



Understanding, Controlling, and Reconciling the Purchasing Accrual Account

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About Aisin USA

- Auto parts manufacturer
- A Japanese transplant operating in Seymour, Indiana since 1986
- Product line includes door frames, latching systems, trim molding, power openers & closers
- More than 2,000 employees
- Annual sales exceed \$600 million
- Maintain a \$30 million inventory

About the Authors

- Tammy Obermeyer
 - Former Director of Finance at Aisin USA
 - Joined Aisin Shortly Before the Oracle Go-Live Date
 - Adjusted Procedures and Reconciled Financial Activity
- Don Driggs
 - 10 Years of Oracle Experience, 8 Years as a Consultant
 - Frequent presenter at OAUG Conferences
 - Co-Author of Special Edition: Using Oracle11i

Implemented Oracle

- Implemented 11.5.8
- Financials – GL, AR, CE, AP, PO
- Manufacturing – Inventory, MRP, WIP, Quality
- Started Project in November, 2003
- Went Live in May, 2004

Objective

For the first six months after the implementation the objectives seemed to be:

- Ship Car Parts
- Pay the Bills

Implementation Problems

- Short Project Led to Complications Downstream
 - Little Training for Some and No Training for Most Employees
 - Insufficient Testing of Business Processes
 - Inadequate Business Processes
- One Consequence
 - Problems in the Procurement Cycle
 - Purchasing Accrual Balance that Inexplicably Doubled

Procurement Problem

- Purchasing Accrual Account was Inexplicably Growing
- Business was Steady Yet the Accrual Account Nearly Doubled in Amount to \$16 Million
- Thousands of Transactions Every Month
- Uninvoiced Receipts Report Over 5,000 Pages
- Uninvoiced Receipts Report had Confusing Parameters

Poor Business Practices

- Company Objective – Ship Parts
 - No Receiving Inspection
 - Receiving Dept Not Careful to Receive Against the Right PO
 - All Items Paid Regardless of Pricing or Matching Controls
 - Items were Routinely Paid even though Overbilled
 - Invoices Paid though not matched to PO or Receipt
 - AP Not Matching to the Correct Receipt

About Solution Beacon, LLC

- Provider of Expert-Level Consulting Services for Oracle Databases, Technologies, and Applications
- Sponsor of the Road to Nashville Release 11*i* Workshops
- Oracle Certified Partner
- All Solution Beacon Consultants have Years of Oracle and Industry Experience

Approach to Solving the Problem

- Identify Proper Business Practices
- Provide Training
- Cleanup the Data

Approach to Solving the Problem

- Receiving Department Changes
 - Use Packing Slip No. or Bill of Lading No. when Entering the Receipt so AP could Identify Errors such as Duplicate Receipts
 - Receive Items Against the Correct PO / PO Release
 - Inspect Receipts and Only Receive Items that were Actually Received

Approach to Solving the Problem

- Purchasing Changes
 - Required Suppliers to List the PO Number / Release on the Packing Slip and Invoice
 - Required Suppliers to Use One Invoice per Truck
 - Required Buyers to Create One Release per Truck

Approach to Solving the Problem

- Accounts Payable and Accounting Changes
 - Made the Invoice Hold – Qty billed exceeds Qty received – non-releasable
 - Audited Sub-Ledger Accounts for Non Sub-Ledger Activity.
 - Emphasized Policy that All Invoices Must be Properly Matched and Holds Released When Appropriate
 - Educated AP Staff on the Distinction Between Matching to a PO versus a Receipt

Results

- The Problem Ceased to Grow

BUT

- We Still Had to Deal with Many Existing Problematic Transactions

Purchasing Accrual Setups

- Accrual Options
 - Inventory Items – Upon Receipt
 - Expense Items – At Period End
- Match Level
 - 3 Way (Invoiced Qty = Purchased Qty = Received Qty)
- Invoice Match Option
 - Receipt

Purchasing Options

Receipt Accounting

Control

Default

Numbering

Tax Defaults

Accrue Expense Items

Period End

Accrue Inventory Items

At Receipt

Reconciling the Purchasing Accrual Account

- Accrual Reconciliation Report
 - Accurately documents the activity in our Accrual Account
 - Does Not Substantiate the Balance of the Accrual Account
 - The Purchasing User Guide has Helpful Information on the Accrual Reconciliation Report.

