

# Accounting for Developers

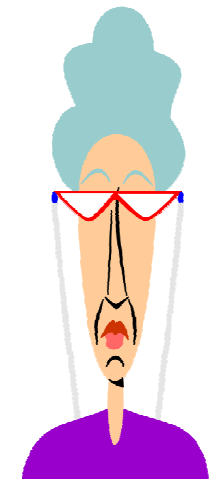
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# Agenda & Approach

- Objective is to introduce accounting concepts using the scenario of Joe's bakery.
- The presentation first describes the everyday activities of Joe's Bakery
- Those activities are then 'mapped' to Oracle eBusiness Suite functionality
- And finally the presentation describes the accounting transactions which may be generated and traces them through to reports like the income statement and the balance sheet

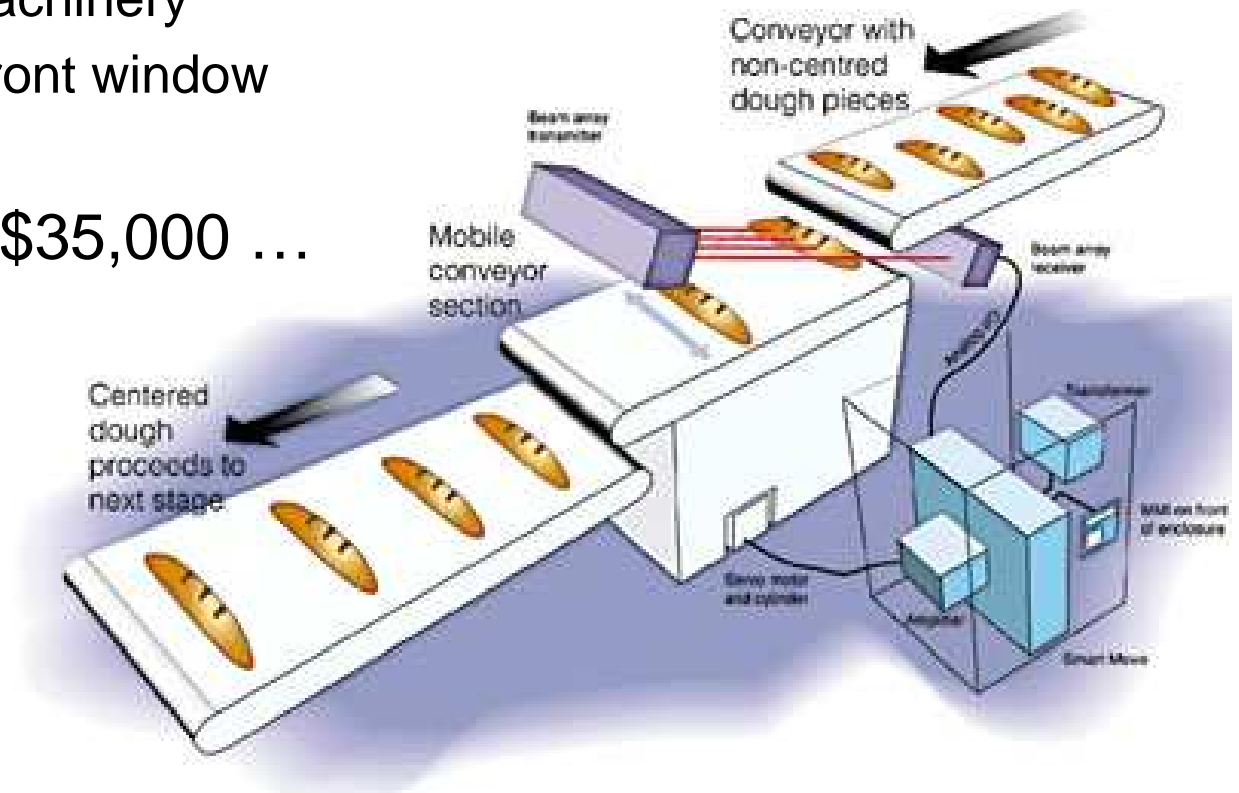
# Introducing Joe's Bakery

- Joe decides to open a bakery
- Joe's Aunty Mabel died recently and left him \$50,000, most of which he will need to buy bakery machinery
- Joe found a nice empty shop he can rent; the shop is in a great location so business is sure to be brisk
- Joe's bank manager will loan him the rental bond (\$20,000)
- So Joe is ready to set up his shop!



# Joe's Bakery – getting started

- Joe buys
  - Bread making machinery
  - Signage for his front window
  - Display cabinets
- That all cost Joe \$35,000 ...



