**Record-to-Report (R2R) Business Process Description – NextTech**

**1. Introduction**

The **Record-to-Report (R2R)** process at NextTech serves as the financial backbone of the organization, transforming raw transactional data into accurate, compliant, and decision-ready financial statements. As a multinational enterprise and operations spanning the European Union, NextTech's R2R process must reconcile the complexities of smart manufacturing revenue streams, SaaS subscription accounting, and multi-jurisdictional compliance.

This process is deeply integrated with NextTech's digital infrastructure, leveraging **SAP S/4HANA** as the core financial system, **Microsoft Azure** for advanced analytics and AI-driven forecasting, and **ServiceNow** to manage control exceptions and audit workflows. The R2R cycle ensures that every euro is accounted for, every disclosure meets IFRS and EU regulatory standards, and every financial report provides actionable insights to stakeholders.

**2. Key Objectives**

The R2R process is designed to achieve several critical objectives: ensuring the accuracy and completeness of all financial records, maintaining strict compliance with international and local reporting requirements, providing leadership with real-time visibility into financial performance, minimizing manual interventions through automation, and delivering audit-ready documentation at all times. By meeting these objectives, NextTech safeguards its financial integrity while supporting data-driven strategic decisions.

**3. Process Steps**

**3.1 Transaction Recording & Validation**

The R2R process begins with the systematic capture and validation of all financial transactions across NextTech's operations. Every invoice, payroll entry, procurement transaction, and revenue event flows into **SAP S/4HANA**, where automated validation rules immediately scrutinize the data for accuracy and compliance. For revenue recognition—particularly for the company's mixed business model of physical automation systems and digital twin SaaS—the system applies **IFRS 15 standards**, ensuring that SaaS subscriptions are recognized ratably over their contract periods while product sales are logged upon shipment.

Purchases and expenses undergo a rigorous **3-way matching process**, where invoices are automatically checked against purchase orders and goods receipts. Any discrepancies, such as price variances or missing approvals, are flagged and routed to the relevant finance team via **ServiceNow tickets**, ensuring timely resolution while maintaining a clear audit trail. Intercompany transactions, common in NextTech's multinational operations, are automatically tagged for elimination during consolidation, with transfer pricing rules embedded directly in SAP to prevent compliance risks.

**3.2 Period-End Close**

NextTech executes a disciplined **5-day monthly close process**, with ambitions to reduce this to 3 days by 2025 through further automation. The close begins with the reconciliation of all subledgers—accounts receivable, accounts payable, and fixed assets—to the general ledger, a process automated in SAP to minimize manual effort. Accruals and provisions, such as warranty reserves or bonus accruals, are calculated using **Azure AI models** that analyze historical trends and current operational data to predict liabilities with high precision.

Currency translation is another critical activity during the close, as NextTech's EU-wide operations necessitate converting local currencies (SEK, DKK, etc.) into the reporting currency (EUR) using month-end exchange rates. SAP handles this process seamlessly, with built-in validations to ensure consistency. The finance team reviews all automated journal entries and adjustments, with variances investigated and resolved before proceeding to consolidation.

**3.3 Financial Consolidation**

With legal entities spread across multiple EU countries, NextTech's consolidation process is both complex and highly automated. **SAP S/4HANA's consolidation module** aggregates data from all subsidiaries, eliminating intercompany transactions and ensuring compliance with group accounting policies. The system automatically applies currency translations, aligns local GAAP adjustments to IFRS, and generates elimination entries to present a unified financial position.

Tax compliance is integrated into the consolidation workflow. SAP calculates VAT obligations per country, while Azure's tax analytics engine identifies potential exposures or optimization opportunities. The output is a fully reconciled, audit-ready consolidated balance sheet, income statement, and cash flow statement, all produced with minimal manual intervention.

**3.4 Management & Statutory Reporting**

Once consolidation is complete, NextTech generates two parallel reporting streams: internal management reports and external statutory filings. For internal stakeholders, **Power BI dashboards** provide real-time visibility into KPIs such as regional profitability, product line margins, and cash conversion cycles. These dashboards drill down to transactional details, enabling quick responses to emerging trends.

External reporting focuses on compliance. SAP produces IFRS-compliant financial statements, including notes and disclosures, which are submitted to regulators like the Swedish Companies Registration Office and the EU's transparency register. All filings are automatically archived in SAP with version control, ensuring full traceability for audits.

**3.5 Audit & Compliance**

The R2R process culminates in rigorous audit preparedness. Every adjustment, reconciliation, and report generated throughout the cycle is logged in SAP with a complete audit trail. **ServiceNow's governance module** tracks control exceptions, assigning remediation tasks and documenting resolutions.

NextTech employs **continuous controls monitoring** via Azure, where machine learning models scan transactions for anomalies—duplicate payments, unauthorized discounts, or unusual journal entries. These proactive checks, combined with quarterly internal audits, ensure that the company maintains its reputation for financial integrity.

**4. System Integration & Automation**

The R2R process thrives on deep system integration:

* **SAP S/4HANA** serves as the single source of truth for all financial data, handling everything from transaction capture to consolidation.
* **Microsoft Azure** powers predictive analytics, AI-driven accruals, and real-time anomaly detection.
* **ServiceNow** orchestrates control exceptions, audit workflows, and compliance task management.

**5. Key Performance Indicators (KPIs)**

**5.1 Close Timeliness & Efficiency**

* **Monthly Close Duration**: NextTech currently completes its monthly close in **5 days**, with a roadmap to achieve **3 days by 2025**. Industry benchmarks for manufacturing and tech companies typically range from 6 to 8 days.
* **First-Pass Reconciliation Rate**: **95%** of balance sheet accounts reconcile without adjustments, surpassing the industry average of 85-90%.

**5.2 Accuracy & Compliance**

* **Report Accuracy Rate**: **99%** of financial reports require no manual corrections post-issuance, compared to the 97-98% industry standard.
* **Tax Filing On-Time Rate**: NextTech maintains a **100%** on-time submission record for VAT and corporate tax filings across all jurisdictions.

**5.3 Audit & Risk Management**

* **Audit Finding Severity**: The company averages **≤2 minor findings per year** in internal and external audits, well below the industry norm of 3-5.
* **Anomaly Detection Rate**: Azure's AI models identify and resolve **92% of financial anomalies** before they impact reporting.