



*Transforming Oracle® E-Business Suite*

# You Gain Some, You Lose Some: Best Practices for Ledger Structures During Functional Currency Change

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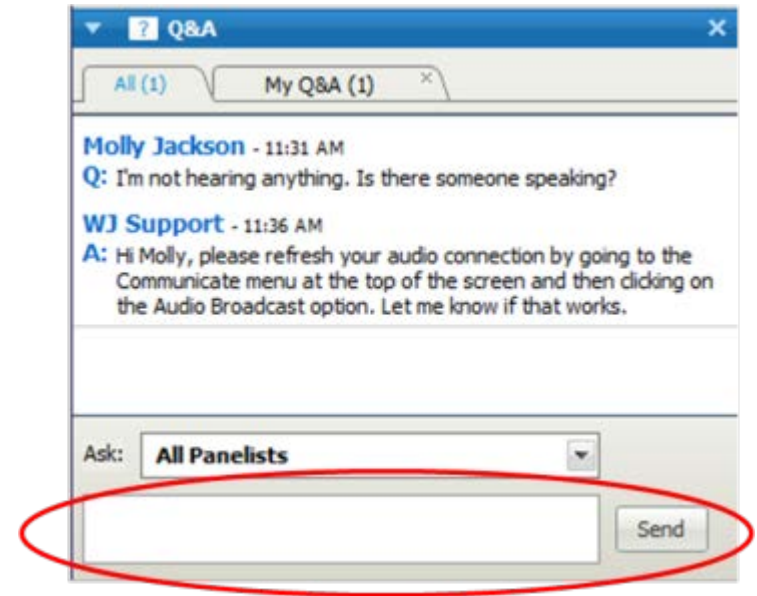
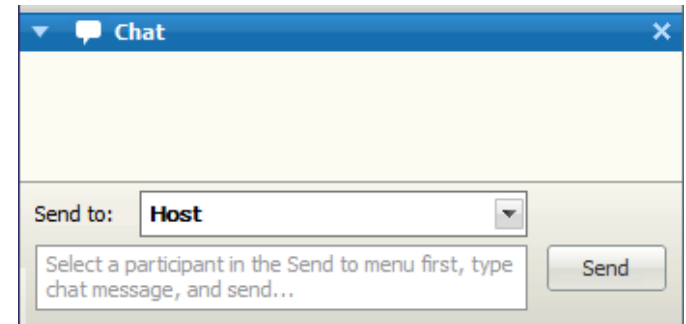
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# Webinar Mechanics



- 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.



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e<sup>prentise</sup>®

# Introduction: Finished But Not Done®

## *e*prentise®: Transformation Software for E-Business Suite







*Company Overview: Incorporated 2007, Helene Abrams, CEO*

### *e*prentise Can...

-  Consolidate Multiple EBS Instances
-  Change Underlying Structures and Configurations
  - Chart of Accounts, Other Flexfields
  - Merge or Split Ledgers or Sets of Books, Operating Units, Legal Entities, Inventory Organizations
  - Calendars, Currency, Costing Methods
  - Asset Revaluation, Inventory Valuation
-  Separate Data







### ...So Our Customers Can:

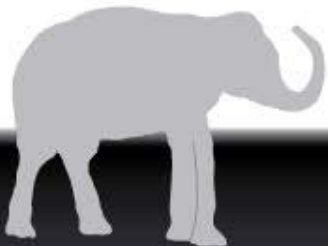
-  Reduce Operating Costs and Increase Efficiencies
  - Shared Services
  - Data Centers
-  Adapt to Change
  - Align with New Business Initiatives
  - Mergers, Acquisitions, Divestitures
-  Avoid a Reimplementation
-  Reduce Complexity and Control Risk
-  Improve Business Continuity, Service Quality and Compliance
-  Streamline Operations with Visibility to All Parts of the Business
-  Establish Data Quality Standards and a Single Source of Truth

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# Agenda




-  Functional Currency: An Overview
-  Understanding the Reasons for a Functional Currency Change
-  Options for a Functional Currency Change
-  Conclusion and Q&A

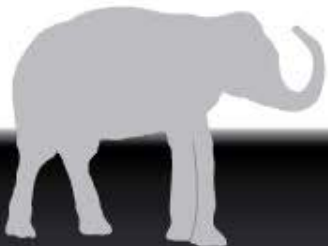


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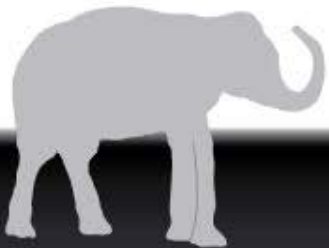


# Objectives

-  Objective 1: Discover how ledgers are affected during a functional currency change.
-  Objective 2: Analyze currency setups for ledger structures in Release 12.
-  Objective 3: Explore the best practices for ledger structures during a currency change.



