

Intercompany and Intracompany in R12 – A deep dive

Thomas J. Simkiss, Jr., JD, CPA – **BizTech**

Lee Briggs – **BizTech**

Introduction

Legal Entities can play an important role in your company management and business systems structure. They may be used to own and track assets, manage revenue and expenses, record taxes and house human capital for managing other business enterprises. A legal entity must be registered with a jurisdiction which can be a state or province in the United States and Canada, or a country such as Bermuda or the Cayman Islands. Wherever the legal entity is located, there will be certain statutory requirements within the jurisdiction which should be supported from a business and systems management perspective. These can include, but are not limited to, statutory reporting which must reflect values in a national, standard chart of accounts, regulatory reporting and “external reporting” such as disclosures made to shareholders or other investors, and reporting in local and international Generally Accepted Accounting Procedures (GAAP).

Legal Entities may represent a single component of your company or several components unified via a single business purpose. For example, you may have a legal entity to represent individual companies or countries where your company has a small streamlined single faceted business. However in a larger more diverse country or area, you may have multiple legal entities and multiple business units.¹

In Oracle 11i, Legal Entities were required as part of your HR Configuration and were required to be associated with a set of books. However, what, if any purpose they served within the applications was not always clear. In R12 a new legal entity structure has been introduced to track intercompany transactions at a very detailed level. Inter-accounting is for transactions between separate legal entities in the same corporate enterprise. Intra-balancing is for journals that involve different groups within the same legal entity represented by different balancing segment values. This presentation will discuss the set up required for the several types of Inter/Intra Co accounting and walk through transactions to review the accounting for each.

This white paper will cover the following topics:

1. Educate the reader on the different types of intercompany accounting
2. Review the functional setup steps required to for the different types of intercompany accounting
3. Review the functional setups required for intracompany accounting

Oracle System Entities

The Oracle E-Business Suite includes many important system entities. Some of these entities are listed below:
Business Group and Departments

- Government Reporting Legal Entity (GRLE)

¹ Oracle Financials Concepts Guide, August 2010, p. 2 – 4

- Legal Entity
- Ledgers
- Operating Units
- Inventory Organization
- Human Resources Organization

Each system entity is assigned to a classification that determines its functionality and indicates how you might want to deploy it.

A company's HR information and structure is owned by the "Government Reporting Legal Entity" or GRLE, which represents the formal employer in the Human Resources Management System. Employees must belong to a specific GRLS within the E-Business Suite. A GRLE can represent a registered company or other registered legal entity: GRLEs are a particular type of system legal entity, and serve to connect your employees with the appropriate company or other entity in the legal world.

The "Legal entity" defined in the Oracle system should correspond to "legal entity" or "company" in which transactions are recorded or required in your day to day business operations. You can store information about a registered company or some other entity in the "legal entity"; this may include the registered address and director or officer names. The legal entity administers transaction level rules in compliance with national laws. A legal entity is a discrete legal personality characterized by the legal environment in which it operates. As stated previously, legal entities have the right to own property, the right to trade, and the responsibility to comply with appropriate laws. They also often have the responsibility to account for themselves (balance sheet, income statement, specified reports) to company regulators, taxation authorities, and owners according to rules specified in the relevant legislation.

The system legal entity within the Oracle E-Business Suite is the first party on business transactions and is the transaction tax filer and payer. Oracle recognize that for many groups, particularly in environments where the authorities allow companies to treat many legal entities as one, companies may not need or want to segment data or account separately for each entity that they have incorporated. Therefore, the system legal entity does not automatically account for itself.

Oracle facilitates correlation of subledger activity in reporting legal structures by exploiting related system entities for operating units, ledgers, and company representation in the chart of accounts:

- You can account for legal entities separately if you need to do so;
- You can account for a group of legal entities as if they were one when that fits your model;
- And you can account for a part of a real world legal entity as if it were completely standalone when appropriate.²

Intercompany and Intracompany Accounting

In R12, Balancing segments can be assigned to Legal Entities to allow for transaction entry identification and reporting. While Oracle General Ledger can be configured without using legal entities (balancing segments do not HAVE to be associated with Legal Entity) if a company plans on using Receivables or Payables, a Legal Entity is required. The main purpose of the legal entity in Payables and Receivables is to serve as the custodian of banking

² IBID. pg. 2 – 7

relationships. Using the Legal Entity Configurator and Oracle Security wizard, Legal Entities must be assigned to a particular responsibility in order to allow it to have access to configure bank information and associate them with Legal Entities.

