

# Best Practices for Oracle Receivables

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## Abstract

Whether you are just getting started using Oracle Receivables or have been using it for years, there may be better ways to take advantage of the available features. Based on my experience with over 80 clients, this presentation includes my suggestions for "Best Practices" for optimally utilizing Oracle Receivables. I include tips for: setup, cash application, Lockbox processing, period close processes, separation of duties and more. This paper is applicable no matter which release you are using.

Some of these suggestions will be things you are already doing - yay! Others may require setup changes that are not possible at this time but might be applicable in the future. And some will be process changes that you can institute as soon as you return to your office. Hopefully, you will get at least one or two ideas that will help you to better understand how the application works and suggestions for how to improve how you utilize Oracle Receivables.

## Objectives

To educate users and analysts on how they may improve their utilization of Oracle Receivables. To provide specific details for how make these improvements and to provide the audience with what I have learned as one of the original designers of Oracle Receivables. Allow the audience to take advantage of my 30+ years of experience helping over 80 clients to implement, upgrade and utilize Oracle Receivables. This paper is applicable if you are just starting a new implementation or have been using Oracle Receivables for years.

## Cash Application

With Cash Application, the most important best practice involves how you setup your banks and the associated accounts - there are several critical accounts that impact you: Cash, Unapplied, On-Account and Unidentified.

A couple of issues to keep in mind: Accounts Payable often shares the same actual bank account with Oracle Receivables. From a banking viewpoint this is fine; however, it can cause reconciliation issues. Even if you share a bank account with Accounts Payable, I suggest you use a slightly different General Ledger account for the bank account for Accounts Payable and for Accounts Receivable. Maybe a sub-account or one number off - that way each application "owns" the accounting for their account only.

At one of my clients, the Accounts Payable folks inactivated a bank because they were no longer using it, but Accounts Receivable was still using it. The AR folks were quite distressed when their bank account disappeared. Be sure that everyone knows that the banks and bank accounts are shared.

## Cash Application Accounting

It is critical that you understand the underlying accounting before you define your setup values. Oracle Receivables utilizes the Unapplied Receipts Account much more frequently than you might expect. Examples of how the accounting is created internally in Oracle Receivables. I have noted the associated setup screen in parentheses.

	<b>Debit</b>	<b>Credit</b>
<b>Immediately Apply Receipt to An Invoice (R11)</b>	Cash (Receipt Class) Unapplied Cash (Receipt Class) <b>Note: 4 Sided Entry in R11</b>	Unapplied Cash (Receipt Class) AR (Based On The Invoice You Are Paying)
<b>Immediately Apply Receipt to An Invoice (R12)</b>	Cash (Receipt Class) <b>Note: 2 Sided Entry in R12</b>	AR (Based On The Invoice You Are Paying)
<b>Immediately Apply Receipt to An Invoice With A Discount</b>	Cash (Receipt Class) Discount (Receipt Class - Based On Whether Earned Or Unearned) Unapplied Cash (Receipt Class)	Unapplied Cash (Receipt Class) AR (From The Invoice)
<b>Leave as Unapplied</b>	Cash (Receipt Class)	Unapplied Cash (Receipt Class)
<b>Apply Unapplied Amount</b>	Unapplied Cash (Receipt Class)	AR (From The Invoice)
<b>Unapply and Re-Apply</b>	AR (From The Original Invoice) Unapplied Cash (Receipt Class)	Unapplied Cash (Receipt Class) AR (From the New Invoice)

### Credit Card Accounting

	<b>Debit</b>	<b>Credit</b>
<b>Create Receipt (Run Confirmation Process)</b>	Confirmation Account (Ideally a special account only used for credit cards)	AR (Based on the Invoice)
<b>Remit Receipt (Run Remittance Process)</b>	Remittance Account (Ideally a special account only used for credit cards and not the same as the confirmation account)	Confirmation Account (Offsets the account used when you created the Receipt)
<b>Clear</b>	Cash (Receipt Class)	Remittance Account (Offsets the account used when you remitted the Receipt)

In R11, the unapplied account is used for almost every cash based activity. This is why you see such large debit and credit amounts for that account in your reconciliation and why I *strongly*

suggest that you make your Unapplied Account a unique account. This is no longer the case in R12 but I still recommend you make your Unapplied Account a unique account.

## Receipts Setup

**Receipt Classes (Setup - Receipts - Receipt Classes)** is the critical setup screen for cash application. It provides the core accounts you use when you apply cash in Oracle Receivables. I suggest the following rules when assigning these accounts:

**Cash** - This should be a real cash account (tied to your bank account). This is the *only* setup value on this screen that should be utilizing a cash account.

**Receipt Confirmation** - This account is used by credit cards and letters of credit (automatic receipts) only. Note: When you first create an invoice that is to be paid by credit card, the invoice is automatically closed (though you have no cash yet) and you debit the Confirmation account. This will be offset by the Remittance Account if the receipt makes it through that step. Ideally, you should never have open balances in this account. A balance means you have not even requested payment from your customer which *greatly* reduces the chance of your being paid. Research any open items and resolve ASAP.

**Remittance** - This account is used by credit cards and letters of credit (automatic receipts) only. This account is used when your credit card receipt has been successfully created and you have requested payment from their bank (remit). Oracle will offset this account when the cash has cleared and been deposited in your account. Ideally, you should never have open balances in this account. It means that you have requested payment from your customer but have not yet received payment. For MasterCard and Visa accounts, it often takes 2-3 days for the payment to be received, for American Express; this may take up to 7 days. Research the open items that are greater than 7 days old and resolve ASAP.

**Factoring** – Used for factored bills receivable.

**Bank Charges** - This is the default account you may use to account for bank fees. This should be an expense account, since that is what it is.

