

# Unleashing the Power of R12: The Mechanics of Ledger Sets and Secondary Ledgers

an eprentise white paper



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Of the new features in Oracle® E-Business Suite R12, the most powerful are ledger sets and secondary ledgers. Taken together, these features have the capability of eliminating thousands of spreadsheets and wasted staff hours. This article explores briefly the functionality of ledger sets and secondary ledgers.

## Ledger Sets

Citing directly from the Oracle Financial Implementation Guide:

“Ledgers sets allow you to group multiple ledgers together to achieve processing efficiencies. For example, you can open or close periods for multiple ledgers simultaneously, translate balances for all ledgers in a ledger set, run recurring journals that update balances for multiple ledgers, or run consolidated financial reports that summarize balances across multiple ledgers in a ledger set”

According to Oracle, “All ledgers in a ledger set must have the same chart of accounts and accounting calendar/period type combination.” That means that every ledger that is operating with a different chart of accounts or calendar cannot be included in a ledger set. Further, ledger sets will not work across multiple instances.

The Implementation Guide goes on to says that some of the General Ledger features now possible through the use of ledger sets are as follows:

- **Translation and Revaluation:** Translate balances and run revaluation across multiple ledgers in a ledger set.
- **Open and Close Periods:** Open and close periods for multiple ledgers within a ledger set from a single operation.
- **Reporting:** Submit standard reports and Financial Statement Generator (FSG) reports across multiple ledgers in a ledger set. The added benefit of using ledger sets in FSG reports is to aggregate data and create summarized balances across multiple ledgers in a ledger set.

My favorite, as a CPA having worked in financial reporting and external auditing, is ledger set reporting. It is absolutely transforming to be able to run a single report across multiple ledgers and still maintain full drill-down to the underlying detail.

## Secondary Ledgers

Simply put, as stated in the Oracle Financials Implementation Guide, “[s]econdary ledgers represent the primary ledger’s accounting data in another accounting representation.” Specifically, these representations can differ from the primary ledger is the following ways: i) chart of accounts, ii) accounting calendar/period type combination, iii) currency, iv) subledger accounting method, and v) ledger processing options.