Within Oracle transactions between balancing segments can be defined as either intercompany or intracompany. Intercompany journals involve balancing segment values that map to different legal entities. These journals are balanced for each legal entity by using their intercompany accounts. The Balancing API uses the intercompany accounts defined for the relevant effective date range. Since multiple accounts may be defined for the same date range, the Balancing API picks the accounts flagged with the Use for Balancing indicator. The offsetting debit to a legal entity goes into its intercompany receivables account. The offsetting credit goes into the legal entity's intercompany payables account.

Intercompany accounts may be defined at the legal entity level. That is, each transacting legal entity has different intercompany accounts defined for different trading partner legal entities, regardless of which specific balancing segment values of those legal entities are used in the journals. The transacting and trading partner balancing segment values can all so be set to All other, and not individually specified for each combination.

Intercompany accounts may be defined at the balancing segment level of the legal entities. In other words, a transacting legal entity can use different accounts for different transacting balancing segment values, depending on what the trading partner legal entity and trading partner balancing segment value are. In that case, transacting or trading partner balancing segment values may be explicitly specified in the intercompany account definitions.

There are different types of intercompany journals. The Balancing API first determines the type of the intercompany journal (one-to-one, one-to-many, many-to-one, or many-to-many) with respect to the legal entities. *For intercompany balancing there is no clearing company usage and all legal entities are balanced by summary net with respect to each other.*³

Intracompany balancing rules are used to create balancing lines on journals between balancing segment values either within the same legal entity or where there is no legal entity context. Intracompany balancing rules are used when more than one balancing segment value exists on a transaction or journal entry, as long as you have selected the Balance Intracompany Journals option for the ledger. You cannot post a journal in General Ledger when the debit and credit amounts for each balancing segment value do not net to zero. These journals can be balanced automatically if you set up balancing rules and enable the option to balance cross-entity journals.

You must define Intracompany balancing rules if you want to balance journals automatically. You may define as many or as few balancing rules as you choose, and each balancing rule may have one or many accounting rules. Because balancing is an automated process, there should be at least one balancing rule with at least one accounting rule to proceed. This default balancing rule should be defined for the journal source Other and journal category Other for the ledger and legal entity you want to balance. The default accounting rule on each balancing rule is defined for the debit balancing segment value All Other and credit balancing segment value All Other.

With intracompany accounting, you can define both a debit (due from) and credit (due to) balancing segment, which gives you more control over each balancing relationship. You can specify different debit and credit accounts for each different intracompany trading partner, which is represented by a specific balancing segment value.

³ Oracle Financials Implementation Guide, August 2010, pg. 5 – 2, 3

All Other is also available as a balancing segment value if you want the balancing segment value to use the same due to/due from accounts for every intracompany trading relationship that has not been specifically defined.

If you set up a specific debit and credit balancing segment value, then the assigned debit and credit account combinations are used. If you use All Other, the appropriate trading partner balancing segment value replaces the balancing segment value of the account combination.

You can also determine the level the Balancing API should use when selecting either Summary Net or Detail.

For balancing many-to-many journal entries there are several balancing segment values with net debits and net credits on a transaction and it is not possible to determine which balancing segment value is trading with which balancing segment value. You can decide whether to use a clearing balancing segment value or a default rule to handle such transactions.⁴

Realty Co

Realty Co is a vertically integrated real estate owner, operator, developer and advisor. With roots dating back to 1898, Realty Co is comprised of a diversified staff of experienced real estate, financial and hotel management specialists, and is complemented by a technical staff of architects, engineers and construction management professionals. Realty maintains a strategic relationship with Construction Corporation, a leading construction management firm. Given these broad resources, Realty typically manages all components of its projects and acquisitions, from feasibility, design, budgeting, financing and development management to ongoing property and asset management.

