

# Making Sense of Alphabet Soup: Complying with Statutory, Regulatory and Compliance Requirements



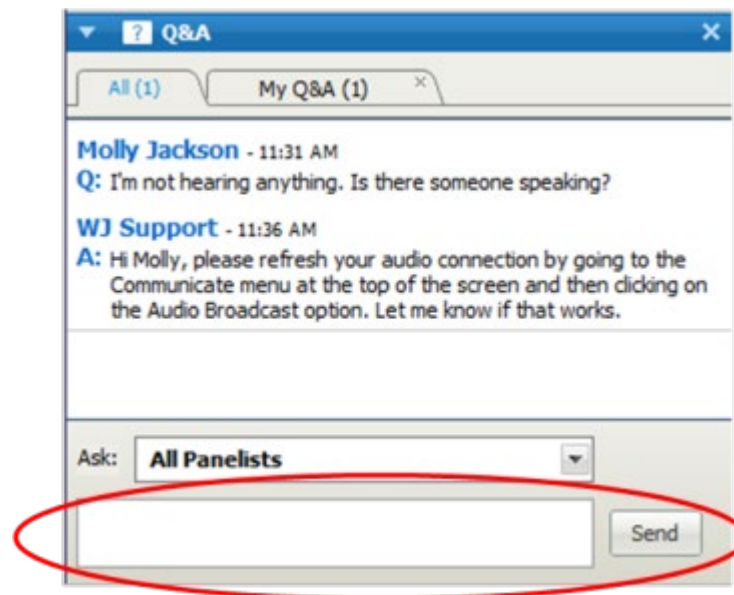
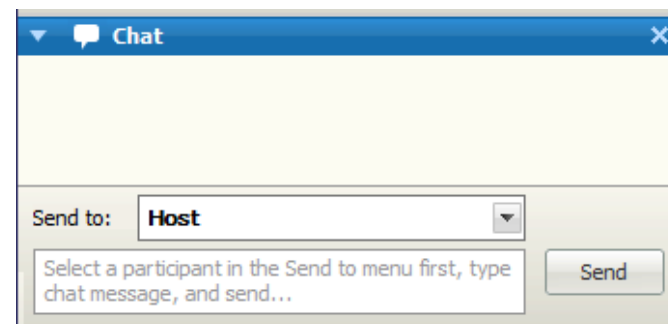
COLLECTION

*e*prentise®

# Webinar Mechanics



- Submit text questions.
- Q&A addressed at the end of the session. Answers will be posted within two weeks on our new LinkedIn Group, EBS Answers:  
<http://www.linkedin.com/groups/EBS-Answers-4683349/about>
- Everyone will receive an email with a link to view a recorded version of today's session.
- Polling questions will be presented during the session. If you want CPE credit for this webinar, you must answer all of the polling questions.



# About eprentise

## ❑ Origin

- Founded by industry veteran Helene Abrams who was Oracle's first Applications consultant

## ❑ Who we are

- Product company supporting Oracle E-Business Suite customers' needs for financial and operational change
- Oracle Gold Partner since 2007
- Patent for Consolidation Methodology, 2012

## ❑ Our current target markets

- Large global corporate organizations
- Cross-industry

## ❑ Our current product lines

- Four business transformation software product lines:
  - 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.

## ❑ New product lines

- Automated Financial Audit
- C Collection Analytics

## ❑ Does not violate Oracle Support Agreement

# Learning Objectives

**Objective 1:** Learn the fundamentals of GAAP, IFRS, IAS, and SOX compliance.

**Objective 2:** Learn how statutory and regulatory requirements are implemented in Oracle E-Business Suite.

**Objective 3:** Learn about the usefulness of secondary ledgers and their impact on regulatory compliance.

# Agenda

- ❑ The Problem of different bases of accounting: US GAAP, IFRS, and Statutory
- ❑ Types of Differences
  - Representational
    - Timing
    - Valuation
    - Classification
  - Completeness
    - Needed transactions, balances, or information not present
- ❑ The Solution: Secondary Ledgers
  - An Overview of Secondary Ledgers In R12
    - Types of Secondary Ledgers
    - The Mechanics of Setting Up Secondary Ledgers
- ❑ Complying with SOX, IAS, and GAAS
  - Internal Control
    - Prevent Controls
    - Detect Controls- Data Analytics

