Intercompany Elimination
Purgatory

ASCEND 2022

PRODUCED BY:

OHUG OATUG

Thinking about Intercompany from the Top Down –
Practices & GRC to ensure rapid reconciliation & elimination

Remember to complete your evaluation for this session within the app!

PREPARED BY:

Seamus Moran
Celantra Systems
seamus.moran@celantrasystems.com

June 14, 2022 | 16:00 (4:00 pm)
Bluethorn 3

AscendUsersConference.com #Ascend2022

The Intercompany Elimination "Purgatory" - How to Escape!

- Tools & Tricks to Avoid & Resolve Out-of-Balance Items & Improve
- Do you know what it's like every quarter- or month-end? Some of you do the intercompany elimination "purgatory."
  - *Endless conference calls about missing or non-matching entries. Long evenings, no family weekend trips due to shipments not received, charges disputed, exchange rate divergences, timing, and time zone differences plus all possible problems in interfaces and transmission. We are living it every month.*
- EBS customers will participate in the panel conversation and make this session important for both sides, the finance team as well as the IT- and application support group.
  - *We will walk through the challenges and identify effective ways, reporting tools, intercompany utilities, and process steps that can quickly identify where the issues are or avoid failures in the first place*

Agenda

The Objective & Problem

Identifying Differences

Eliminating Root Causes for Differences

- Processes
- Timing, Scheduling, Time Zones
- Disputes
- Currency
- Strictly Intercompany

Situations

- Settlement
- Legal & Management Updates
- Multiple Balanced Segments
- Transactions with many nodes

21 Slides total

The Top-Down Perspective

The Objective & Problem: Elimination

Groups (of companies under common control) create a great many intercompany transactions each month. On the final balance sheet and income statement they all must net to zero. Out of the monthly box, they never do!

Why do Groups do so many intercompany entries?

- Because they must track the legal ownership of valuable assets & liabilities as they pass from LE (company, legal entity) to LE, and to update the resulting taxable profit of each LE.

Why must the transaction net to zero?

- Because these intercompany transactions are moving wealth from one pocket to another pocket of the Group and are not actually transfers to customers or suppliers.

Why don't they ever tie out?

- Many, many reasons, but you can call the all deficiencies of GRC.

Identifying Differences

Which entities caused these differences?

Extract from Hyperion Translation & Consolidation
Currency: My Corporate Currency (MCC) (Thousands)
Intercompany Account Balances
Year to Date: June 30, 202x
Legal Entity Trial Balances (Legal Ownership)

Legal Entity	Sub #1		Sub #2		Sub #3		Sub #4		Manuf #6		Manuf #7		Warehouse #8		Holding/SSC #9		Reclass & Adjust		To (cro		up cast)	
Account Name	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit			Credit
Inter Co AR									640		555		100		1000			2295	0			0
Inter Co Loan R							100											100	0			0
PII		20		20		16		16									72		0			0
Inter Co AP		275		300		210		230		300		300		670		0	2295		10			0
Inter Co Loan		100															100		0			0
																			0			0
Equity/Invest in Subs		10		10		10		10		100		100		10	250				0			0
																			0			0
Interco Sale										2600		2600		500			5700		0			0
Interco Buy	1100		1200		840		960		400		400		2000					5700	1200			0
																			0			0
Interco COGS @ Tfr	900		1000		680		800		400		400		90						4270			0
PII transferred									160		160		10					72	258			0

CFO to Consolidation folk

Wednesday 3rd. 3:30 CFO:
It is 3:30 already, aren't you guys done yet? You know the answer is zero! The flash report is due at 5:00

Wednesday 3rd. 3:31 FinConsol:
Sorry, the delta is $1,200, significant. Think it might be the plants and sub #2

Wednesday 3rd. 3:32 CFO:
Try harder, Succeed!

Wednesday 3rd. 3:45 FinConsol:
Found it, they routed it through the warehouse, late on their paperwork. No impact on P&L. Creating a reversing entry

Photo by pexels-alex-green-5699823

Root Causes for Interco Differences

ASCEND 2022

Processes

- ✗ Not extended to both sides
- ✗ Not enforced
- ✗ Complex & One-off

Timing, Scheduling, Time Zones

- ✗ Not simultaneous
- ✗ No definition on point of handover
- ✗ No accruals at the date line

Disputes

- ✗ No process
- ✗ No give and take
- ✗ No clarity on responsibility

Currency

- ✗ No denomination specified
- ✗ No translation cross rates
- ✗ No GL revaluation executed

Strictly Intercompany

- ✗ No clarity on legal ownership
- ✗ No clarity on counter parties
- ✗ No clarity on derivations

Apply GRC to Interco Processes

ASCEND 2022

Processes

- ✓ "Book it, Danno" Policy
- ✓ Strictly Applied, all units, incl. HQ
- ✓ Make use of product automation proved by Oracle or others

Timing, Scheduling, Time zones

- ✓ Tools like AGIS, SCM interco, PA interco
- ✓ And like Virtual Trader
- ✓ Cut-off policy
- ✓ Accrue for shipments west of the dateline

Disputes

- ✓ Arbitration policy
- ✓ Issue credit memos promptly
- ✓ Formal Interco agreements
- ✓ Specify point of control change & who takes losses when