## Joe's Bakery: first week's trading

- Joe will sell 3 bakery lines:
  - savory
  - sweet
  - ready to eat (pizza slices etc)
- Joe orders flour (plain and whole-meal) plus other ingredients he'll need like flavoring and coloring
- A local business places a daily order for \$1,000 a day
- Over the week Joe's business builds up to an average of \$5,000 a day

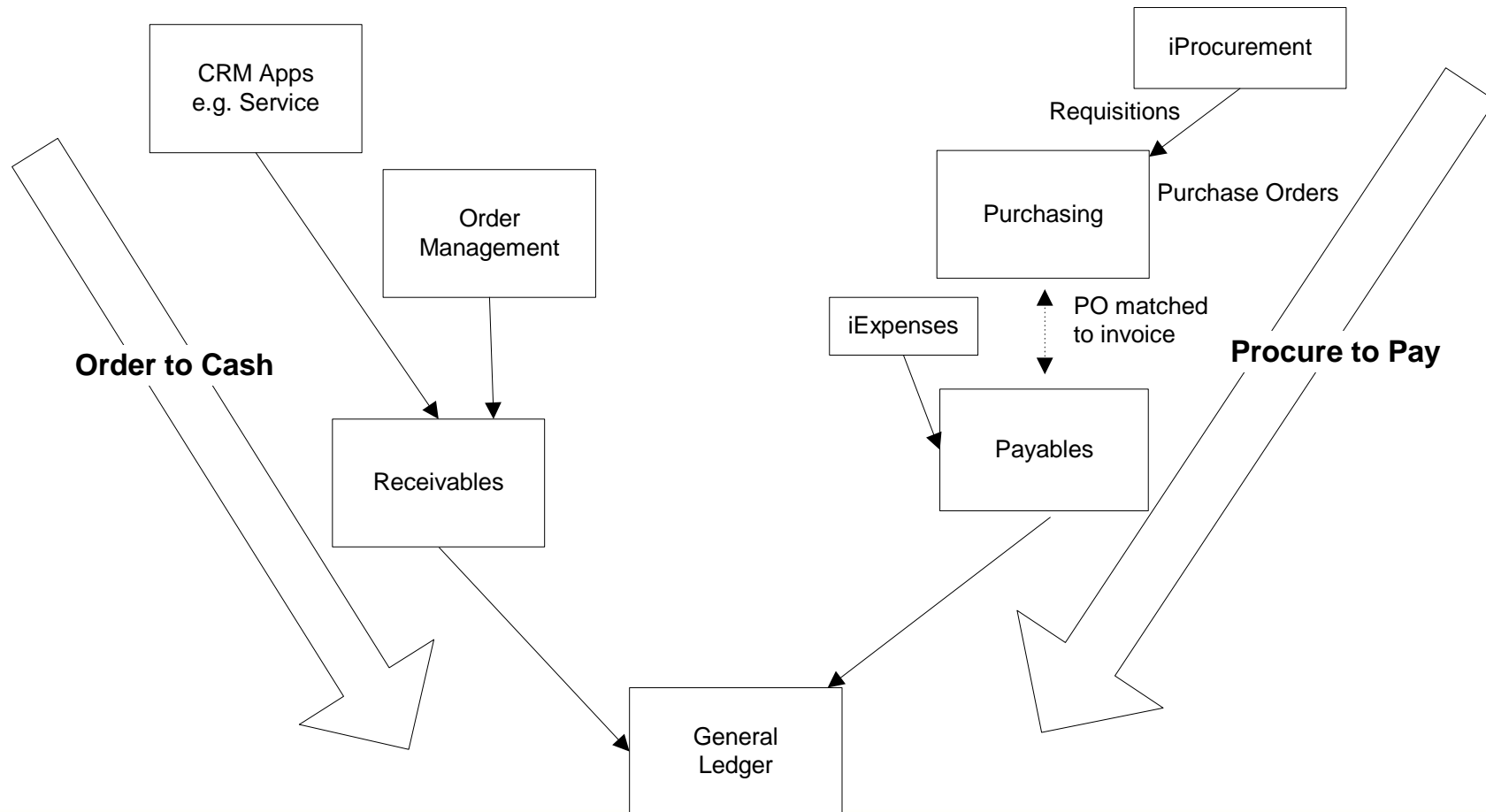