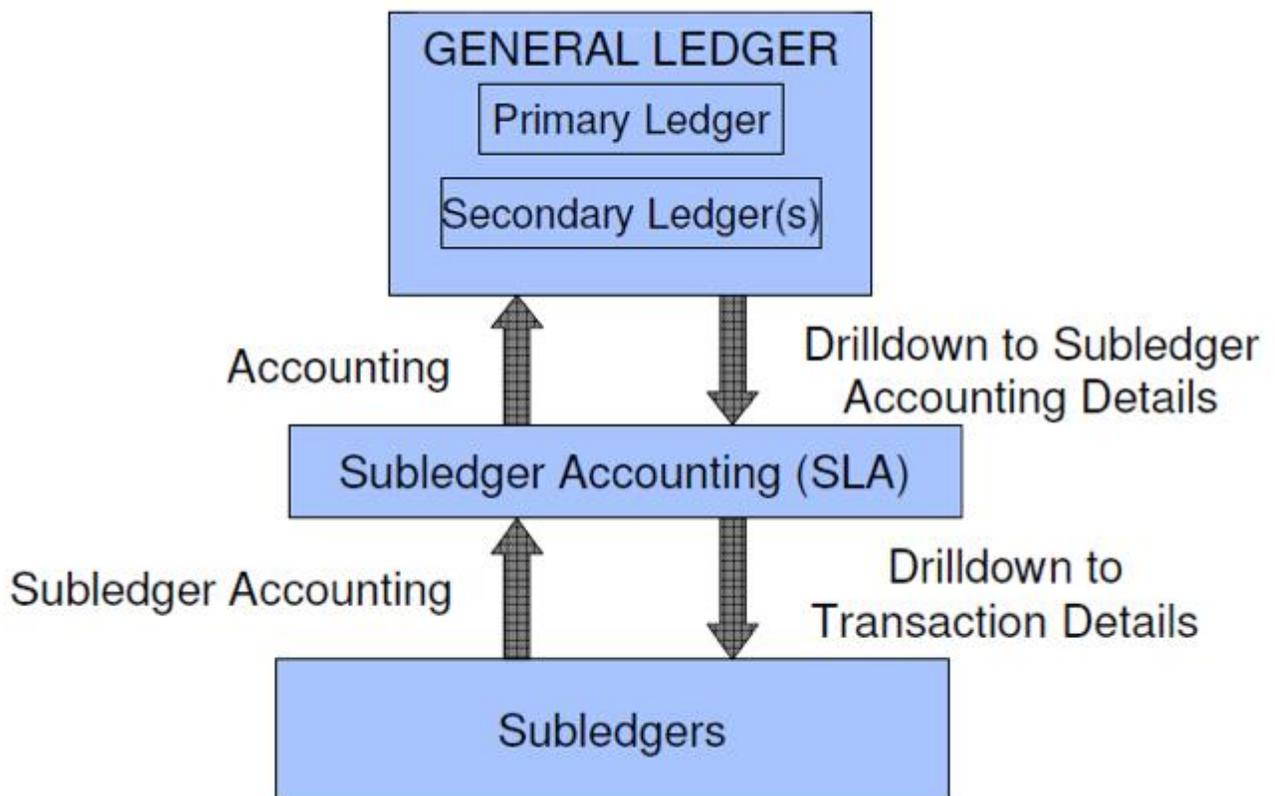


What does that mean in daily practice?

That depends on what your business needs are. Secondary ledgers can be maintained at one of four different levels of detail:

- **Balance level** secondary ledgers maintain the primary ledger account balances only in another accounting representation. This is useful when there is a need to present financial position in another basis, but the need for drill-down transparency to the underlying transactions is not a need. Populating this secondary ledger requires the use of Oracle General Ledger Consolidation to transfer primary ledger balances to this secondary ledger. Because of this, a balance level secondary ledger is a financial reporting tool that would only be useful at period ends.
- **Journal level** secondary ledgers maintain journal entries and balances in an additional accounting representation. This is affected through the use of the General Ledger Posting program which will, each time you post to the primary ledger, duplicate the posting in the secondary ledger but in a different accounting representation. This is useful when there is a real time need to monitor financial position and key financial performance indicators in another accounting representation. Secondary ledgers maintained at this level have some transparency, allowing drill down to journal level entries but not to subledger detail. Because of this, a journal level secondary ledger is useful for more real time financial monitoring.
- **Subledger level** secondary ledgers maintain balance level, journal entry level, and subledger level detail allowing almost-transparency through drill-down functionality. The subledger level is affected through both the Subledger Accounting and the General Ledger Posting programs to contemporaneously duplicate both subledger and general ledger posting in the secondary ledger. This level of secondary ledger allows a fully populated transaction schema for review and management monitoring.
- **Adjustments only** secondary ledgers do not maintain a complete accounting picture but instead only reflect adjustments. This is a very useful type of secondary ledger because it allows entries to be made discretely and to be provided to management and/or auditors as a separate ledger. This allows for a very high level of transparency of adjustments made. It can act, in essence, as a new control level by which entries can be made by staff level accountants, approved by line level accounting supervisors, but then accumulated in the adjustments only secondary ledger for final high level management approval in aggregate. Then to obtain a full secondary accounting representation, use ledger sets to combine the adjustments only ledger with the primary ledger for report generation.

Prior to R12, there were limited options for companies requiring different currencies or a statutory chart of accounts. You could have created a GL Consolidation that allowed you to map to a different chart of accounts or currency, but the GL financial consolidation would not have included the transaction detail of the subledgers, so reconciliation was a time-consuming process. (This is very similar to a Balance Level Secondary Ledger.) Multiple Reporting Currencies (MRC) allowed you to transact in one currency and then automatically translate to another currency for your corporate reporting, but there were no standard reports to reconcile from the primary set of books to the reporting set of books. R12 now connects subledger detail with a mapping into a secondary ledger so that there is both full drill down into the subledgers (from a defined secondary ledger) and enforced consistency from a primary ledger into the secondary ledger (through create accounting rules). This is known as a Subledger Level Secondary Ledger.



Solution Beacon, LLC. Release 12 Financials Best Practices. Subledger Accounting and the General Ledger. Johnson, Alyssa. 2009.

This is how it works:

1. Define your primary ledger and its related secondary ledgers. The secondary ledger may have a different currency, chart of accounts, calendar, or accounting method.
  1. Specify the ledger attributes for the primary ledger.
  2. Assign one or more secondary ledgers to each primary ledger for an accounting setup.
  3. Specify the ledger attributes for one or more secondary ledgers (optional).
  4. Assign one or more reporting currencies (optional).
2. Define Create Accounting Rules to map the transactions that post to your primary ledger to transactions in your secondary ledgers.
  1. The secondary ledgers assigned can only perform the accounting for the legal entities within the same accounting setup.
  2. Note: If an additional ledger is needed to perform accounting across legal entities or ledgers in different accounting setups, use a ledger in an accounting setup with no legal entity assigned. This can be used for multiple purposes, such as performing management reporting or consolidation across multiple legal entities.