Currency

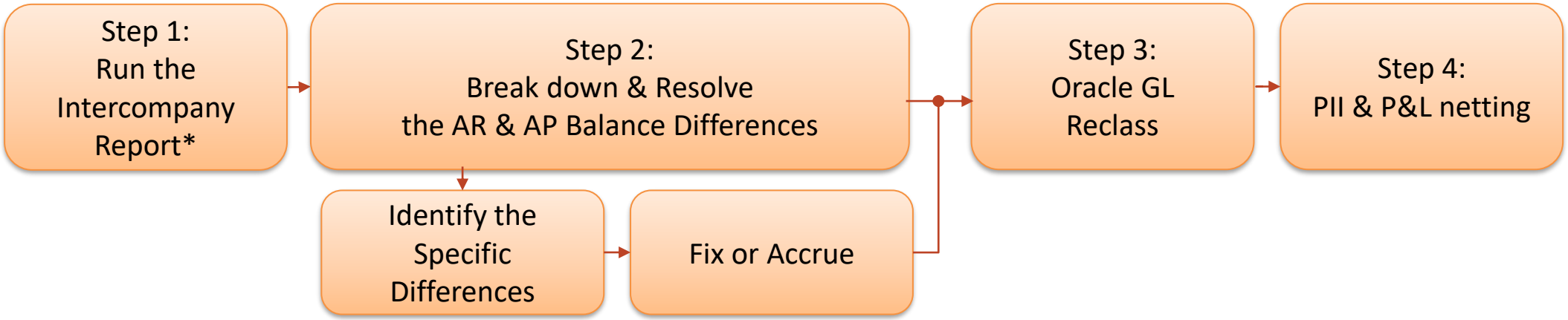
- ✓ Specify the denomination currency
- ✓ Run GL revaluation
- ✓ Issue & insist on Treasury rates that reflect cross rates to your target currency

Strictly Intercompany

- ✓ Know the LEs involved
- ✓ Know the counter parties involved
- ✓ Minimize derivation of LEs during the close

Speed the Elimination Process

- Using a report implicit here, follow these steps:



*Intercompany Reports
- From Oracle Hyperion or EPM offerings ("Intercompany App")
- From Blitz Reports
- Home Grown

The Oracle Intercompany Segment

Extract from Hyperion Translation & Consolidation
Currency: My Corporate Currency (MCC) (Thousands)
Intercompany Account Balances
Year to Date: June 30, 202x
Legal Entity Trial Balances (Legal Ownership)

Legal Entity	Sub #1		Sub #2		Sub #3		Sub #4		Manuf #6		Manuf #7		Warehouse #8		Holding/SSC #9		Reclass & Adjust		Total Gr (crossfoot	
Account Name + = Interco Se	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	
Manuf #6 With Sub#1		100							100										0	
Manuf #6 With Sub#2				120					120										0	0
Manuf #6 With Sub#3						50			50										0	0
Manuf #6 With Sub#4								70	70										0	0
Manuf #6 With Warehousee#8									200					200					0	0
Manuf #6 with Manuf #7									100			100							0	0
Manuf #7 With Sub#1		25									25								0	0
Manuf #7 With Sub#2				30							30								0	0
Manuf #7 With Sub#3						60					60								0	0
Manuf #7 With Sub#4								70			70								0	0
Manuf #7 with Manuf #6										100	100								0	0
Manuf #7 With Warehousee#8											270			270					0	0
Warehouse #8 With Sub#1		50											50						0	0
Warehouse #8 With Sub#2				50									50						0	0
Hold/SSC#9 with Sub#1		100													100				0	0
Hold/SSC#9 with Sub#2				100											100				0	0
Hold/SSC#9 with Sub#3						100									100				0	0
Hold/SSC#9 with Sub#4								100							100				0	0
Hold/SSC#9 with Manuf#6										200					200				0	0
Hold/SSC#9 with Manuf#7												200			200				0	0
Hold/SSC#9 with Warehouse#9														200	200				0	0
		275		300		210		240	640	300	555	300	100	670	1000	0			0	0

Tie it out, Payable to Receivable, pair by pair

Elimination Entries

ASCEND 2022

Both Oracle Cloud Service GL and the Financial Consolidation & Cloud Service provide Elimination Entries.

- GL debits a credit balance and credit a debit balance, so they are both zero
- EPM offsets the original entries

Before you run either (don't do both ☺) make use the balances are correct

- Already in GAAP functional or GAAP reporting currency (per ASC 830 or IAS 21)
- Translated from denomination both at the GL TB level (by GL revaluation) and the TB to target currency level (GL Transaction or EPM translation) at rates you know will produce the required elimination value

Are known to offset each other

- Use the Oracle reporting tools
- Use the Blitz Reports designed for you
- And eliminate the need for elimination entries by accounting for intercompany accounts using the same natural account number, or mapping them to the same line in EPM

Intercompany Situations

Settlement

Mis-posted Settlement can permanently upset intercompany balancing

Currency Valuation is one major source of differences

- Base it on the identified denomination of the transactions at agreed rates
- As reflected in the most recent agreed intercompany reconciliation
- Book in both entities at arranged & articulated current rates and agreed valuations
- Leave nothing open to misinterpretation

Allocation of the settlement to invoices is another source of difference

- The as yet unsettled list of invoices is best agreed at both entities
- Base the application list, not on random selections, but on previously reported month end balances, and zero the account at that month end.
- 60 or 90 days old is great. A year ago is also fine for a subsidiary with cash flow issues.

Volume

ASCEND 2022

Many intercompany business flows involve volume transactions.

- Do not allow the volume to drown the intercompany accountants in paperwork. It is all zero at the end.
  - Consolidate commercial or transit invoices into weekly or monthly intercompany invoices
  - Insist they are bookkept on receipt
  - That won't happen unless you also resolve transit discrepancies and issue credit memos promptly
  - and that won't happen unless you have intercompany agreements and clarity on problem resolutions.