# Functional Currency: An Overview



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# Currencies: GAAP Definitions

## Functional Currency

- The currency of the primary economic environment in which a distinct and separable operation operates

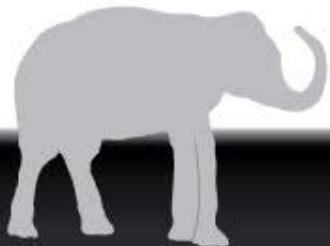
## Reporting Currency

- The currency in which a reporting entity prepares its financial statements

## Foreign Currencies

- Any currency other than the functional currency of the referenced distinct and separable operation

PWC Guide: Foreign currency: <https://www.pwc.com/us/en/cfodirect/assets/pdf/accounting-guides/pwc-guide-foreign-currency-2014.pdf>



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# Determining a Ledger's Functional Currency

	Operation is distinct and separable	Operation is not distinct and separable
Separate operations	Operations are managed independently and can be separated, both operationally and for financial reporting purposes, from the reporting entity's other operations	Operations are not managed independently or cannot be separated, either operationally or for financial reporting purposes, from the reporting entity's other operations
Assets and liabilities	Assets and liabilities of the operation can be separated from those of the reporting entity's other operations and relate directly to the operation's activities	Assets and liabilities of the operation cannot be separated from those of the reporting entity's other operations, the operation holds only certain assets and liabilities (e.g., receivables and inventory), or they hold assets and liabilities that relate directly to a reporting entity's other operations
Financial statements	A meaningful set of all-inclusive financial statements could be routinely prepared for the operation	The operation cannot produce financial statements or produces a limited set of financial statements

PWC Guide: <https://www.pwc.com/us/en/cfodirect/assets/pdf/accounting-guides/pwc-guide-foreign-currency-2014.pdf>



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# GAAP Framework






PWC Guide: <https://www.pwc.com/us/en/cfodirect/assets/pdf/accounting-guides/pwc-guide-foreign-currency-2014.pdf>



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# Currencies: R12 Definitions

-  Accounting Currency (Functional Currency in 11i)
  - Generally the same as functional currency, but does not have to be the functional currency
-  Reporting Currency
  - The currency in which a reporting entity prepares its financial statements
-  Entered Currencies (Foreign Currencies)
  - Any currency other than the functional currency of the referenced distinct and separable operation that is entered into a ledger (directly as a journal entry or through subledger accounting)