Realty Co manages approximately 1,200 properties in the United States, Canada, and Mexico. Each separate property is a distinct legal entity with its own required reports, both internal and external, tax filing requirements, and local and regional reporting and analysis. Realty Co implemented Oracle Financials Release 12.1.3 to manage the back office functions for all the properties. Modules utilized include General Ledger, Payables, Assets, Receivables, Cash Management, and E-Business Tax. The chart of accounts was configured with six segments – Company (Balancing Segment), Cost Center, Natural Account, Intercompany and two future use segments. The main business issue to be address was how to account for all of the different intercompany transactions. The requirement was to allow each and every of 1,200 entities to transact with one another as required, however, Realty Co wanted to use “Clearing” Companies to run most of the transactions between, thus not having to track potentially thousands of intercompany balances and transactions.

Realty Co’s Business Requirement

For the approximately 1,200 entities managed by Realty Co, Payables and Receivables invoices can be charged to any single, or multiple entities. In addition, Assets can be assigned to any legal entity, and journal entries can be made between any legal entity.

Realty Co has seventeen disbursement bank accounts. Each entity is assigned one (and only one) disbursement bank account. In addition, Realty Co has seven Clearing Companies, each associated with the disbursement bank

⁴ IBID, pg. 5 – 5

account. Any company associated with Bank Account 1 will be associated with Clearing Company A; any company associated with Bank Account 2 will be associated with Clearing Company B.

Any journal entry between two (or more) companies with the same Clearing Company must use the Clearing Company to ensure the journal is balanced.

There is no possibility of any journal entry between 2 companies with different Clearing Companies.

The Solution

Oracle's R12 documentation defines the legal entity as "legal entity" or "company" in which transactions are recorded or required in your day to day business operations. A legal entity is a discrete legal personality characterized by the legal environment in which it operates. As stated previously, legal entities have the right to own property, the right to trade, and the responsibility to comply with appropriate laws.

Under this generally accepted definition, each of Realty Co's 1,200 companies would be defined as a "legal entity", since (for example) AP Invoices would need to be recorded and each of the 1,200 legal entities would have one (and only one) Balancing Segment Value assigned to it.

Under the definitions outlined above, a single intra-company account would need to be defined – it is unlikely it would be used, since there would only be one BSV in each Legal entity; however, it would still need to be defined.

In addition, in order to meet Realty Co's intercompany requirements, over 1.4 million intercompany account combinations would need to be defined.

While technically correct, this approach was deemed unacceptable, both from a go-live build out, as well as from an ongoing maintenance perspective, and an alternative approach was sought.

We revisited the definition "transactions are recorded or required in your day to day business operations" and took a skewed view of this – rather than considering the AP invoice (or AR invoice) as the transaction which is recorded or required in day-to-day business, what if we considered the AP Payment (or AR Receipt) as the transaction. Rather than having 1,200 legal entities each associated with one (and only one) Balancing Segment Value, we could define seventeen legal entities, each associated with multiple Balancing Segment Values.

Rather than define 1,200 intra-company accounts in scenario 1, we would only need to define seventeen intra-company accounts.

A summarized outline of the solution is documented below.

Legal Entity Configuration

Accounting Setups >
 Accounting Options: THR Primary Ledger
 ✓ TIP Each required setup step must be completed before you can complete your accounting setup. Return to Accounting Setups

Show Key Notation
 * Indicates required setup step

Legal Entities

Add Legal Entity Previous 10 91-100 of 196 Next 10

Legal Entity	Country	Legal Entity Identifier	Balancing Segment Value	Update Balancing Segment Values	View Details
THR Chicago LLC	US		None Specified		
THR Chicago Land LLC	US		3500		
THR Development Mgmt LP	US		None Specified		
THR Development Mgmt, Inc.	US		None Specified		
THR Dolphin Corp.	US		None Specified		
THR E Walk LLC	US		None Specified		
THR Illinois Corp.	US		None Specified		
THR Los Angeles LLC	US		None Specified		
THR Management Holdings Corp.	US		None Specified		
THR Management LP	US		2000,2010,2020,2030,2040...		