- When accounting is created, the journal entries are automatically generated for all of the associated secondary ledgers based on the defined mapping rules from the primary ledger to the secondary ledgers.

**Ledger Information**

Primary Ledger	Vision Operations (USA)	Secondary Ledger	French Statutory
Chart of Accounts	Operations Accounting Flex	Chart of Accounts	French COA
Accounting Calendar	Monthly	Accounting Calendar	French Fiscal
Currency	USD	Currency	EUR
Subledger Accounting Method	Standard Accrual	Subledger Accounting Method	IAS
		Data Conversion Level	Journal
		Disable Conversion Date	01-Jan-2005

**Chart of Accounts Mapping**

TIP You must assign a Mapping if your primary and secondary ledger use different charts of accounts.

\* Mapping:

**Currency Conversion Rules**

TIP The Source Representation can be your primary ledger or one of its reporting currencies at the Journal level. If you choose your primary ledger, journals will be converted directly from your primary ledger to this secondary ledger. If you choose a reporting currency, your journals will be converted directly from the primary ledger's reporting currency.

\* Source Representation:

\* Default Rate Type:

\* Retain Transaction Rate Type:

**Error Handling**

TIP If you choose Use Last Rate and do not specify a number, it will adversely affect system performance.

\* If missing Conversion Rate:  Report Error  Use Last Rate

\* Number of Days to Find the Last Rate:

**Journal Conversion Rules**

\* Post Journals Automatically from Source Ledger:

\* Retain Journal Creator from Source Ledger:

**Journal Source and Category Conversion**

TIP Specify the journals based on journal source and category combinations that you want automatically transferred to this Secondary Ledger by General Ledger Posting. "Other" represents all other journal sources and categories.

Journal Source	Journal Category	Transfer Journals to this Secondary Ledger	Remove
Other	Other	<input type="text" value="Yes"/>	<input type="checkbox"/>
Move/Merge	Other	No	<input type="checkbox"/>
Move/Merge Reversal	Other	No	<input type="checkbox"/>
Revaluation	Other	No	<input type="checkbox"/>

From an internal control and financial reporting standpoint, one of the most welcome secondary ledger types is the adjustments only level. It has long been an internal control concern that manual journal entries that have been made directly to the general ledger are commingled with the automated, routine journal entries flowing from subledgers or other automated sources. This causes problems such as poor transparency, reconciliation difficulties, and difficulty monitoring critical Sarbanes-Oxley (SOX) Section 404 controls.

As an example, a global company routinely generated their reporting set of books in a different currency (using MRC functionality) and then each month would make manual adjusting journal entries to this same

reporting set of books. It was very difficult to trace the original source of the transaction, to locate the rate used for the currency conversion, and to determine which transactions were manual and which came from the subledgers. An extensive and time-consuming analysis was required to reconcile the history.

In general, most companies have good controls established around the routine data processing of transactions that flow up from the subledgers, such as accounts payable and accounts receivable transactions, but the same controls do not necessarily exist for manual journal entries. Instead, review and approval of journal entries is the most common control. But for any control to be effective, it is essential that the efficacy of that control be easily monitorable. When manual journal entries blend in with automated entries, such monitoring is impaired. Having a discrete, adjustments-only secondary ledger provides the ability to have only the routine, automated entries in the primary ledger with no manual journal entries allowed or needed. Then, any manual entries are booked to the adjustments only secondary ledger where they are easily monitored and have complete transparency.

Take, for example, the case of deferred revenue. A company books its sales as invoiced in the Accounts Receivable subledger. However, under GAAP rules, if the company had a service commitment for a period extending beyond the close of the reporting period, then an entry would have been made to defer part of the revenue or to reverse previously deferred revenue as income. This is a critical revenue recognition matter, and based on my experience as an external auditor, one that your auditors will examine closely while testing revenue deferrals and also prior to making conclusions on the controls around revenue recognition. Prior to the adjustments only secondary ledger feature, analysis of the general ledger transactions had to be carried out to bifurcate the deferral entries from the automated subledger entries — a time-consuming process.

