

Secondary Ledgers: The Benefits of Adjustment Ledgers for GAAP Reporting and Regulatory Compliance



#EBSAnswersWebinars



Webinar Mechanics

- Submit text questions.
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- Polling questions will be presented during the session. If you want CPE credit for this webinar, you must answer all of the polling questions.

The screenshot shows a Zoom meeting window with a slide displayed. The slide has a white background with a red vertical bar on the left and a red footer. The main text on the slide is in red and reads: "Secondary Ledgers: The Benefits of Adjustment Ledgers for GAAP Reporting and Regulatory Compliance". Below the main text is a Twitter logo followed by the hashtag "#EBSAnswersWebinars". In the bottom right corner of the slide is the "ePrentise" logo. The Zoom interface includes a top bar with "Zoom Meeting ID: 863-962-980", a green notification "You are viewing Julissa Gonzalez's screen", and a "View Options" dropdown menu. The dropdown menu is open, showing "Zoom Ratio" and "Fit to Window" options, with "Fit to Window" selected. Other options in the menu include "50%", "100% (Original Size)", "150%", "200%", and "300%". On the right side of the Zoom window, there is a "Zoom Webinar Chat" panel. At the bottom of the Zoom window, there is a control bar with icons for "Mute", "Chat", "Raise Hand", and "QA", along with a "Leave Meeting" button. A small text box at the bottom right of the Zoom window says "To: All panelists" and "Your text can only be seen by panelists".

About eprentise

Getting the most out of your Oracle® E-Business Suite with Software that *Transforms* and *Optimizes* EBS



❑ **TRANSFORM** With Proven Out-of-the-Box Solutions That Align EBS With Your Business

- **Consolidation** merges and harmonizes one or more disparate, differently-configured, database instances into a single, fully-functional application
- **Divestiture** filters data when a company is carving out or selling off part of their business, to create a stand-alone fully functional environment for the divested entity with a limited data set
- **FlexField** changes the financial chart of accounts to support standardization and increase reporting reliability retaining all transactional history
- **Reorganization** changes or moves any configurations or set-ups and all related transactions. Reorganization is a broad category and includes software solutions for merging or separating organization units, ledgers, inventory organizations, or legal entities, calendar changes, currency changes, etc. Reorganization Software is used to comply with new regulatory or statutory changes, new organization structures, entry into new markets, and to support mergers, acquisitions, or divestitures.

❑ **OPTIMIZE** With Software That Gives You Visibility Into Your Operations

- **C Collection** analytics will identify potential problem areas with transactional data. The software increases the accuracy of the underlying data, provides data transparency, and allows EBS users to reduce costs, leverage opportunities across the enterprise, improve business processes and increase the confidence level of the users in their data, processes, and operations.
- **Automated Audit** is audit and assurance software for internal and external financial auditors and allows for drill-down from a balance sheet report into the transaction-level detail. The software covers hundreds of substantive procedures across all EBS modules for the entire enterprise domain and builds in consistent audit processes and workflows across the organization.

❑ **Does not violate Oracle Support Agreement**

Learning Objectives

- Objective 1:** Discover the benefit of using adjusting ledgers versus adjusting entries.
- Objective 2:** Understand the requirements of ledger sets and how they accelerate the close process.
- Objective 3:** Understand how to use secondary ledgers and ledger sets to accommodate local and statutory reporting requirements.

Agenda

- ❑ An Overview of Ledger Sets and Secondary Ledgers
 - The Mechanics of Setting Up Secondary Ledgers
 - Ledger Sets
- ❑ The Challenges of Adjusting Entries for Reporting and Compliance
 - The Solution: Ledger Sets and Secondary Ledgers
- ❑ Solving the Problems of Adjusting Journal Entries
- ❑ Streamlining Local and Statutory Reporting Requirements

Secondary Ledgers

Secondary Ledgers Can Be Maintained at One of Four Different Levels of Detail

1. Balance Level
2. Journal Level
3. Subledger Level
4. Adjustments-Only Level

Balance Level Secondary Ledger

IFRS/GAAP Example

- ❑ Account balances only in another accounting representation.
 - No drill-down to journal entries or subledgers
- ❑ Balances exist at reporting period dates only.
- ❑ G/L Consolidation.

Balance Level Secondary Ledgers

Primary Ledger (US GAAP)

Secondary Ledger balances populated via Oracle General Ledger Consolidation are based on accounting rules.