**\*\*\*\* Unapplied Receipts \*\*\*\*** As I noted above, this is the most critical setup for receipts due to all of the activity that "rolls" in and out of this account (more so in Release 11 than in Release 12 but it is still a critical account setup). The unapplied account is intended for tracking payments which have not yet been applied to open invoices - but you do know who the customer is. If you can, I recommend using a unique account that is not your cash or AR account. You may also wish to make the account number close to your AR account number (so the GL folks may lump them together for your financial accounts e.g., if the AR account is 12000, the unapplied account could be 12001). This should never be your cash account! When I assist companies where I did not assist in the setup - I often see the AR Account used for this; this is workable but not ideal!

Be sure to keep an eye on your unapplied payments, they can quickly add up and it is not good for "customer satisfaction issues" to have your collectors trying to collect on invoices the customer thought they had already paid. The Aging is a great tool for mating unapplied receipts and open invoices.

**Unidentified Receipts** - This account is used for payments where you don't even know the customer, so you are unable to apply them. Again this should ideally be a different GL account, but is often the same account that is used for Unapplied. You should try to identify the customers

ASAP, or again you may be trying to collect on invoices the customers thought they already paid.

**On-Account Receipts** - Ideally this account (and status) should only be used for cash in advance and pre-payments. In the purest sense, it is a liability and should be a liability account. On-account payments are used when you have received payment but the goods and services have not yet been provided. By using a unique account, you have visibility to this liability.

**Unearned Discounts** - This account is used when the customer provided a payment for an invoice that has payment terms including an early payment discount (not a pricing discount) but they did not send the payment within the discount terms e.g., the terms are 2/10 Net 30 but the customer paid in 12 days. You have the option to allow the discount even though the customer paid after the "discount date". This is the account used if you make that choice. This is a business expense and should be an expense account number.

**Earned Discounts** - This account is used when the customer provided a payment for an invoice that has early payment discount payment terms and they paid within the discount terms e.g., the terms are 2/10 Net 30 and the customer paid in 10 days. This is a business expense and should be an expense account number.

**Claim Investigations** – This account is used when processing chargebacks using Oracle Trade Management.

## **Lockbox Processing**

Whether you use an "Automated Lockbox" where the bank keys and sends you the details of the payment received or not, I recommend that you use a Lockbox. This is a service the bank provides where you can have your customers send their payments directly to them vs. to you. This has several advantages:

- 1) The payment is deposited into your bank account sooner (since it goes straight to the bank vs. to you and then to the bank)
- 2) Better controls, no loose checks around the office and
- 3) Less chance of fraud.

You may also choose to set up lockboxes in different regions e.g., East Coast and West Coast to further speed the receipt of payments.

## **AutoLockbox**

This is a process where the bank receives the payments and records the information you have requested. The bank sends you an electronic file that you may load into the AutoLockbox process in Oracle. An example of this is when you send your utilities payment to a P.O. Box. Note that though there is "auto" in the name, Oracle still considers these to be "manual payments". There are pros and cons to using this service:

### **Pros:**

- You have less information to enter into Oracle (this is especially applicable if you receive lots of checks and/or lots of checks that are paying many invoices)
- The accuracy of some of the data may be better, since the bank can scan the details vs. keying them in

### **Cons:**

- If you consistently receive inaccurate information from the majority of your customers (e.g., as to the invoices they are paying) - you may spend more time reworking than you would have

spent just entering the data in the first place (though you can often work with your bank e.g. by providing them with examples... to improve the quality of the data you receive via Lockbox).  
- Can be expensive - though this is VERY negotiable!

### **AutoLockbox Suggestions**

If you choose to AutoLockbox or you are already using it, I suggest the following:

#### **New Implementation**

Note that process of getting data from the bank can take MONTHS! I just worked with a client where it took us 5 months to get the first file from the bank and of course there were issues that took several more months to resolve.

Be sure that you, not they, determine when you will cut over to "production".

I prefer to have the bank key both the invoice number AND amount to be paid from the remittance advise vs. just the invoice number (which is the default provided by Oracle). This means that Oracle will apply the payment as requested by the customers vs. applying until it runs out of money on the receipt. Less re-work is required and you have visibility to invoices with potential issues, e.g., when the customer is not paying in full. And most importantly, you will be applying the payments exactly as your customer indicated.

#### **All Uses of Lockbox**

You may receive and process negative amounts from the bank, the key is how the bank passes you the amount e.g., \$10.00- , the amount needs to be passed as -0001000 (the number of leading zeros varies depending on the length of the field you use). Note that often the "negative" amounts will still not pass the verification step because the customer is referring to their internal reference number vs. a valid Credit Memo number in your system. In those cases, more research may be required.

As of Release 11.5.8, you may also take advantage of the API's (mini programs) that Oracle provides that you may modify to help in matching the payments to the proper invoices. For example: you may setup the API's to find the proper invoice number given that the customer provided the Sales Order or Purchase Order number vs. the standard process that uses the Invoice number.

#### **Increase Accuracy - Possible At Any Time**

You can work with the bank to increase the accuracy of the data they key e.g., let them know what to look for as far as invoice numbers e.g., 6 digits long started with a "7" vs. order numbers that are 8 digits long and begin with a "3". I like to provide the bank with several examples of remittances advices, especially examples that are hard to decipher with the key fields highlighted. They may use these to train their folks to find the correct numbers to key.

#### **Lockbox Submission Screen**

I always check "Complete Batches Only" to insure that my batches are the same as the bank's batches (this helps with reconciliation with your bank). This may mean a bit of a delay before you "transfer" all of the records in the batch (while you are figuring out the items with issues) but it is worth it.

I also never allow "Payment of Unrelated Invoices" - eek!! Think of the potential problems this could cause.

I use meaningful Transmission Names e.g. deposit date and bank name e.g., 06092010boa, then I know a lot about the transmission just by looking at the name.

