

# Don't Get Lost in the Labyrinth of Supplier Cost Flows into Projects

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## ADVANCED DEFENSE SYSTEMS LTD.

### About RAFAEL

- RAFAEL is an Israeli company.**
- About 5100 employees.**
- Revenue of 1000 million USD.**
- About 55% export**
- Three divisions as business units**

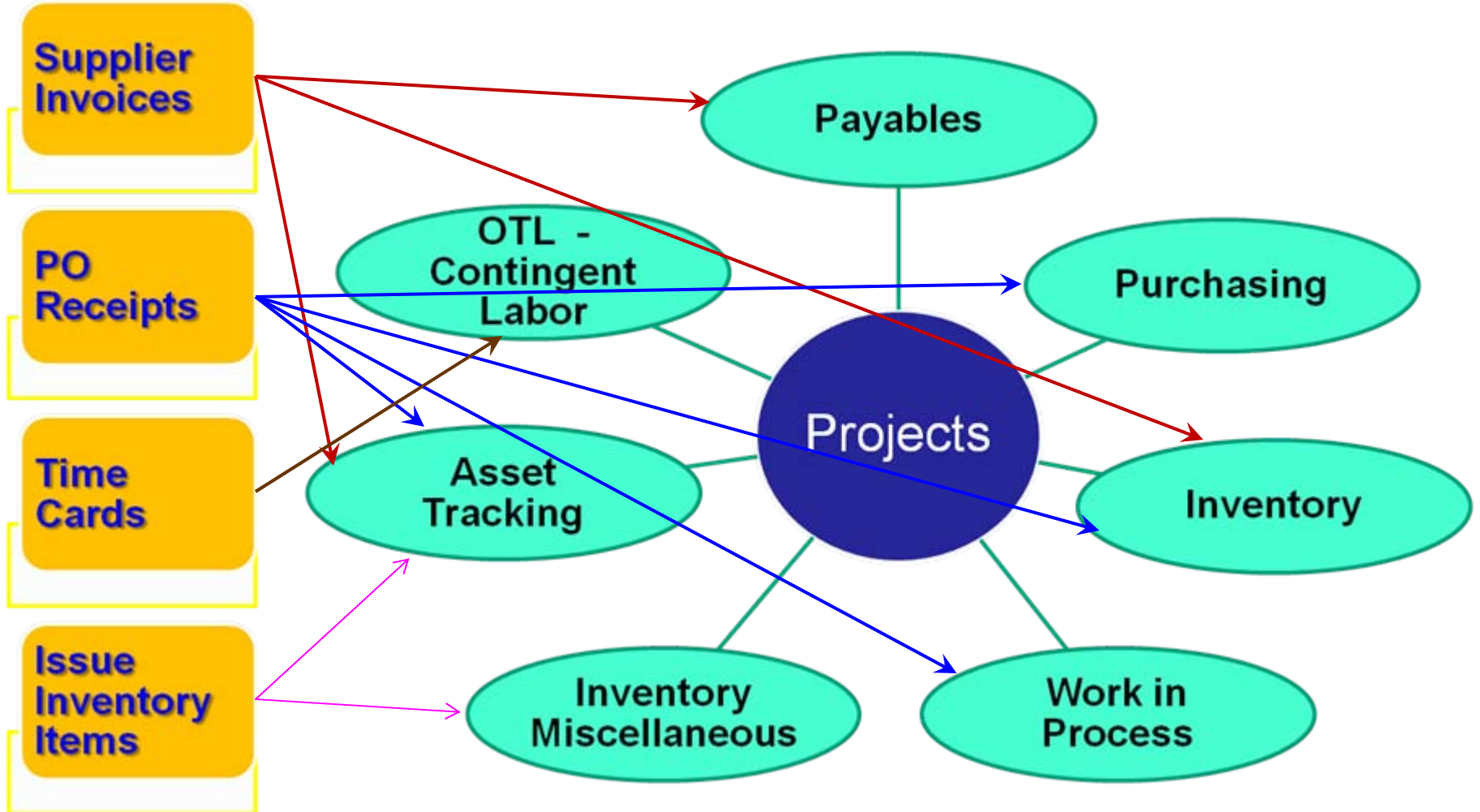
### About E-Business Suite in RAFAEL

**Current Release: 11.5.10 CU2,  
with Projects FP\_M  
Projects (Costing & Billing), Purchasing,  
Financials (GL, AP, AR, FA, CE, XTR),  
Project Manufacturing, OM, Shipping,  
Service, HRMS.**