NO JOURNAL ENTRY LEVEL DRILL DOWN.

Secondary Ledger (IFRS)

Journal Level Secondary Ledger

- ❑ Balance Level Secondary Ledger
- ❑ Journal Level Secondary Ledger
(affected through General Ledger Posting)
 - Account Balances
 - (Manual) Journal Entries

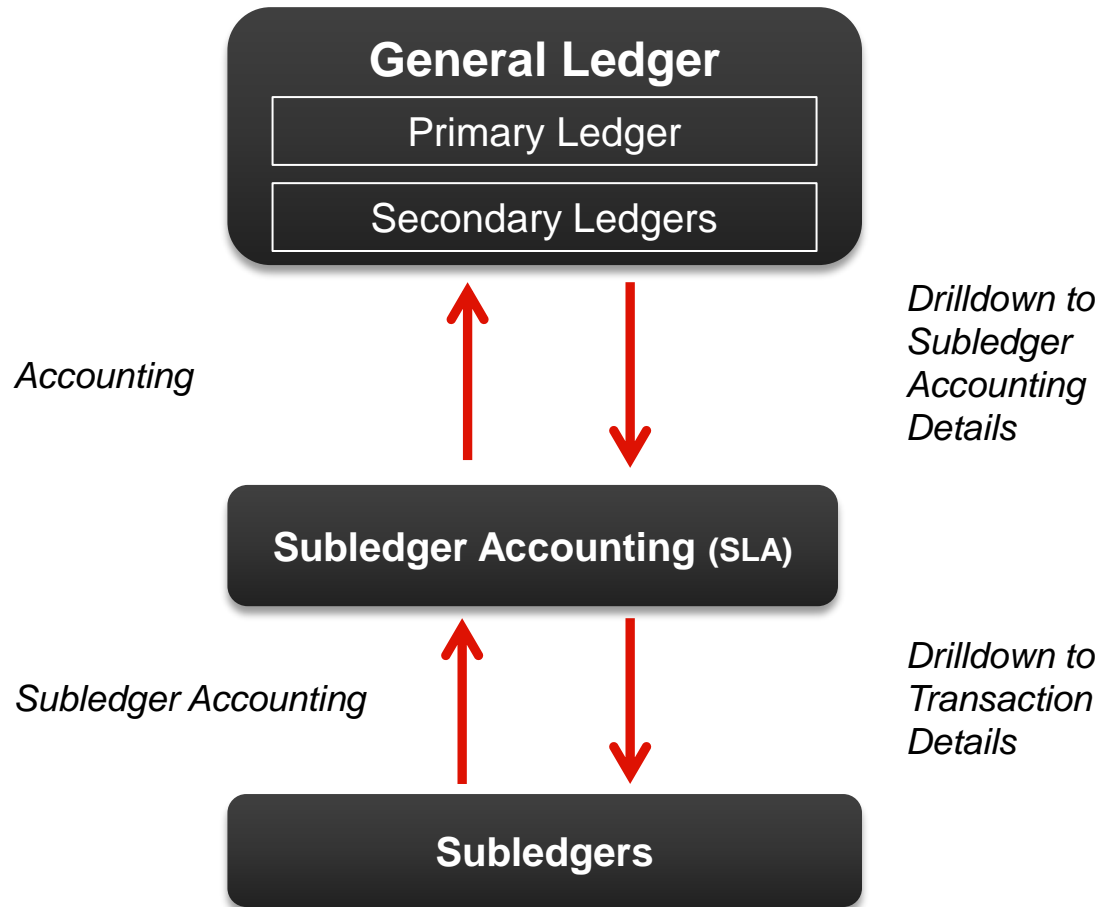
Secondary Ledgers – Subledger Level

- ❑ Balance Level Secondary Ledger
- ❑ Journal Level Secondary Ledger
- ❑ Subledger Level Secondary Ledger
 - Balance Level
 - Journal Entry Level
 - Subledger Level

Secondary Ledgers – Subledger Level

- ❑ Prior to R12: limited options available for companies requiring different regulatory chart of accounts
- ❑ Could have created a GL Consolidation that allowed you to map to a different chart of accounts, but the GL financial consolidation would not have included the transaction detail of the subledgers
 - Reconciliation was a time-consuming process