# Oracle EBS Implementation

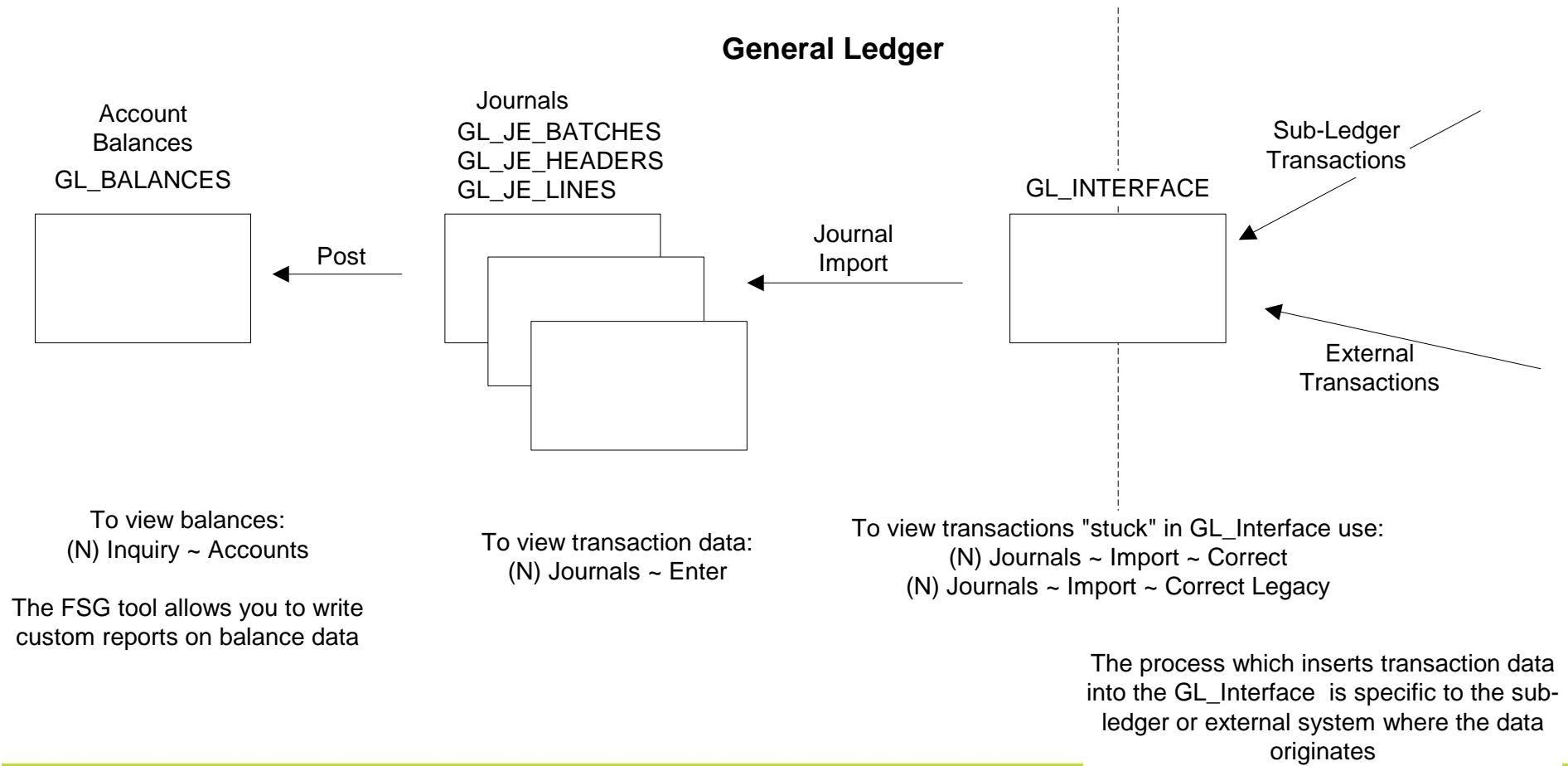
- To support Joe's new business RDHFA Consultants will implement the Oracle eBusiness suite
- RDHFA recommend using
  - General Ledger (GL)
  - Accounts Payable
  - Purchasing
  - Accounts Receivable
  - Fixed Assets
- Other Applications were considered but will not be used (see white paper)

