Best Practices for Oracle Receivables

Cathy Cakebread
Consultant
eprntise Webinar
Agenda

- Introduction
- Cash Application
  - Setup
  - Processing
- Transactions
  - Setup
  - Processing
- Adjustments
  - Setup
  - Processing
- Period Close and Reconciliation
- SubLedger Accounting (SLA)
- Separation of Duties
- Quick Audit
- Questions and Answers
Cathy Cakebread

- Co-Designer of Original Oracle Receivables Product
- Independent Consultant since 1990
- Worked with Over 70 Companies to Implement, Upgrade, Train and/or Optimize Utilization of Oracle Receivables
Cash Application – Bank Setup

Setup → Receipts → Banks

- Bank Account Setups Are Usually Shared With Accounts Payable
- Ideally a Slightly Different GL Account (e.g., Subaccount) for Cash Than AP Uses
  - For Reconciliation Purposes – Separate Reconciliations
- Watch Accounts You Use!!
  - Can Cause Serious Issues!!

**It is Critical to Understand How the Underlying Accounting Works Before You Enter Your Set up Values!**
<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Immediately Apply Receipt to An Invoice</strong></td>
<td><strong>Cash (Receipt Class)</strong></td>
</tr>
<tr>
<td></td>
<td><strong>AR (Based On The Invoice You Are Paying)</strong></td>
</tr>
</tbody>
</table>
| **Immediately Apply Receipt to An Invoice With A Discount** | **Cash (Receipt Class)**
|                                            | **Discount (Receipt Class - Based On Whether Earned Or Unearned)** |
|                                            | **AR (Based on the invoice you are paying)**                |

In R11, this is a 4 sided entry, but not in R12
(indicates setup source of account value)
## More Cash Application Accounting

<table>
<thead>
<tr>
<th></th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leave as Unapplied</td>
<td>Cash (Receipt Class)</td>
<td>Unapplied Cash (Receipt Class)</td>
</tr>
<tr>
<td>Apply Unapplied Amount</td>
<td>Unapplied Cash (Receipt Class)</td>
<td>AR (From The Invoice)</td>
</tr>
<tr>
<td>Unapply and Re-Apply</td>
<td>AR (From Old The Invoice)</td>
<td>Unapplied Cash (Receipt Class)</td>
</tr>
<tr>
<td></td>
<td>Unapplied Cash (Receipt Class)</td>
<td>AR (From the New Invoice)</td>
</tr>
</tbody>
</table>

Note: You may apply and unapply and reapply in subsequent periods.
Credit Card Accounting (In AR Only)

<table>
<thead>
<tr>
<th></th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Create Receipt</strong></td>
<td>Confirmation Account (Ideally a Special Accrual Account)</td>
<td>AR (Based on the Invoice)</td>
</tr>
<tr>
<td><strong>Remit Receipt</strong></td>
<td>Remittance Account (Ideally a Special Accrual Account)</td>
<td>Confirmation Account (Offsets the account used when you created the Receipt)</td>
</tr>
<tr>
<td><strong>Clear</strong></td>
<td>Cash (Receipt Class)</td>
<td>Remittance Account (Offsets the account used when you remitted the Receipt)</td>
</tr>
</tbody>
</table>

**Note: The Invoice Is Marked As Closed When The Receipt Is Created, Not When The Cash Is Deposited or Even Requested! Eek!**
Receipt Classes

Setup → Receipts → Receipt Classes
Receipt Classes (Payment Methods)

- Cash – The Only Field That Should Use A *Real* Cash Account!!!
- Receipt Confirmation – For Credit Cards, Automatic Receipts Only – Should Be a Unique Accrual Account
- Remittance – For Credit Cards and Automatic Receipts Only – Should Be a Unique Account
- Bank Charges – Should Be an Expense Account
Unapplied Receipts!!
The Key Account!!

Unapplied Receipts – Should Be A Unique Account (Not AR Or Cash Account!)

- Close in Range to AR Account, For Example:
  - AR = 12000
  - Unapplied = 12001
And...