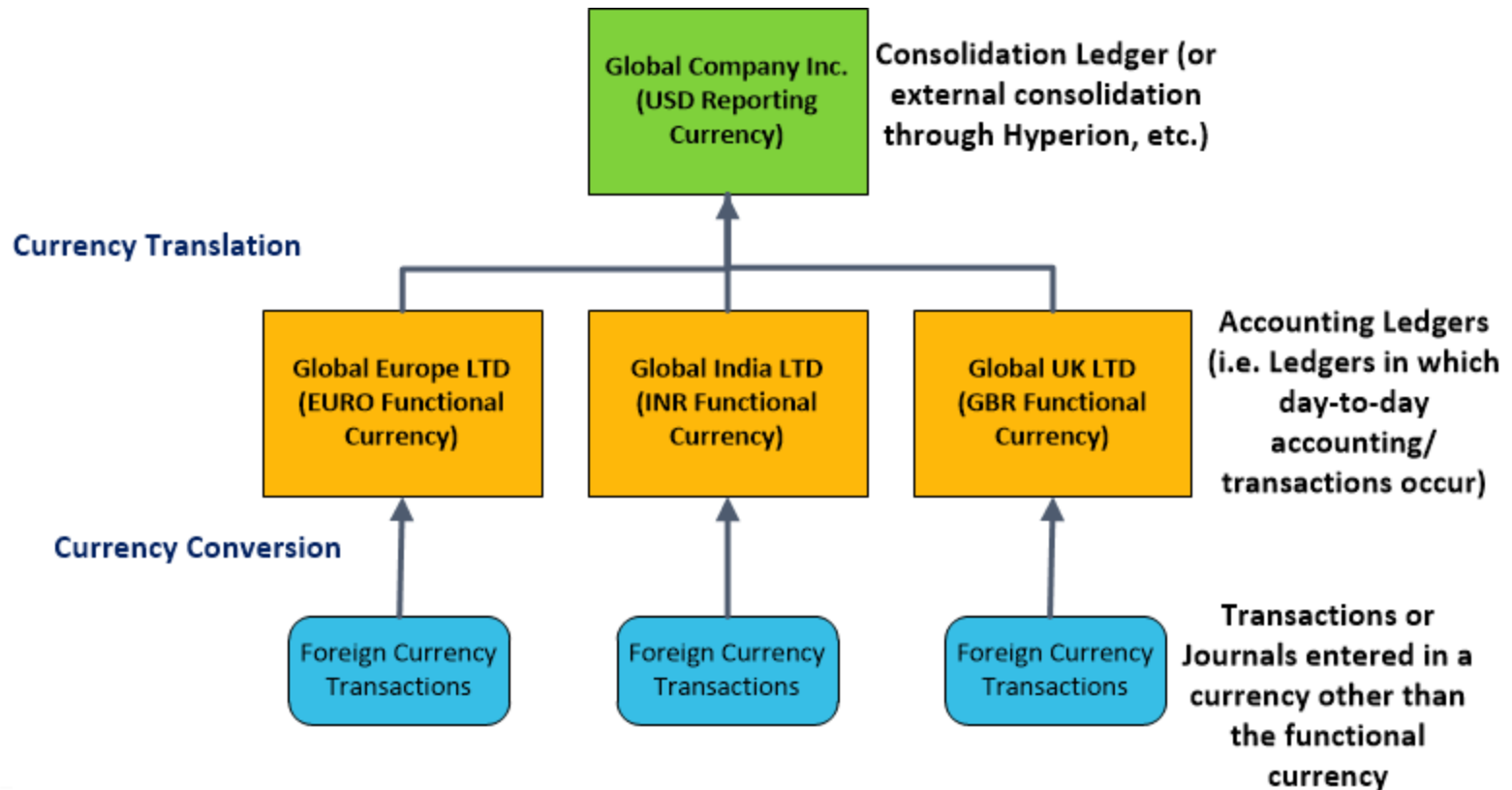
PWC Guide: Foreign currency: <https://www.pwc.com/us/en/cfodirect/assets/pdf/accounting-guides/pwc-guide-foreign-currency-2014.pdf>



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# Currency for a Global Company Structure: Simple Structure Example

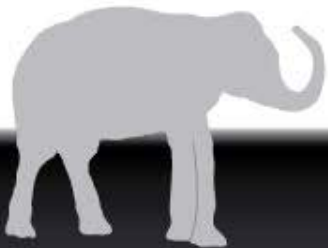
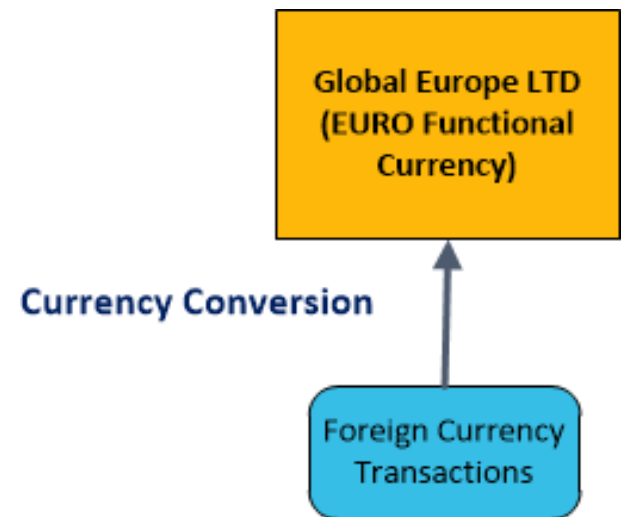


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# Currency Conversion

- 🐘 R12 ledgers allow foreign entered currencies that differ from the ledgers functional or accounting currency
  - R12 Subledger Accounting functionality converts the entered currency (foreign) into the functional/accounting currency of the ledger
  - R12 allows journal entries to be entered in a foreign currency and converted to the functional/accounting currency

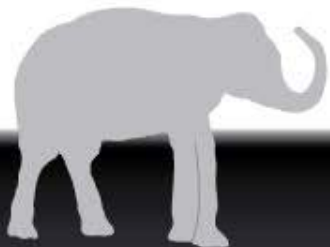


# Currency Conversion: FX Gain or Loss

For subledger entered foreign transactions (AP/AR), when the invoice/bill is settled subsequent to the entered date, a foreign exchange (FX) gain or loss is created. FX gain/loss is an income statement account.

