

RECEIVABLES – HOW TO WIN THE BALANCING ACT!

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“Oh no ... it’s month-end again!”

Do you find yourself dreading the many long and difficult days at the end of each month? If so, you’re not alone. Dreading month-end is a syndrome that almost anyone in an accounting role experiences on a regular basis. The anxiety is intensified even further immediately after “going live” with a new business system.

But, there is no need to fear. Oracle applications can actually ease the process, and after you have completed a few successful closings, you’ll wonder why you were ever stressed in the first place.

So, let’s get on with it ... there’s no time to waste!

This paper presents best practices and tips on preparing for month-end. It will also provide a simple and time-effective process for closing Oracle Receivables and performing month-end reconciliation activities.



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Preparing for the Month-End Close

Does it seem that no matter how prepared you think you are, you're always pressured during the month-end closing cycle? Companies want to close the books in less time with more accuracy. Yet, for most, it is a struggle to keep pace. Fortunately, there are some steps you can take to make life easier.

First and foremost, perform all of the tasks that can be completed independently of the close before the end of the month. It sounds like a simple concept, but it really does work. Though it can be difficult in the beginning, once you shift activities to earlier weeks in the month, it will become a natural routine.

1) REVIEW AND RECONCILE INTERFACED TRANSACTIONS ON A REGULAR BASIS

Like many, you are probably working in an Oracle environment where other modules or systems are feeding data into Receivables (i.e. Order Management, Service Contracts, Projects and external systems).

Don't wait until you're in the midst of the closing cycle to identify and investigate interface exceptions.

Performing the following tasks on a daily (or at a minimum weekly) basis will make the closing routine run more smoothly. In the process, you will facilitate more timely and accurate accounting data.

Order Management Sourced Transactions

- a. In Receivables, schedule the AutoInvoice Master Program to run on a regular interval, preferably daily, where the transaction source is your Order Management defined source.
- b. Review OM AutoInvoice exceptions on a daily basis and resolve issues by correcting source data or updating data values in the interface table.

- c. In addition to ensuring that you address all AutoInvoice errors, there may be situations where sales orders that should have progressed to the AutoInvoice step have not. It is important that you have a process for identifying and correcting these items.

Review Order Management data for sales orders or sales order lines that may be stuck in Order Management and are not progressing through workflow as they should (e.g. review the Trip Stop interface to ensure that orders are not incorrectly being prevented from moving forward).

Ideally, define a process for reconciling Order Management shipments to Receivable transactions. This may require the development of a custom report or Discoverer query to meet your specific business needs. Though an added task, this is a critical step in ensuring that you report revenue in the correct period, match revenue with expense, and bill your customers on a timely basis.

- d. Review orders on hold in Order Management on a regular basis. Orders can be placed on hold in Order Management for a variety of reasons (e.g. customer is on credit hold, customer has exceeded their credit limit, other user-defined OM holds, etc.).

It is essential to manage holds effectively, and this point cannot be overemphasized. If ignored, you will one day inadvertently discover that the Orders on Hold Report is several hundred pages long, and you won't know where to begin cleaning up. Hopefully, this discovery won't occur on the day the auditors arrive at your doorstep.

When defining OM holds, don't go overboard. Use them wisely. Make sure you derive real business value from using them, and be sure to define a business process and responsibility for managing orders on hold.

Service Contracts Sourced Transactions

- a. There is a concurrent program within the Service Contracts module that selects contracts for invoicing and populates data in the AutoInvoice interface tables so Receivables can create invoices. Ensure that you are running this program, "Service Contracts Main Billing", on a regular basis. This program can be scheduled to run at defined intervals, and it is a good practice to schedule it frequently, even daily.
- b. In Receivables, schedule the AutoInvoice Master Program (for your Service Contracts transaction source) to run on a regular interval, preferably daily. It is a good idea to maintain the same schedule for AutoInvoice as you have defined for running Service Contracts Main Billing.
- c. Since Service Contracts also utilizes the AutoInvoice process to generate invoices in Receivables, you should also review Service Contracts AutoInvoice exceptions on a daily basis and resolve issues by correcting source data or updating data values in the interface table.
- d. Ideally, define a process for reconciling Service Contracts that are ready for billing to Receivables transactions created by the AutoInvoice process. Again, this may require the development of a custom report or Discoverer query to meet your specific business needs. Though an added task, this is an important step in ensuring that you report revenue in the correct period, match revenue and expense, and invoice customers in a timely manner.