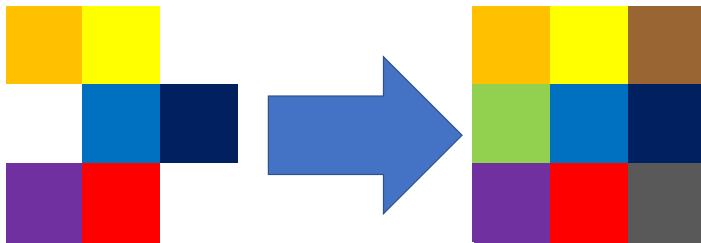
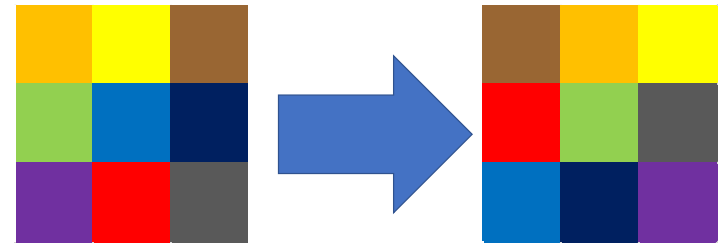
***Hard to solve  
challenges arise  
from the need to  
present the same  
financial  
position and  
outcome on a  
different basis  
(IFRS, GAAP,  
FERC, etc.)***



# Types of Differences Between Accounting Frameworks

Representational (Existing transactions and balances presented in a different form)

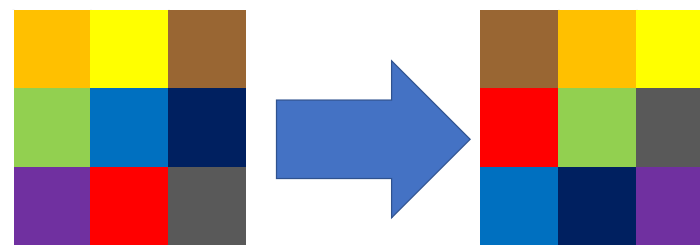
- Timing
- Valuation
- Classification



Completeness (Needed transactions, balances, or information not present)

# Representational Differences: Timing

- Representational (Existing transactions and balances presented in a different form)
  - Timing
    - A transaction in the primary ledger needs to be recognized over a different period of time (e.g. R&D under US GAAP and IFRS)
  - Valuation
  - Classification





# R&D Example- US GAAP

The \$1,000,000 R&D Expenditure is expensed immediately

<u>US GAAP</u>				
		###/###/2018	R&D Expenditure	###/###/2018
Assets				
100000	Cash	\$ 54,000,000.00		\$ 54,000,000.00
200000	Accounts receivable	\$ 35,000,000.00		\$ 35,000,000.00
300000	Other assets- capitalized R&D	\$ -		\$ -
300100	Accumulated amortization-other assets	\$ -		\$ -
Total Assets		\$ 89,000,000.00		\$ 89,000,000.00
Liabilities				
400000	Accounts payable	\$ 25,000,000.00	\$ 1,000,000.00	\$ 26,000,000.00
400100	Other liabilities	\$ 18,000,000.00		\$ 18,000,000.00
400500	Loan payable	\$ 25,000,000.00		\$ 25,000,000.00
Total Liabilities		\$ 68,000,000.00		\$ 69,000,000.00
Equity				
500000	Owners equity	\$ 18,000,000.00		\$ 18,000,000.00
500100	Retained earnings	\$ 3,000,000.00		\$ 2,000,000.00
Total Equity		\$ 21,000,000.00		\$ 20,000,000.00
Total Liabilities and Equity		\$ 89,000,000.00		\$ 89,000,000.00
600000	Revenue	\$ 84,000,000.00		\$ 84,000,000.00
700000	Cost of goods sold	\$ 42,000,000.00		\$ 42,000,000.00
	Gross Profit	\$ 42,000,000.00		\$ 42,000,000.00
800000	Selling expenses	\$ 22,000,000.00		\$ 22,000,000.00
900100	R&D expense	\$ -	\$ 1,000,000.00	\$ 1,000,000.00
900200	Other general and administrative	\$ 18,000,000.00		\$ 18,000,000.00
Total selling, general, and administrative		\$ 40,000,000.00		\$ 41,000,000.00
Net Revenue		\$ 2,000,000.00		\$ 1,000,000.00