# Agenda

- Flows of Supplier Costs into Projects
- Subsequent transactions and adjustments
- Reconciliation of Supplier Costs across E-Business Suite
- Controlling whether Supplier Costs may Charge Projects
- Budgetary Control
- New Features in Release 12

# Flows of Supplier Costs into Projects



# Stand Alone Supplier Invoices

- Independent invoice with no matching to any purchase order.
- User enters distribution line data, including
  - project number, task number,
  - expenditure organization name,
  - expenditure type name, and
  - expenditure PA item date
- AP Account Generator (R11i) generates the charge account based on coded project related rules.
  - Based on a profile option setup; the user may or may not override the GL charge account.

# Purchase Orders for Services

- Purchase order lines describe various services or milestones that the vendor has to deliver.
- The PO line type of service is based on fixed price amount or quantity and rate value.
- When buyer auto creates the purchase order line from a requisition, the system actually copies the distributions from the original document.
- Else, PO Account Generator (R11i) generates the accounts based on coded project related rules.
- When supplier invoice is matched to the PO, distribution lines are copied from PO distributions.

# Interface Supplier Invoices

- PRC: Interface Supplier Costs (ISC).  
Parameters:
  - Through GL Date or Through Transaction Date
  - Interface Supplier invoices should be set as 'Yes'
- Interface the invoice distribution lines directly into Projects creating the expenditure items.
- Interface supplier invoice distribution lines with valid project data that were already validated and accounted.
  - **Note:** Invoice could be unapproved
- Interface invoices to Projects and GL in any order.

# PO for Contingent Labor

- This feature is available when implementing Oracle Services Procurement
- Temporary Labor information is entered on the PO lines where line type is:
  - Rate based temporary labor or
  - Fixed price temporary labor
- On rate based line types buyer may specify rates for straight time, overtime, holiday, travel time, etc.



# PO for Contingent Labor

- A contingent worker is established in HR, and linked to a purchase order, line number and Supplier.
- With OTL integration, a contingent worker established in HR is able to enter time in OTL.
- When entering time in OTL, the contingent worker timecard layout requires additional entry of the purchase order and line number.

# Interfacing Costs of Contingent Labor to Projects – Two Methods

1. Integrating OTL with PO: on Projects implementation options, select to import contingent worker timecards.
  - OTL will interface the hours to projects.
  - PRC: Distribute Labor Costs calculates amount based on the purchase order hourly rates.
  - System creates a purchase order receipt for contingent labor hours entered in OTL. This in turn creates the supplier invoice in AP.
2. If OTL is not being utilized, the supplier invoice for CL is matched to PO, and will be interfaced to Projects.

# PO for Goods – Expense Destination - Accrue Period End

- Procurement of physical deliverable, a product or a piece of equipment.
- PO line type is Goods, quantity based.
  - May enter any purchasable item (stockable or not) or no item at all.
  - On Shipment line disable “Accrue on Receipt”
  - On distribution line enter destination as “Expense”
- PO Account Generator (R11i) generates the account based on project data (if not created from a requisition).

# Interface Costs for Expense Destination - Accrue Period End

- No accounting transactions are created when entering receiving transactions.
- If PO period is closed before entering invoice, **GL** is debited for receiving cost, on the accrual account, reversed on next period.
- **Period end accruals are not interfaced to Projects**
- Supplier invoice is matched to PO, distribution lines copied from PO distribution.
- Supplier invoice is interfaced to Projects, using PRC: Interface Supplier Costs.

# PO for Goods – Expense Destination – Accrue on Receipt

- Procurement of physical deliverable, a product or a piece of equipment.
- PO line type is Goods, quantity based.
  - May enter any purchasable item (stockable or not) or no item at all.
  - On Shipment line enable “Accrue on Receipt”, and the Receipt Routing: Direct, Standard or Inspection.
  - On distribution line enter destination as “Expense”.
- PO Account Generator (R11i) generates the account based on project data.