You need to end up processing the exceptions rather than the detail.

Look to the actual logistics process you are using if your issues are many

Legal Ownership

Intercompany is all about legal ownership updates

- When a company (LE) sells (transfers legal ownership) to another company (LE) that you own, that transaction must be recorded, and excluded from your external reporting.
- That's intercompany.

Nothing else is intercompany.

Most are intra-co

- Management updates are intra-company: "Responsibility"
- Product line revisions are intra-company: "Classification"
- Real Business Unit transfers are intra-company
- BU and OU transfers are cross org.

Interco and Intra-co

The intercompany part is the transfer of ownership from company 14 to company 25 (bold typeface tags). There is only one “million-dollar item”, not three, and it was owned by company 14 and now it owned by company 25.

The other segments represent attributes other than ownership (red tags): in this example, management responsibility and revenue branding. They might be same at the destination, or they might be different: it is the destination’s call.

Best practice, from the old days: clear the attributes before transferring and reassign them or new ones after receipt.

Trial Balance Extract
debit | (credit)

		BSV	PBSV	SBSV		SBSV		PBSV	SBSV		SBSV	
Activity	Natural Account	*Usage*	**LE/Company**	Management		Brand		**LE/Company**	Management		Brand	
		Tag Meaning	**Owner**	Upstate Farmer	Corp	Vision Organic	Corp	**Owner**	NYC Grocery	Corp	Vision Convenience	Corp
		Value	14	175	999	315	999	**25**	482	999	523	999
	Natural Account (inventory, cash, investments…)											
	Opening Balance		1,000,000	1,000,000		1,000,000						
Strip Local SBSV Attributes	Tfr. to Intra 14 account / 175-315 / 999			(1,000,000)	1,000,000	(1,000,000)	1,000,000					
	Interim Balance		1,000,000	0	1,000,000	0	1,000,000					
Transfer to NYC 25	Tfr. to 14-Intercompany-25		(1,000,000)		(1,000,000)		(1,000,000)					
	From Co 14: 25-intercompany-14							1,000,000		1,000,000		1,000,000
	Interim Balance		0	0	0	0	0	1,000,000	0	1,000,000	0	1,000,000
Assign Local NYC SBSV attributes	Tfr. to Intra 25 Account / 482 /523 / 999								1,000,000	(1,000,000)	1,000,000	(1,000,000)
	Final Balance		0	0	0	0	0	1,000,000	1,000,000	0	1,000,000	0

Serial (multi node) Intercompany

The transfer of profit and taxability between legal entities in different tax jurisdictions has generated approved tax schemes that involve legal ownership updates as goods incur different costs and that occur at very specific times. The tax schemes have names like Commissionaire, Commission Agent, SwissCo, Foreign Branch and more.

These transactions are very much managed end to end. Governance is even more required in this area than in generic intercompany: everything said previously applies, and the requirements and conditions of the scheme also applies. Legal ownership is what is being managed.

Oracle Cloud Service has enhanced its offering with features that represent distributed order orchestration on the fulfillment side, and Supply Chain financial transaction orchestration on the billing side.

It is a very large area, and other companies also provide automated flows. Virtual Trader, for example, has an excellent Cloud offering.

From the folk in the SIGs

- Virtual Trader
- Blitz Reports
- FX Loader
- Comruen intercompany license automation

- For an illustration of the thought process, have a look at this talk, focusing not on the solution, but the thinking about the requirements.

  Oracle OOW 2019: GE Intercompany, Gary Christi

  – https://events.rainfocus.com/widget/oracle/oow19/catalogow19?search=Intercompany
  – Same speaker on YouTube: https://www.youtube.com/watch?v=coz4iEXqIYY

Discussion

ASCEND 2022

seamus.moran@celantrasystems.com

PRODUCED BY:

OHUG ORACLE HCM USERS GROUP OATUG ORACLE APPLICATIONS & TECHNOLOGY USERS GROUP

Remember to complete your evaluation for this session within the app!

That was it, thank you

- More Slides for reference

First Look

Extract from Hyperion Translation & Consolidation
Currency: My Corporate Currency (MCC) (Thousands)
Intercompany Account Balances
Year to Date: June 30, 202x
Legal Entity Trial Balances (Legal Ownership)

Balances are not "zero"

Legal Entity	Sub #1		Sub #2		Sub #3		Sub #4		Manuf #6		Manuf #7		Warehouse #8		Holding/SSC #9		Reclass & Adjust		Total Group (crossfoot/cast)	
Account Name	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Inter Co AR	0		0		0		0		640		555		100		1000				2295	0
Inter Co Loan R							100												100	0
PII		20		20		16		16											0	72
Inter Co AP		275		300		210		240		300		300		670		0			0	2295
Inter Co Loan		100																	0	100
																			0	0
Equity/Invest in Subs		10		10		10		10		100		100		10	250				0	0
																			0	0
Interco Sale										2600		2600		500					0	5700
Interco Buy	1100		1200		840		960		400		400		800						5700	0
																			0	0
Interco COGS @ Tfr	900		1000		680		800		400		400		90						4270	0
PII transferred									160		160		10						330	0

First look: what are we looking at?

- Small Multinational
- 4 Sales Subs, 2 Factories, warehouse, Corporate/SSC: All LEs
- Extract from Hyperion Consolidation based on Oracle GLs
  - Trial balance format, but only intercompany accounts extracted
- Parent Currency
- Data is actually good, but you can’t tell yet
- Factories & warehouse sell to subs & each other
- Corporate allocates to everyone else

First Look, an alternative

- Intercompany Accounts on one line

Lots more zeroes!