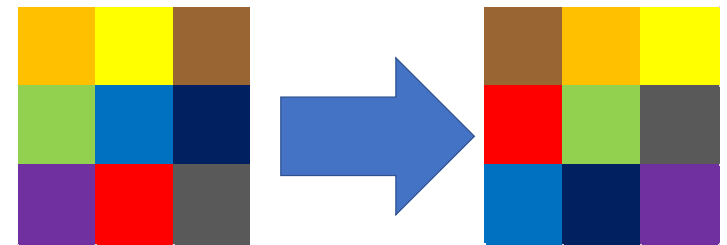
# R&D Example- IFRS

The \$1,000,000 R&D Expenditure is capitalized and only one month's amortization is expensed (5 year amortization period)

IFRS				
		##/##/2018	R&D Expenditure	##/##/2018
Assets				
100000	Cash	\$ 54,000,000.00		\$ 54,000,000.00
200000	Accounts receivable	\$ 35,000,000.00		\$ 35,000,000.00
300000	Other assets- capitalized R&D	\$ -	\$ 1,000,000.00	\$ 1,000,000.00
300100	Accumulated amortization-other assets	\$ -	\$ (16,666.67)	\$ (16,666.67)
Total Assets		\$ 89,000,000.00		\$ 89,983,333.33
Liabilities				
400000	Accounts payable	\$ 25,000,000.00	\$ 1,000,000.00	\$ 26,000,000.00
400100	Other liabilities	\$ 18,000,000.00		\$ 18,000,000.00
400500	Loan payable	\$ 25,000,000.00		\$ 25,000,000.00
Total Liabilities		\$ 68,000,000.00		\$ 69,000,000.00
Equity				
500000	Owners equity	\$ 18,000,000.00		\$ 18,000,000.00
500100	Retained earnings	\$ 3,000,000.00		\$ 2,983,333.33
Total Equity		\$ 21,000,000.00		\$ 20,983,333.33
Total Liabilities and Equity		\$ 89,000,000.00		\$ 89,983,333.33
600000	Revenue	\$ 84,000,000.00		\$ 84,000,000.00
700000	Cost of goods sold	\$ 42,000,000.00		\$ 42,000,000.00
	Gross Profit	\$ 42,000,000.00		\$ 42,000,000.00
800000	Selling expenses	\$ 22,000,000.00		\$ 22,000,000.00
900100	R&D expense	\$ -	\$ 16,666.67	\$ 16,666.67
900200	Other general and administrative	\$ 18,000,000.00		\$ 18,000,000.00
Total selling, general, and administrative		\$ 40,000,000.00		\$ 40,016,666.67
Net Revenue		\$ 2,000,000.00		\$ 1,983,333.33

# Representational Differences: Valuation

- Representational (Existing transactions and balances presented in a different form)
  - Timing
  - Valuation
    - A transaction or balance needs to be presented at a different value (e.g. LIFO is not allowed under IFRS, but is under GAAP)
  - Classification



# LIFO (GAAP) and FIFO (IFRS) Example

LIFO:						
Transactions:		Inventory Balance:				
Date	Units	Layer 1	Layer 2	Layer 3	Layer 4	Total
Jun 1	300	300				
Jun 10	(200)	(200)				
Jun 11	800		800			
Jun 15	(500)		(500)			
Jun 20	500			500		
Jun 27	(300)			(300)		
		100	300	200	-	600
Cost		\$ 10	\$ 12	\$ 13		
	600	\$ 1,000	\$ 3,600	\$ 2,600	\$ -	\$ 7,200
Calculation of Cost of Goods Sold:				Dollars	Units	
				\$ 3,000	300	
				16,100	1,300	
				\$ 19,100	1,600	
				(7,200)	(600)	
				\$ 11,900	1,000	