- **Unidentified Receipts** – May By The Same As The Unapplied Account But Better If Different (Not AR Or Cash Account!)
- **On Account Receipts** – Ideally Unique Account - A “Liability” Account Preferably - (Not AR Or Cash Account!)
- **Unearned Discounts** – Unique Expense Account (Receivables Activity)
- **Earned Discounts** – May Be The Same As Unearned But Ideally Unique (Receivables Activity)
“Automated” Lockbox

“Auto” Lockbox Is Not “Automatic” Receipts

— Considered To Be Manual by Oracle
— Can Take **Months** To Establish AutoLockbox With Your Bank

Ideally:

— Include Both Invoice Number **AND** Amount From Customer Remittance Advice (Not the Default)
— Work With Bank To Improve Quality Of Data Received
— Provide Examples — Highlight Key Information
— Indicate Appearance of Invoice Numbers
  • E.g., 6 Digits Starting with a 7
  • Get Test Files With Real Data
— Can Receive Credit Memos from The Bank
  — Uses Special Layout (Leading “-”)

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Lockbox Process

Interfaces → Lockbox

- Lockbox Processing:
  - Select Complete Batches Only!
    - Consistent With Bank Batches
  - Allow Payment of Unrelated Invoices? Never!

New Options

- (Based on Patches Applied – in R12)
  - Apply Unearned Discount
  - Number of Instances
Processing Cash

- Use an External Lockbox
  - “Closed” Batch – Eek!
    - Meaningless!!!
- Only Use On Account If Truly “Cash In Advance” Or Prepayment
- Resolve Unapplied And Unidentified ASAP
- Prompt Payment Discounts??
  - May Be An Issue Again With Our Current Economy
- Non-AR Cash (Miscellaneous Cash)
  - Process All Receipts Received In AR vs. Part in GL Only
  - Predefine As Much As Is Possible
  - Watch Account Controls – Who Can Use Which Accounts
- Don’t Wait Until Month-End!
- For Reverse and Re-enter:
  - If Re-Enter In New Period
    - Use Special Day e.g., Sunday
    - For Visibility on Deposited Cash Report (Helps to Reconcile)
- Establish a Process for “Invalid” Customer Deductions

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Utilize Standard Naming Conventions
- Batch Names – For Lockbox and Manual Batches
  - E.g., Deposit Date – Bank
    - 09092014-WF
  - Or, Bank – Deposit Date

Reverse Receipts:
- Debit Memo Vs. Re-Open Invoice
  - Debit Memo Rewards Them For Bouncing A Check!

Establish Controls/Processes for Receipts Received In House
- Real Cash?
- Checks?
Credit Card Processing

- Always Protect Customer Credit Card Numbers!
  - Only Show First 4 or Last 4 Digits * (Masking)
- Auto Schedule Processes – Available In 11.5.10+
  - Process in a Timely Manner
- Quickly Resolve Items Stuck in Confirm And Remit Status
  - If Not Remitted, You Have Not Yet Requested the Money!
- Fix Issues in Oracle – Not an Outside Application or Device!
- Use Cash Management To Clear Using Actual Bank Data - If Possible
  ▶ Monitor Pre-Authorize and Re-Auth Time Frame in OM
  ▶ Verify That All Transactions Were Actually Passed from the Service Provider e.g., PaymenTech
Chargebacks

Option 1: Utilize Standard Functionality
– Closes Related Invoice
– Creates “Chargeback” for Balance Due
– Assumes Applies to One Invoice Only – Rare!