Projects Sourced Transactions

- a. There are two processes in Oracle Projects that you need to consider: Draft Billing and Draft Revenue. Invoices created in Projects by the Draft Billing process are interfaced to Receivables for creation of final customer invoices. The Draft Revenue process creates revenue accounting entries that are interfaced to the General Ledger.

- b. The nature of invoice and revenue transactions processed in Projects is such that it may not as easily conform to a routine schedule. Therefore, you will need to assess your business requirements to determine what best meets your needs. You may determine that Draft Revenue and Draft Invoicing should be scheduled to run on a daily or weekly basis. However, you may also find that running these processes manually as needed for Projects transactions makes more sense for your business.
- c. Whatever you decide, it is best to define a process for reconciling draft invoicing initiated in Projects to final customer invoices generated in Receivables by the AutoInvoice program. Once again, this may require the development of a custom report or Discoverer query to meet your specific business needs.

Externally Sourced Transactions

- a. Externally sourced transactions from a legacy system also use the AutoInvoice process to generate invoices in Oracle Receivables. So, you must also review these AutoInvoice exceptions on a daily basis and resolve open issues.
- b. Ideally, define a process for reconciling external system invoices/orders to Receivables transactions. Again, this may require the development of a custom report or Discoverer query to meet your specific business needs. Though an added task, this critical step is even more important for external transactions to ensure that you don't lose transactions between systems. It will also ensure that you report revenue in the correct period, match revenue and expense, and invoice customers in a timely manner.

2) MANUAL INVOICING ACTIVITY

In addition to creating AR transactions through AutoInvoice, most businesses also have some amount of invoicing activity that is done directly in the Receivables module.

Be sure to keep up with this billing throughout the month. In most cases, it is unreasonable to think that you can complete all of your manual billing as part of your closing activities. The volume is simply too great. Remember, this is an area over which you have control. Avoid month-end stress by performing invoicing activities sooner rather than later.

3) RUN AND REVIEW THE "INCOMPLETE INVOICES REPORT" ON A REGULAR BASIS

This report provides a listing of any invoices in Oracle Receivables that remain in an "Incomplete" status. "Incomplete" invoices are not eligible for transfer to the General Ledger and do not appear on customer accounts. Review this report frequently and complete transactions as needed.

Be sure to run this report one last time before performing your final transfer of Receivables data to General Ledger to ensure you have captured all invoicing activity for the month.

4) CASH RECEIPTS

For cash receipts, you may be using Oracle's AutoLockbox functionality, entering cash receipts manually in Receivables or you may be using a combination of these two methods. Whichever method you use, be sure to keep up-to-date throughout the month with cash receipt processing.

Remember that you can still enter a cash receipt even if you do not know how to apply it. At a minimum, get all cash receipts entered so you can reconcile your banking activity at the end of the month. Oracle has provided enough flexibility in the design of Receivables that you can perform cash application in later accounting periods and you can also modify cash applications at a later date. In situations where you don't have enough information, don't spend unnecessary time and energy on the application aspect of cash receipt processing!

That said, it is still important to perform as much cash application activity as possible to ensure accurate customer account information at the end of the period for the generation of statements and dunning letters.

If you are utilizing AutoLockbox, be sure to review the "Maintain Transmission Data" form on a regular basis. This form provides a view of the receipt interface table and will show receipts that cannot be processed due to exceptions. You should review and resolve these exceptions before the end of the month to balance Oracle cash receipts with cash receipts per your bank statement. Cash receipt transactions that are successfully processed are purged from this table, so you should never have transactions in the table at the end of the month unless they are for the new accounting period.

5) ADJUSTMENTS AND WRITE-OFFS

As your Collection team is working with customers during the month, it is typical that they will learn how specific unapplied receipts should be applied and they may also determine that certain transactions should be adjusted for whatever reason. In more extreme circumstances, they may determine that there are some items or customer account balances that should be written off.

Be sure to manage these activities throughout the month as you learn of needed adjustments or write-offs. Not having to process adjustments and write-offs during the closing cycle will be a welcome relief.

Month-End Closing Activities

Now that you have completed all the pre-close activities possible to ensure you're ready for month-end, there are some specific tasks that you need to perform in Oracle Receivables to close the accounting period.

1) ENSURE "LATE-BREAKING" END-OF-MONTH TRANSACTIONS ARE PROCESSED

Perform a review to ensure that the last day of transactional activity has been processed. For example, be sure that all shipments made on the last day of the month have been ship confirmed in Order Management and have been created as invoices in Receivables. Perform those same interface exception steps discussed earlier for Order Management, Service Contracts, Projects and Externally Sourced transactions one last time to ensure you have captured all of the revenue transactions for the accounting period.