Secondary Ledgers – Subledger Level



Secondary Ledgers – Adjustments Only Secondary Ledgers

- ❑ Balance Level Secondary Ledger
- ❑ Journal Level Secondary Ledger
- ❑ Subledger Level Secondary Ledger
- ❑ Adjustments Only Secondary Ledgers
 - Adjustment only secondary ledgers do not maintain a complete accounting picture but instead only reflect adjustments

Secondary Ledgers – Adjustments Only Secondary Ledgers

❑ Balance Level Secondary Ledger

❑ An alternative to the Journal Level Secondary Ledger for adjusting journal entries to the Primary Ledger

❑ Subledger Level Secondary Ledger

❑ Adjustments Only Secondary Ledgers

- Adjustment only secondary ledgers do not maintain a complete accounting picture but instead only reflect adjustments

The Mechanics of Setting Up a Secondary Ledger Cont'd

Accounting Setup > Accounting Setup: Vision Operations(USA)
Primary to Secondary Ledger Mapping

Cancel Save for Later Complete

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 ledgers use different charts of accounts.

* Mapping Create 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

Choose: Yes to retain the rate type from the original transaction.

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

Enter a number between 1 and 999.

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 checked="" type="checkbox"/>
Move/Merge Reversal	Other	No	<input checked="" type="checkbox"/>
Revaluation	Other	No	<input checked="" type="checkbox"/>

Add Another Row

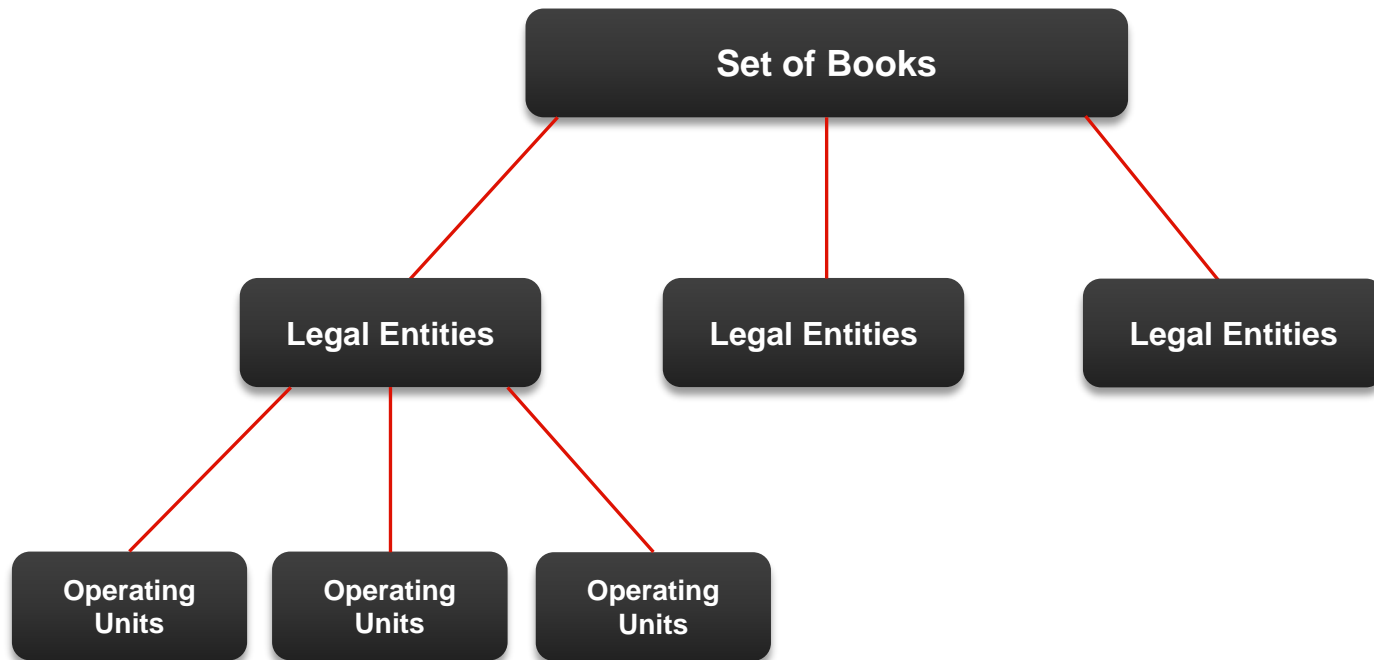
Cancel Save for Later Complete

1. Define your primary ledger and its related secondary ledgers.
2. Define Create Accounting Rules to map the transactions that post to your primary ledger to transactions in your secondary ledgers.
3. When accounting is created, the journal entries are automatically generated for all the associated secondary ledgers based on the defined mapping rules from the primary ledger to the secondary ledgers.