Add Legal Entity Previous 10 91-100 of 196 Next 10

The Legal Entity Configurations for Realty Co show multiple Legal Entities defined. However, only two of these Legal Entities has Balancing Segments assigned to it. This Legal Entity, "Management LP" owns one bank account (not shown), and has multiple Balancing Segment Values assigned to it. Payables Invoices charged to any of these Balancing Segment Values will only be paid by this bank account.

Intracompany Balancing Rules

Legal Entity THR Management LP

Balancing Rules

Accounting Setups | Legal Entities

Accounting Setups > Accounting Options: THR Primary Ledger > Intracompany Balancing Rules > Legal Entity

Cancel Apply

Primary Ledger **THR Primary Ledger**
 Chart of Accounts **THR_ACCOUNTING_FLEXFIELD**
 Currency **USD**

Subledger Accounting Method **THR_ACCRUAL**
 Calendar **THR_CALENDAR**

Balancing Rules

Create Rule

Rule	Legal Entity	Source	Category	Status	Update
Other-Other	THR Management LP	Other	Other	Enabled	

Once a Legal Entity has a Balancing Segment Value (or multiple Balancing Segment Values) assigned to it, at least one Intracompany Balancing Rule must be defined. Separate Intracompany Balancing Rules can be configured based on Journal Source and Journal Category, so if you need one Intracompany account to be used for journals created from a source of Payables, and a different account used by journals from Receivables. Realty Co used the same account for all Intracompany journals, so we were able to use a Source and Category of "Other".

Source and Category Balancing Details

Accounting Setups | Legal Entities

Accounting Setups > Accounting Options: THR Primary Ledger > Intracompany Balancing Rules > Legal Entity >
 Legal Entity: THR Management LP

Cancel Create Another Apply

* Indicates required field

Source and Category

✓ **TIP** Define rules for the Source 'Other' and the Category 'Other' for each combination of Ledger-Legal Entity to act as the default rule for that Ledger-Legal Entity. This rule will be used if a journal with no rule is encountered during Balancing.

* Ledger **THR Primary Ledger** Legal Entity **THR Management LP**

Chart of Accounts **THR_ACCOUNTING_FLEXFIELD** Source Other

Currency **USD** Category Other

Status **Enabled**

Additional Information Context

Rules of Precedence
 Balancing rules are evaluated by the system in the following order:
 1. BSV-BSV
 2. BSV-All Other
 3. All Other-BSV
 4. All Other-All Other

Balancing Details Options

✓ **TIP** The All Other-All Other is the default rule.

Additional Information Context

*Debit Balancing Segment Value	*Credit Balancing Segment Value	Debit Account	Credit Account	Delete
All Other	All Other	2010-000-121900-2000-000-0	2010-000-201900-2000-000-0	
		<small>Company-Cost Center-Account-IC-Activity-Billable Flag-Future1-Future2</small>	<small>Company-Cost Center-Account-IC-Activity-Billable Flag-Future1-Future2</small>	

Add Another Row

Once you have defined the Journal Source and Category that this Intracompany Balancing Rule applies to, you need to specify the debit and credit accounts (Intracompany Receivables, Intracompany Payables) account. Within this form, you have the ability to specify Intracompany Receivables and Payables accounts for each combination of Balancing Segment Values. You can also specify Intracompany Receivables and Payables accounts for all combinations of Balancing Segment Values within the Legal Entity by using the "All Other" Balancing Segment Values.

Source and Category Options

Accounting Setups | Legal Entities

Accounting Setups > Accounting Options: THR Primary Ledger > Intracompany Balancing Rules > Legal Entity >
 Legal Entity: THR Management LP

Cancel Create Another Apply

* Indicates required field

Source and Category

✓ **TIP** Define rules for the Source 'Other' and the Category 'Other' for each combination of Ledger-Legal Entity to act as the default rule for that Ledger-Legal Entity. This rule will be used if a journal with no rule is encountered during Balancing.

