline the entire R2R process is to invest in automation.

  Doing so eliminates inefficiencies like manual posting, data entry, and other repetitive tasks.

  For example, most accounting software applications today include an automated bank reconciliation process and an automated closing process, while a procure-to-pay application like PLANERGY takes automation a step further, by eliminating the need to manually match invoices, purchase orders, and shipping receipts, while also eliminating manual data entry.

- **Standardize the Process** – Standardizing your internal accounting processes can help eliminate errors.

  For example, by using a specific format when entering invoice numbers or

recording expenses, you can eliminate issues like duplicate invoices, or expenses classified incorrectly.

- **Regularly Reconcile Accounts** – Reconciling isn't only for your monthly bank statements.

  All permanent accounts such as accounts payable and accounts receivable should be regularly reconciled as well.

  This helps identify duplicate postings and other discrepancies.

  It's also helpful to regularly compare monthly expenses against prior months to see if the current month is in line with historical data.

  This practice in particular can help identify misclassification of expenses.

- **Pay Close Attention to Intercompany Transactions** – If your business has multiple locations or subsidiaries, it's important that all intercompany accounting be completed accurately.

  This includes standardizing all accounting functions between locations and completing a monthly reconciliation and report consolidation to ensure that month-end balances are accurate.

What Are the Challenges of the R2R Process?

The R2R process is not without its challenges. These challenges can vary, depending on the system you have in place for your business.



Maintaining Accuracy

Accuracy is the key ingredient in the R2R process.

But if you're still recording transactions in multiple ledgers, closing those ledgers, transferring balances manually, and then producing reports, the data collected may not be as accurate as it needs to be.

Processing a High Number of Transactions Monthly

If you're a small business processing a limited number of transactions monthly, you should be able to maintain the level of accuracy needed.

However, the more transactions your business needs to process monthly, the more likely it is that errors will occur.

Couple this with the necessary timelines for producing financial statements, and the need for automation becomes even more urgent.

Regulatory Compliance

If you're required to provide financial statements to regulatory agencies, investors, or lenders, it can be challenging to keep up with new requirements that can be implemented with little notice.

- ### Lack of Integration

  If you're running multiple software applications, it can be a challenge dealing with a lack of integration between systems, which often means that data needs to be recorded in multiple applications.

  Even one transposition of a set of numbers can prove disastrous for your general ledger accuracy and your financial statements.

What Is the Importance of Accurate and Complete Financial Reporting?

It's impossible to make informed decisions about your business if your decision-making is based on inaccurate financial statements.

An overstated accounts receivable balance may lead to you overspending while an understated accounts payable balance can directly impact your cash flow.

Businesses rely on the accuracy of financial statements to show them how much they're spending, where they may be overspending, how much money they can expect from their customers, and if they're in a position to expand operations.

If the information they obtain from these statements is inaccurate, it can result in any number of bad decisions.

But accurate financial statements aren't only important internally.

Investors, lenders, and other financial institutions rely on the financial statements they receive from a business, and a set of inaccurate statements can directly impact investor relationships, and can also lead to penalties and fines from outside agencies such as the IRS.

How Can I Improve the Efficiency of My Record To Report (R2R) Process?

If you're struggling with the R2R process, the best way to improve efficiency is to implement an automated system that reduces errors, automates manual tasks,

and consolidates the entire month-end closing process.

An application like PLANERGY provides optimization tools that eliminate time-consuming tasks while increasing efficiency.

Automation also makes it easier to capture data accurately while providing the flexibility a business needs to be able to operate from any location.

Accuracy and transparency are key components for financial health and data integrity, both necessary for a successful R2R process, with automation the key to both.

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