2) PERFORM ANY REMAINING MANUAL INVOICING

3) **RUN A FINAL "INCOMPLETE INVOICES" REPORT** to ensure you are not leaving any invoicing activity behind.

4) ENTER AND APPLY THE LAST DAY OF CASH RECEIPTS

5) PERFORM ANY LAST MINUTE ADJUSTMENTS OR WRITE-OFFS

Once you have completed processing the last transactions, you are ready to begin the closing steps.

6) CHANGE THE PERIOD STATUS TO "CLOSED PENDING"

Oracle Receivables provides several different period statuses that you can control. During the month, the receivables period will be in an "Open" status. After you have completed transaction processing for the month and want to begin the reconciliation process, you can restrict additional transactions from being entered into the period by changing the period status to "Closed Pending". The "Closed Pending" status serves as an interim

status and allows you to reconcile the period activity before actually closing the period.

Note: When changing the Receivables period status to "Closed Pending", Oracle does not check for unposted transactions as it does when changing the period status to "Closed".

***TIP:** You may also open the next period at this time so that Operations can continue to enter, fulfill and ship orders and pass these new period transactions to Receivables for invoicing. This is one significant benefit of Oracle Receivables — you do not have to stop operations to close the accounting period.*

Internal Reconciliation

Internal reconciliation describes the process of reconciling within the Receivables subledger before posting AR transactions to the General Ledger.

Internal reconciliation involves reconciling customer balances, transactions and receipts.

1) RECONCILE CUSTOMER BALANCES

Reconciling customer balances generally involves taking the balance at the beginning of the accounting period and rolling it forward to validate the balance at the end of the period.

The formula for performing this reconciliation is:

Beginning Balance
 + Transactions
 +/- Adjustments
 - Invoice Exceptions
 - Applied Receipts
 - Unapplied Receipts
 = **Ending Balance**

Oracle Receivables provides standard reports to assist in this process:

- Use standard Aging reports to determine the beginning balance.
- Use the Transaction Register to derive transaction totals.

- Use the Adjustment Register to derive adjustment totals.
- Use the Invoice Exception report to derive invoice exception totals. This report will capture any AR transactions that do not affect customer account balances, typically because the related transaction type has not been configured to record an "Open Receivable".
- Use the Applied Receipts Register to derive applied receipts totals.
- Use the Unapplied Receipts Register to derive unapplied receipts totals. This report captures "On Account" and "Unapplied" customer payments.
- Use standard Aging reports to validate the calculated ending balance.

TIP: The AR Reconciliation Report can also be helpful in this process. This report actually displays source totals in the same type of format as the roll-forward calculation described above. The report summarizes all customer account, receipt and transaction activity for a specified period.

TIP: Be sure to run all of the reports using the same GL Dates. The Beginning Balance aging should be run as of the ending GL Date of the prior period, and the Ending Balance aging should be run as of the last day of the current period or period being reconciled. The other reports are more transaction based and should be run with a GL Date range that covers the first day of the current period through the last day of the current period.

2) RECONCILE TRANSACTIONS

Reconcile transactions by ensuring that the Transaction Register balances with the Sales Journal.

To do so, run the Sales Journal by GL Account report. The Transaction Register total for postable items should agree with the total on the Sales Journal by GL Account report for the "Receivable" account type (Total Debits – Total Credits).

When comparing the Sales Journal to the Transaction Register, keep in mind that credits are shown as negative amounts on the Transaction Register and positive amounts on the Sales Journal (credits column).

3) RECONCILE RECEIPTS

Reconcile receipts by running the Receipt Register and Receipt Journal reports for the same GL Date range. When running the Receipt Journal, select "Transaction" as the Report Mode to get the full details of GL account debits and credits.

The Receipt Journal report shows GL account information and also relates to the receipt information included in the Journal Entries report.

The Receipt Journal total receipts should agree with the total receipts per the Receipt Register for the accounting period specified. Keep in mind that both the Receipt Journal and Receipt Register include customer and miscellaneous types of receipts.

4) RUN THE JOURNAL ENTRIES REPORT

The Journal Entries Report can be run in many different ways to suit your specific needs. It is advisable to run and review this report before running the GL Transfer Program.

This report provides a great tool for quickly identifying issues with the accounting on specific AR transactions. Pinpointing bad account numbers before running the GL Transfer process allows you to correct them in the AR system, keeping AR data synchronized with GL data.

TIP: If at any time during the reconciliation process you discover an error or identify additional transactions that need to be included in the period, remember that you can re-open the period by changing the status from "Closed Pending" back to "Open". Make your changes or process your additional transactions, change the period status back to "Closed Pending", and continue on as before.