* Ledger **THR Primary Ledger** Legal Entity **THR Management LP**

Chart of Accounts **THR_ACCOUNTING_FLEXFIELD** Source Other

Currency **USD** Category Other

Status **Enabled**

Additional Information Context

Rules of Precedence
 Balancing rules are evaluated by the system in the following order:
 1. BSV-BSV
 2. BSV-All Other
 3. All Other-BSV
 4. All Other-All Other

Balancing Details Options

✓ **TIP** If you select the default option Manually Entered Clearing Balancing Segment Value, you must specify the Clearing Balancing Segment Value for each journal. Use this option for Sources and Categories that process journals from the General Ledger.

Level of Summarization
 Summary Net
 Detail

Clearing Balancing Segment Value
 Use for All Journals
 Use for Many-to-Many Journals Only

Default Options
 Default Clearing Balancing Segment Value

Default Clearing Balancing Segment Value **2000**

The Default Option can be used only with Many-to-Many Journals.

You also need to specify some options for how the Intracompany Journal Entries should be booked, and these can vary by Legal Entity. You can specify whether Intracompany journal entries are generated at a journal line level, or whether the intracompany journal entries should be summarized for the entire journal.

You have the option to specify whether you should use a clearing company for all journals, or just journals which have "many-to-many" intracompany journal lines.

To meet Realty Co's requirements, ANY intracompany journal entry would be required to go through a clearing Balancing Segment.

Mary Road Investments

Mary Road is a trading firm that operates around the clock and around the globe. They bring a deep understanding of markets, a scientific approach, and innovative technology to bear on the problem of trading profitably in the world's highly competitive financial markets. Mary Road has offices in the US, Europe and Asia.

Mary Road selected Oracle EBS 12.1.3 to assist them in transitioning from an Excel based, manual process driven month-end close and reporting cycle to an integrated, rapid and agile company. Full financials and approvals management engine were used to complete this transformation.

Mary Road's Business Requirement

Mary Road has 16 legal entities throughout the world, and each legal entity has one (and only one) Balancing Segment value assigned to it. Mary Road needed to be able to transact between any legal entities even across ledgers. A journal entry or invoice could be made between any combinations of legal entities. Rather than use an intercompany segment in the Chart of Accounts, Mary Road wanted to define distinct Intercompany Receivable and Payable natural accounts for each legal entity. In addition, Mary Road required that for transactions which occurred between legal entities in Europe or Asia, Intercompany invoices to support the transactions had to be generated.

The Solution

Mary Road required configuration of Oracle Intercompany Accounting, Intracompany accounting (defined for each Legal entity but not documented below as they are similar to what was done for Realty Co), and AGIS. While AGIS was configured, its used and setup is beyond the scope of this paper.

Legal Entity Configuration

Legal Entity	Country	Legal Entity Identifier	Balancing Segment Value	Update Balancing Segment Values	View Details
	US		110		
	US		120		
	US		195		
	US		125		
	US		135		
	US		140		
	US		105		
	US		210		
	US		115		
	US		200		

Mary Road has 16 legal entities, and each legal entity has one (and only one) Balancing Segment value assigned to it. In the screenshot above, the first 10 Legal entities are listed, each with one Balancing Segment Value associated with it.

Intercompany Accounts for a specific Legal Entity

* Indicates required field

Primary Ledger US-Primary Ledger Subledger Accounting Method US Accrua
 Chart of Accounts ACCOUNTING_FLEXFIELD Calendar _CALENDAR
 Currency USD
 Transacting Legal Entity

*Transacting Balancing Segment Value	*Trading Partner Legal Entity	Trading Partner Ledger	*Trading Partner Balancing Segment Value	Define
105		All Other		
105		Primary Ledger	110	
105		Primary Ledger	120	
105		Primary Ledger	195	
105		Primary Ledger	125	
105		Primary Ledger	135	
105		s-Primary Ledger	500	
105		s-Primary Ledger	505	
105		Primary Ledger	140	
105		Primary Ledger	300	

Within the intercompany account definition for Legal Entity 105, all other Balancing Segment Values are listed, together with an "All Other", and the intercompany accounting for each is defined.