Reality
– Multiple Deductions
– Not Tied to Specific Invoice

Option 2: Manual Process
– Create One Credit Memo for Total of Deductions
– Create Multiple Debit Memos – One Per Deduction
– Wash Re:Accounting and Customer Balance

Option 3: Trade Management
– Automated Solution
– If Trade Management is Purchased and Installed
Transactions - Setup

Setup → Transactions → Transaction Types
Transaction Types

- Utilize Natural Application Only!!
- Allow Overapplication – Never!!
- Use Meaningful Names
  - Especially First 4 Characters
  - E.G., PIGI –
    - Palo Alto International General Invoices
- Selection Tool For Standard Reports
- And Differentiating Numbering
  - Noticeably Different From Sales Order Numbers With Enough Digits to Extend Into the Future

- Define At Least One Transaction Type Per AR Account
- Works as Primary Driver For Accounts Used In AutoAccounting
- Define Chargebacks, Deposits and Guarantees too
  - If Applicable
- Define All Accounts (Even if Not Applicable Now)
- Work With OM to Insure Order Types are Mapped to Proper Transaction Types
AutoAccounting

Setup → Transactions → AutoAccounting

- Assigns Values to Your Accounting Flexfield Segments Based on Values in Other Setups
  - Includes Chargebacks, Deposits, Guarantees
    - Use Special Accounts?
- Avoid Hard Coded Values!!
- Utilize a Cross Product Team To Define New Items
  - Key Source of Revenue Account Values!
  - Work with Inventory Folks
- Typical Example:
Typical AutoAccounting Setup – R12

<table>
<thead>
<tr>
<th>ACCOUNTING FLEXFIELD SEGMENTS</th>
<th>AUTO INVOICE CLEARING</th>
<th>FREIGHT</th>
<th>RECEIVABLE</th>
<th>REVENUE</th>
<th>TAX</th>
<th>UNBILLED RECEIVABLE</th>
<th>UNEARNED REVENUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Possible Default Sources)</td>
<td>- Salesreps*</td>
<td>- Salesreps</td>
<td>- Salesreps</td>
<td>- Salesreps</td>
<td>- Salesreps*</td>
<td>- Salesreps*</td>
<td>- Salesreps*</td>
</tr>
<tr>
<td></td>
<td>- Site</td>
<td>- Site</td>
<td>- Site</td>
<td>- Site</td>
<td>- Site</td>
<td>- Site</td>
<td>- Site</td>
</tr>
<tr>
<td></td>
<td>- Transaction Types</td>
<td>- Transaction Types</td>
<td>- Transaction Types</td>
<td>- Transaction Types</td>
<td>- Transaction Types</td>
<td>- Transaction Types</td>
<td>- Transaction Types</td>
</tr>
<tr>
<td>Company</td>
<td>Types</td>
<td>Salesrep</td>
<td>Salesrep</td>
<td>Salesrep</td>
<td>Taxes</td>
<td>Types</td>
<td>Types</td>
</tr>
<tr>
<td>Cost Center</td>
<td>Types</td>
<td>Salesrep</td>
<td>Salesrep</td>
<td>Salesrep</td>
<td>Taxes</td>
<td>Types</td>
<td>Types</td>
</tr>
<tr>
<td>Account</td>
<td>Types</td>
<td>Types</td>
<td>Types</td>
<td>Line</td>
<td>Taxes</td>
<td>Types</td>
<td>Types</td>
</tr>
<tr>
<td>Sub Account</td>
<td>Types</td>
<td>Types</td>
<td>Types</td>
<td>Line</td>
<td>Taxes</td>
<td>Types</td>
<td>Types</td>
</tr>
<tr>
<td>Special use</td>
<td>AutoInvoice - where revenue not = qty * price</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-Bill in Arrears</td>
<td>-Guarantees</td>
</tr>
</tbody>
</table>

Tip – Avoid Hard Coded Values
AutoAccounting Analyzer?