# Oracle EBS Process Flows

## Simplified Applications Overview

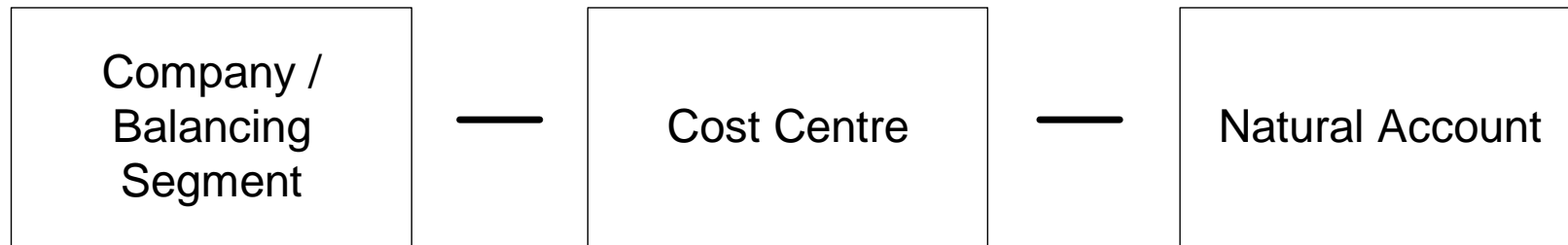


# Understanding the General Ledger





# Designing the Chart of Accounts



- The Accounting Flexfield is a key Flexfield
- A typical Account looks like: 01-110-5231.
- A value from Joe's chart is: HQ – 200 – 4111  
That means:
  - Branch = HeadQuarters
  - Cost Centre = Sweet Bakery
  - Account = Revenue (General)

# Natural Accounts

Natural accounts must be “qualified” as 1 of 5 types:

- *Revenue* – i.e. fees and payments made by customers
- *Expenses* – i.e. payments made by the organisation to suppliers
- (Profit is Revenue minus Expenses)
- *Assets* – i.e. organisational expenditure for which accounting regulations deem that the purchased item delivers value over a period of time (e.g. years). Such expenditure must be “expensed” over the life of the asset (this is called Depreciation).
- *Liabilities* – i.e. debts owed by the organisation but not immediately due for payment. E.g. bank loans, salary related commitments.
- *Equity* – i.e. the net value of the organisation represented (and equivalent to Assets minus Liabilities).