Accounting Setups > Accounting Options | US-Primary Ledger > Intercompany Accounts > Define Relationships |

Define Accounts: From Legal Entity

Cancel Apply

* Indicates required field

Ledger: i-Primary Ledger
 Chart of Accounts: ACCOUNTING_FLEXFIELD
 Currency: USD
 Subledger Accounting Method: Calendar
 JS Accrual: CALENDAR

* Indicates required field

Intercompany Receivables Accounts

Additional Information Context: [dropdown]

Account	Account Description	*Start Date	End Date	Use for Balancing	Delete
105-104110-000-00-0000-000- <small>COMPANY-NATURAL ACCOUNT-CLEARING FIRM-LOCATION-ALLOCATION BASE-FUTURE1-FUTURE2</small>	105-104110-000-00-0000-000-00000	01-Jan-1951 <small>(example: 28-Feb-2012)</small>		<input type="checkbox"/>	<input type="checkbox"/>

Add Another Row

Intercompany Payables Accounts

Additional Information Context: [dropdown]

Account	Account Description	*Start Date	End Date	Use for Balancing	Delete
105-204110-000-00-0000-000- <small>COMPANY-NATURAL ACCOUNT-CLEARING FIRM-LOCATION-ALLOCATION BASE-FUTURE1-FUTURE2</small>	105-204110-000-00-0000-000-00000	01-Jan-1951 <small>(example: 28-Feb-2012)</small>		<input type="checkbox"/>	<input type="checkbox"/>

Add Another Row

In this example, we selected the relationship between Balancing Segment Values 105 and 110. We are now required to define the Intercompany Receivables and Payables account for this combination. These accounts have effective dates, so you are able to end-date a specific Intercompany Receivables Account as of 31-Dec-2012, and start using a new Intercompany Receivables account on 1-Jan-2013.

It is important to note that when you create an Intercompany Relationship, Oracle does NOT generate a reciprocal relationship. For example, when we created the relationship in Legal Entity 105 between Companies 105 and 110, Oracle will NOT create the reciprocal relationship in Legal Entity 110 between 110 and 105. This will still need to be defined.

Conclusion

Oracle has developed a robust and flexible solution for handling transactions between Legal Entities in Release 12. Use of the Legal Entity configurator, Inter and Intra company accounting to automatically balance transactions between multiple legal entities can save time and money by streamlining the close process and simplifying month-end intercompany reconciliations.

While Legal Entities now play an important role in R12, it is important to determine if you require to set all of the legal entities that may exist in your organization up in Oracle. If you do not plan on using them for banking or subledger transactions, the answer may be no, and to use balancing segments to capture required accounting.

For more information in Inter and Intra company accounting, contact Thomas Simkiss or Lee Briggs and <http://biztech.com>.

About the Presenters

Thomas Simkiss is the Chief Operating Officer and Lead Financials Architect at BizTech. Thomas has 15 years Oracle Applications experience both as an end-user and implementer across many industries, including Telecom,

Retail, Membership Organizations, Healthcare, Government, and Social Services. Thomas has had a wide range of roles both utilizing and implementing Oracle Financials, Supply Chain, Discoverer and Business Intelligence as a business analyst, team lead, and project manager. He is a member of the New Jersey State Society of Certified Public Accountants, and a member of the Pennsylvania and New Jersey Bar Association.

Lee Briggs is British. He is also the Financials Practice Director for BizTech, a position he has held for two years. Lee has worked with Oracle for over 13 years in Financials, Supply Chain and Project Accounting. Lee is the Chairman of the ADI SIG and presents regularly at local and national Oracle User Group conferences.

BizTech is an Oracle Platinum Partner based in King of Prussia Pennsylvania. BizTech provides software, services and hosted Oracle software solutions with a primary focus on Oracle EBS, Business Intelligence, and Hyperion.