

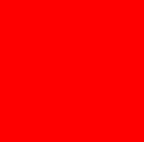


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Encumbrance Accounting in the E-Business Suite: From Req. to Check

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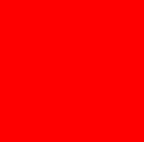
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Agenda

- Why Encumbrance Accounting?
- Setup Requirements
- Establishing Funding Budgets
- Budgetary Control Concepts
- Encumbrance Lifecycle
- Comparison of Encumbrance Accounting and Budgetary Controls in the General Ledger, Projects, and Grants
- Reconciliation and Troubleshooting
- Changes in Release 12
- Q&A

Why Encumbrance Accounting?

- How much do I have left to spend?
- Don't let me spend too much!



The Funds Available Formula, Pretty simple, right?

Budget – Actual Cost – Encumbrance = Funds Available

Setup Requirements

- General Ledger
 - Enable Budgetary Control for the Set of Books
 - Assign Reverse for Encumbrance Account to the Set of Books
 - Open Encumbrance Year
 - Define Encumbrance Types
- Purchasing/Payables
 - Assign Encumbrance Types to use for Requisition, Purchase Orders and Invoices.

Setup Requirements

- Projects
 - Enable Budgetary Controls option for Project Types/Projects
- Grants
 - Nothing additional

Establishing Funding Budgets

- General Ledger
 - Define a budget to be used as the 'Funding' budget
 - Assign the 'Funding' budget and Budgetary Control Options to individual or range of accounts in each Budget Organization. You can also assign the budget and control options to Summary templates.
 - Define Budgetary Control options, tolerance and override amount for each Journal Source and Category using a Control Group and assign to the site or individual users

Establishing Funding Budgets

- Projects
 - Create and baseline a project budget using the budget type that was assigned on the project type and/or project definition.
 - This is limited to a 'Project Cost' budget type.
 - Currently limited to budgets entered in forms based budgeting. Financial plans are not compatible with budgetary controls.
 - Must be entered by GL period when integrating with GL
- Grants
 - Create and Baseline an Award budget for each Project the Award is funding.
 - Date range budgeting is supported.

Budgetary Control Concepts

- Funds Check Level
 - Controls the severity of the budgetary control check
 - Options are: Absolute, Advisory, None
- Amount Type
 - Determines the cumulative balance to use for the funds checking interval
- Boundary
 - Determines the end point of the funds checking interval

Budgetary Control Concepts

Valid combinations of Amount Type/Boundary

| | | BOUNDARY | | | |
|--|------|----------|---------|------|---------|
| A M O U N T T Y P E | | PERIOD | QUARTER | YEAR | PROJECT |
| | FTD | Yes | No | No | No |
| | QTD | Yes | Yes | No | No |
| | YTD | Yes | Yes | Yes | No |
| | FJTD | Yes | Yes | Yes | Yes |

Budgetary Control Concepts

- Tolerance
 - Percent
 - Amount
- Override Amount
 - The maximum amount per transaction per account in which you can override funds reservation.
- Control Group
 - Allows different control options to be assigned by Journal Source and Category
 - Can assign to a unique control group to individual users to allow different tolerance and override limits.

Encumbrance Life Cycle

Establishing Encumbrances

- Reserve or Approve Requisition, Purchase Order, or Unmatched Supplier Invoice
- Reserve or Approve PO Matched Invoice
 - Invoice Price Variance (IPV), Exchange Rate Variance (ERV) (Receipt and Period end Accrual)
 - Quantity Variance (Period End Accrual only)
- Manually Enter Encumbrance Journal (GL or Grants)
- Import from Labor Distribution (Grants only)

Encumbrance Life Cycle

Relieving Encumbrances

- Cancel Requisition
- Final Close Purchase Order
- Delivery of Goods to Final Destination
- Record Expense for IPV, ERV, or Quantity Variance
- Post Payments (Cash Basis only)

- Reverse Encumbrance Journal (GL or Grants)
- Import reversing encumbrance from Labor Distribution (Grants only)

Encumbrance Life Cycle Example

Encumbrance Types

Requisition = Commitment
Purchase Order = Obligation
Invoice = Invoice

Accrual Methods

Expense = Accrual
at Period End

Inventory = Accrual
on Receipt

| Sample Requisition | | | | | |
|--------------------|------------------|------|-------|-----------|------------------|
| Line | Item Description | Qty. | Price | Item Type | Destination Type |
| 1 | Camera | 1 | 500 | Expense | Expense |
| 2 | Computer | 1 | 800 | Asset | Inventory |

Encumbrance Life Cycle Example

- Reserve Requisition

Dr Commitments (Expense) 500

Cr Reserve for Encumbrance (Expense) 500

Dr Commitments (Inventory) 800

Cr Reserve for Encumbrance (Inventory) 800

Encumbrance Life Cycle Example

- Autocreate Purchase Order and Reserve

Dr Obligations (Expense) 500

Cr Commitments (Expense) 500

Dr Obligations (Inventory) 800

Cr Commitments (Inventory) 800

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Encumbrance Life Cycle Example