# Capture Costs for Expense Destination - Accrue on Receipt

- User enters receiving transactions:
  - If routing is Direct – enters only one transaction.
  - If routing is Standard or Inspection – enters separate Receipt and Delivery transactions.
- Each receiving transaction creates accounting lines
- The Delivery transaction, debits the GL charge account

# Capture Costs for Expense Destination - Accrue on Receipt

- When matching supplier invoice to PO, distribution lines are copied from PO.
- Payables debits the 'Supplier Accrual account' & 'Invoice Price Variance' & 'Exchange Rate Variance'.
- Interface supplier cost to Projects has three options using two parameters:
  - Interface Supplier Invoices:  
**Yes / No / Accrued Cost Only**
  - Interface Receipt Accruals:  
**Yes / No**

# Interface Costs Parameters when Accrue on Receipt

**Set A: Invoices = Yes, Receipts = No**

**Set B: Invoices = Yes, Receipts = Yes**

- Interface from PO receipt accrual transactions from PO, only if the supplier invoice full amount was not yet interfaced.
- Interface from AP the variances amounts if receipt accrual were already interfaced. Otherwise, interfaces from AP the entire distribution amount.

**Set C: Invoices = Accrued Cost Only, Receipts = Yes**

- Always interface from PO the receipt accrual transactions.
- Always interface from AP only the variances amounts, even if the receipt accruals transactions are not yet available to be interfaced.



# Purchase Orders for Inventory or Shop Floor destination

- **Project Manufacturing** (PJM) organizations only
- On the PO distribution, with inventory or shop-floor destination, may enter project and task.
- Items are received and delivered to the PJM organization – project locator, or project work-order.
- Receiving transactions always accrue on receipt.
- When supplier invoice matched to PO, Payables calculates variances and extra charges.

# Interface PJM Supplier Costs

There are four processes to run:

1. Cost Management process runs in an inventory org., generates cost calculation and accounting lines.
  - Average Costing uses PO price.
  - Standard Costing split cost into standard Item Cost + PPV
2. Transfer Project Invoice Charges request selects from AP the variances on the invoice matched to the PO.
3. Cost Collector process selects the projects' transactions and writes them into the PA Interface Process.
4. PRC: Transaction Import process, using the Transaction Source parameter as [Inventory](#), [Inventory with Accounts](#) or [Inventory with No Accounts](#).

# PJM Setup for Accounting Scope and Path

GL Posting Option	Account Option	Interface Accounting to GL	Projects Transactions
Manufacturing	N/A	All accounting from Inventory	Accounted by Inventory
Projects	Use Auto Accounting	Not from Inventory. PA Send to GL	PA generates accounting
Projects	Send Accounts to PA	- " -	Accounted by Inventory

PO delivery transactions are processed by that setup

AP variances for PJM are interfaced as accounted

# Issue Inventory Items to a Project

- Items purchased and stocked in a general inventory (may not be a PJM organization).
- Must setup transaction types for **Miscellaneous Issue** (and Receipt) flagged as project enabled.
- On an issue transaction user enters project, task, expenditure organization and type, representing the receiver out of inventory.
- Transaction amount is based on **average** or **standard item cost**, not the actual cost charged on the last PO.

# Interface Costs of Inventory Item Issue

Three processes to run:

1. Cost Management process runs in the inventory org., generates cost calculation and accounting lines (\*).
2. Cost Collector process selects the projects' transactions and writes them into the PA Interface Process.
3. PRC: Transaction Import process, using the Transaction Source parameter as [Inventory Miscellaneous](#).

(\*) When the Inventory organization is PJM enabled, the accounting is generated and interfaced from Projects to GL.

# Purchase Orders for Items integrated with Asset Tracking

- Asset Tracking facilitates financials transactions based on physical movements of material and equipment, by each instance of such goods.
- Items setup should include:
  - Install Base Tracking: **enabled**
  - Asset Tracking: **Depreciable**, or **None** (normal)

# Purchase Orders for Items integrated with Asset Tracking

- **Normal item:**
  - A Capital project may procure normal items or receive such items from Inventory.
  - Capital project will interface the costs to FA when the asset is placed in service.
- **Depreciable item:**
  - Receive item from PO to a project or general inventory.
  - Item is immediately placed on service and an asset is created in FA.

# Interface costs of Install Based Item (with Asset Tracking)

The following table details Transaction Source used to import transaction into Projects:

Actions	Depreciable item for project	Normal item for Capital project
Enter PO Receipt transaction	CSE_PO_RECEIPT_DEPR	CSE_PO_RECEIPT
Match invoice. Run: Interface Invoice Price Variance to Projects	CSE_IPV_ADJUSTMENT_DEPR	CSE_IPV_ADJUSTMENT
Issue item to project. Run: Cost Collector	CSE_INV_ISSUE_DEPR	CSE_INV_ISSUE



# Interface Payment Discounts

- Discount amounts taken upon early payment may be prorated across expense distributions (based on Payables setup option).
- When allocated to project related distributions, user may choose to interface such discount amounts to Oracle Projects.
- Use the PRC: Interface Supplier Costs, and set the parameter named – Interface AP Discounts as 'Yes'.