FIFO:						
Transactions:		Inventory Balance:				
Date	Units	Layer 1	Layer 2	Layer 3	Layer 4	Total
Jun 1	300	300				
Jun 10	(200)	(200)				
Jun 11	800		800			
Jun 15	(500)	(100)	(400)			
Jun 20	500			500		
Jun 27	(300)		(300)			
		-	100	500	-	600
Cost		\$ 10	\$ 12	\$ 13		
	600	\$ -	\$ 1,200	\$ 6,500	\$ -	\$ 7,700
Calculation of Cost of Goods Sold:				Dollars	Units	
				\$ 3,000	300	
				16,100	1,300	
				19,100	1,600	
				(7,700)	(600)	
				\$ 11,400	1,000	

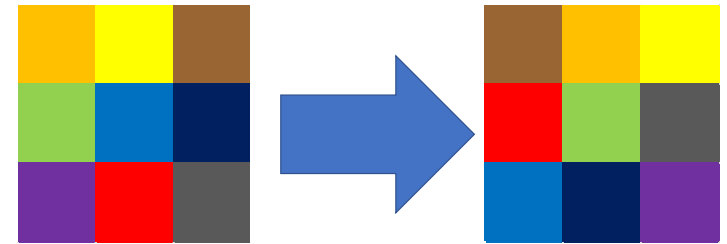
Same purchase information, same sales information, different COGS and Inventory VALUATION.

Example from: <http://econ.ucsb.edu/~harmon/e8-15fifo-lifo.xls>

# Poll Question

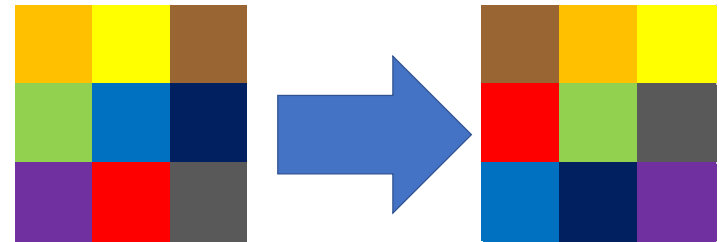
# Representational Differences: Classification

- Representational (Existing transactions and balances presented in a different form)
  - Timing
  - Valuation
  - Classification
    - A transaction or balance is classified differently (e.g. A GAAP based company in a US regulated energy business, must also present their accounts Using FERC-Commission's Uniform System of Accounts (USofA) which differ from standard GAAP accounts



# The Solution for Representation Differences: Secondary Ledgers

***Secondary ledgers, as stated in the Oracle Financials Implementation Guide, "represent the primary ledger's accounting data in another accounting representation."*** ([https://docs.oracle.com/cd/B40089\\_10/current/acrobat/120finig.pdf](https://docs.oracle.com/cd/B40089_10/current/acrobat/120finig.pdf))



# Ways Secondary Ledgers Can Differ from Primary Ledgers

These accounting representations can differ from the primary ledger in the following ways:

1. Chart of Accounts
2. Accounting Calendar/Period Type Combination
3. Currency
4. Subledger Accounting Method
5. Ledger Processing Options