Extract from Hyperion Translation & Consolidation
Currency: My Corporate Currency (MCC) (Thousands)
Intercompany Account Balances
Year to Date: June 30, 202x
Legal Entity Trial Balances (Legal Ownership)

Legal Entity	Sub #1		Sub #2		Sub #3		Sub #4		Manuf #6		Manuf #7		Warehouse #8		Holding/SSC #9		Reclass & Adjust		Total Group (crossfoot/cast)	
Account Name	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Inter Co AR/AP	0	275	0	300	0	210	0	240	640	300	555	300	100	670	1000				0	0
Inter Co Loan R/P		100					100												0	0
PII		20		20		16		16											0	72
~~Inter Co AP~~																			0	0
~~Inter Co Loan~~																			0	0
																			0	0
Equity/Invest in Subs		10		10		10		10		100		100		10	250				0	0
																			0	0
Interco Sale										2600		2600		500					0	5700
Interco Buy	1100		1200		840		960		400		400		800						5700	0
																			0	0
Interco COGS	900		1000		680		800		400		400		90						4270	0
PII transferred									160		160		10						330	0

Step 2: Break down the AR & AP balances

- The Interco and AR & AP Balances broken down

Looking good,
They all zero out

Extract from Hyperion Translation & Consolidation
Currency: My Corporate Currency (MCC) (Thousands)
Intercompany Account Balances
Year to Date: June 30, 202x
Legal Entity Trial Balances (Legal Ownership)

Legal Entity	Sub #1		Sub #2		Sub #3		Sub #4		Manuf #6		Manuf #7		Warehouse #8		Holding/SSC #9		Reclass & Adjust		Total Group (crossfoot/cast)	
Account Name	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
																			0	0
Balances																			0	0
ARAP S:7		100		120		50		70	440			100							0	0
ARAP S:6		25		30		60		70		100	405			120					0	0
ARAP S:8		50		50		0		0					100						0	0
ARAP 8:7											150			150					0	0
ARAP 8:6									200					200					0	0
ARAP 9:A		100		100		100		100		200		200		200	1000				0	0
Total ARAP	0	275	0	300	0	210	0	240	640	300	555	300	100	670	1000	0			0	0
																			0	0
																			0	0
Loan 4:1		100					100												0	0
																			0	0

Step 2: The Oracle Intercompany Segment

Extract from Hyperion Translation & Consolidation
Currency: My Corporate Currency (MCC) (Thousands)
Intercompany Account Balances
Year to Date: June 30, 202x
Legal Entity Trial Balances (Legal Ownership)

	Legal Entity	Sub #1		Sub #2		Sub #3		Sub #4		Manuf #6		Manuf #7		Warehouse #8		Holding/SSC #9		Reclass & Adjust		Total Group (crossfoot/cast)	
Account Name + = Interco Se		Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Manuf #6 With Sub#1			100							100										0	0
Manuf #6 With Sub#2					120					120										0	0
Manuf #6 With Sub#3							50			50										0	0
Manuf #6 With Sub#4									70	70										0	0
Manuf #6 With Warehousee#8										200					200					0	0
Manuf #6 with Manuf #7										100			100							0	0
Manuf #7 With Sub#1			25									25								0	0
Manuf #7 With Sub#2					30							30								0	0
Manuf #7 With Sub#3							60					60								0	0
Manuf #7 With Sub#4									70			70								0	0
Manuf #7 with Manuf #6											100	100								0	0
Manuf #7 With Warehousee#8												270			270					0	0
Warehouse #8 With Sub#1			50											50						0	0
Warehouse #8 With Sub#2					50									50						0	0
Hold/SSC#9 with Sub#1			100													100				0	0
Hold/SSC#9 with Sub#2					100											100				0	0
Hold/SSC#9 with Sub#3							100									100				0	0
Hold/SSC#9 with Sub#4									100							100				0	0
Hold/SSC#9 with Manuf#6											200					200				0	0
Hold/SSC#9 with Manuf#7													200			200				0	0
Hold/SSC#9 with Warehouse#9															200	200				0	0
			275		300		210		240	640	300	555	300	100	670	1000	0			0	0

Tie it out, Payable to Receivable, pair by pair

Step 3: When good, do the Oracle Reclass

- Oracle GL requires this netting reclass

Nets out the Payables and Receivables

Extract from Hyperion Translation & Consolidation
Currency: My Corporate Currency (MCC) (Thousands)
Intercompany Account Balances
Year to Date: June 30, 202x
Legal Entity Trial Balances (Legal Ownership)

Legal Entity	Sub #1		Sub #2		Sub #3		Sub #4		Manuf #6		Manuf #7		Warehouse #8		Holding/SSC #9		Reclass & Adjust		Total Group (crossfoot/cast)	
Account Name	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Inter Co AR	0		0		0		0		640		555		100		1000			2295	0	0
Inter Co Loan R							100											100	0	0
PII		20		20		16		16											0	72
Inter Co AP		275		300		210		240		300		300		670		0	2295		0	0
Inter Co Loan		100															100		0	0
																			0	0
Equity/Invest in Subs		10		10		10		10		100		100		10	250				0	0
																			0	0
Interco Sale										2600		2600		500					0	5700
Interco Buy	1100		1200		840		960		400		400		800						5700	0
																			0	0
Interco COGS	900		1000		680		800		400		400		90						4270	0
PII transferred									160		160		10						330	0