# Prepayment to Supplier

- User enters an invoice of type 'Prepayment', and pays it. Invoice distribution may have project data, suggest use special expenditure type.
- When approving an invoice for deliverables, user may apply part or the entire prepaid amount.
- Payables creates a credit distribution line on that invoice that credits the prepayment original distribution, including the project data of the prepayment.
- The PRC: Interface Supplier Costs imports both, the prepayment distribution and the reversing line to Projects.

# Complex Contracts and Progress Payments

- With R12 Payables and Purchasing have been enhanced providing the ability to manage progress payments for subcontractors and suppliers.
- Feature includes:
  - Progress for invoicing
  - Advances to suppliers and subcontractors
  - Retainage withholdings for invoicing

# Complex Contracts and Progress Payments

- **Purchasing** may now define complex payment terms on purchase order lines
- Payment Terms include:
  - Allowed advance amount
  - Recoupment rate and progress payment rate
  - Retainage section where the maximum retainage amount is identified along with the retainage rate.

# Complex Contracts and Progress Payments

- For progress payments, a purchase order line may now be associated with a 'pay item'
  - Identifies the values to be paid to the Supplier versus the items to be delivered
- Pay item may consist of a milestone, lump sum payment or rate applied to units completed
- Complex payment terms identified on the PO line are applied when matching to AP invoices

# Complex Contracts and Progress Payments

- **Payables** - Advance payment functionality allows you to apply an advance against specific purchase items
- For contract withholds or 'retention', Payables will now retain amounts from the payment per the retain terms on the purchase order line
- Payables also supports the retainage release as work commences per purchase order terms

# Complex Contracts and Progress Payments

- **Projects Integration** - Complex agreement values from Payables integrate to Oracle Projects
  - Advance, progress and retain invoice line amounts tied to a project will flow to Projects via the standard interface processes
- For receipt accruals, values interfaced to Projects are determined by parameters selected in the Interface AP Costs to PA process

# Subsequent transactions and adjustments – in Payables

- Debit and credit memos are negative amount invoices matched to the original invoice, with same distributions.
- After an invoice is accounted and interfaced user may reverse existing distributions, and enter new ones.
- Before an invoice is paid it can be canceled, and all distributions are reversed.



# Subsequent transactions and adjustments – in Payables

- Users may be restricted by setup option: Allow Adjustments to Paid Invoices.
- When automatic offset is enabled and invoice paid, on **R11i** adjustments are not allowed.

**New:** Adjustments are allowed on **R12**.

Applies to **Cash Basis Accounting**, as well.

- All adjusted or added distribution lines are interfaced to Projects with PRC: Interface Supplier Costs.

# Subsequent transactions and adjustments – in Purchasing

- Adjustments of receipt accruals **quantity** are entered as additional receiving transactions.
- Additional receiving transactions may be entered for Return to receiving or Return to Vendor.
- On an Expense PO, if need to **update project** after receiving:
  - you must return items to receiving
  - update PO distribution and re-enter delivery transaction.

# Subsequent transactions and adjustments – in Purchasing

- If using **Retroactive Pricing**, the system automatically generates:
  - Adjustment receiving transactions in **Purchasing**
  - PPA (Purchase Price Adjustment) distribution lines in **Payables**.
- All adjusted or added distribution lines are interfaced to Projects with PRC: Interface Supplier Costs

# Entering Adjustments – in Projects

- In some cases users may enter adjustments in Projects, including:
  - Transfer expenditure items between projects
  - Adjust expenditure item attributes
  - Split an expenditure item
- Adjustments are distributed by Projects.
- Interface the supplier cost adjustments :
  - Until R11i – adjustments are interfaced back to AP
  - On R12 - adjustments are interfaced directly to GL.

# Entering Adjustments – in Projects

Which adjustments are limited by Projects?

- Receipt accrual transactions of expense PO and PJM Inventory cannot be adjusted in Projects.
- Inventory miscellaneous transactions from a non-PJM organization cannot be adjusted.
- Supplier invoice distributions have some restrictions placed by AP until R11i. Those are removed by R12.