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

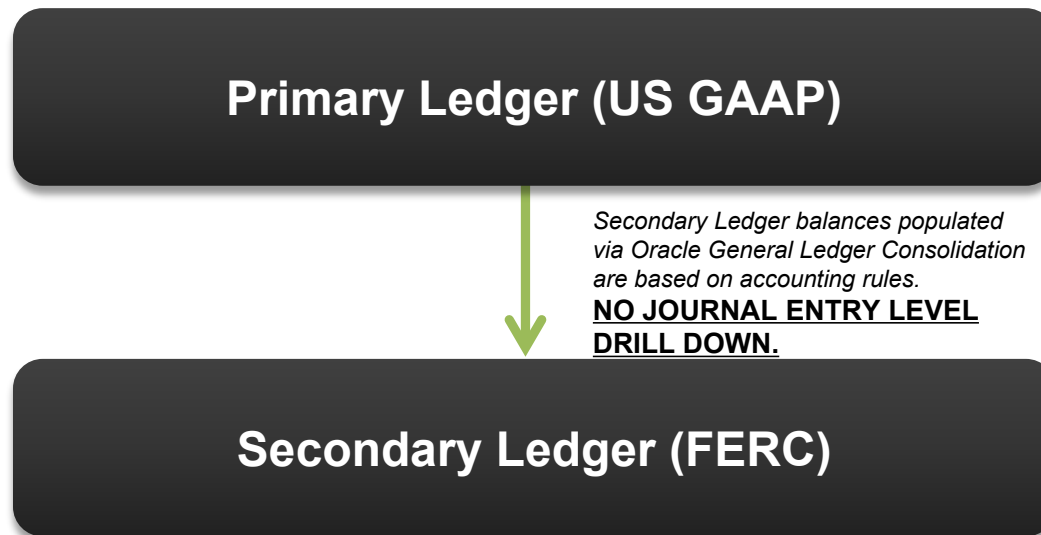
1. Balance Level
2. Journal Level
3. Subledger Level
4. Adjustments Only Level

# Balance Level Secondary Ledger

## GAAP/FERC 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



# Journal Level Secondary Ledger

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

# Poll Question

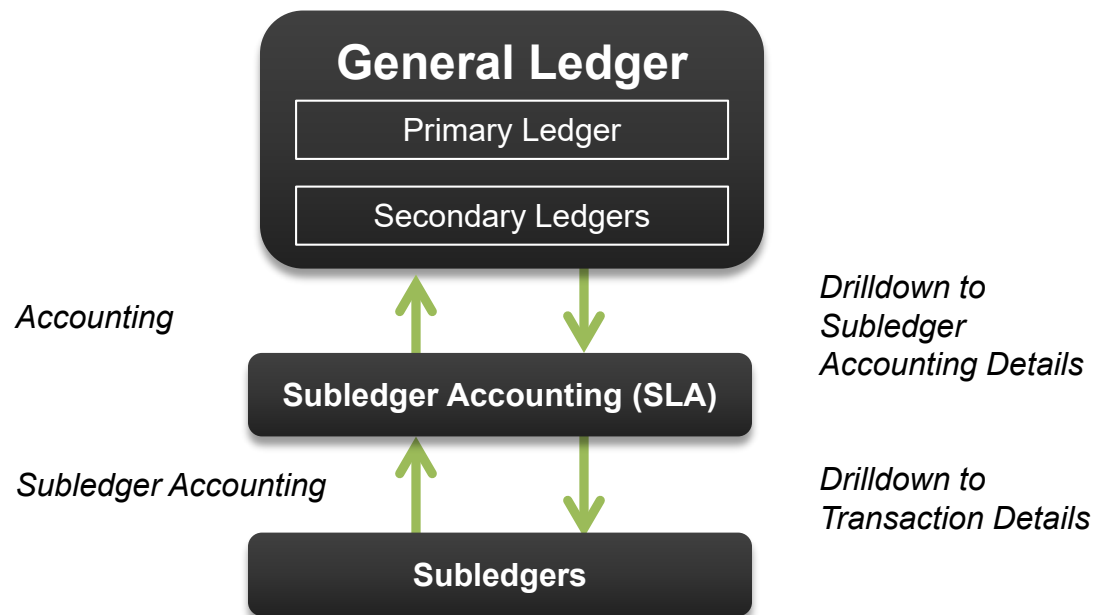
# Secondary Ledgers – Subledger Level

- ❑ 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

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

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

Cancel Save for Later Complete

**Ledger Information**

Primary Ledger: Vision Operations (USA)  
Chart of Accounts: Operations Accounting Flex  
Accounting Calendar: Monthly  
Currency: USD  
Subledger Accounting Method: Standard Accrual

Secondary Ledger: French Statutory  
Chart of Accounts: French COA  
Accounting Calendar: French Fiscal  
Currency: EUR  
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 have 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: Vision Operations (USA)  
Default Rate Type: Corporate  
Retain Transaction Rate Type: Yes

**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: 365

**Journal Conversion Rules**

Post Journals Automatically from Source Ledger: No  
Retain Journal Creator from Source Ledger: No

**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	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.

# The Mechanics of Setting Up a Secondary Ledger, cont.

Accounting Setup > Accounting Setup: Vision Operations (USA)

Primary to Secondary Ledger Mapping

Cancel Save for Later Complete

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**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

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**Chart of Accounts Mapping**

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

\* Mapping  Create Mapping

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**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

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**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.