Ledger Sets

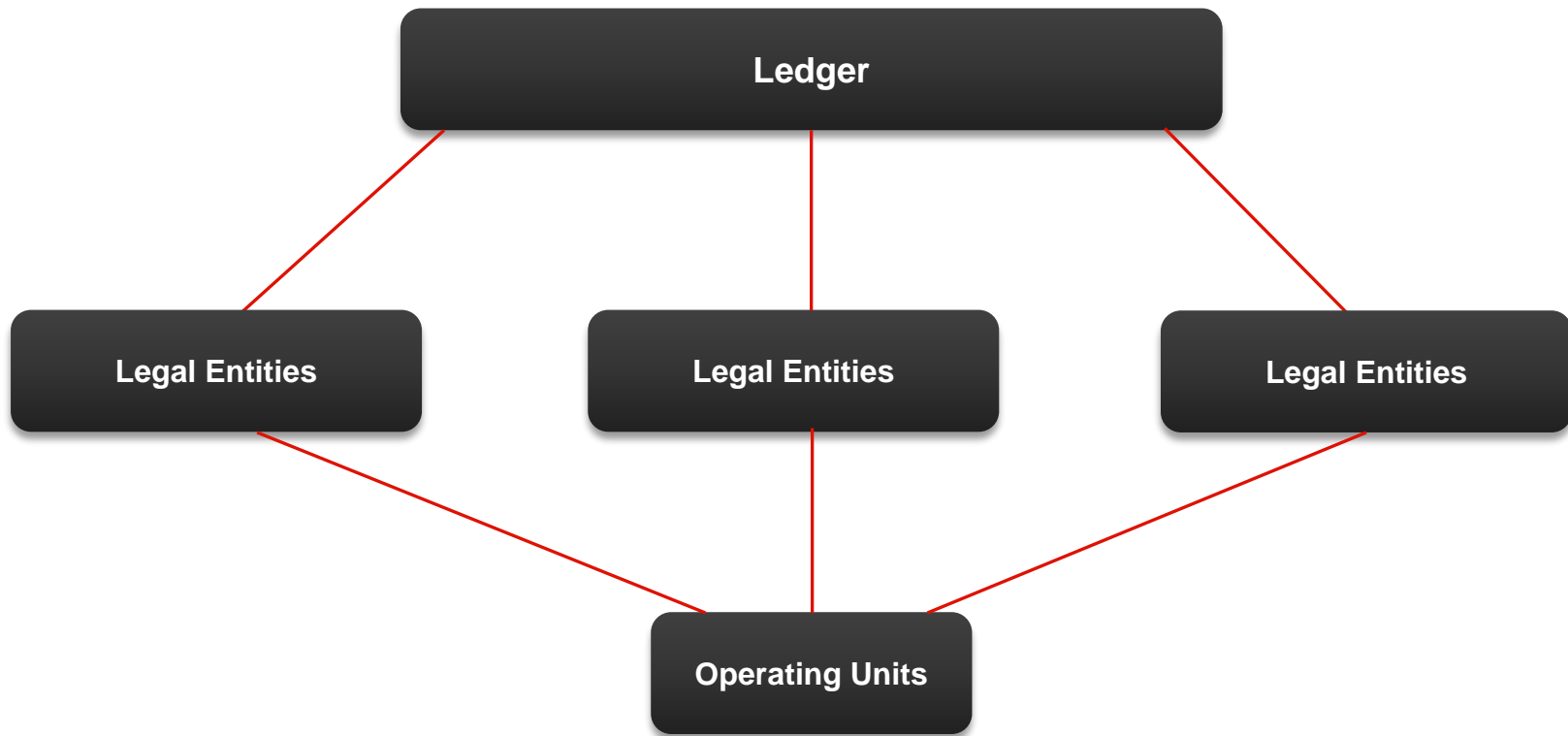
- ❑ Allow you to group multiple ledgers together to achieve processing efficiencies
- ❑ For example, you can:
 - Open or close periods for multiple ledgers simultaneously
 - Translate balances for all ledgers in a ledger set
 - Run recurring journals that update balances for multiple ledgers
 - Run consolidated financial reports that summarize balances across multiple ledgers in a ledger set
- ❑ **Note: All ledgers in a ledger set must have the same chart of accounts and accounting calendar/period type combination**
 - Every ledger 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

Legal Entities in 11i



In 11i, an operating unit could only have one legal entity.