### **Cash Processing Tips**

I regularly see clients who are forcing all of their payments to have an On-Account status so they can get the batch to have a status of "Closed" - eekkkk!!!!. I apologize for that, the idea of the original design was to use the status to keep you aware of batches that still need work. But, unfortunately, most folks have taken this to mean that you never want a status of Open so they make their unapplied payments have a status of On-Account so they will have a status of Closed (which sounds so much better). *But... a status of Closed has no meaning!!! None, whatsoever!* It won't help you to post, or account for your activity - nothing! And... by making everything on-account : 1) you have lost visibility to the real cash in advance and prepayments and 2) you have to unapply the on-account payment before you can apply it to the intended invoice (two steps instead of one). *Please, please, please don't this!!*

Next, keep on top of your unapplied and unidentified receipts (they show up on the Aging if you select to "Age" them in the Show Open Credits report parameter). Don't let them get to be a massive number, which can happen very quickly. Apply them ASAP. You might have your Collectors note on the Aging which unapplied receipts belong to which invoices and then have your cash applier(s) apply them.

### **Prompt Payment Discounts**

Prompt payment discounts e.g., "2/10 Net 30" have rarely been used in the years since interest rates dropped below 18% (remember that?) But, with the current economy, it is a potential tool you may choose to use to increase prompt payments. Something to think about!

### **Miscellaneous Cash (Non AR Cash)**

This feature was added to Oracle Receivables so you have a way to enter and account for all payments received (invoice related or not) through a single application (vs. part going directly to GL and the rest processed in Oracle Receivables). By using Oracle Receivables for ALL of your receipts, your AR, GL and bank reconciliations will be more straightforward, logical and easier. You may pre-define frequently used Miscellaneous Receipts e.g., sales in the Company Store to the proper accounts using the Receivable Activities setup screen. If you find that you can't use a certain GL account, you may have to work with the GL folks to expand the account usages rules to allow Receivables to use the additional accounts. They may have set up account controls which have excluded Receivables as an application that may use that account. This is a simple setup change for them.

I have seen folks waiting until the end of the month to process their Miscellaneous Cash – why? Month-End is stressful enough! If possible, enter your miscellaneous cash throughout the period. It will then be one less thing to worry about at month-end.

### **Reverse and Re-enter a Receipt from a Prior Period**

You may have a situation where you have to reverse and re-enter a receipt that you originally entered in a prior period (an option that is available in Oracle Receivables). Since the cash has already deposited and reconciled with the bank and the prior period should be closed, you need a procedure for re-entering the receipt.

I use a Sunday date for the receipt date (since most companies don't have deposits on Sundays (or they have smaller deposits on Sundays). By using the Sunday date, when I try to reconcile with the bank, I will be off by that amount but if I look at the Deposited Cash Report (which lists

deposit amounts by date) that amount will stick out as a Sunday and I will know what happened.

### **Reverse Receipts**

When you reverse a receipt (e.g., for NSF) you have the option to create a debit memo or to re-open the original invoice. To me, if you create a debit memo (which has the current date as the debit memo date), you are rewarding the customer for bouncing the check - seems like a bad idea to me. I always re-open the original invoice. You always have the option of reversing a receipt in the current period, even if it was originally entered in a prior period.

### **Naming Conventions**

For both Lockbox transmissions and regular manual receipt batches - I use a naming convention that identifies the deposit date and the bank e.g., for a Bank of America deposit on June 29, 2010: 062915-BOA or 06092015boa. By using meaningful names, I already know a lot of good information about the contents by just looking at the names.

### **Procedures for Cash Received in House**

If you receive checks and/or real cash in-house, you should have procedures in place for what to do with them, especially real cash. Some companies send the checks to the Lockbox; others run to the local branch and make a deposit, while others turn the payments over to the Treasury department. What is your procedure? If you don't have one, it's time to create one and actually use it.

### **Chargebacks**

Most companies are unable to utilize Oracle's standard Chargeback functionality since it implies that the customer is just taking a deduction or short paying a specific individual invoice. Oracle Receivables' standard process closes the original invoice and creates a chargeback" debit memo for the balance due. In reality, a customer often takes multiple deductions which are not tied to a specific invoice. I suggest creating a manual credit memo (for the total deduction amount - by receipt) and multiple debit memos – one for each deduction for the receipt (which ends up being a wash) to 1) have the credit memo to apply with the receipt and 2) debit memos to research for each deduction the customer took. I name the Credit Memos CDC (customer deduction credit)-*the receipt number* and the debit memos CDD-*their reference number*. That way I can refer back to the original receipt number and the customer's reference numbers. If you have installed Oracle Trade Management, you may take advantage of its standard customer deduction features.

### **Credit Card Processing**

Credit cards, though another form for payment has unique challenges. First, you have a responsibility to your customers to protect their credit card numbers, especially given the number of companies who have "lost" their customer's credit card details in the last year or so! If you have not already applied it, be sure to install the credit card number encryption patch – ASAP. I also suggest that you take advantage of the AR and OM System Profile Options that mask all but a couple of digits (I prefer masking all but the last 4 digits). Insure that you have setup the masks to show the same 4 digits on the orders and on the Invoices. Verify - have you created custom reports that show the full credit card number? If yes, you need to change them ASAP.

Next, you should run your credit card processes in a timely manner. This may be nightly or every 4 hours or whatever but it should never be "when I get to it". As of release 11.5.10, you have the option to auto submit the Confirmation and Remittance processes in Oracle Receivables – I suggest that you take advantage of this option.

If you have items that get stuck in either process, fix them ASAP using Oracle Receivables and not an external application or tool!! Anything you do in an external application such as a terminal from the bank will not be processed in Oracle and will continue to appear as open items and cause reconciling issues in Oracle Receivables. Then manually rerun the Confirm and Remit processes. Remember - if your items are not successfully processed through the Remit process, you haven't even asked for the money yet and it is hard to get paid for something you have not asked for.

Ideally, I use Cash Management (free with AR and/or AP) to "clear" credit card receipts (verify and account for the actual deposit of the credit card receipts into your bank account). There may be issues with inconsistencies between the reference numbers used by the credit card processor and the bank. If you are able to resolve these issues Cash Management will work great! This may require a custom process but to me, it is worth it.