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**Journal Conversion Rules**

\* Post Journals Automatically from Source Ledger

\* Retain Journal Creator from Source Ledger

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**Journal Source and Category Conversion**

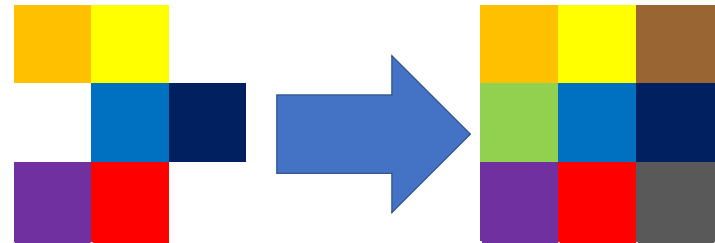
☒ TIP Specify the journals based on journal source and category combinations that you want automatically transferred to this Secondary Ledger by General Ledger Posting. "Other" represents all other journal sources and categories.

Journal Source	Journal Category	Transfer Journals to this Secondary Ledger	Remove
Other	Other	<input type="text" value="Yes"/>	<input checked="" 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"/>

Cancel Save for Later Complete

# Completeness Differences Between Accounting Frameworks

- Completeness (Needed transactions, balances, or information not present)



# Completeness Differences Example

## Fixed Asset Accounting – GAAP versus IFRS

- Under US GAAP fixed assets are maintained at the historic cost. The historic cost may be written down for decreases in fair value (Impairment Accounting), but are never increased in carrying value to reflect higher market valuation.
- Under IFRS fixed assets may be written up for changes in fair value (Revaluation Accounting)

*As a result, if a company's primary accounting framework is US GAAP, the primary ledger will be missing any increase in fair market value (information) that may need to be reflected if the entity results and position need to be alternatively represented in IFRS.*

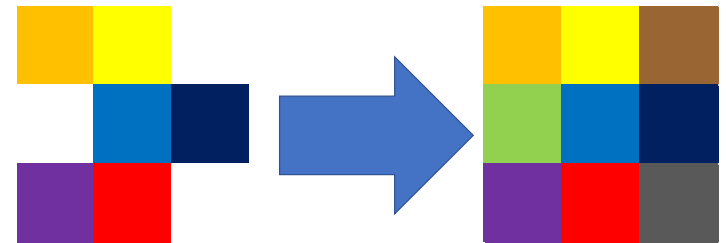
# Typical Solutions for the Completeness Problem

- Typical solutions include:
  - Outside Reporting Tools
    - Outside reporting tools can be used, but the result is that your complete accounting data is not maintained in your system of record (EBS) resulting in transparency and traceability issues
  - External Spreadsheets
    - This what is referred to as a spreadsheet dump where the period end trial balance is exported to Excel and then the missing data is added to the spreadsheet. This solution has the same transparency and traceability issues as outside reporting tool. Worse, spreadsheets are even more vulnerable to error.

*According to a PwC study, more than 90 percent of corporate spreadsheets have material errors in them.<sup>2</sup> Worse, estimates suggest that such errors cost between \$10,000 and \$100,000 per error, per month.*

# A Better Solution for Completeness Differences: Maintain the Additional Info in EBS

- Direct Journal Entries to the Secondary Ledger
  - or-
- Adjustments Only Secondary Ledgers with Ledger Sets
  - The adjustments only secondary ledger can be used to maintain the additional information needed for the alternate accounting representation
- Ledger Sets
  - Used to report out the combined additional information from the adjustments only secondary ledger with the primary ledger or with another secondary ledger