- Just announced by Oracle
- See note:
  - Oracle Receivables AutoAccounting Analyzer (Doc ID 1904785.1)
Verify AutoInvoice Frequency and Timing
  – How Often? What Time? Enough Time?
Confirm That All Interfaced Items Have Made It
  – How do You Know?
  – Who is Responsible for Insuring that Nothing is Missed?
  – Clear Exceptions ASAP – Have Processes In Place
  – Manually Run AutoInvoice Again During the Day?
Utilize Correction Screens?
  – Also Have to Change in Source Application!
Create Process for Dealing With Credits For Closed Invoices?
Use Approvals for Credit Memos
Create Manual Items – Only If Necessary
  – Debit Memos – Insure Proper Controls
  – Credit Memos – Use Approvals
Keep the Actual Forms Locked Up

Note: When Creating Invoices Tied to a “Deposit” Transaction Type
  – Automatically Closed Whether Deposit Has Been Paid or Not
Revenue Recognition

- Utilize Proper Revenue Recognition Rules
  - SOP-97, 98, 97-2 - AICPA – Statement of Position
  - SAB 101 – SEC - Staff Accounting Bulletin
  - IFRS…
- Define Items Where Revenue Can’t Be Recognized Upon Shipment
  - Training, Consulting…
- Know When Revenue Should Be Recognized
  - What Determines When Revenue May Be Recognized?
  - When Do You Know? How?
- Define Your Standard Payment Terms?
  - Exceptions Impact Revenue Recognition
- Verify Return Policy – e.g., Full Money Back in 30 Days – Impacts Revenue Recognition
Control Revenue

Setup → Transactions → Accounting Rules

- Define Applicable Accounting Rules
  - How Revenue Is Distributed
  - Create As Many as Are Necessary For All Possible Options
  - Tie to Items Where Possible
- Different “Invoicing Rules” too?
  - When Receivables is Recognized
- Utilize Revenue Recognition Wizard (11.5.9+) and/or Release 12 Features
  - Note: Adjusts One Invoice at a Time

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Deferred Revenue Example

Invoicing Rule = Bill in Advance
Invoice for $3,000.00
Invoice Date 4-JUL-15
GL Date 4-JUL-15

Accounting Rule:
Type: Accounting, Fixed Duration
Period : Monthly
Number of Periods : 3
For each period : I specified 33.3%
   (33.4 for the last period)
# Accounting Entries

<table>
<thead>
<tr>
<th>Period</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>July</strong></td>
<td>Accounts Receivable $3000</td>
<td>Deferred Revenue $3000</td>
</tr>
<tr>
<td></td>
<td>Deferred Revenue $1000</td>
<td>Revenue $1000</td>
</tr>
<tr>
<td><strong>August</strong></td>
<td>Deferred Revenue $1000</td>
<td>Revenue $1000</td>
</tr>
<tr>
<td><strong>September</strong></td>
<td>Deferred Revenue $1000</td>
<td>Revenue $1000</td>
</tr>
</tbody>
</table>
Adjustments - Setups

Setup → Receipts → Receivable Activities

![Image of Oracle Applications interface with settings for Adjustment Reversal activity]
Adjustments – Setup/Process

- Utilize Proper GL Accounts
  - Should Never Be Your AR Account !!!!
    - AR Already Offset Automatically
- When Adjust
  - Select Proper Type
    - Invoice, Line, Tax, Freight, Charges
- Can be Negative or Positive
- “Un-Adjust”
  - Use Same Accounts As Used With Original Adjustment
- Assign Adjustment Limits and Approvals and Use Them!
  - Save After Each Line When Approve Using Approval Screen
- Check for Lots of Small Adjustments on Single Invoice
- Potential Serious Issues Using AutoAdjustments!!
- Write-Off Over Payments? No? Tiny Amounts?
  - Unclaimed Property Issues
Period Close Process

Pre-Process As Much As You Can

– Accept or Reject Unapproved Adjustments
– Complete or Delete Incomplete Transactions
– Process All AutoInvoice Activity
  • Clear Exceptions
– Process All AutoLockbox Activity
  • Clear Exceptions
– Interface Data to SLA to General Ledger
  • More Often Than Just at Month-End? Yes!
  • Create Accounting Nightly?
– Run Revenue Recognition Process
– Enter Miscellaneous Cash
– Apply Unapplied Cash
And...