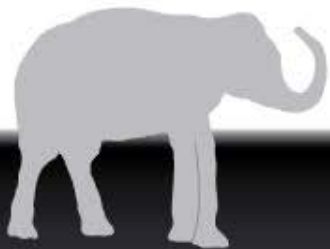
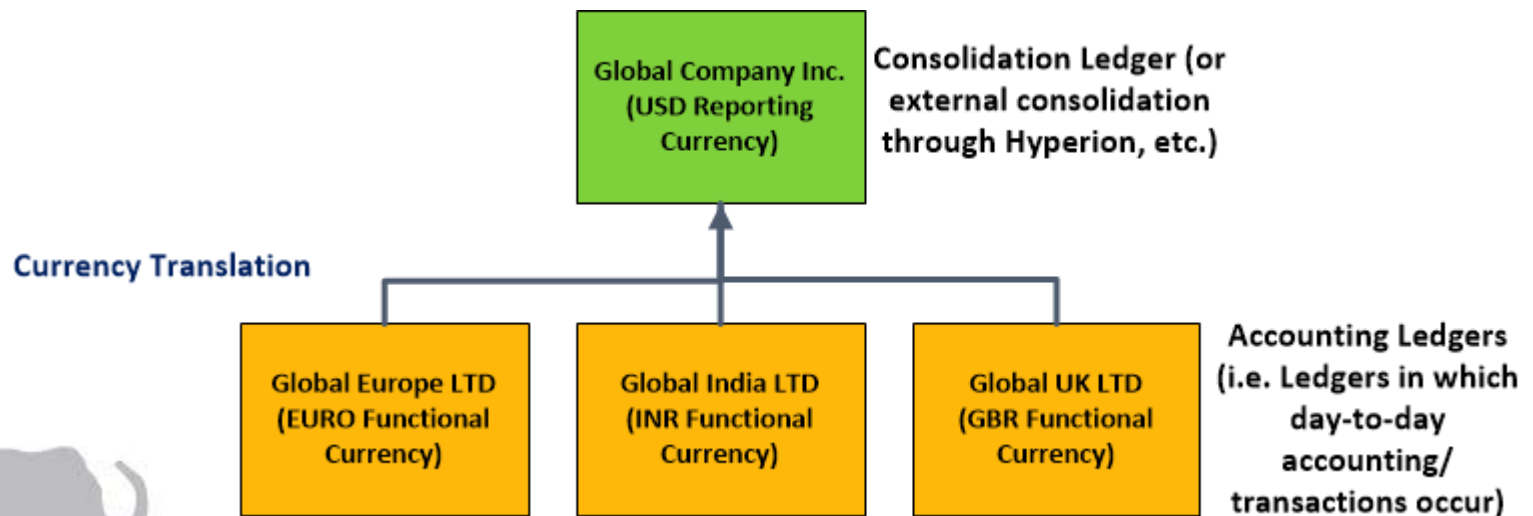
## Ledger Functional (Accounting) Currency EURO

1/2/2016 Sale (Invoice) in JPY	¥100,000.00
JPY to EURO Daily Rate	0.0076
Unpaid Invoice Converted to EURO	€ 760.00
2/28/2016 Payment in JPY	¥100,000.00
JPY to EURO Daily Rate	0.0080
Payment Converted to EURO	€ 800.00
FX Gain	€ 40.00



# Currency Translation

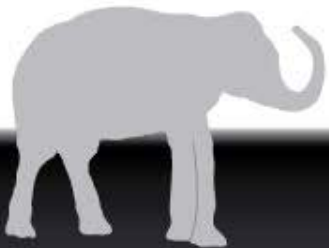
When a company's global entity reporting currency differs from the ledgers' functional (accounting) currency, each differing ledger is translated at a balance level to the global reporting currency. Differences resulting from translation of balance sheet and income statement accounts results in a cumulative translation adjustment (CTA), which is a balance sheet account.