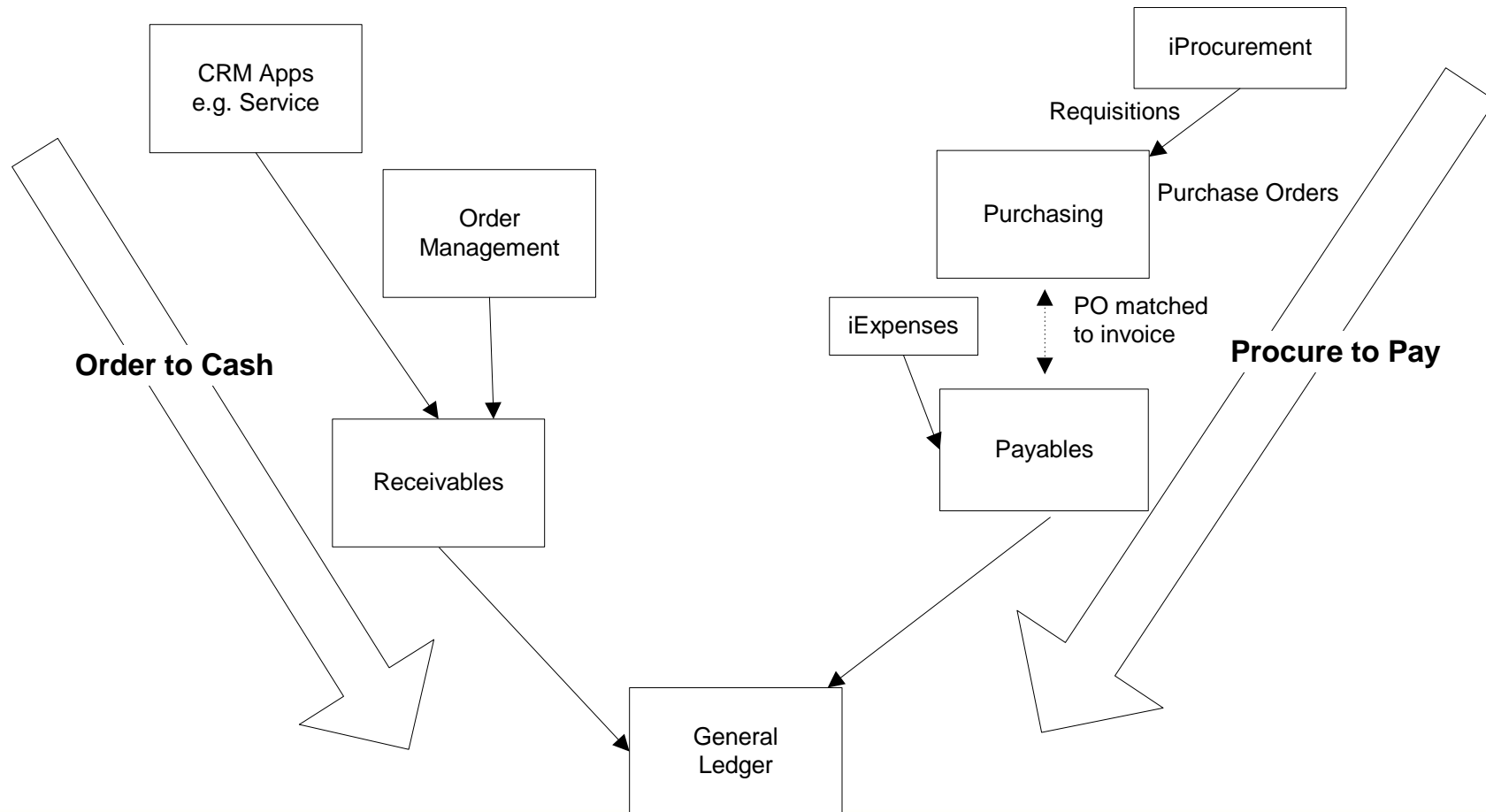
# Transactions: Debits & Credits

- Double entry book-keeping convention means that each transaction has at least 2 impacts that must *balance* (or cancel one another out).
- Example of purchasing \$1,000 of flour for Joe's bakery:  

Debit	\$1,000	Raw materials expense
Credit	\$1,000	Cash-at-bank
- In this example the Debit increases the Expense balance and the Credit reduces the Cash balance. (Whether a debit increases or decreases a balance depends on the type of account).

# Process Flows revisited

## Simplified Applications Overview



## Procurement Transactions

- Purchase Order for Bakery Machinery
  - no accounting entry unless public sector Apps
  - although Oracle Projects recognises a commitment
- Machinery supplier's invoice entered
  - Dr Plant and Equipment \$25,000
  - Cr AP Control \$ 25,000
- Check generated for supplier
  - Dr AP Control \$ 25,000
  - Cr Cash at Bank \$25,000
- Update to the GL via concurrent processes
  - Payables transfer to GL
  - Journal Import
  - Journal Posting

## Revenue Transactions

- Customer Invoice for regular bread order
  - Dr AR Control \$5,000
  - Cr Revenue \$5,000
- Payment received from customer
  - Dr Cash at Bank \$5,000
  - Cr AR Control \$5,000
- POS revenue (no invoice)
  - Dr Cash at Bank \$5,000
  - Cr Revenue \$5,000
- Update to the GL via concurrent processes
  - General ledger transfer program (from AR)
  - Journal Import
  - Journal Posting

## Manual GL Journal Transactions

- Bank Account established with Aunty Mabel's bequest
  - Dr Cash at bank \$50,000
  - Cr Director's Loan \$50,000
- Record Bank Check for Rental Bond
  - Dr Lease Security \$20,000
  - Cr Cash at bank \$20,000
- Update to GL Balances via concurrent process
  - Journal Posting

## *Joe's Bakery Income and Expenditure (HQ)*

### *Revenue*

Revenue (General)	\$25,000
Revenue (Orders)	<u>\$ 5,000</u>
Total Revenue	\$30,000

### *Expenses*

Plain Flour	\$ 6,000
Wholemeal Flour	\$ 2,000
Other Ingredients	\$ 4,000
Rent	\$ 8,000
Wages (accrued)	<u>\$ 5,000</u>
Total Expenses	\$25,000

Profit / Loss                      \$5,000 (16%)



## *Joe's Bakery Balance Sheet (HQ)*

### *Assets*

Plant & Equipment	\$35,000
Cash at Bank	\$25,000
Lease Security	<u>\$20,000</u>
Total Assets	\$80,000

### *Liabilities*

Bank Loan	\$20,000
Director's Loan	\$50,000
Salary Accruals	<u>\$ 5,000</u>
Total Liabilities	\$75,000

### *Equity*

Current Profit / Loss	<u>\$ 5,000</u>
Total Equity	\$ 5,000

## *Profit and Loss by Cost Centre Analysis*

<i>Cost Centre</i>	<i>Revenue</i>	<i>Expenditure Ingredients</i>	<i>Expenditure Labor, Rent etc</i>	<i>Profit / Loss</i>
100 – Savory	17	7	7	3
200 – Sweet	10	2	4	4
300 – Ready to eat	3	3	2	(2)
<b>Total</b>	<b>30</b>	<b>12</b>	<b>13</b>	<b>5</b>

# Questions?

Thank you for listening



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