- **Stick to a Close Schedule – What / When**
  - Bank Deposits
  - Shipments
  - Inter-Company Activity
  - Miscellaneous Cash
  - Interfaces from Other Applications
- **Utilize a Close Checklist**
- **Avoid More Than One Period Open at a Time!!!**
Month-End Reconciliation

- Run AR: Journal Entries Report
  - Summary By Category – High Level Verification
  - Detail by Category – Find Items With Issues
- Reconcile
  - AR To Aging
  - Aging and AR: Journal Entries Report To GL Activity
    - Insure Only AR Uses “AR Accounts”
    - Verify That No Manual Journal Entries!!!!
- Insure Proper Controls Are in Place
- Create Month-End Packet – in Special Directory by Period
  - Soft Copies of all Reports
  - Retain as Needed
Month End Packet
Standard Oracle Reports

AR: Journal Entries Report
AR Reconciliation Report
Aging – 7 Buckets by Account
– Note: These Values Will Be Different If Re-Run in the Future
Transaction Register
Unapplied and Unresolved Receipts Register
• “Unapplied Receipts Report” prior to 11.5.10.2
Applied Receipts Register
Adjustment Register
Invoice Exceptions Report
Account Analysis Reports From GL
• For all applicable accounts
• AR, Cash, Revenue?
Deposited Cash Report
Cash Receipts Journal
SubLedger Period Close Exceptions Report (New - SLA)
AR to GL Reconciliation Report (new)
SubLedger Accounting

Prior to SLA

Oracle Receivables → Oracle General Ledger

With SLA

Oracle Receivables → Subledger Accounting → Oracle General Ledger
SubLedger Accounting (SLA)

- Just Because You Can Customize Accounting - Doesn't Mean You Should!
  - Then AR Different Than GL

- New Reconciling Reports
  - SubLedger Period Close Exceptions Report
  - Journal Entries Report (SLA Version) – Huge!

- How To Tell If Customized?
  - SubLedger Period Close Exceptions Report
  - AR to GL Reconciliation Report
Customer Maintenance

- Enter Customer Names Exactly As Appear on Business Card or P.O.
- Control Who Can Add, Change, Inactivate Customers
- Define Process for Name Changes and Address Changes
- Try to Keep Customers “Clean”
  - Inactivate vs. Merge
  - Periodic Audits
- Restrict Who Makes Changes to Credit Limits
- Define and Use Holds on Orders → Leverage!
  - For New Customers, Credit Issues …
Separation Of Duties

• Utilize an External Lockbox
• Don’t Allow Collectors to Adjust
• Take Advantage of Credit Memo Approvals
  – Restrict Ability to Create CM
• Define Adjustment Approvals and Actually Use Them!!
  – With Manager + as Approver
  – Different Levels of Approvals?
• Ideally Different Folks To:
  – Apply Cash
  – Create Invoices
  – Collect
  – Write-off Balances?
• Insure That Everyone is Not a SuperUser
General Tips

- Utilize Processes With The Best Audit Trails
  - Tie To Original Activity Whenever Possible!
  - Take Advantage of Notes Fields
- Control Customizations
  - Access
  - Process Capabilities
  - Upgrade Issues
- Limit Who Can Perform Which Functions
  - Report Access Too!
Quick Audit

- Perform a Setup Audit – Check For Inappropriate Use of Accounts
  - Run AR: Journal Entries Report – Summary by Category
    - Check Account Usage
  - Run SLA Reports
    - SubLedger Period Close Exceptions Report
    - If Out of Sync With GL – Why?
- Check Setup Values
  - Receipt Classes
  - Transaction Types
  - Receivable Activities (Adjustments, Misc Cash…)
  - Approval Limits
  - AutoAccounting
  - SLA Rules
  - Check Responsibilities (SysAdmin)
    - Who Has Access to What?
      - Security by Function
      - Reports Too
Related Papers Available

Related Papers Available on www.cathycakebread.com

The website has older versions of these papers, email me for more current versions

- Closing and Reconciling AR - A Step-by-Step Process
- Accounting for Oracle Receivables
- Sarbanes Oxley and Oracle Receivables
- Unlocking the Secrets to Lockbox
- Processing Customer Deductions (Very Old But The Concepts Are The Same)
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AR List Server

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