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# Poll Question



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# Understanding the Reason for a Functional Currency Change



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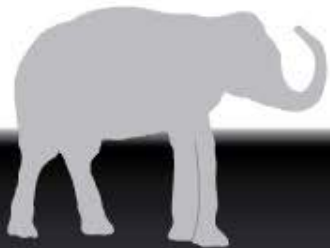




# Functional Currency Change

Determining functional currency is not a subjective opinion

- Objectively, “an entity’s functional currency is the currency of the primary economic environment in which the entity operates; normally, that is the currency of the environment in which an entity primarily generates and expends cash.” (ASC 830-10-20)
- **Key Point:** Changes in an entity’s operating structure (change in ownership, etc.) can result in the need to change functional currency. This objective determination is made by management, but generally with consultation to the entity’s independent auditors.



# Options for a Functional Currency Change

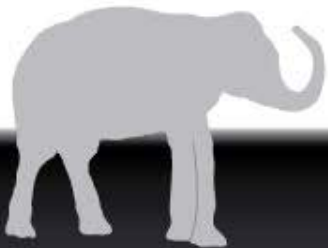


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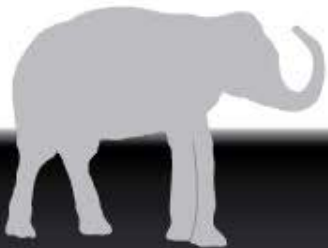
# Options for Changing a Ledger's Functional Currency

- 🐘 Make no change
  - Only appropriate if the respective ledger is immaterial to the global reporting entity.
- 🐘 Reporting currency ledger
- 🐘 Secondary ledger
- 🐘 Reimplement the ledger
- 🐘 Change the functional currency using software



# Make No Change- "Can't I just adjust for the difference during translation?"

- 🐘 Making no change may result in a significant misstatement of FX gain or loss on the income statement.
  - Adjusting for the misstatement by revaluation during consolidation and translation is theoretically possible, but would entail significant FX gain and loss analysis by each transaction, so is in most cases impracticable, unless the ledger is immaterial to the global reporting entity, in which case the change does not need to be made anyway.



# FX Gain/Loss Example

## Ledger Functional (Accounting) Currency EURO

1/2/2016 Sale (Invoice) in JPY	¥100,000.00
JPY to EURO Daily Rate	0.0076
Unpaid Invoice Converted to EURO	€ 760.00
<hr/>	
2/28/2016 Payment in JPY	¥100,000.00
JPY to EURO Daily Rate	0.0080
Payment Converted to EURO	€ 800.00
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FX Gain	€ 40.00
<hr/>	
2/28/2016 EURO to USD	0.9148
FX Gain Converted to USD	\$ 43.73

## Correct Functional (Accounting) Currency USD

1/2/2016 Sale (Invoice) in JPY	¥100,000.00
JPY to USD Daily Rate	0.0083
Unpaid Invoice Converted to USD	\$ 829.02
<hr/>	
2/28/2016 Payment in JPY	¥100,000.00
JPY to USD Daily Rate	0.0088
Payment Converted to USD	\$ 877.39
<hr/>	
FX Gain	\$ 48.37

**11% Misstatement!**

The problem arises because currencies are not mutually dependent. The rate to go from JPY to EURO to USD is not in aggregate the same as the rate to go from JPY to USD.



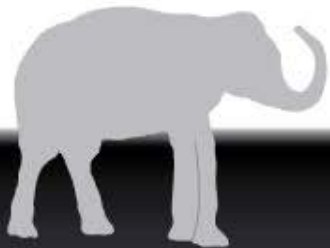
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# Reporting Currency

“Reporting Currencies feature allows you to report and maintain accounting records in more than one functional currency. You do this by assigning one or more reporting currencies to your primary ledger or secondary ledger using General Ledger’s Accounting Setup Manager.”