# Poll Question



# 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

# Example: Fixed Assets Revaluation with Adjustments Only Secondary Ledger and Ledger Sets

		Primary Ledger ###/###/2018	Adjustments Only Ledger Fixed Asset Revaluation	Combined ###/###/2018
<b>Assets</b>				
	100000 Cash	\$ 54,000,000		\$ 54,000,000
	200000 Accounts receivable	\$ 35,000,000		\$ 35,000,000
	350000 Fixed assets	\$ 8,000,000	\$ 1,000,000	\$ 9,000,000
	350100 Accumulated depreciation	\$ (1,200,000)	\$ (16,667)	\$ (1,216,667)
<b>Total Assets</b>		<b>\$ 95,800,000</b>		<b>\$ 96,783,333</b>
<b>Liabilities</b>				
	400000 Accounts payable	\$ 25,000,000		\$ 25,000,000
	400100 Other liabilities	\$ 18,000,000		\$ 18,000,000
	400500 Loan payable	\$ 25,000,000		\$ 25,000,000
<b>Total Liabilities</b>		<b>\$ 68,000,000</b>		<b>\$ 68,000,000</b>
<b>Equity</b>				
	500000 Owners equity	\$ 18,000,000		\$ 18,000,000
	500200 Revaluation surplus	\$ -	\$ 1,000,000	\$ 1,000,000
	500100 Retained earnings	\$ 9,800,000		\$ 10,783,333
<b>Total Equity</b>		<b>\$ 27,800,000</b>		<b>\$ 29,783,333</b>
<b>Total Liabilities and Equity</b>		<b>\$ 95,800,000</b>		<b>\$ 97,783,333</b>
<b>Income Statement</b>				
	600000 Revenue	\$ 84,000,000		\$ 84,000,000
	700000 Cost of goods sold	\$ 42,000,000		\$ 42,000,000
	Gross Profit	\$ 42,000,000		\$ 42,000,000
	800000 Selling expenses	\$ 22,000,000		\$ 22,000,000
	900500 Depreciation	\$ 400,000	\$ 16,667	\$ 416,667
	900200 Other general and administrative	\$ 18,000,000		\$ 18,000,000
<b>Total selling, general, and administrative</b>		<b>\$ 40,400,000</b>		<b>\$ 40,416,667</b>
<b>Net Revenue</b>		<b>\$ 1,600,000</b>		<b>\$ 1,583,333</b>

Ledger  
Set

# Meeting Internal Control and Audit Requirements: SOX, IAS, and GAAS

- SOX requires, among other things, companies to maintain adequate controls around financial reporting
  - EBS, properly configured, can ensure that adequate controls are maintained around the standard business transactional processes (Procure to Pay, Order to Cash, etc.)
  - Any data maintained or manipulated outside of EBS require additional levels of control, but are significantly riskier for compliance
- Audit Standards (IAS and GAAS) require the auditor to assess the adequacy of internal controls around financial reporting.
  - For data created within EBS the standard data process controls are generally adequate to allow the auditor to assess these as effective, which means the auditor may be allowed to rely on the EBS financial data
  - Data maintained outside of the EBS standard controls may be deemed effective, not rely, or not rely, which means the auditor may not fully rely on the EBS data and will be required to perform a variety of additional procedures dramatically increasing the audit time and cost

# Internal Control Approaches

## ➤ Prevent

- Access control
  - Vendor Master File
  - Invoice and Payment Processing
- Three-way matching
- Multiple approvals required based on thresholds
- Duplicate Payment Controls
- Segregation of Duties

## ➤ Detect

- Reconciliation with third party documentation (bank statements)
- Analytics
  - Duplicate Payments
  - Unauthorized changes (Vendor, Customer, and other Masterdata)
  - Ghost vendors/employees
  - Other Analytics

# Conclusion

- Meeting the ongoing challenges of the alphabet soup of multiple reporting requirements (GAAP, IFRS, FERC, etc.) can be difficult.
- Secondary Ledgers and Ledger Sets can help automate and improve a company's multiple reporting processes by ensuring accurate financial reporting with improved internal control.
- A solid analytics program to detect errors and omissions is a necessary additional piece to a strong internal control environment.

# Thank You!

## Contact

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*- One World, One System, A Single Source of Truth -*

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