Step 4: net down COGS to factory + freight

Remove the interco transfers on the P&L, and the PII

Extract from Hyperion Translation & Consolidation
Currency: My Corporate Currency (MCC) (Thousands)
Intercompany Account Balances
Year to Date: June 30, 202x
Legal Entity Trial Balances (Legal Ownership)

Legal Entity	Sub #1		Sub #2		Sub #3		Sub #4		Manuf #6		Manuf #7		Warehouse #8		Holding/SSC #9		Reclass & Adjust		Total Group (crossfoot/cast)	
Account Name	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Inter Co AR	0		0		0		0		640		555		100		1000			2295	0	0
Inter Co Loan R							100											100	0	0
PII		20		20		16		16									72		0	0
Inter Co AP		275		300		210		240		300		300		670		0	2295		0	0
Inter Co Loan		100															100		0	0
																			0	0
Equity/Invest in Subs		10		10		10		10		100		100		10	250				0	0
																			0	0
Interco Sale										2600		2600		500			5700		0	0
Interco Buy	1100		1200		840		960		400		400		800					5700	0	0
																			0	0
Interco COGS	900		1000		680		800		400		400		90						4270	0
PII transferred									160		160		10					72	258	0

The data used in this deck: Your Report summary

- Very non-complex, does foot/cast
- No opening balances (can complicate….)
- No settlements (can complicate…)
- Corporate currency (can complicate…)
- No disputes (can complicate…)
- Balances approximately 90 days of 360 day activity
- AR and AP are balances, open transaction, not P&L
- PII is 10% on activity
- E&OE

Extract from Hyperion Translation & Consolidation
Currency: My Corporate Currency (MCC) (Thousands)
Intercompany Account Balances
Year to Date: June 30, 202x
Legal Entity Trial Balances (Legal Ownership)

Legal Entity	Sub #1		Sub #2		Sub #3		Sub #4		Manuf #6		Manuf #7		Warehouse #8		Holding/SSC #9		Reclass & Adjust		Total Group (crossfoot/cast)	
Account Name	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Inter Co AR	0		0		0		0		640		555		100		1000			2295	0	0
Inter Co Loan R							100											100	0	0
PII		20		20		16		16									72		0	0
Inter Co AP		275		300		210		240		300		300		670		0	2295		0	0
Inter Co Loan		100															100		0	0
																			0	0
Equity/Invest in Subs		10		10		10		10		100		100		10	250				0	0
																			0	0
Interco Sale										2600		2600		500			5700		0	0
Interco Buy	1100		1200		840		960		400		400		800					5700	0	0
																			0	0
Interco COGS	900		1000		680		800		400		400		90						4270	0
PII transferred									160		160		10					72	258	0
																			0	0
Balances																			0	0
ARAP S:7		100		120		50		70	**440**			100							0	0
ARAP S:6		25		30		60		70		100	**405**			120					0	0
ARAP S:8		50		50		0		0					**100**						0	0
ARAP 8:7											150			150					0	0
ARAP 8:6									200					200					0	0
ARAP 9:A		100		100		100		100		200		200		200	1000				0	0
Total ARAP	0	275	0	300	0	210	0	240	640	300	555	300	100	670	1000	0			0	0
																			0	0
																			0	0
Loan 4:1		100					100												0	0
																			0	0
PII		20		20		16		16											0	72
Shares/Invest		10		10		10		10		100		100		10	250				0	0
																			0	0

Find the Errors: Same data, two differences

- Errors introduced: an entity booked an invoice short, a difference was recorded: what to do?

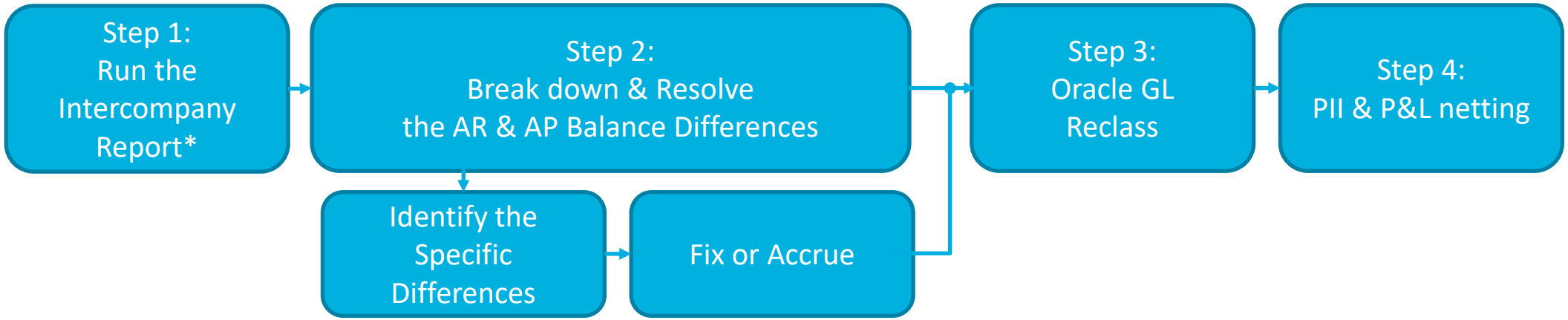
Which entities caused these differences?