In Order Management you may define when you pre-authorize the credit card - when the order is created, before shipment... or whenever you choose. I suggest that you utilize this feature. You also have the option to define when the authorization expires and will require a "re-auth". Work with your bank to determine the proper number of days for this and take advantage of this feature.

Are you sure that every one of the credit card orders/invoiced you processed were actually processed by your credit card processor? How will you know if it wasn't? Insure that you have proper controls in place so that you don't "miss anything."

**Note** – For new invoices that are tied to credit cards, Oracle Receivables automatically closes the invoices as paid when you create the receipts (in the confirmation process). And, you have not even requested any money yet – eek! So, clean up your receipts with statuses of "Confirm" and "Remit" ASAP!

## **Transactions (Invoices, Debit Memos, Credit Memos, Deposits, Guarantees)**

Again, the setups and processes are key; the primary setup for most transactions is Transaction Types. This is where you define the processing rules and the default accounting (generally the source for most AutoAccounting values). (**Setup -- Transactions -- Transaction Types**)

### **Transaction Types**

I recommend that you use: Natural Application Only and not Allow Overapplication! It is much less confusing if you always know that invoices and debit memos are positive and credit memos are negative. Also, if you take an invoice negative e.g., by applying a payment that is greater than the amount due, you have to do funny processes like creating \$0 receipts to apply them. It seems to cause more problems than it is worth.

I create at least one Transaction Type for each AR account I use. You may need to create more than one to help with your processes (order workflow, reporting...). I also like to use short/meaningful names for the Transaction Type name (this appears on various reports such as the Aging reports). For example I might create a Transaction Type with a name of PIGI for Palo Alto International General Invoice. When I look at the aging, I can tell a lot about this invoice, by just looking at the name. I can also use the name for selecting only certain transactions to appear on a report e.g., the first Palo Alto Transaction Type, through the last Palo Alto Transaction Type allows me to see just Palo Alto activity.

### **Transaction Numbering**



I want to be able to tell just by the number what I am seeing. For example: invoice numbers are 6 digits long and start with a "7" vs. order numbers that are 8 digits long and begin with a "3". For example: if I see the number 735467 I know immediately that it is an invoice number vs. an order number.

### **Chargeback, Deposits and Guarantees**

Do you utilize Chargeback's (for where the customer short pays a single invoice and you create a new debit memo for the difference)? Do you use Deposits and/or Guarantees? Deposits are when the customer gives you a bunch of money up front and you chip away at it as you create invoices referring to the Deposit). Guarantees are where the customer agrees that they will spend \$x with you in a given time frame and you have the right to charge them if they do not spend the full amount - so you need to track what they have spent so far. If applicable, these are all additional Transaction Types you need to define. *Verify that the accounting is working as you expect for these items since they are different than other transactions.* Note that if you use Deposits, when you create an invoice that refers to the Deposit, the invoice is automatically closed – even if you have not received any payment yet for the “Deposit” invoice – monitor these carefully.

You may add Transaction Types as needed at any time.

### **AutoAccounting**

Until Release 12, AutoAccounting was a setup to allow both AutoInvoice and manual invoice entry to default the proper segment values for the key GL accounts. You are able to mix and match segment values based on certain other setups e.g., the Revenue Account account segment is generally derived from the item and the company, cost center... are often derived from the Transaction Type.

This is an example of a typical AutoAccounting setup showing the key accounts and the source of the derived values (**Setup - Transactions - AutoAccounting**).

For Example:

ACCOUNT- ING FLEXFIELD SEGMENTS	AUTO INVOICE CLEARING	FREIGHT	RECEIVABLE	REVENUE	TAX	UNBILLED RECEIVABLE	UNEARNED REVENUE
(Possible Default Sources)	Salesreps*	Salesreps	Salesreps	Salesreps	Salesreps *	Salesreps*	Salesreps*
	Site	Site	Site	Site	Site	Site	Site
	Standard Lines	Standard Lines	Transaction Types	Standard Lines	Standard Lines*	Standard Lines	Standard Lines
	Transaction Types	Transact- ion Types		Transact- ion Types	Taxes	Transaction Types	Transaction Types
					Transact- ion Types		
Company	Types	Salesrep	Salesrep	Salesrep	Taxes	Types	Types
Cost Center	Types	Salesrep	Salesrep	Salesrep	Taxes	Types	Types
Account	Types	Types	Types	Line	Taxes	Types	Types
Sub Account	Types	Types	Types	Line	Taxes	Types	Types
Special use	AutoInvoice - where revenue not = qty * price					-Bill in Arrears -Guarantees	-Bill in Advance -Guarantees -Deposits

How you define the default accounts you associate with a Transaction Type is critical and you may need to identify additional Transaction Types to insure that your transactions are properly accounted for. **Tip:** I never hard code the values for any segments, for example, at this time, the value for sub account is always 000 but if you hard code that value here and later start to use it, you will only see 000 and not the "new" values you have been adding e.g., for the revenue account. By following the standard defaulting rules for each segment, you are ready immediately to utilize the new segment values.

Items (Standard Lines) are a special case because they are setup and maintained by the Inventory folks. Work with them to insure that the account values are appropriate since the item accounts are the primary source of your Revenue accounts.

**Note:** Oracle has added a new tool, the AutoAccounting Analyzer, see Doc Id; 1904785.1 for more details.

## **Transaction Processing**

### **AutoInvoice**

For most of my clients, the majority of their transactions are created via AutoInvoice – either from Order Management or Projects. Verify that you are running AutoInvoice in a timely manner and that you have allowed enough time for it to finish before everyone comes in for the morning. Periodically take a look: you may have originally setup AutoInvoice to automatically run every night at 3:00am but since your business has increased – the process may still be running when your folks start work in the morning, or, when your international offices are working. Analyze how often and when you run AutoInvoice and make the appropriate changes as needed.