With the adjustments only secondary ledger, instead of booking the adjustments directly to the primary ledger, the adjustments are booked to the secondary ledger. For example, let's say our fictitious company determined that \$120,000 in revenue needed to be deferred (revenue recognition deferral) because installation had not been completed (an open service ticket). With the adjustments only secondary ledger, if this was the only adjustment, the ledger would look like this:

<b>JE#1</b>				<b>Adjustments-Only Secondary Ledger</b>	
Sales		120,000			
	Deferred Revenue		120,000	Deferred Revenue	120,000
				Retained Earnings	120,000
				Sales	(120,000)

Now to report financial results, the adjustments only secondary ledger is associated with the primary ledger as a ledger set, and then a combined report is generated. The result is as follows:

<b>Account</b>	<b>Primary Ledger</b>	<b>Secondary Ledger</b>	<b>Combined</b>
Cash	200,000		200,000
Accounts Receivable	400,000		400,000
Accounts Payable	300,000		300,000
Deferred Revenue		120,000	120,000
Retained Earnings	150,000	(120,000)	30,000
Stock and Other equity	150,000		150,000
Sales	350,000	(120,000)	230,000
Expenses	200,000		200,000

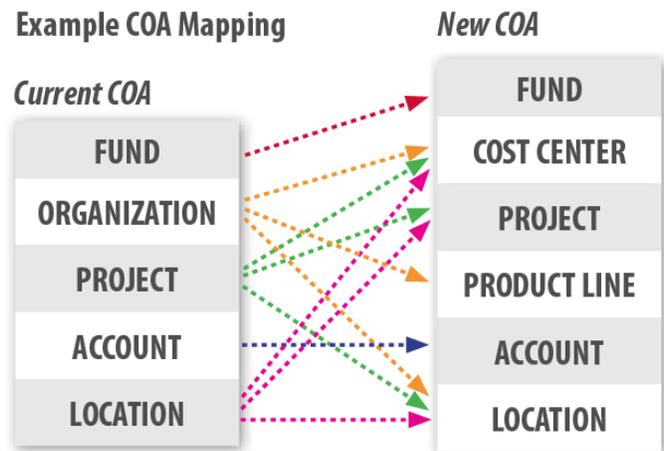
The end result is that the non-automated journal entries are segregated into a separate adjustments-only secondary ledger, ideally with the accountants' (who do manual type entries) user permissions prevented from making entries into the primary ledger. This way, monitoring of these critical entries is simple, and the SOX 404 controls around the automated entries can be more easily tested and concluded upon.

Crucial to the effective use of ledger sets and secondary ledgers is having a well-designed and rationalized common chart of accounts in your primary ledgers. Simply put, if your current chart of accounts does not suit your current business, or if it is inconsistent between primary ledgers, then the functionality of secondary ledgers will be limited and the use of ledger sets to streamline financial reporting workflows will be impaired.

Secondary ledgers allow a company to meet varied reporting needs. If there is a single global chart of accounts and a single global calendar and a single E-Business Suite instance, companies can leverage a single source of truth that includes transparency into all transactions from the primary ledger to the secondary ledgers as well as full drill-down capability to the subledgers. That means that there is consistency of reported information across business units and reduced effort for management reporting, maintenance, and reconciliation.

## The eprentise Solution

eprentise FlexField software can easily transform your multiple charts of accounts into a common chart of accounts, unlocking the full functionality of Release 12's new efficiency-enhancing features like ledger sets. eprentise Reorganization software allows you to easily change calendar period dates, period names, and calendar names. In this way, it is possible to create the single standardized calendar that ledger sets require. Finally, eprentise Consolidation software enables companies to merge two or more instances of Oracle E-Business Suite (EBS) into a single, consolidated database enabling the use of ledger sets across all portions of the company.



Going to a single chart of accounts, common calendar, or single global instance can be effectively accomplished with eprentise software and can allow you to maximize the benefits of standard business processes and common definitions across the enterprise. If regulatory, reporting, or management requirements dictate the need for a different accounting representation (chart of accounts) or a different calendar, the secondary ledger functionality of R12 allows you to transparently present financial reporting and management information in different bases.

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### Curious?

For more information, please call **eprentise** at **1.888.943.5363** or visit **www.eprentise.com**.



### About eprentise

**eprentise** provides transformation software products that allow growing companies to make their Oracle® E-Business Suite (EBS) systems agile enough to support changing business requirements, avoid a reimplementation and lower the total cost of ownership of enterprise resource planning (ERP). While enabling real-time access to complete, consistent and correct data across the enterprise, **eprentise** software is able to consolidate multiple production instances, change existing configurations such as charts of accounts and calendars, and merge, split or move sets of books, operating units, legal entities, business groups and inventory organizations.