- Goods are Received

Dr Receiving 800
Cr Accrual 800

- Good are Delivered to the Final Destination

Dr Expense Account 800
Cr Receiving 800

Dr Reserve for Encumbrance (Inventory) 800
Cr Obligation (Inventory) 800

Encumbrance Life Cycle Example

- Period End Accrual Program is executed

Dr Expense Account 500

Cr Expense Accrual 500

Dr Reserve for Encumbrance (Expense) 500

Cr Obligation (Expense) 500

- Next Period is Opened

Dr Expense Accrual 500

Cr Expense Account 500

Dr Obligation (Expense) 500

Cr Reserve for Encumbrance (Expense) 500

Encumbrance Life Cycle Example

- Invoice Matched to PO and Reserved
 - The Computer was invoiced for \$900, \$100 more than the PO

Dr Invoice Encumbrance (Expense) 500

Cr Obligation (Expense) 500

Dr Invoice Encumbrance (Inventory) 100

Cr Reserve for Encumbrance (Inventory) 100

Encumbrance Life Cycle Example

- Payables to GL Transfer program

Dr Inventory Accrual 800

Dr Variance Account 100

Cr Liability 900

Dr Reserve for Encumbrance (Inventory) 100

Cr Invoice Encumbrance (Inventory) 100

Dr Expense Account 500

Cr Liability 500

Dr Reserve for Encumbrance (Expense) 500

Cr Invoice Encumbrance (Expense) 500

Encumbrance Life Cycle Example

- Payment

Dr Liability 1400

Cr Cash 1400

When using Cash Basis, the encumbrance would be relieved when the payment is made.

Encumbrance Life Cycle

Year End Encumbrance Processing

- General Ledger
 - Encumbrance Only
 - Encumbrances and Encumbered Budget
 - Funds Available
- Projects
 - Applicable for 'Top-Down' integrated budgets only.
 - Transfers the Funds Available from the project budget lines to the beginning balance of the associated GL account.
 - Creates a new project budget version and transfers amounts into the first period of the new year.

Comparison General Ledger Summary

| | |
|--|---|
| Modification to budgets enforce budgetary controls? | Yes, during posting of budget journals |
| Amount Type/Boundary | PTD, QTD , YTD, PJTD |
| Tolerance and Override | Yes |
| Levels of Control | Detail and Summary Account, Journal Source and Category |
| Year End processing | Yes |
| Control Groups | Yes |
| Balance Table | GL_BALANCES |
| Budgetary Control detail table | GL_BC_PACKETS |
| Funds Available Reporting | Funds Available Inquiry, FSG's, etc. |
| Amount Checked | Transaction Amount |

Comparison Projects Summary

| | |
|--|---|
| Modification to budgets enforce budgetary controls? | Yes, during budget rebaseline |
| Amount Type/Boundary | PTD, YTD, PJTD |
| Tolerance and Override | No |
| Levels of Control | Project, Task, Resource Group, Resource |
| Year End processing | Yes |
| Control Groups | No |
| Balance Table | PA_BALANCES |
| Budgetary Control detail table | PA_BC_PACKETS |
| Funds Available Reporting | Budget Funds Check Results form (Accessed via Project Cost Budget) |
| Amount Checked | Transaction Amount + Burden Amount |

Comparison

Projects Budget Integration Options

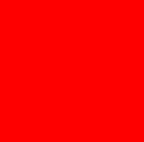
- Top Down
 - Funding budget established in GL. Project budgets consume the GL budget by placing an encumbrance against the related accounts. When project related documents are entered, the project encumbrance is relieved and normal encumbrance flow starts.
- Bottom Up
 - Project budgets contribute to the GL budget. When project budgets are baselined they create budget journals to be posted to the GL.

Comparison Grants Summary

| | |
|---|---|
| Modification to budgets enforce budgetary controls? | Yes, during budget rebaseline |
| Amount Type/Boundary | PTD, YTD, PJTD |
| Tolerance and Override | No |
| Levels of Control | Award/Project, Task, Resource Group, Resource |
| Year End processing | No |
| Control Groups | No |
| Balance Table | GMS_BALANCES |
| Budgetary Control detail table | GMS_BC_PACKETS |
| Funds Available Reporting | Award Status Inquiry, Funds Check Results – Budget form |
| Amount Checked | Transaction Amount + Burden Amount |
| Budgetary Controls enforced for pre-approved batches and uncosted 3rd party transactions. | Yes |

Reconciliation and Troubleshooting

- Encumbrance Account Details Report
 - Variances between the GL and subledger encumbrance balances.
 - Negative GL encumbrance balances.
- Encumbrance Document Details Report
 - Identifies journal entry lines generated for a specified purchasing document.
- Requisition/Purchase Order Distribution Detail Reports
 - Identify documents that have failed budgetary control.
- Open Encumbrance Balance with Transaction Detail Report
 - Reports summary balances and detailed source document information by account.



Reconciliation and Troubleshooting

Changes in Release 12

- Subledger Accounting (SLA)
 - Encumbrance journals now created by subledger accounting, Create Journals process is obsolete.
 - Budgetary control is tightly integrated with SLA, Accounting must be created successfully before budgetary control is performed.
 - Can view the encumbrance accounting details directly from the reserved documents.
 - SLA reports can be used to report on and reconcile encumbrances: Account Analysis Report, Journal Entries Report
- New Budgetary Control Results report
 - XML publisher based
 - Replaces Budgetary Control Transactions Report



Questions?