A certain person and/or a group of folks should be responsible for recognizing and correcting exceptions in AutoInvoice. If you are using the AutoInvoice Corrections screen, you should also make the corrections in the source application too (e.g., Projects or Order Management). If not, invoices from the same order/project will keep running into the same issues. Should you then re-run AutoInvoice manually or can you wait until the next night? You should decide which is the best option for your business. Waiting until the next night may actually have an impact on your cash flow. The key is getting items out of the exception state and creating the invoices ASAP. Again, if you don't ask for the money, you won't get paid. It is especially critical that there are no exceptions at month end, so by resolving the exceptions throughout the month, there will be fewer to deal with at Month-End.

### **Credit Memos**

Define a process for dealing with Credit Memos that apply to already closed invoices (they will reject in AutoInvoice) and approving Credit Memos that require approval – they both can have an impact on “Customer Satisfaction.” I suggest taking advantage of Credit Memos Approvals. Your process for dealing with rejected credit memos may be to unapply the receipt and then let the credit memo process through AutoInvoice. I do not recommend making the invoice Transaction Types allow over application! The process may be slower but you will have a cleaner system and less confusion.

### **Manual Debit Memos and Credit Memos**

If you are manually creating “invoices”, I suggest that you call them debit memos vs. invoices to provide visibility to the fact that these items were created manually (unless for some reason you have to “replace” an invoice). You should have defined and utilize proper controls to insure that validity of manual debit and credit memos and who is allowed to create manual debit and credit memos. Also, utilize approvals - they are there to help you have better control.

### **Transaction Forms**

You have several options for creating the actual invoice and credit memo forms: Include the form aspects in the print programs, have them printed by an outside service bureau and/or print on pre-printed forms. If you utilize pre-printed forms I suggest that you keep the forms locked up unless they are being used for printing. Otherwise, what is there to stop me from creating a customer invoice with the remittance address of my house?

### **Revenue Recognition**

Proper revenue recognition has earned its claim to fame by companies who have had to restate their revenue after the fact with dismal long term results. Also, SOP-97 (AICPA - Statement of Position) and SAB 101 (SEC - Staff Accounting Bulletin), IFRS... and of course, Sarbanes Oxley has instituted strict rules for how and when you may recognize your revenue.

Confirm that you have proper controls in place and are linking Revenue reporting with accounting for cost of goods sold (from Inventory). The rules are very complex. The following are examples of some activities that impact how you report revenue - how are you handling them??

- 1) Do you have items where revenue can't be recognized upon shipment?
  - Which Items?
  - Is this a class of items or individual items? Or both?
  - Could you have some deferred items in a shipment and some items where revenue may be recognized immediately?
  - Have you properly assigned the Accounting Rules for the items with deferred revenue?
  
- 2) How do you know when the revenue should be recognized?
  
- 3) What determines when revenue will be recognized?
  - Upon shipment?
  - Upon "Acceptance"?
  - Upon install? ...

How do you know that this has occurred?

  - How does this impact when the revenue is recognized?
  - How do you handle this now?
  
- 4) Do you have standard payment terms?
  - What are they?
  - You may need to defer revenue for invoices which have longer terms
  
- 6) Do you have a return policy? e.g., full money back available for 30 days?
  - What is it?
  - How do you allow for this in your revenue recognition rules?
  
- 7) Do you have 'arrangements' with your customers (where the revenue for 1 invoice may not be recognized until the subsequent items ship)?
  - What are your processes to deal with this?
  
- 8) How do you deal with the revenue for invoices that you don't expect to receive payment?
  - If you have already recognized revenue?
  - If you have not already recognized all or part of the revenue?
  
- 9) Do you use standard pricing?

How do you deal with variable pricing and revenue recognition?
  
- 10) How does this process impact your reporting of cost of goods sold?

How do you handle this now?

### **Creating Invoices with Deferred Revenue Recognition**

The setup for this is Invoicing and Accounting Rules (**Setup - Transactions - Rules**). Invoicing Rules determine when Receivables will be recognized (generally immediately) and Accounting Rules (may vary and be split into multiple periods).

**INVOICING RULES**

- BILL IN ARREARS

Means you recognize revenue now but recognize receivables later e.g., some government invoices require this option.

- BILL IN ADVANCE (the standard option)

Means you recognize receivables now but recognize revenue now or later.

**ACCOUNTING RULES**

- Determine how exactly you will recognize revenue

You use Invoicing Rules at the invoice header and Accounting Rules at the line level. You have to use both types of rules (Invoicing and Accounting). I suggest you run the Revenue Recognition process regularly to create the actual distribution records.

**Example of an Invoice with Deferred Revenue:**

Invoicing Rule = Bill in Advance  
 Invoice for 3000  
 Invoice Date 4-JUL-15  
 GL Date 4-JUL-15

Accounting Rule:  
 Type: Accounting, Fixed Duration  
 Period: Monthly  
 Number of Periods: 3  
 For each period: I specified 33.3% (33.4 for the last period)

**Accounting Entries:**

Period	Debit	Credit
<b>July</b>	Accounts Receivable \$3000 Deferred Revenue \$999	Deferred Revenue \$3000 Revenue \$999
<b>August</b>	Deferred Revenue \$999	Revenue \$999

<b>September</b>	Deferred Revenue \$1002	Revenue \$1002
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### Revenue Recognition Wizard

As of Release 11.5.9 you have the option to use the "Revenue Recognition Wizard" (**Control - Accounting - Revenue Accounting**) to manually change how revenue is recognized on individual invoices that have Accounting Rules. Note that the wizard only works with a single invoice at a time.

A typical use of this screen might be: you created an invoice with deferred revenue on an item that requires acceptance by the customer so you set the revenue recognition date far in the future. You have just received notification from the customer that they accept the item. Query the invoice in the Revenue Accounting and Sales Credits ("Revenue Recognition Wizard") screen and change the revenue recognition date to the current date. This screen is also applicable for the when you need to extend the date further in the future.