Extract from Hyperion Translation & Consolidation
Currency: My Corporate Currency (MCC) (Thousands)
Intercompany Account Balances
Year to Date: June 30, 202x
Legal Entity Trial Balances (Legal Ownership)

Legal Entity	Sub #1		Sub #2		Sub #3		Sub #4		Manuf #6		Manuf #7		Warehouse #8		Holding/SSC #9		Reclass & Adjust		Total Group (crossfoot/cast)	
Account Name	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Inter Co AR									640		555		100		1000			2295	0	0
Inter Co Loan R							100											100	0	0
PII		20		20		16		16									72		0	0
Inter Co AP		275		300		210		230		300		300		670		0	2295		10	0
Inter Co Loan		100															100		0	0
																			0	0
Equity/Invest in Subs		10		10		10		10		100		100		10	250				0	0
																			0	0
Interco Sale										2600		2600		500			5700		0	0
Interco Buy	1100		1200		840		960		400		400		2000					5700	1200	0
																			0	0
Interco COGS @ Tfr	900		1000		680		800		400		400		90						4270	0
PII transferred									160		160		10					72	258	0

Where to start?

- Using a report implicit here, follow these steps:



*Intercompany Reports
- From Oracle Hyperion or EPM offerings ("Intercompany App")
- From Blitz Reports
- Home Grown

What can possibly go wrong?

Some approaches to avoiding interco problems

What can go wrong?	What to do about it!	Slides
Currency - Valuation	Governance: Rate Control	19, 20, 21, 22
Currency - Settlement	Governance: Denomination Currency	23, 24
Deal Disagreements & failed logistics	Governance on Legal Ownership Risk Management: Formal Contracts	25
Product Defects	Returns & Complaints Process & Policy	26
Invoice Tsunamies	Consolidate Intercompany Invoices	27
Tax Arrangements	Work out the system details in advance	28
Poor Enterprise Structure Design	Appropriate Enterprise Structure Design	29, 30, 31, 32, 33

Define the intercompany invoice currency

Approaches
Currency
- Valuation

Practice: Governance guidance #1

1. The client must be firm in denominating the intercompany document in one currency or another: no disputes about which at the intercompany party level.
   a. Each transaction-pair has **one** denomination currency.
   b. Many people like “corporate currency”.
      a. Disadvantages:
      b. Exposed to noticeable (false precision) rounding errors in the conversion to foreign and translation back to corporate process, and it
      c. Monetary exposure appears fixed at corporate while remaining exposed at the sub.
   c. Others like “subsidiary currency”, because it moves the FX exposure to corporate.
   d. Many use the currency of the original transaction
2. Point is, through, both parties must enter the denominated amount in the entered column of Oracle GL (unless the denomination currency is the also their accounting currency.)

So, the FX rates change

Approaches
Currency
- Valuation

ASCEND 2022

- FX Rates change all the time: many times per hour.
- How can a person tell which is the right rate to use. It might go up again tomorrow?
  - Read ASC 830, or its IFRS twin, IAS 21. (Both written in part by Mr. Tom Jones.)
- The ASC 830 rate to use is, only:
  - the (a) cost of foreign currency to you (b) on the balance sheet date: the current rate.
  - when recognizing non-functional currency non-monetary assets or liabilities, (c) the rate on the day of recognition of the asset or liability (historic rate) ("remeasurement")
  - When booking income, (d) the weighted average current rate for the period being reported
- Functional currency is the currency of a business. Some businesses are worldwide, and then, that means home currency. Others are local, and then, that means local currency.
- Reporting currency is the currency of your Corporate filing to your equivalent of the SEC
- FX expense is the cost of holding foreign money as the rates change over time: balance times (opening rate minus closing rate)

Know the cost of foreign currency to you

Practice: Governance guidance #2

Approaches
Currency
- Valuation

ASCEND 2022

1. The client must be firm in the month end and any average rates used.
   a. This remains true if they are using an average rate as a month end rate (more later)
   b. The client must figure, in Treasury at Corporate, rates that will support cross rates to the ASC 830 Reporting Currency for each of the currencies involved – the documentation denomination currency, and the accounting currency of the both subsidiaries, and publish those rates to the subs.
      i. No arguments; the client is not a democracy but a public company 😊
      ii. Respect legal needs: if they are consolidating from "Local First" ledgers, use the legally required rates, and adjust the consolidation. Book the legal-GAAP difference to "cost of banking" in that country – it is not FX.
   c. The client must be firm about using the rates used in the cross-rate calculation to do the ASC 830 Translation or Remeasurement, or IAS 21 Translation.

Always settle in the denomination currency

Practice: Governance Guidance #4

Approaches
Currency
- Settlement

ASCEND 2022

- Currency wise, remember that the intercompany balance is “exposed” as an FX balance on one of the LE’s trial balances
- So arrange its settlement it in its denomination currency
  - If you used several denomination currencies, make several settlements
  - Example: NYC HQ-Germany - USD for factory goods, INR for SSC fees, EUR for software service credits: make 3 settlements, USD, INR, and EUR.

- If you don’t, the entered currency amounts will not be cleared, and will remain included in your FX exposure calculations. (At Oracle, this is GL Revaluation)
- When you do use the denomination currency, the settlement will wash with the invoices you are settling, reducing their exposed balance to zero. Then GL Revaluation will figure zero times the month end rate after settlement and will produce an FX adjustment to bring the accounting currency value to zero too.
- You can book the actual settlement at the bank rate: and difference will be offset in the GL revaluation entry. However, to get the realized gain and loss to equate with each other and to offset, both control that the settlement is booked at treasury cross rates, and book the difference to the bank rate to “bank charges” or similar.