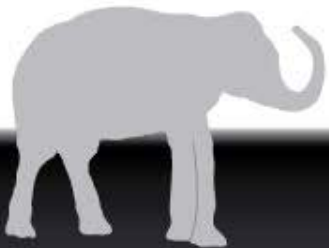
*Oracle E-Business Suite Concepts: [http://docs.oracle.com/cd/E18727\\_01/doc.121/e12841/T120505OA1234.htm](http://docs.oracle.com/cd/E18727_01/doc.121/e12841/T120505OA1234.htm)*



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# Poll Question

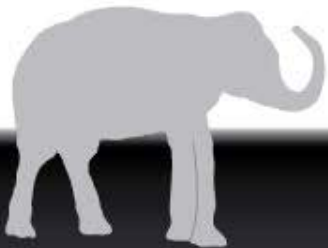


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# Secondary Ledgers

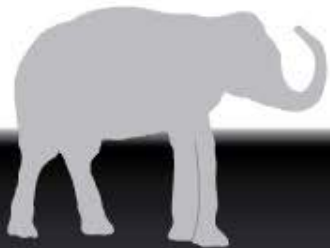
-  Secondary Ledgers may also be used to present a primary ledger in another currency and is the preferred method in R12. A secondary ledger may be maintained at one of three levels:
- Balance only (not adequate to address the FX issue)
  - Journal entry level (not adequate to address the FX issue)
  - Subledger level (may have the same limitations as subledger level reporting currencies)





# Reporting Currency and Secondary Ledger Caveat

Reporting Currency and Secondary Ledger functionality revalues both transactions and balances to another currency, but does so only at the accounting transaction level, not recalculating from the entered foreign currency transaction. This may cause some misstatement, which may or may not be material.




# Other Issues with Reporting and Secondary Ledgers

The potential problem with FX misstatement is not isolated to only FX gain or loss, it cascades to all other accounts that are related to AR/AP

- 🐘 Fixed Assets
- 🐘 Inventories
- 🐘 Other Accounts

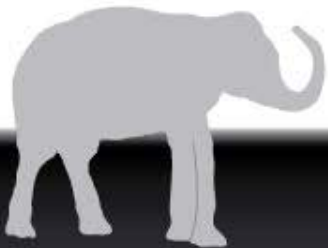


# Secondary Ledgers and Reporting Currencies Should be for Reporting Only

-  Reporting currencies are specifically intended for use by organizations that must regularly and routinely report their financial results in multiple currencies.

*Oracle General Ledger User's Guide: [https://docs.oracle.com/cd/E18727\\_01/doc.121/e13627/T312864T371267.htm](https://docs.oracle.com/cd/E18727_01/doc.121/e13627/T312864T371267.htm)*

-  The ledger of transactional/accounting record should be correct.

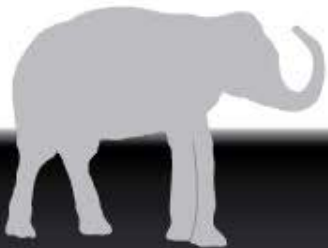


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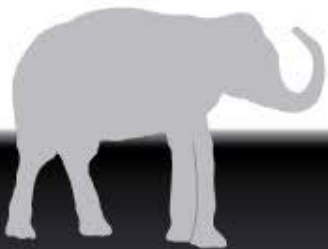
# Ledger Reimplementation

- 🐘 The need to change functional currency may be addressed by reimplementing the effected ledgers
  - Setting up new ledgers in the correct functional currency and populating the respective beginning balances and related open transactions
  - Other considerations:
    - Fixed assets (only in the functional/accounting currency)
    - Deferred revenue
    - History

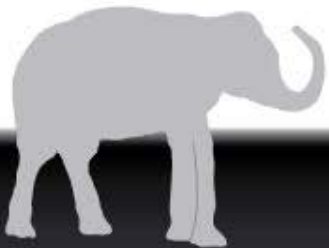


# Rules Based Software to Change the Functional (Accounting) Currency

- 🐘 Change the functional/accounting currency using software
  - Include all history
  - Align all subledger related accounts (FA Books, etc.)
  - Correctly state FX gains/losses



# Poll Question



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# Conclusion

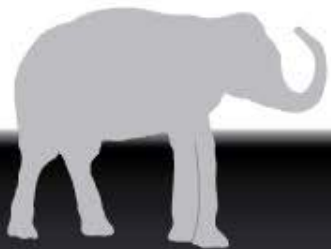
If an entity needs to report the ledger in an alternative currency, then Reporting Currency(ies) and Secondary Ledgers may meet the need. However, entities required to change the functional/accounting currency of their ledger(s) under either ASC 830 (US GAAP) or IAS 21 (IFRS) must change the primary ledger(s), because the reporting approach may result in a significant and ongoing misstatement.



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# Questions?



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# Thank You!

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