The key caveat is that you may only use this screen for one invoice at a time. Note that you may also use this screen to redistribute sales credits for an invoice – whether it uses Accounting Rules or not.

### Adjustments

As with everything else, there is a key setup that impacts adjustments – the Receivable Activities (**Setup - Receipts - Receivables Activity**). It may seem intuitive that since you are adjusting your invoice you should probably use the Accounts Receivable account when you are defining the Receivables Activity. But, Oracle Receivables knows that you need to offset the Account Receivable account and automatically takes care of it for you, it is looking for the other side of the entry e.g., Bad Debt, Bank Charges, Late Fees, Tax, Freight... **Tip:** I recommend verifying that you are not using the AR account for any of your Receivables Activities, and if you are, change immediately to an appropriate non-AR account. You should pre-define all of the typical adjustments that you will be creating with the appropriate accounts – then you don't have to remember and change the account for each adjustment that you create.

Note that adjustments may be negative or positive. Typically adjustments are negative but potential positive adjustments include: you wrote off an invoice to bad debt but now the customer is paying it: Create a positive adjustment using the same bad debt account that you used when you created the original adjustment and make the amount positive. This re-opens the invoice so you may apply the payment and you have retained an audit trail of what you have done. Another example: if the customer actually pays a late fee, you may want to create a positive adjustment to increase the balance and then apply the receipt in full to the invoice, again with a thorough audit trail. **Tip:** the key when creating offsetting adjustments is to always utilize the same GL account that you used when you created the original adjustment.

### Adjustment Approvals

Oracle Receivables has a feature for adjustment approval. By user, you define the high and low limits for the adjustments that they may create and apply automatically – by currency e.g., \$-100 to \$100 (**Setup - Transactions - Approval Limits**). Ideally the Accounts Receivable Manager should be assigned a higher limit and they use the Approve Adjustments (**Control - Accounting - Adjustments - Approve Adjustments**) to approve or reject the adjustments. I suggest you take advantage of this feature and the manager approves the "pending adjustments" throughout

the period vs. waiting to do the approval until the end of the period. This lets your Collectors see more accurate Agings and it is one less cause of stress at month-end. **Tip:** *You should save after each line that you approve or reject when you use this screen.*

I also suggest running and actually looking at the Adjustment Register. This way you will see if I created a bunch of small adjustments (that are within my limit) vs. one large adjustment that will require approval. Hmmm... I could have "cheated the system."

### **Write-Off Overpayments**

The highest voted on enhancement for Oracle Receivables for years was to allow you to write-off overpayments (receipts) in Oracle Receivables, and now you have it. But...numerous states including California have "unclaimed property laws" which say basically that you can't write them off – you need to return the money to the customer. I suggest that you research your state's rules and determine if there is an acceptable lower limit e.g., under \$1.50 and only use this feature for overpayments within the limit. If you do regular business with the customer, this may not be a real issue since you may apply the overpayment to future invoices. You don't want to have to deal with an unclaimed property audit.

### **AutoAdjustments**

This is a very powerful screen that allows you to 1) run a report based on certain criteria e.g., all invoices with an open balance less than \$15 - this is great and 2) create rules to automatically write-off all invoices and/or amounts that fit the criteria - *this is extremely dangerous!!* **Tip:** *I recommend that you tightly control who may use this screen. I would only allow access to the report portion - if possible.* You may on a rare occasion actually want use this screen but if you do - proceed with extreme caution and 1) run the report only first to see what the outcome will be - this may surprise you, 2) triple check your entries before you submit the job and 3) verify that you have only selected an Adjustment Type of Invoice.

## **The Close**

### **Formal Close Schedule**

A successful close requires coordination, brevity, accuracy, and control.

The close process begins with collecting all of the data you need, in a timely manner. It also means preventing miscellaneous changes to the data as you are performing the close and making the window in which you need to process the close as short as is possible.

One way to help this process is to create a formal close schedule. This serves a couple of purposes, including: establishing clear-cut deadlines for when data will and will not be accepted for inclusion in the period. After that point, everything goes into the next period (the key to this is clearly communicating this information to all related parties and their managers - prior to the close). This includes both manually created data and data from other modules such as Projects, Order Entry and other billing applications.

The close schedule also defines when others may use the system for queries and reporting *only*, so you are not trying to balance a moving target. Key to this is letting everyone know when you are closing (so no new activity) and then when you are done (so they can start processing again). Depending on the size of your organization this could be mass emails, voice mails or yelling over the cubicle walls.

Activities which may be controlled by a close schedule include:

- **Bank Deposits**
- **Shipments**
- **Inter-Company Activity**
- **Miscellaneous Cash**
- **Interfaces from Other Applications**

The key is to be consistent from period to period and to have clearly documented schedules. You may or may not be able to make changes in the schedule, but you will have the formal close schedule clearly defined. You will know exactly why you are closing when you are and what you are and are not including and why. But, be realistic regarding your business needs - you just may not be able to change some of these things. **Tip:** *I recommend that you never have more than one period open at one time - there are too many potential issues with this.*

### **"Period Close" Activities You Can Do Prior to the Close**

Certain "clean up" activities should be performed by the end of each period, but this does not mean that you have to wait until the last minute to complete them. The majority of these activities may be done daily, weekly or at least by the day prior to the period close. This should reduce the time it takes for you to complete the actual close – always a good thing.