# Recommendations for better PO-AP-INV-PA- GL Integration

1. **Segregate** the GL accounts of Project and non-Project procurement costs.
2. **Force** the entry of **project data** on PO and AP.
3. **Prevent override** of accounts in PO and AP.
4. Enable '**Expenditure item date accounting**' in PA.
5. If there is no need for weekly PA periods, setup **Maintain Common PA and GL Periods**.
6. Use "**Accrue Cost Only**" parameter on ISC.
7. Run **daily** all interface processes to avoid timing issues, and look continually on **exceptions reports**.

# Controlling whether Supplier Costs may Charge Projects

- When entering Expense destination on a PO or invoice distributions in Payables, system is validating the following controls:
  - **Project status** setup determine if cost charges are allowed.
  - PA date is validated for being within **Task's Transaction start and end dates**.
  - **Transaction Control** on project or task may be set by expenditure type, supplier or item. There's also a **Transaction Control Client Extension**.

# Controlling whether Supplier Costs may Charge Projects

- When receipt accrual or invoice distribution are imported to Projects, they **bypass** validation checks.
- On inventory destination PO, for a PJM organization, the PA date is checked against the **project assignment effective dates**, on that organization.
  - System issues only warning when date effectiveness is violated
  - A Workflow may be customized to prevent action.



# Budgetary Control

- Provides ability to control costs charged to a project using a project cost budget.
- Funds check process validates Purchase Orders, Requisitions and Supplier Invoices to be within budget amounts
- There are three levels of budgetary controls:
  - Absolute - the system rejects transactions that do not pass funds check results.
  - Advisory – accepts transactions that do not pass funds check results. Provides warning
  - None – performs no funds check

# Budgetary Control

- Funds Check Validation Occurrence is dependent on transaction type
- Funds Check results determine if transaction is allowed as Project Cost/Commitment

Transaction Type	Funds Check	Absolute	Advisory	None
PO/REQ Commitment, Unmatched AP Inv	Validation Process	Fail	Pass with Warning	Pass
AP Invoice Adjusted in AP	Validation Process	Fail	Pass with Warning	Pass
AP Invoice Adjusted in PA	Distribution Process	Not Distributed	Pass	Pass

# New Features in Release 12

## Payables Invoice Lines

- R12 provides an architectural change that provides invoice lines
- Release now provides:
  - Invoice header
  - Invoice lines associated to the header
  - Distribution lines associated with invoice line
- Line level approval and matching of an invoice at the line level

# New Features in Release 12

## Payables Invoice Lines

- Invoice lines are for goods or services
  - Tax, freight and other charges become distribution lines associated with the invoice line

Invoice Header	Invoice Lines	Invoice Distributions
Invoice 101 \$1,100	Line 1: Goods \$500	Distributions Line 1: Goods \$450 Tax \$50
	Line 2: Services \$600	Distributions Line 2: Services \$500 Miscellaneous: \$100

# New Features in Release 12

## Controlling Expenditure Item Dates

- Prior to this release, the item date was based on the expenditure item date entered on the requisition or purchase order distribution line.
- *In R12*, Ability to control how an expenditure item date is provided for receipts and invoices
- New profile option controls default date used for invoices, receipt accruals, discounts and payments

# New Features in Release 12

## Controlling Expenditure Item Dates

- Profile Option attributes used for determining the expenditure item date are:
  - Transaction date for invoice or payment
  - The General Ledger date for the invoice, discount or payment
  - The system date for when the invoice or payment was created
  - Expenditure item date entered on purchase order

# New Features in Release 12

## Expenditure Inquiry New Fields

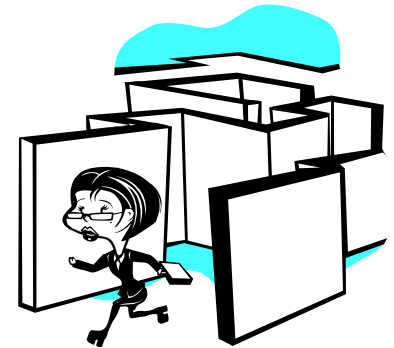
- Inquire on expenditure inquiry using:
  - Supplier name
  - Invoice number
    - Invoice line number
    - Invoice distribution number
  - Payment number



Questions?

No time for Q&A?

More details available  
in our paper... 😊



**Thank You**