Bookkeep foreign currency interco in the GL "entered" field

Approaches
Currency
- Valuation

Practice: Governance guidance #3

- The client must be firm about using GL Revaluation to revise the intercompany balance to the correct accounting currency valuation in each subsidiaries ledger at the cross rates published in 2b.
- To do this, they must bookkeep the transaction in the denomination currency of the transaction in the Entered currency column of GL, and let Oracle figure the Accounting Currency value at the current daily rate.
- GL Revaluation, working on the denomination currency, and pointed towards the intercompany account, will figure the value at the month end rate, and book the difference to FX in the Accounting currency, updating the GL Accounting currency balance

Settlement

Approaches
Currency
- Settlement

ASCEND 2022

- Balances on Intercompany Receivables & Payables will need to be dispositioned
  - Trading accounts – movement of inventory and routine services – will need to be settled. The supplier will need to be paid.
  - Investments in a subsidiary of fellow subsidiary will need to be written to capital. This may be a formal injection of cash, or it maybe forgiveness of a trade account.
  - Loans and notes will need to be settled as scheduled.
  - Repatriation of profits through dividends or remittances may occur
- Some are still settled invoice by invoice: some countries insist on this
  - But most are paid in groups – such as the previous month end's balance
  - Or on collection of a customer's payment (pass through)
  - Many other models

We don't manage by LE but we do own by LE

Approaches
Deal
Disagreements

ASCEND 2022

Legal Entities are granted property rights, so they own.

- And therefore, they can buy and sell.
- Sell outside the group = a reportable sale
- Sell to an internal LE = not a Group sale
- But is an LE sale for local reporting

Non-Legal entities do not have property rights, and do not own

- They cannot sell what they do not own
- They cannot buy what they will not own

Intercompany

Approaches
Deal
Disagreements

ASCEND 2022

Intercompany is all about legal ownership updates

- When a company (LE) sells (transfers legal ownership) to another company (LE) that you own, that transaction must be recorded, and excluded from your external reporting.
- That's intercompany.

Nothing else is intercompany.

- Management updates are intra-company
- Product line revisions are intra-company
- Real Business Unit transfers are intra-company
- BU and OU transfers are cross org.

Always articulate the transfer of legal ownership

Intercompany Legal Agreement & Terms

Approaches
Deal
Disagreements

ASCEND 2022

- Many intercompany differences arise on goods being lost in transit. The shipper insists they sent the goods and the interco AR is valid; the receiver insists they never received them, and it would be illegal in their country to post the AP.
- The solution: Governance on a formal agreement between the two entities and articulation of the trading terms.
  - Make it clear that the shipper has responsibility until the specific point at which they cease to own the product per the contract/terms, and must take the loss if lost before that point
  - Make it clear that the receiver has responsibility after the specific point at which they take up ownership per the contract/terms, and must take the loss once that point has been reached.
  - Contracts and terms can and will vary, and both parties must work with the logistics companies involved. Both LEs are responsible to ensure (and insure) so that group does not suffer a loss.
  - Both companies write their interco entries. The legal owner books the write off on the lost inventory.

Define & promulgate your internal policy and adhere to it

Returns and Defects

Approaches
Returns
& Defects

ASCEND 2022

- After currency differences, difference due to mishandling returns and defect credits are the largest cause of intercompany out-of-balances.
- Set up a clear policy as how you will deal with returns and defects. Having been involved in TQM for while, I'm a fan of having the source
  - bear the cost and consequently,
  - address the reason the defect or dissatisfaction arose at the root.
    I do understand that that isn't always practical.
- Do not tolerate deviation from the policy: Governance - No unilateral entries
  - Both companies/LEs must book the original intercompany transaction
  - Both companies must agree the return/defect entry promptly and book it ASAP

Consolidate Intercompany Invoices if volume is high

Invoice Tsunamis

Approaches
Invoice
Tsunamis

ASCEND 2022

- Source & warehouse billing to sales subsidiaries can be a matter of huge volumes, and sooner or later invoices will be lost, mis-numbered or mis-addressed, and the open receivable will not match the open payable.
- Think about consolidating the actual intercompany invoices weekly
  - Insist the counter party books it: see the previous slides on returns, losses, currency
  - You'll still issue commercial invoices for shipping, logistics and customs purposes
  - Use them as lines on the intercompany invoice. Attach them as support for it.
  - You'll have four unequivocal invoices each month.
  - Demand the sum of that four as remittance after 60 days (allowing for customer collection) (and adjusting for the credits you to which you agreed)
  - If your demand doesn't equal the balance, write off the difference. Pretty soon, it will always tie.

Tax Arrangements

Work out the system details in advance

Approaches
Tax
Arrangements

- Tax arrangements involve either or both complex intercompany flows of ownership with timing complexities and legal entities under different (country or tax authority) regulations or forms (Foreign Branches, Swiss Registrations, Bonded Warehouses). Some are proprietary to the big accounting firms. Most are unique to your company.
- Before agreeing to an arrangement, figure how you are going to automate it.
  - EBS: Some features and known art
  - Oracle Cloud service: As EBS plus significant internal order distribution and supply chain financial orchestration
  - Virtual Trader

The Real World and the Software Mirror

Approaches
Enterprise
Structures

ASCEND 2022

- Software holds a mirror up to the real world. In the real world, legal entities have property rights, and therefore are authorized to buy, sell, own and hold.
  - Management and management entities do not *own*, as they are not legally authorized to. They are responsible as “servants” to steward the assets of the legal entities.
  - We *manage* by management entities; we *own* through legal entities. When we say, “Jill owns the sale” or even “Jill sold”, we mean that Jill was responsible for executing a sale by her employing LE. When an employee says, “my computer”, they mean they are responsible for it. It owned by their employer.
- “Intercompany” is a technical accounting term that means a sale or a buy by one LE to/from another LE where both are controlled by the same group. The group retains ownership, and therefore there is no revenue or cost (other than logistical cost) involved for the group.
- It is helpful (and difficult) to distinguish updates in responsibility (intra-company), updates in data storage (cross-org), updates in bookkeeping book (cross-ledger) from updates to legal ownership (true intercompany), while remembering that these re-classifications also should not impact the groups overall result.