These activities include:

- **Accept or Reject Unapproved Adjustments**
- **Complete or Delete Incomplete Transactions**
- **Process All AutoInvoice Activity**  
**Clear Exceptions**
- **Process AutoLockbox Activity**  
**Clear Exceptions**
- **Enter Miscellaneous Cash**
- **Apply Unapplied Cash**
- **Run Revenue Recognition Process**
- **Create Accounting (SLA)**
- **Interface Data to the General Ledger**  
**Run more often than just at month end**

### **SubLedger Accounting**

In Release 12, Oracle added the "SubLedger Accounting (SLA)" functionality. There are lots of papers that cover the details of SLA so I will not cover the details but there are a couple of key differences with SLA. You have the ability to have greater control over the GL accounts you can use for activity within Oracle Receivables e.g., if the standard method for deriving the accounts is not adequate for your needs. One caution I have is that just because you can customize the values does not mean that you should! I would first try to attain your desired accounting values using the default AR tools. I would only use the customizations if I could not derive the proper values using the standard tools since the customizations mean the accounts used in AR will not match the accounts used in GL – a reconciling item. You can check to see if you have any SLA customizations by running the scripts in notes 942252.1 and 872067.1.

The accounts and amounts are store in intermediate SLA tables between AR and GL. There are two new processes, Show Accounting is a new process that you can use to see what they accounting entries look like. Create Accounting is a new SLA process that creates draft or final versions of the accounting entries in the SLA tables.



SLA also includes new reports (**Control – Requests – Run**): SubLedger Period Close Exceptions Report and Journal Entries Report (SLA Version). The SubLedger Period Close Exceptions Report is great for seeing any reconciling items you may need to deal with. The Journal Entries Report is huge which to me makes it mostly unusable but I would include it in the “month end packet” (and never print it) just in case.

### **The Actual Close**

Once you have received, imported and entered all the data for the period, you should minimize the amount of time required to “close” the period (when no new transactions may be entered). By using a close checklist you insure that you have not skipped any steps, you proceed in a logical manner and you always know what remains to be done. The sample checklist may include steps that are not applicable to you but you can just skip them (use my checklist as a starting point to create your own custom checklist).

One of the key aspects of this process is to have a clear method of communicating to others; when the application is available for inquiry only and when they may start entering activity for the next period. Of course, the shorter the time it takes to complete the close, the happier everyone will be.

The close includes:

- Completing all interfaces
- Cleaning up all exceptions (see above for the list)
- Create accounting values using SLA and posting to the General Ledger
- Verifying that the accounting entries you are passing to the General Ledger are indeed valid
- Closing the current period
- Opening the new period

After you have completed all of the interface cleanups and have received all of the applicable data into Oracle Receivables; run the AR: Journal Entries Report – Summary by Category. Use this report to verify that you will be creating your journal entries using the correct GL accounts. Even if you have already run General Ledger Interfaces for the period, if you find that you are using an inappropriate account you can create offsetting activities prior to the close. By creating offsetting entries in AR, you are insuring that the final General Ledger account activities will match the AR Activities and both AR and GL will be using the proper accounts.

Typical areas to check for inappropriate use of accounts in the Journal Entries – Summary by Account report include:

- For Categories where the name ends in “(AR)”, e.g., Sales Invoices (AR) – you should only see Accounts Receivable accounts being used
- For the Category Trade Receipts – on the debit side, you should only see cash accounts and the credit side you should not see any cash accounts
- For Categories where the name does not end in ‘(AR)’ – you should never see Accounts Receivable accounts being used.
- For the category ‘Sales Invoices’ – your credits should only include revenue, tax and freight accounts...

If you find an account which is inappropriate for a category: re-run the AR: Journal Entries Reports using the Detail by Category version - for just the category and account where you found the problem. This will allow you to trace the problem to the exact transaction(s) with the error. Correct the error in an appropriate manner based on the type of transaction that actually

had the problem. Re-run the AR: Journal Entries Report (Summary by Category) to verify that you no longer have any issues.

You are ready to run the final Create Accounting process and to complete the posting to the General Ledger. Ensure that: all steps of the Create Accounting process complete successfully, the numbers appear reasonable, you had no un-posted items and that the Journal Import had a status of "SUCCESS". Notify the General Ledger staff that your journal entries are available for posting (or post the batch yourself, depending on your procedures).

Close the old period and open the new period. Notify all applicable users that the new period is now open and they may begin processing. Congratulations!

*I strongly recommend that you have only one Accounts Receivable period open at one time. You could have activity going into one period when you meant for it to go into another period. This is due to the General Ledger date defaulting to the earliest applicable date e.g., the original invoice date and if that date is within an open period the new invoice will use that date. Also, there are known problems with items being posted with one side of the entry in one period and the other side in the next period. I find it to be just too risky to have more than one period open. If you minimize the time it takes to close, this should not be an issue.*

I perform reconciliations for: AR activity to the Aging, the Aging and Journal Entries report to the GL activity and balances and Oracle Receivables cash activity with the bank reports. As part of this process I run multiple standard reports and retain them in a "Close Packet" (a directory by period and year where I keep soft copies of all of the "month end reports") including:

- AR: Journal Entries Report – Summary by Category
- AR Reconciliation Report
- Aging – 7 Buckets by Account
- Transaction Register
- Applied Receipts Register
- Unapplied and Unresolved Receipts Register (new in 11.5.10.2 – otherwise use Unapplied Receipts Register)
- Adjustment Register
- Invoice Exceptions Report
- Account Analysis Reports - From GL (for all applicable accounts)
- Deposited Cash Report
- SubLedger Period Close Exceptions Report
- Journal Entries Report (SLA version) – do not print
- AR to GL Reconciliation Report (after all items are posted in GL)

**Tip:** *If you have to run an Aging report in the future, the results will not be the same as at this time, so it is critical that you keep a copy of the report as of the close for your records. Most of the other "close packet" reports may be re-run and have the same results at a future date.*

## **Customers**

I have never been to a company where they told me "we have a really clean customer master", I usually hear: "our customer master is the worst and we have lots of duplicates." I have a couple of suggestions that may help in this area:

- 1) Only enter customer names exactly as they appear on the Business Card and/or PO. This prevents duplicates and customers tend to pay in a timely manner if you get their name right.
- 2) Control who may add, change and inactivate customers. You are more likely to have quality information vs. allowing anyone to add and change customers. Salesreps?

