Best Practices for Oracle Receivables

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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!

Cash Application Accounting

	Debit	**Credit**
Immediately Apply Receipt to An Invoice	Cash (Receipt Class)	AR (Based On The Invoice You Are Paying)
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

	Debit	Credit
Leave as Unapplied	Cash (Receipt Class)	Unapplied Cash (Receipt Class)
Apply Unapplied Amount	Unapplied Cash (Receipt Class)	AR (From The Invoice)
Unapply and Re-Apply	AR (From Old The Invoice) Unapplied Cash (Receipt Class)	Unapplied Cash (Receipt Class) AR (From the New Invoice)

Note: You may apply and unapply and reapply in subsequent periods

Credit Card Accounting (In AR Only)

	Debit	Credit
Create Receipt	Confirmation Account (Ideally a Special Accrual Account)	AR (Based on the Invoice)
Remit Receipt (Run Remittance Process)	Remittance Account (Ideally a Special Accrual Account)	Confirmation Account (Offsets the account used when you created the Receipt)
Clear	Cash (Receipt Class)	Remittance Account (Offsets the account used when you remitted the Receipt)

**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 <u>Months</u> To Establish AutoLockbox With Your Bank
- Ideally:
  - Include Both Invoice Number <u>AND</u> 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 "-")

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

And…

- 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:

AutoAccounting

Typical AutoAccounting Setup – R12

ACCOUNTING FLEXFIELD SEGMENTS	AUTO INVOICE CLEARING	FREIGHT	RECEIVABLE	REVENUE	TAX	UNBILLED RECEIVABLE	UNEARNED REVENUE
(Possible Default Sources)	- Salesreps* - Site - Standard Lines - Transaction Types	- Salesreps - Site - Standard Lines - Transaction Types	- Salesreps - Site - Transaction Types	- Salesreps - Site - Standard Lines - Transaction Types	- Salesreps* - Site - Standard Lines* - Taxes - Transaction Types	- Salesreps* - Site - Standard Lines - Transaction Types	- Salesreps* - Site - Standard Lines - Transaction Types
Company	Types	Salesrep	Salesrep	Salesrep	Taxes	Types	Types
Cost Center	Types	Salesrep	Salesrep	Salesrep	Taxes	Types	Types
Account	Types	Types	Types	Line	Taxes	Types	Types
Sub Account	Types	Types	Types	Line	Taxes	Types	Types
Special use	AutoInvoice - where revenue not = qty * price					-Bill in Arrears -Guarantees	-Bill in Advance -Guarantees -Deposits

Tip – Avoid Hard Coded Values

AutoAccounting Analyzer?

- Just announced by Oracle
- See note:
  - **Oracle Receivables AutoAccounting Analyzer (Doc ID 1904785.1)**

Transaction - Processing

- 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*

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

Period	Debit	Credit
July	Accounts Receivable $3000 Deferred Revenue $1000	Deferred Revenue $3000 Revenue $1000
August	Deferred Revenue $1000	Revenue $1000
September	Deferred Revenue $1000	Revenue $1000

Adjustments - Setups

Setup → Receipts → Receivable Activities

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
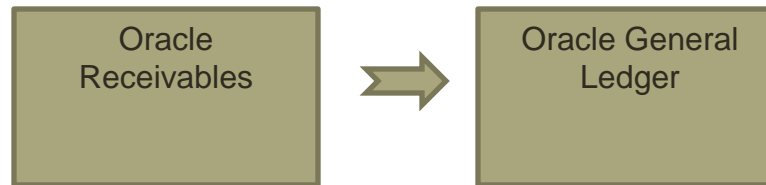 - Soft Copies of all Reports
  - Retain as Needed
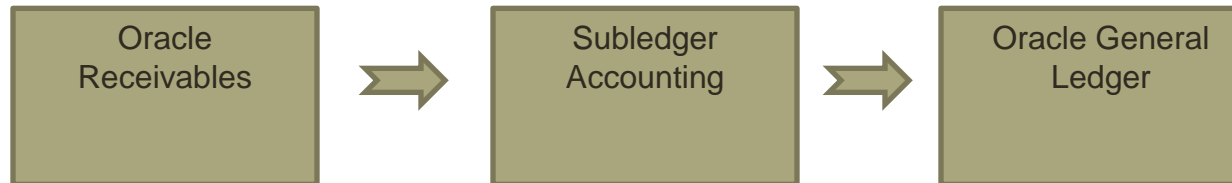
Month End Packet
Standard Oracle Reports

- 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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