The Real World and the Software Mirror

Approaches
Enterprise
Structures

ASCEND 2022

- In mapping the software entities to the structure that you have created for your group legally, managerially, and in terms of your IT asset deployment (instances, etc.), you can optimize for various purposes.
- One of these purposes is to have a balance sheet that reflects your ownership directly: each legal entity maintains a legal ledger (as generally required by company law) within a series of software ledgers forming a dimensional cube.
- Intercompany (legal ownership updates) activity is relatively easy to track with this approach. The intercompany pairs (interco AR & AP, etc.) are tracked in GL and published to EPM directly
- However, many groups use management orgs as their primary ledger drivers and, therefore, derive the legally entity. For this reason, legal ownership is also derived.
- As a consequence, inter-company activity and intra-company activity is combined, and the volume of matching and elimination becomes difficult to manage.

The Real World and the Software Mirror

Approaches
Enterprise
Structures

ASCEND 2022

- The software companies provide many entities, attributes and flags to help resolve these issues. Oracle provides:

✓ The legal-entity data entity
✓ The Balancing Segment in the CoA
✓ Other segments in the CoA
✓ The Tax registration data entities
✓ First (internal) and Third parties (external)
✓ The (software) ledger
✓ Asset Book
✓ A hierarchy of “Organizations” including
  - ✓ Operating Unit (in EBS)
  - ✓ Business Unit (Cloud Service, evolved substantially from OU)
  - ✓ Project organizations
  - ✓ Inventory Org
  - ✓ Profit Center

These **and more** can represent business entities whether incorporated or not. For example, an Inventory Org can be used to represent the legal owner of inventory, and thus, a legal entity.
A real-world entity can have several these artifacts associated with it.
The system is very flexible.

Mirroring Your Structure

Base case

Approaches
Enterprise
Structures

ASCEND 2022

- To keep your intercompany simple enough to eliminate quickly and hasten the monthly close, the typical structure might look like this. Start here, and then deviate…
  - The chart of accounts has a value (number) for each operating company in the “first balancing segment” of the chart of accounts. For example: “Company 215”
  - That value (215) is associated to an LE entity representing that company. That entity is populated with company 215 specific data. Also associated to it are its taxpayer registrations, and other regulatory registration data.
  - Large Management Organizations operated by that company/LE are tracked in the “second balancing segment” and non-balancing segments of the CoA. They are “mapped” to it. They may be parts of larger cross-company units.
  - The company/LE shares its software Ledger and Business Unit subledgers with other companies in the group. It is also served by Ledger-agnostic Business Units. Transactions in the BU are identified to it by the company number, name, approver or other data.
  - Its inventory (if any) is tracked in its specific inventory orgs and its fixed assets are tracked in specific Asset Books.
- Assuming all operating companies are handled like this company, intercompany will be straightforward to manage, without any mid-close ownership derivation. In addition, the balance sheet will be sharply defined:
  - Intercompany AR and AP, sales, and intercompany clearing accounts will appear on their Trial Balances and in Consolidation
  - Their owned inventory and Fixed Assets will be clear
  - Their updates to responsibilities internally will have been self cleared, and if involving another company, will have been executed at that company
  - Their storage updates will have affected by cross ledger effected if beyond their ledger, and in the same BU if within the same ledger.
  - The consolidated group balance sheet with directly assert your legal ownership and will be supported by the legal entities’ individual ownership of specific assets and liabilities.

Mirroring Your Structure
Your Mileage Will Differ

Approaches
Enterprise
Structures

- Of course, your situation is different. As you map your business to the Enterprise Structures, be sure to evaluate your balance sheet (and intercompany) requirements in context with your other priorities.
- OATUG members can advise on Intercompany top-down design and on Enterprise Structures. In addition to Oracle Consulting, the big four financial consultants and the major SI firms, there are deep experts here at OATUG, from Celantra Systems, Creol, Project Partners, Virtual Trader, FX Loader, Blitz Reporting, Promatis, and many more

Taxonomy

Taxonomy

Phrase	Meaning in GAAP/IFRS	Occasional Meaning in Oracle (Many Oracle people use them as they are used in GAAP, some don't.)
Functional Currency	The currency of a worldwide business: "The functional currency of our manufacturing group is USD worldwide." vs. "The functional currency of our worldwide service business is always the local currency."	The currency in which a software ledger functions. Also called the "accounting" or the "ledger" currency. Often is the GAAP/IFRS functional currency, but often, is not.
Reporting Currency	The currency of your external reports (Annual Report, 10K, 10Q, etc.)	The currency of a report, any report.
Historic Rate	The rate on which a non-monetary, non-functional currency denominated amount was converted to functional currency as of the date of recognition.	The daily rates table.
Intercompany	Update of the legal ownership attribute of an asset (cash, invoice, item, investment, intangible, and so on) or liability or revenue or expense on a transfer of goods and services between legal entities under common ownership.	Any inter-org transfer: intercompany, intracompany, cross-(Oracle) Business Unit, cross-org, cross-balancing segment, processed in AGIS, handled by an intercompany feature, et cetera.
Entered Currency	N/a	A field in the sub- and general- ledgers to accommodate currencies other than the ledger currency. Has many currency management features associated with it. Requires balanced entries.
Denomination Currency	ASC 830: The currency in which you intend to settle. Contract Law: The currency specified on the document.	Not used.

The real end