- 3) Institute policies for what happens when a customer moves and/or changes their name. It is often desirable to retain the old address (inactivated) so you know what went where. New names, you may wish to use "formerly know of as" in the name for a while?
- 4) Credit limits are a key control you have in dealing with your customers. If possible, only Collectors should have access to make these changes.
- 5) Credit Holds (note these are done via credit limits and controls within Order Management). Be sure to define them and use them. You have much more leverage to get paid if you won't ship more products until you receive the payment vs. sending the customer more items.
- 6) Periodically review your customers to check for duplicates – you can use the "Duplicate Customers Report." I never recommend using the Merge Customers feature unless you really have to and you have done *very extensive testing!!!* To me, a safer bet is to: a) verify that there are no open orders or invoices for this customer and/or address and then b) inactivate the duplicate customer/address. This way you retain the audit trail of what has processed for this customer/address but they no longer appear in the list of values for future activity.

### **Separation of Duties**

This is especially critical in Account Receivable since you are dealing with billing and payments. And, it is a hot button for Sarbanes Oxley.

#### **Do you have proper separation of duties?**

- o Can the same person create invoices and apply payments?
- o Do you restrict what functions a collector may perform?
- o Do you use an external lockbox or receive cash internally?
- o Can anyone create manual invoices?
- o Who can create credit memos? How is this monitored?
- o Are you using Credit Memo Approvals?
- o Are you using Adjustment Approvals?

**Have you taken advantage of custom responsibilities and functional security** to insure that only the proper staff has access to certain data?

- o Add data; make changes, deletes, read only?
- o Everyone should not be a SuperUser and/or have SuperUser access
- o Restrict who has access to the critical business reports such as the Agings

*My suggestions are:*

- 1) Use an external lockbox, even if you won't be using the "AutoLockbox" feature.
- 2) Control who has access to certain screens and reports down to who can perform which functions in screens such as Customers. Especially restrict access for Salesreps and Collectors. Don't let collectors perform adjustments; create a process where they can notify the cash appliers with what they would like done and why.
- 3) Everyone should not be a SuperUser! I see this all the time, does everyone really know what happens if they make a change to a setup? And, insure that the folks who will be making the setup changes have actually been trained on the impact.
- 4) If possible, have different folks: Apply cash, process invoices, create manual invoices and credit memos, and collect open balances. Often this is just not possible, but separate the capabilities as much as you can.

## General Suggestions

### Audit Trail

I suggest that you have a general rule that everything that you do should be done with an audit trail in mind. You have the ability to create manual invoices and standalone credit memos to solve issues but if you tie a write-off to the original invoice or create an offsetting adjustment or unapply cash so you may use a new credit memo... you will have greater visibility to everything that occurred in relation to this invoice (versus, having to remember what you did and why). Also, take advantage of the notes and memo fields, where available, to record what you did and why, again this is easier than remembering.

### Customizations

Control your customizations, often all the custom work you need are a few custom reports but you should try to see how you can use the standard reports first. The issues with customizations include: complicates upgrades (be sure you have them well documented and in a place where they can easily be found), they may bypass critical controls that were built into Oracle Receivables and they may expose information that really should not be exposed e.g., credit card numbers. And, they cost a lot of time and money after you have already spent a bunch on Oracle. **Tip:** *I include the company name in the title of all custom reports - then you automatically know that it is a custom report. The program name should also include the company name or abbreviation so you know it is custom.*

### Responsibilities and Functional Security

Again – don't use the default responsibilities that are provided by Oracle. Carefully think through who needs access to what and create your responsibilities accordingly. I often print the full set of responsibilities and functions that are available to the SuperUser and then use different colored highlighters to mark who should have access to what e.g., yellow for cash appliers, blue for collectors... and then set up the responsibilities accordingly.

### Quick Audit

I have thrown a ton of information at you in this paper. If you don't take anything else away from this, try running a "Quick Audit" of your system to see where you stand (this is the first thing I do when I work with a new client):

- 1) Run the AR: Journal Entries Report – Summary by Category and verify that you have not used your AR and Cash Accounts inappropriately.
  - Check the categories with "(AR)" in the category name; you should only see AR accounts
  - Check the categories without "(AR)" in the category name; you should never see AR accounts – the only exception to this is the CM Applications category which should only include AR accounts
  - Check all categories for use of the Cash Account – it should only appear in Trade Receipts and Misc Remittances Categories
  - Verify that you only see appropriate accounts in every category.
  
- 2) Query Receipt Classes Setups; go to the Remittance Banks, GL Accounts Tab. Verify that you are using the appropriate accounts as discussed earlier. Note this is one area where it is not possible to make changes to the existing setup. To use different accounts, create a new Receipt Method.
  
- 3) Query Transaction Types Setups; verify that you are using appropriate accounts and options – as discussed earlier.

4) Query Receivable Activities: verify that you are using appropriate accounts and options as discussed earlier. You should never see an AR account used on this screen. The great news is that you may change these values and everything you create after that point will use the appropriate account.

5) Check your adjustment limits and revise as needed *and use them!!*

6) Have your System Administrator run reports of all responsibilities and see who has access to what

Good luck!

Cathy

### **Related Papers Available**

[www.cathycakebread.com](http://www.cathycakebread.com)

The website has older versions of these papers; email me for a more current version

#### **Sarbanes Oxley and Oracle Receivables**

#### **Closing and Reconciling AR - A Step-by-Step Process**

#### **Processing Customer Deductions**

#### **Unlocking the Secrets to Lockbox**

#### **Accounting for Oracle Receivables**

### **About the Presenter**

Cathy Cakebread, an independent consultant, specializes in Oracle Financials implementations and upgrades. Cathy has over thirty years experience in designing, developing, and implementing financial applications and was one of the original designers of Oracle Receivables and Revenue Accounting. She has worked with over 80 clients in implementing, utilizing and upgrading Oracle Receivables. She has been an independent consultant since 1990. See [www.cathycakebread.com](http://www.cathycakebread.com) for more papers on Oracle Receivables.

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