Legal Entities in R12



In R12, each operating unit can have multiple legal entities.

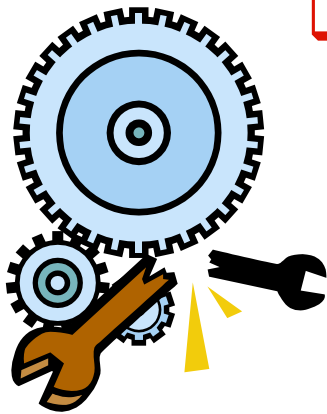
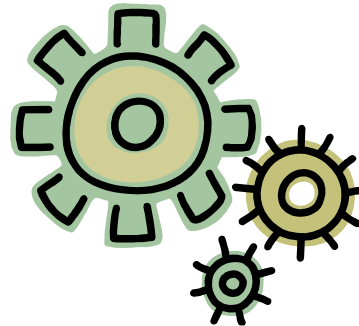
Note:

If an additional ledger is needed to perform accounting across legal entities or ledgers in different account 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.

The Challenge of Adjusting Entries for Reporting and Compliance

❑ Ensuring a Complete, Correct, and Consistent Record

- Adequacy of Controls for Routine Data Processes
 - Order-to-Cash
 - Procure-to-Pay



❑ The Wrench in the Works – Adjusting Journal Entries

- More likely to contain errors
- Circumvent routine data processing controls
- Impede system transparency
- Incur additional audit effort

Traditional Options Before R12

Prior to the introduction of Release 12, the only real options for adjusting journal entries were to:

- ❑ Make the entries directly to the primary ledger, requiring the ledger period be left open until all adjustments were made
- ❑ If a company had defined adjusting periods on their calendar, then the normal period could be closed and with the adjusting entries being made to the primary ledger in a discrete period
 - Still doesn't solve many of the problems associated with adjusting journal entries

Adjustment Journal Entries

- ❑ Best Practices Proscribe Making AJEs Directly to the Primary Ledger
- ❑ Primary Ledger Should Only Contain:
 - Transactions and balances from routine data processes
 - Correcting entries
 - Automatically generated allocations
 - One time write-offs
- ❑ The Related Adjustments Ledger Should Contain:
 - Adjusting entries for accruals
 - Adjusting entries for deferrals
- ❑ Reversing entries are generally not needed

Types of Adjusting Journal Entries

❑ Accruals

- Amounts for either expenses incurred for which the vendor has not invoiced or
- In rare cases, can be revenue earned that has not been billed

❑ Deferrals

- Entries made to ensure that revenue is not recognized before it is earned
 - Example: a full annual membership payment received in January must be deferred and then recognized over the year
- Also ensure that expenditures are not recognized early
 - Example: an annual insurance premium that is paid at the beginning of the year should be recognized evenly over the year

Adjustments-Only Ledger: Deferred Revenue (Deferred Performance Obligation) Example

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.

Secondary Ledgers: Deferred Revenue Example

JE #1	
Sales	120,000
Deferred Revenue/ Performance Obligation	120,000

Adjustments-Only Secondary Ledger	
Deferred Revenue/ Performance Obligation	120,000
Sales	(120,000)

Secondary Ledgers: Deferred Revenue Example

Account	Primary Ledger	Secondary Ledger		Combined
Cash	200,000			200,000
Accounts Receivable	400,000			400,000
Accounts Payable	300,000			300,000
Deferred Revenue/ Performance Obligation		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

Power User Ways to Use Ledger Sets and Adjustments-Only Ledgers to Streamline Local and Statutory Reporting Requirements

- ❑ Multiple Adjustments-Only Ledgers and Ledger Sets
- ❑ Segregation of Responsibility
 - Better Control Environment
- ❑ Significantly Improve Adjustments Documentation
- ❑ Reporting Becomes a Matter of Choosing Among Predefined Ledger Sets

Conclusion

- ❑ Of the features in Oracle® E-Business Suite R12, the most powerful are ledger sets and secondary ledgers
- ❑ When taken together, these features have the capability of eliminating the tedium and reducing the cost of ledger adjustments while improving internal control

Questions?

Contact

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