Substantiating the Balance of the Purchasing Accrual Account

- Purchasing Accrual
 - $\text{Received Quantity} - \text{Billed Quantity} \times \text{Unit Price} = \text{Accrual}$
- Uninvoiced Receipts Report
 - Inventory Items are Accrued on Receipt
 - Expense Items are Accrued With the Receipt Accrual – Period-End Process

Uninvoiced Receipts Report

- Two Yes/No Parameters Affect the Results of the Report.
 - **Accrued Receipts:** Refers to items with the Period End option
 - **Include Online Accruals:** Refers to items with the Accrue at Receipt option

Uninvoiced Receipts Report

- Run After Cutting Off Receiving Activity for the Month
- And Before Running the Receipt Accrual – Period-End Process

Parameters	
Set of Books Currency	<input type="text" value="USD"/>
Title	<input type="text" value="Month-End Uninvoiced Receipts Report"/>
Accrued Receipts	<input type="text" value="No"/>
Include Online Accruals	<input type="text" value="Yes"/>

Uninvoiced Receipts Report - Example

- Uninvoiced Inventory Items – 6,000
- Uninvoiced Expense Items – 1,000

Uninvoiced Receipts Report

Before Running the Receipt Accruals – Period End

	Accrued Receipts	Include Online Accrual	Report Totals
1.	Y	Y	6,000
2.	Y	N	—
3.	N	Y	7,000
4.	N	N	1,000

Uninvoiced Receipts Report

After Running the Receipt Accrual – Period-End

	Accrued Receipts	Include Online Accrual	Report Totals
1.	Y	Y	7,000
2	Y	N	1,000
3.	N	Y	6,000
4.	N	N	-

Fixing the Problem

- Current Uninvoiced Receipts –
 - These represent a legitimate liability
- Old Uninvoiced Receipts –
 - Items paid without being matched
- Problematic Receipts –
 - Created due to errors in Receiving or Payables

Fixing the Problem

Old Uninvoiced Receipts

- Created an Invoice and Matched it to the Open Receipt
 - Removed over \$8,000,000 from the report
 - Removed over 1,000 purchase orders and releases
 - Reduced the number of pages by 2,400
- Consequence was to create many zero dollar invoices that were reported to Suppliers on their payment stubs

Fixing the Problem

- Problematic Receipts
- Finally Closed
 - Used SQL to change the closed_code from 'finally closed' to 'closed'
- Receipt ID was Null
 - Reversed Invoice Distributions and Matched to the Receipt
 - In some cases, we had to reset the quantity billed in the po_line_locations_all and rcv_transactions tables. These were not equal to the quantity billed in the po_distributions table

Conclusion

- We understand the purchasing accrual process
- The purchasing accrual account is accurate and in control

Conclusion

- Business Processes need to be understood
- Testing is Critical
- Business Processes need to be tested during the implementation project and not after going live
- Training is Critical
- Use System Setups to Control Processes and Enforce Discipline

Relevant MetaLink Notes

- Note: 111927.1 Purchasing FAQ: Uninvoiced Receipts Report
- Note: 198310.1 Reconciling A/P Accrual Accounts
- Note: 251052.1 Oracle Purchasing Accruals Setup Test

Purchasing User Guide

- Setups
- Overview of Receipt Accounting
- Reports and Processes
 - Accrual Reconciliation Report
 - Uninvoiced Receipts Report

Questions and Answers

Thank you!

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