Transfer to General Ledger

After you have completed your internal reconciliation steps and are comfortable that you have captured all of the period activity accurately, you are ready to begin the process of posting AR subledger activity to the Oracle General Ledger.

1) RUN THE GL TRANSFER PROGRAM IN RECEIVABLES.

When setting the parameters for this process, you can elect whether or not you want to automatically run the Journal Import process. You can also select to post to GL "in Summary" (one journal line for each accounting flexfield/currency combination) or "in Detail" (one journal line for each transaction).

Be sure to consider that posting to the GL "in Detail" can result in many lines of data in GL accounts. Posting "in Summary" is typically the best approach. Should you need to analyze a GL summary posting further, you can always use the drilldown functionality offered in GL, which will drill from a GL account entry all the way back to a specific transaction (e.g. invoice, receipt, etc.).

2) RECONCILE THE GL TRANSFER PROCESS.

The concurrent process produces an execution report showing the total debits and credits transferred from AR to the General Ledger interface table. Compare the Execution report to the Sales and Receipt Journals that you ran previously and validate that they agree.

You can also run the Journal Entries Report for "Posted" items, and the various totals should agree with the other reports you have already generated.

If there are any AR items that cannot be transferred to GL, Oracle will generate an Unposted Items Report. When balancing the transfer, be sure to consider any unposted items. Keep in mind that you must resolve any unposted items before Oracle will allow you to change the Receivables period status to "Closed".

Once AR transactions are successfully transferred to the GL interface table, they are flagged as posted in the Receivables system.

3) JOURNAL IMPORT

If you did not elect to automatically run Journal Import in Step 1, then a user with the appropriate GL access should run the Journal Import process for the Receivables source.

The Journal Import Process generates an execution report. This report should agree with the Posting Execution report generated by the GL Transfer program.

After the Journal Import process has been run, you can view or report on the unposted receivables journals from General Ledger. The Unposted Journals report totals should also agree with the other reports you have generated.

4) POST THE RECEIVABLES JOURNALS

Post the Receivables journals to the General Ledger. This is done by a GL user that has access to the posting function.

Once the journals are posted, you can run the Posted Journals report which should also agree with the other reports.

5) CHANGE THE STATUS TO "CLOSED"

Change the status of the Receivables period from "Closed Pending" to "Closed". The Period Close process in Oracle will automatically check to ensure that there are no unposted items for the period. If Oracle finds unposted items, the period will not be closed and you will need to resolve them before attempting to close the period again.

6) OPEN NEW RECEIVABLES PERIOD

If you did not elect to do so earlier, open the new Receivables period.

AR to General Ledger Reconciliation

After Receivables transactions have been posted to the General Ledger, you should verify that the Receivables GL account balance per the ledger agrees with the ending balance per the AR Aging report that you ran earlier in the closing process.

- a. Run an Account Inquiry in General Ledger or run any GL report that shows the ending Receivables account balance.

Compare the GL account balance with the total for that GL account on the Receivables "Aging by Account" report.

- b. If you set up Receivables such that you defined a specific GL account for On Account and Unidentified Cash, then you should be able to tie the GL balance for these accounts to the corresponding totals on the AR Unapplied Receipts report.

After completing this step, you are finished. Congratulations on successfully completing your month-end closing.

Final Considerations and Reminders

Before closing, here are a few additional tips and considerations that may help you navigate the month-end closing process:

- a. Take the time to prepare a month-end closing schedule that includes individual tasks with owners and expected completion dates. Have owners update the schedule as tasks are completed. This schedule provides a quick status of the closing activities at a glance and ensures that your accounting staff has a clear understanding of their responsibilities and expected completion dates.
- b. Be aware of configuration decisions that affect reconciliation processes:
 - i. Setting of "Open Receivable" and "Post to GL" flags on Transaction Types. These flags determine what transactions can be posted to customer accounts and to the General Ledger and need to be considered in the reconciliation process.
 - ii. Definition of GL accounts for "Unapplied", "Unidentified" and "On Account" cash receipts.
- c. And, last but not least, remember to take advantage of Receivables "Closed Pending" status. If used effectively, this tool can provide significant business benefit.

Conclusion

Closing and reconciling receivables activity using Oracle applications is actually quite painless because they are essentially self balancing. If you employ the approach described in this paper for a few months, you will find that the closing process will become easy to execute. In fact, it will soon become second nature. Though you may never look forward to the end of the month, with Oracle used correctly for your month-end closing, you have everything to gain and nothing to fear.

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